REFORMING THE EUROPEAN UNION BUDGET: A SOCIAL CONSTRUCTIVIST POLICY APPROACH

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ABSTRACT

REFORMING THE EUROPEAN UNION BUDGET:
A SOCIAL CONSTRUCTIVIST POLICY APPROACH

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The budget of the European Union has accomplished a significant role for European integration in the history of the Union. However, it has not resulted into anticipated developments compatible with the Union's institutional policy reform process in the last decades.

The budget has emerged as a consequence of path dependent developments in its historical progress, which has dragged the European Union to a critical stage. It is rather challenging for the Union now to sustain the current structure of the budget, since it exposes some disadvantages to continue with this structure in an enlarging and deepening Union.

In spite of various reform proposals, there is no appropriate theoretical ground for the budgetary politics of the European Union to be channelled through strengthening the link between the Union and European citizens.

This thesis attempts to approach the existing problems associated with expenditures and revenues of the current budget from the social constructive policy perspective, in line with the major question of “how the budget can be made more socially constructive by utilizing expenditures and revenues?”

The study has three major objectives. Firstly, it presents a historical evolution of the European Union budget in order to explore path dependent developments inherent to its historical progress. Secondly, it offers a critical analysis on the expenditure and revenue sides of the budget. Thirdly, it introduces a social constructivist policy approach on this subject as an alternative to the most prevalent approach of fiscal federalism.

Keywords: The European Union, Fiscal Federalism, Social Constructivism, Budget Reform, Path Dependency

ÖZ

AVRUPA BİRLİĞİ BÜTÇESİ REFORMU:
BİR SOSYAL İNŞACI POLİTİKA YAKLAŞIMI

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Avrupa Birliği bütçesi, Avrupa Birliği entegrasyonu için Birlik tarihinde önemli bir görevi yerine getirmiştir fakat Avrupa Birliğinin son birkaç onyıl içerisindeki kurumsal politik reform sürecine cevap verebilmesi umulan gelişmeleri ne yazık ki ortaya koyamamıştır.

Avrupa Birliği Bütçesi, tarihi süreç içerisinde önceki durumu izleme bağlılığı (path dependency) olarak tanımlanabilecek gelişmelerinin bir sonucu olarak ortaya çıkmıştır ki bu durum Avrupa Birliğini kritik bir sürece getirmiştir. Genişleyen ve derinleşen Birliğin mevcut bütçe yapısıyla devam etmesinin bazı dezavantajlarının bulunması sebebiyle Avrupa Birliğinin şu anki bütçe yapısını sürdürmesi oldukça zordur.

Birçok reform önerisine rağmen, Avrupa Birliğinin bütçe politikasına Birlik ile Avrupa yurttaşları arasındaki bağı güçlendirmek açısından bakabilen bir teori zemini bulunmamaktadır.

Bu tez bugünkü bütçenin gelir ve giderlerinden kaynaklanan mevcut problemlere “gelir ve giderleri kullanmak suretiyle Avrupa Birliği bütçesi nasıl daha fazla sosyal inşacı olabilir?” temel sorusuna paralel olarak sosyal inşacı politika perspektifinden yaklaşmayı denemektedir.

Çalışmanın üç tane ana hedefi vardır. İlk olarak, tarihi süreç içerisinde önceki durumu izleme bağlılığı şeklinde kalıtımsal olarak yerleşen gelişmeleri keşfetmek için Avrupa Birliği bütçesinin tarihi seyrini ortaya koymaktadır. İkinci olarak, bütçenin gelir ve gider kısımlarını kritik olarak analiz etmektedir. Üçüncü olarak, yaygın bir teorik yaklaşım olan mali federalizme alternatif olmak üzere bu konuyla ilgili olarak sosyal inşacı politika yaklaşımını ileri sürmektedir.

Anahtar kelimeler: Avrupa Birliği, Mali Federalizm, Sosyal İnşacılık, Bütçe Reformu, Önceki Durumu İzleme Bağımlılığı

To my life and love

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ABBREVIATIONS

ACP	African, Caribbean and Pacific
CAP	Common Agricultural Policy
CARDS	Community Assistance for Reconstruction, Development, and Stabilization
CF	Cohesion Fund
CE	Compulsory Expenditure
CFSP	Common Foreign and Security Policy
CIP	Competitiveness and Innovation Programme
CMO	The Common Market Organization
COA	Court of Auditors
DCECI	Development Cooperation and Economic Cooperation Instrument
DCI	Development Cooperation Instrument
DG	Directorate General
EAFRD	European Agricultural Fund for Rural Development
EAGF	European Agricultural Guarantee Fund
EAGGF	European Agricultural Guidance and Guarantee Fund
EBRD	the European Bank for Reconstruction and Development
EC	European Community
ECB	European Central Bank
ECSC	European Coal and Steel Community
ECU	European Currency Unit
EDA	European Defence Agency
EDF	European Development Fund
EEA	European Economic Area
EEC	European Economic Community
EFF	European Fisheries Fund

EFP	European Fisheries Policy
EGF	European Globalization Adjustment Fund
EIB	European Investment Bank Group
EIP	Entrepreneurship and Innovation Programme
EMU	European Monetary Union
ENP	European Neighbourhood Policy
ENPI	European Neighbourhood Policy Instrument
ERC	European Research Centre
ERDF	European Regional Development Fund
ERRF	European Rapid Reaction Forces
ERT	European Round Table of Industrialists
ESA	European Space Agency
ESDP	European Security and Defence Policy
ESF	European Social Fund
EU	European Union
EURATOM	European Atomic Energy Community
FF	Multi-year Financial Framework
FP	Framework Programme
FYROM	Former Yugoslav Republic of Macedonia
GDP	Gross Domestic Product
GNI	Gross National Income
GNP	Gross National Product
GNSS	Global Navigation Satellite System
GVA	Gross Value Added
Ha	Hectare
ICT	Information and Communication Technologies
ICT-PSP	Information Communication Technologies-Policy Support
IDABC	Interoperable Delivery of European e-Government Services to Public Administrations, Business and Citizens
IEE	Intelligent Energy Europe
EFTA	European Free Trade Association
ESPON	European Spatial Observation Network

ETUC	The European Trade Union Confederation
EP	European Parliament
IIA	Inter Institutional Agreement
IMF	International Monetary Fund
IPA	Instrument for Pre-Accession
ISPA	Instrument for Structural Policies for Pre-Accession
JASPERS	Joint Assistance in Supporting Projects in European Regions)
JEREMIE	Joint European Resources for Micro to Medium Enterprises)
JESSICA	Joint European Support for Sustainable Investment in City Areas)
JHA	Justice and Home Affairs
JRC	Joint Research Centre
LFAs	Less Favoured Areas
LLL	Integrated Action Programme in Lifelong Learning
MEDA	Mediterranean Economic Development Area
MEP	Member of European Parliament
MLG	Multi-Level Governance
MTR	Mid-Term Review
NATO	North Atlantic Treaty Organization
NCE	Non-Compulsory Expenditure
NGOs	Non Governmental Organizations
NIS	New Independent States
OECD	Organization for Economic Cooperation and Development
OMC	Open Method of Coordination
PPP	Public Private Partnership
R&D	Research and Development
SEA	Single European Act
SF	Structural Fund
SGP	Stability and Growth Pact
PHARE	Programme of Community aid to the countries of Central and Eastern Europe
SAPARD	Special Accession Programme for Agriculture and Rural Development

SI	Stability Instrument
SMEs	Small and Medium-sized Enterprises
TACIS	Technical Aid to the Commonwealth of Independent States
TEN	Trans European Network
TEN-E	Trans European Energy Networks
TEN-T	Trans European Transport Networks
TEU	Treaty on European Union
TOR	Traditional Own Resources
UK	United Kingdom
UN	United Nations
USA	United States of America
WTO	World Trade Organization

CHAPTER 1

INTRODUCTION

In the process of national integration, material factors and normative values are to be taken into consideration collectively since they both interchangeably play important roles on the construction of the society. There are some material factors which play significant roles over society, since they are utilized as financial tools of public or private sectors. The private sector notwithstanding, governments have specific public responsibility to deliver public goods and regulate overall economic and financial systems at the highest level, for which they employ complex methods, different resources and enter into more complicated relationships with their own citizens. There is no doubt that the budget of a government is one of the most vital economical and financial tools, which can be utilized for many different purposes including economic, political, military and social purposes.

A state has been considered to allow the productive forces to organize themselves in the best possible way within its territory, since the growth of the economy and the spread of welfare to its citizens would increase its political and economic power *vis-á-vis* other nation states. There is a mutual relationship between the budget and economy. Indeed, resources as an outcome of economical activities are cyclically transferred to society as well as being derived from the same venue through a dedicated taxation mechanism.

Adam Smith had consigned three tasks to sovereign states. One is to defend society from external aggressions by its military power, second is to defend its citizens against the oppression of any other member of society, by creating an effective judiciary system, and third is to work on necessary institutions for the facilitation of commerce, such as roads, bridges, navigable channels, the postal service and the minting of coins.[1] Security, justice and public goods as referred by Adam Smith are essential for the beginning the social construction of the citizens with the state, because they will in the end, provide a reasonable and efficient link between the levels of state and citizens.

Identity is considered as another important factor to play a central role of unifying a political unit, which attaches citizens to the highest level of the entity. As far as identity is concerned, the nation state is expected to be a representative of initiating or holding of collective senses, which unifies the citizens within the territory of the state.

The European Union (EU) has invented some symbols of common identity in line with the construction of a European level identity, above the Member States which would refer to a sense of Europeanness, such as Schengen visa, passport system, the standardization of driving license, European anthem, the EU flag and, the Euro currency. Nevertheless, these attempts are now signalling further needs of more effective tools and resources to be assigned for the enhancement of the European level identity formation. In this regard, the European identity is referred as citizens' sense of belonging to the EU level by individual socialization, but not necessarily substituting national or any other identities. It indicates, for the time being, a progressive construction of a sense of belonging to the EU level, less than national but more than membership of an international organization.

The EU as a collection of states, nations and peoples needs a real attempt to form a sense, which shall unify the Union with its citizens, the regions, member states and neighbourhood. Therefore, the fragmentation between nationalization and Europeanization in the budgetary politics of the EU hampers EU citizens to internalize such an EU level identity.

The budget of the EU from this point of view can be construed as a central instrument, which might be channelled to bridge this deficit through its dedicated resources. The changes in circumstances of the Union, particularly with

[1] Guido Montani, "The European Union, Global Public Goods and Post-Hegemonic World Order", *The European Union Review*, 8/3, 2003, p.5.

enlargement from 15 to 27 member states in 2004 and 2007, respectively, and the ratification failure of the Constitutional Treaty in 2005 have illuminated the significance of that deficit. Hence, the introduction of the Treaty of Lisbon[2] has consigned the expectations in this field to another opportunity, since a very limited portion of its goals have been embraced in the budget.

The budget of the EU, on the other hand, has accomplished a significant role for European integration in the history of the Union, but it has not revealed expected developments equivalent to the EU's institutional progress in the last decades. Indeed, neither the expenditures nor the revenues of the budget are able to compete with the current needs of the Union. Moreover, as a consequence of developments in the Union and the world, the reform possibility of the budget has emerged as an indispensable requirement. Even though a budgetary review has been agreed by the institutions of the EU through public consultations during the 2007-2013 budget negotiations, the question has remained whether these reform proposals will be addressed to provide a necessary link between the European Union and European citizens as it is a major deficiency in expenditures and revenues of the current budget.

Although the European Coal and Steel Community (ECSC) had aimed to foster the cooperation of coal and steel production within its six founding members, the EU has been tasked to enhance the cooperation in the areas of economy, politics, security, etc. The need of social integration has encountered a pointed challenge especially after the recent enlargement of the EC/EU from 15 to 27 member states, specifically in the fields of financing of policies with own revenues as well as allocations of the budgetary resources to the programs of activities. Revenues and funded programs of the EU budget are expected to address the implementation of the EU level common policies and the promotion of the integration of European public area where EU citizens interact and sustain their live.

During its history, the Agricultural policy and the structural funds were appered as the prize given to France and Italy for the compensation of accepting

[2] Signed on 13 December 2007 and entered into force on 1 December 2009.

single market. Cohesion Funds was given to Greece, Spain, Portugal and Ireland. Value Added Tax (VAT) based own resource appared as path dependent on the revenue side of the budget, effective since 1979 since it was developed through the Member States instead of through linking citizens. Gross National Product (GNP) (later on Gross National Income (GNI)) based own resource was introduced in 1988 due to the inefficiency of the resources and the British rebate which was an exemption given to this member state due to its special condition have fabricated major hurdles and path dependencies in the budgetary politics together with the others.[3]

Due to the fact that the budget of the EU has emerged in a path dependent structure over the years, reform attempts have been endured by persistence and stability which left the possibility of budgetary reform between two options, endurance and change. While endurance represented to continue with present budget structure as an outcome of path dependent historical constructions, change referred to policy and structural reforms of the budget to cope with internal and external expectations.

The budget of the EU, therefore, has remained rather at the member states level over the years and could not focus on strengthening the European public area mostly because of above-mentioned path dependent developments. Indeed, integrative mechanisms of the budget have not been designed well to strengthen the current loose link between European citizens and the EU level. The idea of providing certain public goods from the supranational EU level to the European public area is likely to reinforce this link to enhance the integration.

Indeed, the link can be strengthened by providing certain goods for the citizens through budgetary resources. As a matter of fact, public good is one of the key devices for a nation state to be concerned with providing certain portion to its citizens through using its budgetary resources. In a modern state, for

[3] A path-dependent process or system is one whose outcome evolves as a consequence of the process's or system's own history. In other words, it refers a step or decision taken some time ago which now hamper further progress (Ron Martin and Peter Sunley, "Path Dependence and Regional Economic Evolution", *Journal of Economic Geography*, 6, 2006 http://joeg.oxfordjournals.org/content/6/4/395.full.pdf+html (accessed on 12 June 2009)).

instance, education, social expenditures, justice and security can be regarded as public goods.

The literature on the subject of the EU budget has largely been looking from either an extremely federative point of view, or sometimes analytical and configurative, hence mostly limited with particular interested areas which are far from addressing the above-mentioned problems.

Obviously, one can observe that a social constructivist policy approach to budgets is almost absent in the literature. Assuming that, state budgets in general and the EU budget in particular have social constructive roles; there are strong correlations between European *demos* and the functions of the EU budget. At this place, *demos* refers to a group of people, the vast majority of which feels sufficiently attached to each other to be willing to engage in democratic discourse and binding decision-making.[4]

While the sources of the budget are directed towards *demos* in a distribution cycle and the financial resources are acquired from *demos* by taxation in a revenue collection mechanism, other functions of a budget such as macroeconomic stabilization in adverse shocks can be associated with *demos* as well. Budgetary incomes are collected from *demos* and, in the meantime, expenses are normally addressed to the same domain or to the place that makes *demos* either more secure or wellbeing. Moreover, it would not be wrong to say that the institutional structure of a budget is established from same social sources and the budgetary decision-making and democratization questions are connected to it as well.

The EU budget is similar to a state budget but its expenditure allocation and revenue generation mechanisms have not been directly linked to citizens as it is a normal circumstance in a nation state. However, this link was provided through Member States in most of the cases on expenditures and revenues of the budget such that most of the funds are directly given to the national authorities of the Member States and revenues are linked with the budget of the nation states.

[4] Lars-Erik Cederman, "Nationalism and Bounded Integration: What It Would Take to Construct a European Demos", *EUI Working Papers*, 2000/34, 2000, p.7.

This structure obviously represents a problematic pattern of the EU budget and demonstrates a missing link between the EU level and EU citizens.

A budget of a political entity is an economic, political, and legal document, which is used as a public financial management instrument as well. It reflects the governance of policy, public priority, planning, and implementation processes for the delivery of public goods and services, which should be addressed to the public sphere of the political entity. In this connection budgetary resources are especially injected into a certain public area so that they aim to construct and reconstruct the social sphere of the related entity over time.

As the subject of this study, two categories of problems have identified with different questions, persistent in their own mechanisms. In today's budgetary structure, as one of the problematic areas in the budget, EU expenses have been mostly committed to agricultural, cohesion and structural policies and have always been subjected to the state level negotiations. This framework inspires to the European citizens that the perception of European budgetary funds is more a result of struggle and negotiation between their own governments and those of other EU Member States, rather than the integrative policies linked to solidarity of citizens of the Union.

The existing structure of the budget expenses in the present case can be seen that it has long demonstrated struggles among the Member States but can be altered to create more European level public goods. In this regard, normally, three provisions are expected from public goods; generating significant externalities,[5] being a "non-rival" and "non-excludable" to a considerable degree and creating opportunities for the enhancement of welfare through collective actions.[6]

[5] An externality exists when the consumption or production choices of one person or firm enters the utility or production function of another entity without that entity's permission or compensation. A positive externality occurs when the effect is benefited to the affected person (John Asafu-Adjaye, *Environmental Economics for Non-Economist*, World Scientific, Singapore, 2000, pp 72-75).

[6] Non-rivalry refers that one person's consumption does not reduce the available amount for the others and non-excludable refers once goods are provided that the producer is not able to prevent anyone from consuming these goods (Marco Ferroni, "Regional Public Goods: The Comparative Edge of Regional Development Banks", Prepared for a Conference on Financing for Development: Regional Challenges and the Regional Development Banks at the Institute for International Economics, 19 February 2002 http://www.piie.com/publications/papers/ferroni0202.pdf (accessed in 18 May 2008)).

Public goods and services are produced from central governments and used freely in the jurisdiction of the same central government which cannot be taken by one individual but available for everybody in this jurisdiction. The consumptions of these goods and services do not harm the community in the territory of the central government because nobody is excluded of benefitting from these goods and services within that jurisdiction. Public goods produce positive externalities because when they are supplied to the community, everybody will benefit from their positive effects and then they will in the end increase collective welfare of the entity. Indeed, it will not be possible to exclude any individual in the jurisdiction of entity from the consumption of these goods and services such as defence, police protection and public health.

The revenues of the EU, on the other hand, have been dominated by relative contributions of member states in proportion of their GNI.[7] As long as the budget is financed from the equal percentage of the every member state's GNI, the constructive role of revenues remains rather problematic too. Indeed the budget of the EU has no classical tax revenue, such as income tax, profit tax, cooperate tax and, VAT, to establish a direct link between the EU level and EU citizens. Obviously, most citizens are not aware of what they pay for the EU level, due to the fact that the link is directed to their nation states rather than to the EU level.

In addition to questions on expenditures and revenues, the institutional framework of the budget conveys also some deficiencies. Despite the fact that decision making questions of the EU budget is not taken into consideration in this study, therefore emphasis is placed on the democratic deficit question. The European Parliament (EP) had no veto power on compulsory expenditures until the ratification of Treaty of Lisbon which finally removed this distinction from decision making framework almost 40 years later, since its beginning with the Empty Chair Crisis of 1965. The democratic representation mechanism within budgetary decision-making is established by national representatives and the members of the European Parliament (MEPs) to protect citizens' rights.

[7] GNI is the well known as GDP minus money made by foreigners in the country, plus money made by the country's residents abroad.

Nonetheless, until the Lisbon Treaty, the EP was less accountable to citizens when financing compulsory expenditures, because it was not be able to use veto power on those expenditures which comparatively dominated the EU budget for a long time. Furthermore, a Multi-year Financial Perspective or Financial Framework (FF) has been providing seven-year forecasts of revenues and expenditures, which is associated with another problem. Although it has alleviated to discussions or at least suspended the budgetary problems for seven years, it is nevertheless subject to some supplementary problems. Firstly, seven-year budgetary projection turns out a democratic deficit question because it is not equivalent to a five-year election term of the MEPs, subsequently, one election term can pass without using democratic representation mechanism of the EP in approval of a financial framework. Secondly, once the seven-year projection is adopted by the EU institutions, it is not easy to adjust the budget in line with the emerging needs within seven years.

A constructive reform has been emerged in association with the above mentioned constraints which verify that there is a need to analyze expenditures and revenues of the EU budget from a very comprehensive perspective which will attempt to find out weak areas which require further strengthening of the link between citizens and the EU. By considering inefficiencies of fiscal federalism and its approach of public goods to establish such a link, reform proposals can be projected as for serving the social construction of European *demos*.

Despite many reform proposals, there is no proper theoretical ground for budgetary politics of the EU to be channelled through strengthening the integration of the EU level with its citizens. Federalists, by addressing the economic theory of fiscal federalism have proposed a top down system for the EU, which might be applied in a system of a federal state or alike. This system offers highly dedicated financial functions for a budget such as allocation, redistribution and stabilization. Nevertheless, not all of these functions are to be applicable for the EU at this stage of integration, since these functions require a large fiscal, economical and political structure and resource at the central governance system of the EU, which will sound going beyond the current structure of the Union. Hence, some projections of allocation functions, some tasks of redistribution function and whole proposals about macroeconomic stabilization function are to be deferred to another stage for the EU, since the EU has not dedicated to such a big central governance structure yet.

Centralization/decentralization discussion, which is the main argument of fiscal federalism, especially dedicated to the financial management of expenses, cannot be applicable to the EU budget, since centralization or decentralization is not effective for the EU and an anathema of a highly developed political entity. Indeed fiscal federalism by referring the EU, articulates that any policy that can be done more efficiently at EU level should be done at that level, and inversely, anything which can be done more efficiently by the national governments of the Member States should not be an EU responsibility.[8] This argument is not coherent for the EU as well, because the problems cannot be only attached to the efficient management of policies.

In fact, fiscal federalism and its instruments require a design of a top-down financial management structure, which cannot be proper for the integration problems in the EU because the functions of fiscal federalism are not fully applicable to the EU unless designing it as a federal entity.

Provisional reform proposals projected in two problematic categories, – expenditures and revenues – can be effectively used for theory building. Although the public good projection of fiscal federalism presents valuable features for further integration, fiscal federalism shall not be appropriate to meet today's required needs for the EU's further integration. On the other hand, as an untouched approach in the studies of budget, social constructivism can be considered much more coherent and useful, since it may facilitate the integrative solutions by providing a link between the EU level and citizens.

Presuming that budgets can serve for the social construction of entities in two categories, expenses and revenues, social constructivist policy perspective will answer to the outstanding questions, which are prominently associated with the EU's integration problems, for instance, a need of increasing social

[8] Filipa Figueira, "How to Reform the EU Budget? Going Beyond Fiscal Federalism", Utrecht University, 2006, p.3 http://www4.soc.unitn.it:8080/dsrs/eudemocracy/content/e1374/e1455/e1464/PaperFigueira.pdf (accessed on 26 October 2009).

constructive characteristic goods by the EU budgetary expenditure policies and programs, creating a revenue generating mechanism by connecting the EU level directly with citizens and presenting a budgetary reform proposal in both of two fundamental categories to make the EU budget more socially constructive so that it may eventually serve to generate more integrated European public sphere.

The studies about public goods in the literature generally linked to fiscal federalism can be effectively developed for the social constructive purposes. Many public goods might be considered as social constructive but in some cases administration and supply methodologies are needed to be rehabilitated for making them efficient constructive instruments. Classical classification of public goods cannot be enough for constructive purposes. For instance a research funding can be accepted as a public good but cannot be socially constructive unless it is weighted with European level signs, symbols and influences that European citizens realize and internalize them as European level goods.

In this connection, the main question of this study will be raised "how the EU budget can be made more socially constructive by utilizing the budgetary expenditures and revenues?" It further refers to some other associated questions such as; "Is fiscal federalist approach relevant and applicable to the EU in this stage of the Union?", "Can social constructivist policy approach be a remedy for outstanding problems on the expenditure and revenue sides of the budget?" and finally, "How can the reform options of the budget be proposed from a social constructivist policy perspective?"

In this regard, fiscal federalism is needed to be compared with social constructivism to provide a theoretical ground for the research as well as a credible approach in the two problematic areas of the EU budget, explicitly expenditures and revenues. On the other hand, the proposal of the thesis is to enhance social constructive influence over the European *demos* by using the budget expenditures and incomes. However, the formation of European level public goods,[9] which is an instrument of fiscal federalism used in allocation

[9] A "European public good" refers to a strategic action undertaken by the EU with the two features: a) the action has a general effect - making the Union and its policies sustainable - which benefits all European citizens in addition to those affected by the projects supported under the action concerned; and b) it is neither possible nor desirable to exclude anyone from the general

function of budget, will be used in the study through the analysis of the expenditures of the EU budget but only to the extent that they serve for enhancing the social construction of citizens.

Consequently, the contribution of the research is threefold. Firstly, it will provide a comprehensive analysis about expenditures and revenues of the EU budget by considering historical path dependent developments. Secondly, it will make analyses and critical assessments on the expenditures and revenue sides of the budget. Thirdly, it will make an attempt to bring a social constructive policy approach to the EU budget studies and equally a budgetary approach to social constructivist studies on the EU. In other words, it will introduce the social constructivist reforms for the EU budget in the above-mentioned two problematic areas and also open up a debate about some institutional level questions eventuated from budget related circumstances.

Since the beginning of the ECSC the budget has envisaged an interesting progress. The transition of the EU budget over the years as a part of its historical development has made it typically path dependent from various aspects, which is now one of the most difficult mechanisms to transform. In this connection, *Chapter 2* presents the historical journey to the EU budget to demonstrate the emergence of today's problems and explore path dependent developments during the progress of the budget. In fact this long journey has witnessed many developments but in this chapter it is just stressed important breaking points which are now obstructing the integration of the EU.

In theoretical arguments, fiscal federalism has been extensively applied to the budget of EU in the literature which is extensively analyzed in *Chapter 3*. On the other hand, deficiencies of fiscal federalism is taken into consideration and examined to find out theoretical ground to the research as well, and then thesis will be able to propose social constructivist policy as an appropriate alternative approach for the current problems of the EU by comparing with fiscal federalism. In this regard, Chapter 3 synthesizes the concept of public goods which is a

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effect. (Fabrizio Barca, "An Agenda for a Reformed Cohesion Policy - A Place-based Approach to Meeting European Union Challenges and Expectations", *Independent Report* prepared at the request of Danuta Hübner, Commissioner for Regional Policy, April 2009, footnote 227, p. 140).

useful device used by fiscal federalism in the resource allocation function of a budget but might be extensively utilized by social constructivism as well. Indeed, it is supposed that the production of the EU level public goods may enhance social construction of the European *demos*. The Chapter further studies how the EU budget can benefit from the concept of public goods and how the EU budget can be used for the social construction of the EU. The main aim of the Chapter is to demonstrate that a budget in general and the EU budget in particular can be approached as a mechanism of social construction over the community.

Current structure of multi-year financial framework which is exercised in the period spanning from 2007 to 2013, ought to be introduced by main programs of the budget to identify whether program activities are able to restore social constructive gaps or not. Main expenditure categories of the budget, as headings and sub-headings will be studied in *Chapter 4* under sustainable growth (by dividing into two sub-categories as competitiveness for growth and employment and cohesion for growth and employment), preservation and management of natural resources (the agriculture and rural area policies), citizenship, freedom/security/justice, the EU as a global player and EU's administrative budget. The assessments made for each category and subcategory of the budget expenditures are addressed whether they have been motivated for producing public goods for social construction of the Europe or not, so that the expenditures which harm the social construction of the EU are aimed to identify in this chapter.

By applying the same method, but this time for the revenues, *Chapter 5*, analyzes current budgetary revenues especially the case of own resources of the Union which are composed by levies and other duties on agriculture and sugar, customs duties and other duties, own resources accruing from value added tax and own resources based on gross national income of the Member States. In this chapter, revenues, financing the EU budget will be assessed to identify whether they are the mechanisms for the social construction of the EU or not.

The reform of the EU budget is in the EU agenda which will be one of the major tasks of next Commission during the preparation of the next financial framework for the fiscal years of 2014-2020. Some proposals are taking place in the debates for a long time, but the incentives of the member states have signalled this time that budgetary reforms are under severe considerations. In the first part of *Chapter 6*, important reform proposals, whose social constructive roles are regarded, will be presented and analyzed. Those are proposals which have been recommended by member states, institutions and organizations for the questions of the EU budget but without regarding social constructivist prospects. In the second part of this chapter, rehabilitations on the current budgetary mechanisms are intended to work towards social constructivist integration of the EU. In the third part, the research will focus on recommended proposals again for the same purpose on the expenditures and incomes categories of the EU budget. Additionally, this chapter will analyze and identify some other problems derived from the same approach.

Social constructivist policy analysis is being applied to the EU budget for the first time as being connected to the current debate about budgetary reform projection. In this connection, *Chapter 7* summarizes conclusions and theoretical and practical contributions of the research to the EU budget.

CHAPTER 2

THE HISTORICAL CONSTRUCTION OF THE EU BUDGET

2.1. Introduction

The EU has had budgets since the inception of the ECSC, and it has been progressively improved on throughout the years. Due to the fact that in the course of the time it has developed as a path dependent constitution in several areas, it has now turned into an inadequate instrument far from expectations, revealing the needs of current conditions as a competent tool which might have been utilized in parallel with the progress of the European Union integration. As a consequence of this uneven development in the budget, it is now under severe reform discussions to compete with enduring problems. The historic development of the budget, as explained by path dependency concept of historical institutionalism, has apparently constituted in time and has emerged as a problematic issue. The internal and external pressures for reform are now in the position of much desired circumstances to alter the current structure, but constituted dependencies over the years are needed to be resolved in this regard.

Consequently, the concept of path dependency employs institutional persistence and stability across time, and then insists on an overall trajectory for the institutional configuration, the direction of which is reinforced after early moves of the sequence.[10] In the historical evaluations of the EU budget, path

[10] Robert Ackrill and Adrian Kay, "Historical-Institutionalist Perspectives on the Development of the EU Budget System", *Journal of European Public Policy*, 13/1, 2006, p.115.

dependency implies that preferences, decisions or events during the process can internally and externally force a path from which it becomes increasingly difficult to deviate so that it intentionally or unintentionally obstructs the progress of the EU. In other words, it refers to a step or decision previously taken, which now hampers efforts to overcome and make further progress. Schwartz's definition of path dependency can be regarded as much more comprehensive standing on three logically connected legs:

> First, it assumes that small contingent causes at the beginning of a path can have large and long-term consequences. Second, it argues that increasing returns to political and social institutions explain actors' reticence about changing those institutions. Third, it analogizes between path dependency's critical junctures and evolutionary theory's idea of punctuated equilibrium. Just as with a stool, all three legs are logically necessary parts of a systematic path dependency argument.[11]

Path dependency is apparently applied in this study because the history of the budget is vital for the understanding of the existing questions.

In this context, this chapter will introduce the historical developments of the EU budget, in which it will provide for appreciation of path dependent developments as breaking points in its history. By so doing, the chapter will further aim to assist the recent debates about reform options of the EU budget by connection with the theoretical argument of the research.

Historically, the term "budget" is derived from the Gallic word referring to a sack, which was later on used as "bulga" in Latin lexicon. Therefore, it was also used in medieval English and French as "bougette", conferring the meaning of a leather wallet or bag. In English parliamentary terminology, it was meant the leather bag in which the Chancellor of the Exchequer brought proposals for national revenues and expenditures to the Parliament for the coming period.[12] In

[11] Removing any one leg reduces the notion of path dependency to the simpler assertion that history matters, or raises the question of why we should re-assign older mechanisms for understanding political outcomes to a meta-argument called path dependency. What are the three legs, how does the formal path dependency argument logically connect them, and why are these legs necessarily logically connected? (Herman Schwartz, "Down the Wrong Path: Path Dependence, Increasing Returns, and Historical Institutionalism", *University of Virginia*, 2003, pp. 4).

[12] California Department of Finance, **"**Development of Modern Budgeting", http://www.dof.ca.gov/fisa/bag/history.htm (accessed in May 2009).

other words, the term was used as a plan of revenues and expenditures in a given future period.

Today, a budget refers to much more complex mechanism, including but not limited to a financial plan of income and expenditure for a certain period aimed at achieving the predetermined objectives of an entity.

It is acknowledged that the budget was first developed and used in the area of public management. It represents a much more complex presence in public management, because it encompasses the political, legal, economic and financial mechanism of a government. A national budget, as the most complex and well-designed model, represents a key instrument of public financial management, and provides for government programs and policies, including delivery of public goods and services to the public area within the jurisdiction of a state.

State budgets comprise various mechanisms such as revenue collection, fund disbursements to public policies and, supranational power exercises for tax legislation. The functions of a state budget for instance, reveal government policies and national program priorities, including achieving public programmes and projects, reviewing the activities of government departments, specifying public investments and presenting national defence projections.

As a key public management instrument, a budget is designed as a political tool, which demonstrates the government's ideological assurances, political values and policy preferences. Political accountability and democratic representation and public responsibility are associated with binding the responsible authorities to their financial decisions in the course of implementation of the budget. As an economic tool, it exposes economic precedence, aims to accelerate economic growth, influences the direction of investments, promotes employment, influences the redistribution of income and stabilizes the macro economy. It is a government expenditure plan and a revenue generating mechanism, for which it demonstrates legal bases of revenue resources. Finally, it is a legal document, which is prepared and adopted by political authorities of a state according to constitutional and legal provisions which requires a necessary legal base for approval and disclosure of accounts in a democratic state system.

Undoubtedly, the EU needed a budget since it has been carrying out a number of policies and programs transferred to the supranational EU level. Such policies make the EU a unique entity and distinguish it from an intergovernmental organization and a state or federal constitution. Nonetheless, the EU aims at enhancing its integration with its present and future communities as well as its citizens which can be referred as the European *demos.* The budget as a political, economical, legal, social, cultural, and financial mechanism can be viable instrument for this purpose. As a complex instrument, the budget of the EU can be channelled to the purpose of enhancing integration of the EU level with its citizens. Consequently, the most important aspect for the budgetary reforms is that it would have to eliminate path dependent constructions capitulated during its historical progress, because the real need of the EU is a budget structured to enhance social integration at the EU level.

2.2. First Years and the Budget of European Cool and Steel Community (1952–1957):

After the World War II had substantially destroyed infrastructures, interrupted economic production and caused social dislocations in Europe, the control and sustainable management of coal production as a major source of energy became the key issue in Europe. Indeed, steel was the key sector along with coal which was crucial for the infrastructure and future construction of the continent. The coal production at the end of the World War II was only 42 % of its pre-war level considering that pig iron output in 1946 was less than one-third of that amount in 1938, and crude steel output, about one-third of what it had been prior to the War.[13]

At the end of the War, an organization named International Authority of Ruhr was established in April 1945 to insert German coal region of the Ruhr

[13] Walter Laqueur, *Europe Since Hitler,* London, 1972, p.18.

under the Joint Allied Power, and then, the International Authority of Ruhr had allocated the coal supplies of Ruhr region between ranges of competing users.[14]

The French Foreign Minister Robert Schuman's schema for pooling the coal and steel supplies of France and Germany in May 1950, was prospected to invite other interested European states to participate in this schema. This idea, which was first conceived by a French civil servant, Jean Monnet, aspired towards the surrender of sovereignty over these two key industries aiming to address two major questions: how to prevent the threat of potential divergence between France and Germany and how to guarantee sustainable supplies of coal for the French steel industry when the Ruhr supply area would be reverted to the autonomous control of Germany. In the end, this idea resulted in the inception of the ECSC in April 1952 with the Treaty of Paris, which was signed by six member states, coming into force in July 1952, by providing the acceptance of Germany and the participation of Italy and Benelux countries.[15]

The insistence of the Belgium during the negotiations of the ECSC had conveyed an agreement on a special equalization tax on efficient coal producers which would be used to subsidize the modernization of inefficient coal mines. Moreover, the Italian steel industry was allowed to maintain tariffs against the others members for five years and to continue to import cheap cooking coal and scrap metals from outside of the Community, and further agreed an equalization fund which was smaller than the above-mentioned equalization tax and to be used for the modernization of inefficient Italian steel plants.[16]

The very beginning of the European budget structure in this term was based upon the essential needs of the ECSC, barely financed by the inception of its own resources from coal and steel related business and subjects. Consequently, the ECSC operated two separated budgets commensurate with its established structure: an administrative budget and an operating budget and both

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[14] Ian Bache and Stephen George *Politics in the European Union*, Oxford University Press, New York, 2006, p.96.

[15] *Ibid.*, p.94.

[16] *Ibid.*, p.100.

of the budgets shared the same source of revenue deriving from tariffs on coal and steel-related products and materials imported from outside of the ECSC.[17] [18] The administrative budget was used as a general budget for running the institutions of the ECSC and implementing its common policies, whereas the operating budget was used for spending on social aids along with coal and steel related research programmes to the Community.[19]

The High Authority was the decision-making organ for all budget related matters of the ECSC.[20] Hence, the Treaty of Paris had introduced a significant domain constraint, set out in Article 199, referred to as the Balanced Budget Rule (BBR), which was protected in the other Treaties as a major budgetary principle up to the present day. This rule maybe considered as one of the hindering provisions of the budget, especially criticized by fiscal federalists and other researchers who subscribe to the opinion of making the budget viable for debts provisions. The BBR basically states that "the revenue and expenditure shown in the budget shall be in balance" each year,[21] which means that no budget deficit is allowed for the financing of budgetary programs. In other words, the EU budget in today's term has no debt provision and management, which nation states normally have such provision and use this in their public finance management. This rule has positive and negative effects. Negatively, it does not provide for

[17] Article 49 empowered the High Authority to procure the funds it requires to carry out its tasks by imposing levies on the production of coal and steel and by imposing contract loans for investment projects. High Authority also may receive gifts.

[18] European Commission, "European Union Public Finance", Third Eddition, Office of Offical Publications or the European Community, 2002, pp.15-17.

[19] Lathaporn Bunyaplanan, "The Evaluation of the European Budgetary Sysytem", University of Nevada, Unpublished Masters Thesis, December 2004, p. 6.

[20] It had the power under the Treaty of Paris to obtain from firms in the coal and steel industries the information that it required to oversee the industries, and to fine firms that would not provide the information or evaded their obligation (Article 47). It could impose levies on production, and contract loans to raise finance to back investment projects of which it approved (Article 49-51), and it could guarantee loans to coal and steel concerns from independent sources of finance (Article 54). It could also require undertakings to inform it in advance of investment programs, and if it disapproved of the plans could prevent the concern from using resources other than its own funds to carry out the programme (Article 54).

[21]Article 199 was replaced in Maastricht but BBR was maintained as before: "…The revenue and expenditure shown in the budget shall be in balance."

borrowing money to finance some programmes, which incidentally emerge during the budgetary applications, but they are not financed because of inefficient resources during that time. On the other hand, it affords the Community/Union to a budget expenditure control by not allowing expenses over the incomes. By binding the budget with such a rule, the budget politically became an intergovernmental mechanism because no provision for budgetary dept was allowed at the Community level.

Depending on the perspective, the BBR which extensively applied every budget so far, may and may not be considered as the first path dependent mechanism. For instance fiscal federalists would consider it as a path dependent since they normally project a debt provision in a government budget, nonetheless, social constructivist approach, – although it does not accommodate a debt provision – would not foresee this provision in this stage of the European integration and would not regard BBR as an important path dependent development.

2.3. Beginning of Path Dependency (1957-1970):

In 1955 Belgian Premier Spaak, by going beyond coal and steel, proposed an extension of sectoral integration, in other forms such as energy – particularly nuclear energy – and transport. This proposal was supported by the Netherlands, believing it to be the introduction of a common market, which would convey the idea of European Atomic Energy Community (Euratom).[22] This idea was perceived by French as a means of obtaining a subsidy from Germany for the development of nuclear energy, which was further perceived an opportunity to devote more national resources to the weapons programme, while depriving Germany of a national nuclear capability and also guaranteeing French access to uranium from the Belgian Congo.[23]

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[22] Bunyaplanan, *op.cit.*, p.6.

[23] Bache and George, *op.cit.*, pp.111-114.

The Treaty establishing the European Economic Community (EEC) and the Euratom Treaty were signed in Rome on 25 March 1957. During that time, the disparity in supply of coal over the demand had dramatically changed and this variation stimulated later over capacity in the coal industry. This development fuelled a dramatic fall in the demand of coal due to the economic downturn and mild winter conditions which prevailed in 1958. Coal stocks at the pit-head continued to accumulate in the following years as a result of cheap coal imports from the United States (USA), increasing the usage of oil against coal and again persistent mild winter conditions.[24]

The EEC aimed at merging national markets into a single market of the Community and objected to remove trade barriers between the Member States and established common external tariffs and and common ecomomic and trade policies.[25]

In the process of establishment of the EEC, the agriculture was included in a separate chapter – not in a common market –, as an effect of a further extension of integration, since it was regarded as a very crucial element in ensuring French ratification of the Treaty of Rome. Consequently, there was no German sympathy over the agriculture policy for pooling it to the EEC level. Apparently, Germany would have preferred to leave agriculture to member states and let foods to be imported as cheaply as possible from the rest of the world. However, Germany had to make a concession for agriculture in order to obtain an extensive prize from the common market for its industrial goods. By including the projection to reduce the differences between prosperous and poor regions, another concession had to be made to Italy. A subsidy from Germany for the main regional disparity of Italy's southern regions had to be provided in the design of the structural fund.[26] In light of these two Treaty provisions, European Agricultural Guidance and Guarantee Fund (EAGGF) was established in 1962 and European Regional Development Fund (ERDF) was created in 1975. Hence, the agriculture and the

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[24] *Ibid. 122.*

[25] Bunyaplanan, *op.cit.*, p.6.

[26] For further details see, Bache and George, *op.cit.*, p.114-117.

structural fund had become a path dependent for the budgets of the EU since the commencement of the first applications and have progressed by enhancing its impact in the EU's future development later on.

The EEC introduced a system under which the Communities were to be financed by contributions from the Member States. Thus, these two Communities, the EEC and the Euratom were to be financed, in the same manner as international organizations, through national contributions. These contributions were to be determined on a scale reflecting each Member State's ability to contribute.[27] Under the EEC Treaty, there was a different scale to cover the expenditure of the European Social Fund (ESF)[28] and under the Euratom Treaty; there were different scales for contributions to the operating budget and the research and investment budget, respectively.[29]

The first EEC budget exclusively established a single general budget which was limited with administrative expenditures of the Community. Conversely, it had proposed two budgetary systems for the Euratom as a consequence of its functional nature, which were an operating budget and a research and investment budget.[30] Although the operating budget was to cover administrative expenditures and safeguarding expenditures to health and safety,

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[27] The research and investment budget was different than the operating budget in terms of scales of the member state contributions. Germany, France and Italy shared the same portion in the operating budget but Germany and France were given more shares than Italy in the research and investment budget. Conversely, Belgium took more but the Netherland took less in the research and investment budget when compared with their shares in the operating budget.

[28] The ESF was established based on Article 3 (i) in order to improve employment opportunities for workers and to contribute to the raising of their standard of living. According to EEC Article 200: Belgium: 7.9, Germany: 28, France: 28, Italy: 28, Luxembourg: 0.2, Netherlands: 7.9.
The ESF: Belgium 8.8, Germany: 32, France: 32, Italy: 20, Luxembourg: 0.2, Netherlands: 7

[29] Euratom, Article 172: 1. The scale of the operating budget revenue: Belgium: 7.9, Germany: 28, France: 28, Italy: 28, Luxembourg: 0.2, Netherlands: 7.9, 2. The scale of the research and investment budget: Be1gium: 9.9, Germany: 30, France: 30, Italy: 23, Luxembourg: 0.2, Netherlands: 6.9..

[30] Euratom had entered into deeper crisis from 1962 onward. In 1964 there was a deadlock over the size of budget, which was eventually resolved by having massive cut-backs in the research programme. In 1966 Euratom went into the merger year of 1967 having the survive on the system of provisional twelfths which allowed no more than one twelfth of the previous year's budget to be spent each month until agreement was reached on the new budget.

the research and investment budget was that of research program implementation, capital and investment expenditures, training and, joint operation expenditures.[31]

Even though the Euratom Treaty deliberately allowed borrowing and lending operations from the beginning of the establishment, it was not until 1975 that the rules of borrowing and lending activities were entered into the EEC Treaty. These operations would take the form of balance-of-payments support and the granting of loans both inside and outside the Community, in particular through to promote investment.[32]

On the revenue side, however, the situation of funding by contributions was established but not intended to be permanent, since the possibility of moving to a system of own funding, independent from the Member States, was provided for in the Treaties of Rome from the beginning. Article 201 of the EEC Treaty and Article 173 of the Euratom Treaty, respectively specified that the financial contributions of Member States might be replaced by the Community's own resources and by the proceeds of levies collected by the Community in the Member States.[33] Article 201 of the EEC Treaty took it even further, inasmuch as it envisages the replacement of national contributions by a specific category of revenue, explicitly revenue deriving from the common customs tariff.[34] At this point, the EEC was, therefore, able to envisage that these two sources of revenue might provide it with the beginnings of a system of autonomous financing. In this regard, the Commission was assigned the task to study the replacement of financial contributions from the Member States.

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[31] Euratom, Article 174: The operating expenditures: (a) administrative, (b) safeguards, health and safety. The research and investment expenditures: (a) the Community research programme, (b) any participation in the capital of the Agency and in its investment, (c) the equipment of training establishments, (d) any participation in Joint Undertakings or in certain joint operations.

[32] The European Commission "The Community Budget: The Facts in Figures", SEC(97)1200, 1997, p.26 http://aei.pitt.edu/14011/01/64505_1.pdf (accessed in June 2009).

[33] Euratom, Article 173, further proposed that "the Commission shall submit to the Council proposals concerning the assessment of such levies, the method of fixing their rate and the procedure for their collection".

[34] EEC, Article 201: The Commission shall examine the conditions under which the financial contributions of Member States provided for in Article 200 could be replaced by the Community's own resources in particular by revenue accenting from the common customs tariff when it has been finally introduced.

The financial operations of the European Development Fund (EDF) was, since the very beginning (1959), conducted outside of Community budgets and the only result of the attempts to have them included in the general budget was the token entry in the 1993 budget. The EDF was financed by contributions from Member States, governed by its own financial rules.[35] It was managed by a Steering Committee in accordance with established specific rules and procedures.

After the establishment of a common agricultural policy,[36] the Council decided, with Regulation 25 of 4 April 1962, that revenue from levies on imports of agricultural products from third countries was to be accrued to the EEC and to be included in the budget resources.[37] Therefore, this resolution waived until the Treaty of Luxembourg entered into force.[38]

Most importantly, a serious problem came into being in 1965 when de Gaulle withdrew France from the work of the Council. After the details of the Common Agriculture Policy (CAP) had been determined, a funding question had emerged, since it was the first time that the EEC budget would be taken ahead of the personnel salaries and similar managerial and administrative expenses of the institutions. The Commission proposed own resources from the common external tariffs on industrial goods and levies on agricultural goods entering the Community from outside, which would be collected by member states' custom offices at the points of entry into the EEC, and then to be handed over to the EEC after deducting 10 % from total collections as an administrative cost of the respective Member State. However, the Commission interlinked the scheme with

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[35] The European Commission, "The Community Budget: The Facts in Figures", SEC(97)1200, 1997, p.26 http://aei.pitt.edu/14011/01/64505_1.pdf (accessed in June 2009).

[36] On 12 May 1960, the Council of Ministers agreed to a proposal from the Commission to accelerate the progress on the removal of internal barriers to trade and the erection of a common external tariff, and on the creation of CAP that system of common prices was agreed at Stresa Conference in July 1958. The Commission made a packet deal with progress on CAP to accompany progress on the industrial common market.

[37] Council Regulation 25 of 4 April 1962 Article 2
http://www.ena.lu/council_regulation_eec_25_april_1962-02-31436 (accessed in May 2008)

[38] In this term there were some significant developments: the membership application of the UK in July 1961 was vetoed in 1962, for the possible reasons that: 1. The US willingness of selling Polaris missiles to the UK 2. Anxious of the UK's disruptive smooth progress in integration (German view), 3. French ambiguity for reassertion of the French greatness in international arena.

a proposal of increasing the powers of the Parliamentary Assembly in the budgetary decision-making process. The proposal was to give the Parliament the right to approve the Community budget, so that it was aimed to somehow rehabilitate the democratic deficit question of the Community. This was the Netherlands' proposal that, if the budget was to be funded from the Community's own resources, the Parliamentary Assembly must be given some control over the budget. Since member states' parliaments would lose their ability to exercise democratic approval and financial control over these resources, the own resources system of financing had to be submitted for the democratic oversight of the Parliament. Even though it was a reasonable request of providing a democratic representation mechanism to the budget, it was apparent that the Parliament was not directly elected yet for the strong establishment of this link.[39] De Gaulle's rejection of this supranational proposal was named as the 'Empty Chair Crisis' which was finally ended in January 1966 in Luxemburg by reassessing budget funding from national contributions.[40]

Citizens' rights, given parliament authorities to raise and spend money are called "power of the purse" which is one of the fundamental rights of the democratic constitutions exercised by parliaments. This power is used as the process of legislating, oversight and discharging the budget which in the meantime confers the height of the powers of the legislature over the executive.[41] The Empty Chair Crisis presented another path dependent development in this time because it was the institutional structure and decision making mechanism of the future EU, which basically left the EP powerless and undemocratic over the Community budget.

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[39] For further details see, Bache and George, *op.cit.*, p.133-135.

[40] Luxemburg compromise brought also very important matter that national veto would be retained on all matters that came before the Council of Ministers.

[41] For the development of power of the purse see H. Hakan Yılmaz, and Mustafa Biçer, "Parlamentonun Bütçe Hakkını Etkin Kullanımının Yeni Bütçe Sistemi Çerçevesinde Değerlendirilmesi",*Maliye Dergisi*, 158, 2010, pp.201-225 http://portal1.sgb.gov.tr/calismalar/maliye_dergisi/yayinlar/md/158/10.H.Hakan.YILMAZ_Mustafa.BICER.pdf (accessed on 07 July 2010).

By the introduction of Merger Treaty in 1965, which came into force on 1 July 1967, a set of common institutions were created for three Communities (the ECSC, the Euratom and the EEC) such as the European Commission, the Council of Ministers and European Parliament. The Merger Treaty incorporated the ECSC and the Euratom's administrative budgets into the general budget of the EEC. While the operating budget of the ECSC continued to be independent, its significance was diminished soon after, due to the decline in revenues from tariffs on coal and steel-related products and materials.[42]

It was only at the Hague Summit of December 1969 that the Heads of State or Government eventually reaffirmed their intention to replace financial contributions from Member States by a system of own resources. It was decided at the Summit that the Community would have to be transformed progressively (within 10 years), into an economic and monetary union[43] and, it was also permitted to open negotiations on the enlargement of the Community to include the United Kingdom, Ireland, Denmark and Norway.[44]

The Hague Summit further declared the objectives of completion, widening and deepening. Completion referred finalizing outstanding budgetary issues from 1965 Empty Chair Crisis for which a system was agreed to have own resources from the levies on agriculture products entering the European Community (EC) under the CAP, and the revenues from common custom tariff on imports of non-agricultural products from outside of the European Community.[45] As an important development, the distinction between compulsory (CE) and non-compulsory expenditure (NCE) was defined, and among them the CAP expenditure was secured by considering it as compulsory.[46] There was also

[42] Bunyaplanan, *op.cit.*, p.8.

[43] The European Parliament: http://www.europarl.europa.eu/parliament/expert/displayFtu.do?language=en&id=74&ftuId=FTU_5.1.html (accessed on 07 July 2010).

[44] For further details see, Bache and George, *op.cit.*, pp.139-140.

[45] *Ibid.*, p.140.

[46] This refers to the distinction made between Community expenditures of which the underlying principle and the amount are legally determined by the treaties, secondary legislation,

some compromise that the EP would be given some rights to propose amendments for the expenditures that were not classified as compulsory. There was the prospect that deepening would lead to a larger budget in which agriculture was not so dominant, so more areas of NCE would be expected at that time.[47] The CAP became a crucial assessment for budgetary deepening at this stage and the Hague Summit didn't provide expected solutions to ease further constructive mechanism in the budget, adversely it built a remnant path dependent matter by guaranteeing agricultural payments and put that under the jurisdiction of the Council, not the Parliament. Moreover the distinction of CE and NCE caused democratic deficit questions until the Treaty of Lisbon abolished this distinction and granted full decision-making power to the Parliament.

2.4. An Attempt for a Social Constructive Budget: Independent Financing and Introduction of Own Resources (1970–1985):

The research and investment budget of the Euratom was eventually included in the general budget of the EEC when the Treaty of Luxembourg was signed on April 22, 1970. Most importantly, the Treaty introduced, for the first time a system of own resources for the general budget of the EEC, which took effect from the beginning of 1971. One of the objectives was to enhance the Community's financial independence from the transfers of Member States. For that reason the first own resources were introduced as customs duties and agricultural and sugar levies which were collectively named as traditional own resources (TOR). The introduction of TOR to the Community budget signified a transition from national contributions, through which the Member States exercised control over the policies initiated by the Communities, to an independent system of financing, which were derived from the Community level

conventions, international treaties or private contracts (CE) and expenditure for which the budgetary authority is free to decide the amount as it sees fit (NCE).

[47] Opening the negotiation with four applicants (the UK, Ireland, Denmark and Norway) and the objectives of economic and monetary union and the creation of common foreign policy were decided.

activities and policies. Self financing of the expenditures by the funds obtained from the Communities' own policies was a bona fide Community level development in the history of the budget because they were associated with the Community level policies and activities and started directly to enter into the budget of the Communities starting from 1 January 1971.

Under the Council Decision, revenue from TOR was described as;

> "Levies, premiums, additional or compensatory amounts, additional amounts or factors and other duties established or to be established by the institutions of the Communities in respect of trade with non-member countries within the framework of the common agricultural policy, and also contributions and other duties provided for within the framework of the organization of the markets in sugar (agricultural levies)"[48]

These resources were twofold; one was the resource from taxes charged in respect of trade in agricultural products with non-member states within the framework of the common agricultural policy, and second was contributions to the production and storage of sugar and isoglucose. Those second contributions were characteristically internal, but the taxes levied on agricultural imports were external to the Community.[49]

Under the same Decision, revenue from common customs tariff duties and other duties in respect of trade with non-member countries was to be also entered progressively in the budget of the Communities beginning from the same date.[50] As the second own resource, customs duties, introduced on 1 July 1968, were levied at the external borders of the Community on imports. The EEC Treaty already provided that revenues accruing from the common customs tariffs were to represent the first of the Community's own resources in the budget.

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[48] Council Decision of 21 April 1970, Article 2 (a) http://www.ena.lu/council_decision_70_243_ecsc_euratom_replacement_financial_contributions_from_member_states_resources_april_1970-020002659.html (accessed in May 2008)

[49] European Commission "Financing the European Union: Commission Report on the Operation of the Own Resource System", COM (98)560, 1998, http://aei.pitt.edu/6996/01/4060_1.pdf (accessed in June 2008).

[50] Council Decision of 21 April 1970, Article 2 (b) http://www.ena.lu/council_decision_70_243_ecsc_euratom_replacement_financial_contributions_from_member_states_resources_april_1970-020002659.html (accessed in May 2008).

The 1970 decision also provided Member States for a refund of 10 % of the amounts of traditional own resources to be deducted by the member states from total collected amount in order to cover expenses of Member States incurred in the collection of these resources.[51] This refund of collection cost of the Member States was amended later on to its existing application of 25 % because of an increase in the costs of the common market administration. Even though this refunding mechanism is not so much harmful to social construction, its purpose might also be considered another path dependent development, because it is not easy to convince the Member States to relinquish this refunding.

These two TOR, agricultural levies and customs duties are regarded as natural own resources because they constituted revenues collected on the basis of Community policies rather than revenues received from the Member States. Those resources of revenues were indeed addressed to the Community level and linked with the Community level awareness. That was the first tool which was aimed at giving citizens a sense of belonging to supranational community, instead of being an intergovernmental institution.

Indeed, supranational and intergovernmental communities refer two extreme pools. The supranational community indicates an international organization founded by several states for integration which tends to evolve continuously, which is open for tasks of every kind, and which accomplishes its integrative function by carrying out a variety of tasks in the public sphere, by exercising public power.[52] On the other hand intergovernmentalism has argued in the literature that the EU's constitutional order "has developed through a series of celebrated intergovernmental bargains".[53]

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[51] Council Decision of 21 April 1970, Article 3 (1) http://www.ena.lu/council_decision_70_243_ecsc_euratom_replacement_financial_contributions_from_member_states_resources_april_1970-020002659.html (accessed in May 2008).

[52] Thomas Schmitz, "Integration in the Supranational Union", summary, Baden 2001, p. 6 http://lehrstuhl.jura.uni-goettingen.de/tschmitz/Downloads/Schmitz_SupranUnion-Summary.pdf (accessed in May 2009).

[53] Andrew Moravcsik, "Preferences and Power in the European Community, A Liberal Intergovernmentalist Approach" *JCMS*, 31, 1993, p. 473.

Even though the introduction of own resources was construed as a kind of constructive development in the Community's revenue, they were not sufficient to fully finance the budget. Article 4 of the 1970 decision accordingly introduced, from 1 January 1975, a third own resource which is a resource accruing from VAT.[54] This resource was different from the other two TOR because it would reflect the level of economic potential of the Member States instead of the level of economic potential of the Community. It was basically obtained by application of a given rate to a VAT base, determined in a uniform manner for the Member States on the basis of Community rules. In other words, it was a levy on revenue accruing from VAT, collected in each Member State.

That rate was not to exceed a call-in rate of 1 % at that time and later the actual call-in rate was fixed each year at the end of the budgetary procedure in the light of the expenditure not covered by the other own resources. The function of this third resource was, therefore, to balance the budget, in accordance with the BBR of the budget, as an important domain constraint originating from the Treaty of Rome as enumerated earlier.

A uniform basis for assessing VAT was defined in the Directive of 17 May 1977, however, the budget was not to be financed entirely from own resources until 1979 due to delays in certain Member States in introducing of the necessary amendments to their legislation on VAT.[55]

In 1978-1979, the Commission began considering options for future financing, given that a path dependent growth in the CAP spending was driving total spending towards the own resources ceiling of 1 % VAT call-up rate. The consequence of global poor harvest level, which lifted world commodity prices

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[54] VAT is obtained by applying a rate not exceeding 1 % to an assessment basis which is determined in a uniform manner for Member States according to Community rules. The rate shall be fixed within the framework of the budgetary procedure. If at the beginning of a financial year the budget has not yet been adopted, the rate previously fixed shall remain applicable until the entry into force of a new rate. (Council Decision of 21 April 1970, Article 4. http://www.ena.lu/council_decision_70_243_ecsc_euratom_replacement_financial_contributions_from_member_states_resources_april_1970-020002659.html (accessed in May 2008)).

[55] European Council, Sixth Council Directive on "the Harmonization of the Laws of the Member States Relating to Turnover Taxes - Common System of Value Added Tax: Uniform Basis of Assessment", 77/388/EEC, 17 May 1977. http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=CONSLEG:1977L0388:20060101:EN:PDF (accessed in May 2008)

upwards, directly affected the VAT call-up rate and dropped it to 0.73 % in 1980 thereafter to 0.92 % in 1982. The 1 %, demanded in the following year was even not able to finance whole expenditures of the budget in technical term. This shortage of revenues in the budget forced the EEC to search additional resources for the 1984 and 1985 budgets. The Communities tried to find out some additional resources but some insignificant revenue resources were ineffectively introduced. Despite the fact that these were trivial in terms of amounts contributed and effect to the budgets, the emergence of these resources was legitimized by including, among others, deductions from Community staff salaries, wages and allowances, interest on late payments, fines, various taxes, revenue from the sale of publications, Euratom loans, etc. Nevertheless none of them became key resource to play significant roles in financing of the budgets from the beginning of their implementations.

The EEC Treaty made no provision to the Community for borrowing or lending operations. However, on the basis of Article 235 of the Treaty, it was assumed that power, restricted initially to loans to help countries in difficulties which is known as balance of payments loans and subsequently extended to include the financing of investment projects, was proposed by various countries.[56]

The system of own resources with a ceiling of 1% for revenue accruing from VAT lasted for over a decade, because the Community's shortage of financial resources, anticipated by the flare-up of the CAP expenditures which was triggered by the enlargement, especially, the accession of Greece in 1981 and prospects of enlargement to include Spain and Portugal, prompted the Council to revise the 1970 Decision on own resources.

As mentioned before, the Treaty of Luxembourg had introduced a new classification of the expenditures of the budget by amending Article 203 of the Treaty of Rome and divided expenditures into two classes, namely CE and NCE.

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[56] Article 235 of the EEC regulated that if action by the Community should prove necessary to attain, in the course of the operation of the common market, one of the objectives of the Community and this Treaty has not provided the necessary powers, the Council shall, acting unanimously on a proposal from the Commission and after consulting the Assembly, take the appropriate measures.

According to Treaty of Luxemburg, CE was spending "necessarily resulting from this Treaty or from acts adopted in accordance with" the Treaty. During the 1975 budget process, this distinction was applied for the first time. The Council of Ministers determined that CE was all expenditure "in respect of which, by virtue of existing enactments, no budgetary authority, be it the Council or the European Parliament, has the right freely to determine the appropriations".[57] CE, in this regard, was the expenditure whose underlying principle and the amount were legally determined by the treaties, secondary legislation, conventions, international treaties or private contracts. On the other hand, NCE was defined in the Treaty accordingly as spending "other than that necessarily resulting from this Treaty or from acts adopted in accordance with" the Treaty.[58]

The crucial distinction between CE and NCE essentially concerned the powers granted to the Parliament over each of these expenditure categories. It had thus reflected a political frustration during the decision-makings of the budgets regarding the expenditures after the Empty Chair Crisis of 1965-66. The Council's 1975 statement implied that CE could not be controlled directly because once policies were agreed; all obligations arising from these policies were to be met. That said, because the CAP as a CE was dominant in the budget which was desired to become a guaranteed expenditure for the beneficiaries, especially for France, the CAP was seen the least powers granted by the Member States to the Parliament under co-decision through an indirect power given to the Parliament for these expenditures.[59]

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[57] Daniel Strasser, "The Finances of Europe: The Budgetary and Financial Law of The European Communities", *Office for Official Publications of the European Communities*, 7, Luxembourg, 1992, p.176.

[58] Treaty of Rome, Article 203/9. See also Annex: 7 for types of CE and NCE.

[59] CE covered expenditure under the EAGGF, fisheries policy, international agreements concluded with third countries, certain compulsory staffing costs, legal expenses, damages and the monetary reserves. NCE was classified as the Structural Fund expenses, financial support in the fields of energy, industry and research, and most of the operational expenditures. (see, Annex 7).

The IIA of 17 May 2006 renewed the principle of allocation by budget heading and subheading, and redefined some of those headings. This tension provided the establishment of a framework for Community expenditure and by more frequent informal meetings between the Council, the Parliament and the Commission during the budgetary procedure. (Interinstitutional Agreement of 17 May 2006 between the European Parliament, the Council and the Commission on budgetary

As a result of distinction between expenditures, the Council had the right to say the last word on CE, whereas the Parliament had the right to the say last word on NCE. The reason behind this distinction was that once the legislative texts of budget were voted by the Council, it would be made unable the texts to be rejected by Parliament. By doing this, France would be able to guarantee its most fundamental funding of agriculture from the CAP to unforeseeable future,[60] but without anticipating how it would violate further integration and create democratic deficit in decision-making structure of the Community.[61]

Since the institution of the distinction between expenditures with the 1975 budget, it had obviously become the source of conflict between the Parliament and the Council. There had been many cases caused by disagreements over the expenditures on whether it should be classified as compulsory or non-compulsory. The Council had tried to extend the field of compulsory expenditures, over which it should have had the last word, and the European Parliament had tried to do the same for non-compulsory expenditures, on which it could veto at the last reading. It therefore became necessary to establish certain rules to make it possible to clearly distinguish between the two categories of expenditures.[62]

The Council, the EP and the Commission consequently set out in searching of a solution to the differences. The negotiations resulted in the Joint Declaration of 30 June 1982, which provided for the classification of expenditure and defined the concept of CE, to the extent that it is "such expenditure as the budgetary authority is obliged to enter in the budget to enable the Community to meet its obligations, both internally and externally, under the Treaties and acts

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discipline and sound financial management (OJ C 139, 14.6.2006). http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=OJ:C:2006:139:0001:0017:EN:PDF (accessed in May 2008)).

[60] Lisbon Treaty which abolished the distinction of CE and NCE in the decision-making, effective from 2010 for first time applicable to the decision-making of the draft budget of 2011.

[61] Teresa Maisano, "The European Budget in Tips", *Budgeting for the Future, Building another Europe*, 2008, p.36. http://www.sbilanciamoci.org/docs/sbileu/05.pdf (accessed in May 2009).

[62] For furher datails see, Bunyaplanan, *op.cit.*, p.9.

adopted in accordance therewith".[63] Although the declaration conflict had continued, this issue led to the budgetary procedure stuck in a dilemma over several months on several occasions. In order to overcome the difficulties arising from various interpretations of the definition of expenditures, the Council, the EP and the Commission periodically concluded inter-institutional agreements (IIA).[64] These Agreements set out the details of inter-institutional cooperation and the categorization of compulsory expenditure, and non-compulsory expenditure respectively.

Finally, as a result of the Agreements, the inter-institutional tension, which has sometimes rendered the operation of budgetary procedure awkward, had been eased by the establishment of a framework (the multiannual financial perspective or FF) for the Community expenditures and by more frequent informal meetings between these three major institutions of the EEC, the Council, the Commission and the Parliament, during the budgetary procedures.

As Much as multiannual financial framework has eased budgetary decision-making procedures, it has, has in the meantime brought a path dependency by establishing an inflexible multi-year system. Although the service term of the Members of the Parliament is set at five years and free elections have been held every five years since 1979, the projection of a FF was set at seven years, since the second application of framework. Apparently, the term of FF is beyond the five year service term of the Parliament. In normal circumstances, a parliament is expected to adopt a FF, which is operational in its service tenure. For instance, when a parliamentary term starts in the second year of a FF, it will end in the sixth year of the same FF, which will not allow the EP to say anything about the FF exercised during its term of service.

One of the significant path dependencies, which emerged during 1980s, was the question of the British budgetary rebate. Indeed, Britain had become the

[63] The European Parliament, the Council and the Commission, "Joint Declaration on Various Measures to Improve the Budgetary Procedure", 30 June 1982. http://www.ena.lu/joint_declaration_european_parliament_council_commission_budgetary_procedure_june_1982-020002653.html (accessed in May 2009).

[64] IIA has been started in 1988 and continued since that date, IIAs have also been reached in 1993, 1999 and 2006 for the financial frameworks.

third biggest net contributor to the EC budget, right after Germany and Belgium, while transition arrangements about this member state were still limiting the size of British contribution to the budget in 1976. Even though it had the third lowest per capita gross domestic product (GDP) within the Member States, the United Kingdom (UK) was the second biggest budgetary contributor in 1977. It was clearly noticeable in the following year that once the transitional period for the UK's membership came to a close in 1980, Britain would be the largest net contributor among the Member States because the UK had more good imports, especially foodstuffs from outside the EEC and, for that reason, it had been paying more of import levies to the Community budget. Since the UK had low direct taxes, and consumers in the UK had high spending in proportion to the relative wealth of the state, it could turn out to contribute more to the VAT receipts of the revenue side of the budget too. Conversely, Britain was receiving comparatively low allocations from the CAP payments of the expenditure side of the budget, due to Britain's small and efficient farming structure.[65]

After the Labour Party had lost the election prior to finding time to work on the issue, the newly elected Conservative Premier, Margaret Thatcher took up the UK's question and raised it at the European Council meeting in Strasburg in June 1979. However, the discussion was limited with the agreement on a procedure for analyzing the British question with a Commission report. In the following European Council meeting in Dublin in November 1979, the Commission proposed a rebate of £350 million in opposition to Thatcher's assertion and expectations which was being said that the UK would not be accepting less than £1 billion. Eventually an agreement was reached on £350 million with the French, which was the major opponent of the rebate. More or less the agreement provided to the UK a mechanism of "Britain's own money back".[66] In May 1982, Britain was blocking agreement of agriculture price increase for the years of 1982-1983 in the revenge towards France, linking the agreement to permanent settlement of the budgetary dispute. Finally, the Belgian

[65] For further details see, Bache and George, *op.cit.*, p.151.

[66] The motto 'own money back' was intensively used by Thatcher during the negotiations.

presidency called a majority vote on agriculture prices to reach adoption. In spite of Britain's protest by claiming for breach of the Luxemburg Compromise, the vote went ahead and was passed.[67]

The Fontainebleau European Council meeting in 1984 had altered the bottleneck and resolved the budget problem. It decided to cut back on CAP expenditure and increase own resources by raising the VAT contributions of the Member States which was utilized as a reform of the CAP. The Council reached an agreement on the amount of compensation to be granted to the UK to reduce its contribution to the Community budget as well.[68]

The Treaty of Brussels was signed on 22 July 1975, which created the Court of Auditors as a new institution and assigned budgetary control powers. Nevertheless this important institution did not become an official institution until the Treaty of Maastricht of 1992.[69]

The Treaty of 22 April 1970 provided for a gradual increase in Parliament's powers. Initially, up to 1974, Parliament was able to alter the breakdown of expenditures without changing the total amount and the Council could reject this change by qualified majority voting. After 1975, the provisions of Article 203 were substantially amended as to give the Parliament the 'final word' on non-compulsory expenditure provided that it did not exceed the maximum rate of increase. Furthermore, it was the President of Parliament and no longer the President of the Council who was to declare the budget's final

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[67] For details see, Bache and George, *op.cit.*, pp. 151-152 and 155.

[68] The mechanism agreed at Fontainebleau European Council applied exclusively to the UK. However, the Commission has pointed out that the decision was based on the principle that "….any Member State sustaining a budgetary burden which is excessive in relation to its relative prosperity may benefit from a correction at the appropriate time." In 1984, three factors contributed to the UK's adverse position: 1. On the revenue side, the UK's higher propensity to import from outside the Community, resulting in high payments of levies and tariffs. 2. On the expenditure side, the UK's relatively low receipts under the CAP was accounted for nearly 70 % of the budget at that time. 3. The UK's per capita income, which in 1984 was only 90.6 % of the Community average. This made the UK the least prosperous member and net contributor. For this see, Ben Patterson, "The UK Rebate Issue", *European Movement* (Briefing), 2005, pp.1-5. http://www.euromove.org.uk/fileadmin/files_euromove/downloads/Rebate.pdf (accessed in June 2010).

[69] The Court of Auditors official portal: http://eca.europa.eu/portal/page/portal/eca_main_pages/splash_page (accessed in May 2009).

adaption.[70] The establishment of the Court and the Parliament President's final announcement of the adoption of the budget were encouraging steps regarding the development of inter-institutional constitution on the budgetary management.

The power-sharing arrangement of the Treaty of Brussels between the Council and the Parliament was difficult to implement because the rules were not well defined, which released different interpretations on CE and NCE later on.[71] Consequently, the budgetary decision-making process became extremely difficult. Moreover, it also resulted in a number of delays in the adaptation of the annual budget, as well as the Parliament's rejection of the budget. On 30 June 1982 the joint declaration of the Commission, the Council and the EP was reached, aimed at clarifying several budgetary rules to reduce the outstanding conflict. The declaration introduced trialogue between the Presidents of the three institutions as a new procedure to resolve budgetary matters before the draft budget is established.[72]

The growing gap between revenues derived from the Community's own resources and the expenditures, however, triggered a new round of conflict between two crucial arms of budgetary authorities, which was eventually resolved by the creation of IIA to mediate questions between the Council, the Commission and the EP. The basis for the conflict depended upon two major reasons; the decline of revenues acquired from the own resources and the increase of the expenditures arising from the joining of three new member states to the EEC, Greece in 1981 and Spain and Portugal in 1986.[73] Inevitably, the inclusion of these states had unpredictably stimulated the conflict in European integration as these new member states had become a powerful lobby for the extension of

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[70] The European Commission "The Community Budget: The Facts in Figures", SEC(97)1200, 1997, p.25.

[71] For the details of budgetary conflict, see Johannes Lindner, *Conflict and Change in EU Budgetary Politics*, New York, 2006, pp. 46-82.

[72] Bunyaplanan, *op.cit.*, p.9.

[73] The development of the EC was still in the Cold War influence that political instability might open the way for Communist influence which apparently was resulted to push Greece, Portugal, and Spain for membership despite the obvious economic weakness of them.

structural funds, which later turned into the second biggest budgetary amount right after the CAP allocations.[74] In the expenditures of the EEC, structural funds have become path dependent phenomena because of its difficulty to alter, since a number of beneficiaries over the fund were increased with the progressive enlargement of the Community/Union.

2.5. Going to Turbulence, the Single European Act and the Second Decision on Own Resources 1985–1988:

The Decision of 7 May 1985, adopted following the Fontainebleau Summit of June 1984, did not change the system of own resources. The maximum rate of mobilization of VAT resources (call-up rate) was raised from 1 % to 1.4 % effective from 1 January 1986 in order to increase revenues of the budget, which was addressed to accommodate the admission of Portugal and Spain, while retaining the existing sources of revenue.[75]

The principal innovation in this Decision was the introduction of a system for the correction of budgetary imbalances, designed to establish a permanent mechanism for financial compensation to be granted to the UK. The latter, having drawn attention to the imbalance between the costs that it bore as a result of its membership of the Community and the financial returns obtained from membership, had been granted a reduction in its payments to the Community in respect to the revenue from VAT.[76] This rebate was equivalent to 66 % of its net

[74] Structural Fund resources are used to reduce the gaps in development between the regions of the Community and to reduce disparities in the standards of living. The Treaty of Rome referred to the need to consolidate economic unity among the Member States and to reduce disparities between regions. The two first Structural Funds are created: the ESF and the EAGGF in 1958. Following the accession of Denmark, Ireland and the United Kingdom, the European Regional Development Fund was created in 1975, to assist those regions affected by industrial decline, and to counterbalance the significant financial support allocated to the agricultural industries of the Member States. The Development Fund also introduced, for the first time, the notion of 'redistribution' between richer and poorer regions of the Community (The Commission http://ec.europa.eu/regional_policy/funds/prord/prords/history_en.htm (accessed in May 2009)).

[75] The Fontainebleau European Council, 6/1984, p.228. http://aei.pitt.edu/1448/01/Fountainebleau__june_1994.pdf (accessed in May 2009).

[76] The calculation method of the VAT based own resource is very complex and needed harmonization in the VAT of the Member States. Moreover as is explained in chapter 6, other

balance.[77] The cost of financing this compensation had to be shared by the other Member States in *pro rata* base, according to their participation in the revenue from VAT, with the exception of Germany whose share was reduced by one third.

The change was made for the sake of providing equity on the distributions to each member state, but it made the system much more complicated, hence, unfavourably influenced social construction of the Community.[78]

Despite the increase in the maximum call-in rate for VAT from 1 January 1986, it soon became apparent that the Community budget was insufficient to cover the ever-growing costs specifically associated with the extension of Community activities into new fields, as a result of the Single European Act (SEA) and as well as accession of new Member States. The impetus of enlargement and the conclusion of the SEA opened up prospects for a reform of the Community's financial system.[79] The main objective was to provide the financial resources to launch an economic and social cohesion policy at Community level while ensuring that these new funds would not be absorbed by the common agricultural policy. The method employed is based on prior agreement on the main medium-term priorities between all the parties involved in the Community budget.[80]

Traditional own resources were observed as diminishing during this term. The Community had become more and more self-sufficient in the agricultural sector which had reduced agricultural imports, thereby caused a fall in revenue arising from import taxes. The Community had also granted a large number of

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Member States has benefitted from this exception, which caused a *juste retour* question, which was especially influential during the negotiation of the 2007-2013 FF.

[77] *Ibid*, pp.227-228

[78] The Commission: http://ec.europa.eu/budget/budget_detail/orig_develop_en.htm (accessed in May 2009).

[79] European Union: Summaries Of the EU Legislation - Budget: http://europa.eu/legislation_summaries/budget/l34011_en.htm (accessed in May 2009).

[80] The European Commission, "The Community Budget: The Facts in Figures", SEC(97)1200, 1997, p.49.

tariff reductions on various kinds, which had caused a decline in customs revenues as well.

The SEA, signed on 28 February 1986 and came into effect on 1 July 1987, modified and amended the existing decision-making procedure between the Parliament and the Council, the Act also brought a series of new policy areas, such as environmental, research and technology and regional policies.

As the Commission pointed out in its communication of 15 February 1987, “Making a Success of the Single Act: a New Frontier for Europe”, which is generally called as the “Delors I Package”, the current financing system of own resources was exhausted. The Community apparently needed to have an adequate system of own resources that could provide funds for a reasonable period of budgetary stability for the future. A further increase in the maximum call-in rate for VAT alone would not have been projected as a permanent solution. The Commission therefore recommended that a need of fourth resource.

Following the first Parliament election held in 1979 for the term of 1979-1984, second election was held in June 1984 for the EP term of 1984-1989. Therefore first financial framework was assigned for the fiscal term of 1988-1992, which was adopted by the Second EP, nevertheless, this first financial framework was exercised during the half of the term of the third MEPs.

2.6. Filling the Budget with Path Dependencies and the First Financial Framework (Delors I) 1988–1992:

The entry into force of the SEA in July 1987 rejuvenated European integration process by objecting the completion of internal market until 1992. Nevertheless there was a problem of implementation related to accompanying measures especially the demands of southern members for an adequate compensatory mechanism to mitigate the adverse effects of the market liberalization. Despite the reluctance of some member states to commit bigger resources to community regional aids, these demands ultimately had to be compensated to protect the 1992 programme.[81] Eventually member states had to agree a doubling of the allocation of structural funds to promote greater cohesion as a complementary measure to the internal market so that the funds would be able to assist losers from the creation of a single European market with the free movements of goods, services, capitals and persons.[82] Apparently, development in the common market was beneficial to industrially developed member states, which was to be paid back to the states which were disadvantaged from this development or which were lagging behind of the others due to implementation of common market.[83] Nevertheless, this development had doubled the historic path dependent expenditures of the budget, since the funds were addressed to the Member States without considering the necessity of a European link with citizens. Moreover, there were no measurement and time perspective of the aids provided from Structural Funds.

Following the Delors' proposals on the subjects such as agricultural policy, the structural funds, the financial framework and general budgetary amendments including new own resources, the European Council meeting held in Brussels in February 1988 acted on the Commission's communication which prepared a careful overhaul of the system of own resources. The Decision of the Council on 24 June 1988, established a new system for financing the Community budget, applicable from 1 January 1989. The Delors' reform covered three important issues: (a) a requirement of additional resources to enable the EEC to operate properly, (b) improvement of the EEC's budgetary discipline with the budget priority given to the development of policies connected with the SEA and put an effective break on the rising agricultural expenditure, and (c) tying the contributions from the member states more closely to their level of relative prosperity.[84]

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[81] Bache and George, *op.cit.*, p.163.

[82] Bunyaplanan, *op.cit.*, p.10.

[83] Bache and George, *op.cit.*, p.163.

[84] For Delor I and II, see, Tamás Szemlér, "EU Budget Milestones: From Fundamental Systemic Reforms to Organised Chaos", *Papeles del Este*, 2006, p.4.

Subsequently this Decision introduced a fourth resource based on the GNP of the Member States. This was to be obtained by the application of a rate to be determined under the budgetary procedure to a base representing the sum of all the Member States' GNP, which was established in accordance with rules adopted in a directive. The rate was calculated by reference to the difference between expenditures and the total amount of own resources, which was designed to balance the Community budget as connected with the BBR. Hence, it was designated as an additional and complementary resource, which was intended to limit the regressive nature of the VAT based resource. It was to compensate the decline in traditional own resources due to reductions in customs duties and self-sufficiency in food. The GNP is taken as a reference for the contribution of Member States because it was addressed to account for the relative prosperity of the Member States for the burden of Community financing and it was desired for this burden to be shared by each member state in proportion with their national prosperity. The argument of GDP based own resource was to provide *juste retour*[85] among the Member States in their budgetary contribution.

The same Decision fixed a maximum amount of own resources corresponding to a percentage of GNP. It, therefore, introduced the principle of a ceiling for the total amount of the own resources to be assigned to the Community. The ceiling, fixed at 1.15 % in 1988, was designed to be increased progressively so that it reached 1.20 % of the total GNP of the Community in 1992 to cover payment appropriations. Thus, this new mechanism enabled the EEC budget to be index-linked with developments in the economic prosperity of the Community.[86] The new system was meant to "bring an improvement in

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[85] The '*juste retour*' attributes each EU member state's priority for securing the possible best individual net financial position vis-à-vis the community budget over any other consideration concerning the community budget is stronger than ever. (Sandor Richter, "Facing the Monster 'Juste Retour' On the Net Financial Position of Member States vis-à-vis the EU Budget and a Proposal for Reform-Summary'", p.1 http://ec.europa.eu/budget/reform/library/contributions/us/20080404_US_15_summary_en.pdf (accessed in June 2009).

[86] The European System of Integrated Economic Accounts (ESA 95) was adopted the Council in 1996 (Council Regulation (EC) No. 2223/96 of 25 June 1996, p. 1).

Community statistics and make them more consistent… [and enable] the financing of the Community budget to be met more adequately"[87]

The methodology of the GNI calculation was described in a Council Regulation. According to this Regulation, Eurostat verifies the sources and methods used by Member States based on procedure and statistics verification and reports. Eurostat makes an assessment on the figures and presents assessment reports to the GNI Committee.[88]

The revenue from VAT, which had lost its function as a balancing resource, was adapted to take account of the disparities between the Member States, associated with differences in their patterns of consumption. The rate of VAT remained at 1.4 %, but the assessment base to be taken into account for any Member State was not to exceed 55 % of its GNP. This rate has been maintained as effective for the principle of capping the VAT base.[89]

The Brussels meeting presented a five year financial perspective system throughout the IIA as medium term planning projections.[90] Although the IIA was signed to improve budget process and management by three budget institutions of the EEC, which provided a financial perspective between 1988 and 1992 and reduced the threat of conflict by serving as a reference framework for the EEC annual budget, it was not, however attended to make it appropriate with the term of MEPs providing democratic legitimacy of the EP as mentioned before. Importantly, the election of EP was held in 1989 in the second year of the first FF of 1988-1992, so the second term the EP would have to work for the most of its term with a FF adopted by in the term of their predecessors.

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[87] See European Council, Presidency Note, "Progress Report on Statistics", 7057/95, 15 May 1995, p. 2.

[88] European Council, Council Regulation on "The Harmonization of Gross National Income at Market Prices (GNI Regulation)", (EC, Euratom), 1287/200315, July 2003. (http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=CELEX:32003R1287:EN:NOT (accessed on 13 June 2009)).

[89] Bunyaplanan, *op.cit.*, p.11.

[90] The first FF is known as Delors I and covers five years: 1988-1992, the second FF is known as Delors II and cover seven years: 1993-1999.

The FF[91] employed to enhance a concurrent development of the various sectors on the expenditure side of the budget and in the meantime to balance between expenditure derived from the SEA and the structural policies. In the FF heading 1, a guideline was set up to establish a budgetary discipline for agricultural expenditures, which may not rise by more than 74 % of the annual growth rate of the EEC's GNP each year.[92] A monetary reserve was also designed to compete with the negative fluctuation effects in the exchange rate between the US dollar and the European Currency Unit (ECU) on expenditures of the EAGGF Guarantee Section.

It was also decided in Brussels to provide a guarantee that the allocations for the Funds would be twice as high in real terms in 1993 as in 1987 and also to target Community action through these Funds at five objectives;[93]

1. Development and structural adjustment of regions whose development is lagging behind,
2. Conversion of regions affected by industrial decline,
3. Combating long-term unemployment,
4. Occupational integration of young people,
5. Adjustment of agricultural structures and development of rural areas[94]

The rebate for the UK had exposed its weakness for the first time during this term. The mechanism of compensation granted to the UK was slightly modified to take into account the capping of the VAT base and the introduction of an additional source of revenue. The Decision confirmed the arrangement, which basically limited Germany's share in financing this compensation and it introduced a temporary abatement up to 1991 for Spain and Portugal. Additionally, the Decision specified that customs duties on products coming under the Euratom Treaty were to be entered in the Community budget.

At the end of the period the Commission once again paid its attention to the system of own resources in order to tackle the increase in the Community's

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[91] For Headings of first FF see, Annex: 4/A.

[92] European Commission, "European Union Public Finance", 2009, p. 39.

[93] The European Commission "The Community Budget: The Facts in Figures", SEC(97)1200, 1997, p.49.

[94] *Ibid.*

expenditures resulting from the extended responsibilities arising from the EU Treaty.

In its communication of 11 February 1992 “From the Single European Act to Maastricht and Beyond: the Means to Match Ambitions”, which is generally called as the “Delors II Package”, the Commission had drawn attention to the regressive character of the VAT resource, which had unduly penalized the least prosperous Member States, given the fact that a large proportion of their GNP was normally spent on consumer goods. The Commission presented proposals to the Council on corrections to reduce the relative proportion of the VAT based own resource in the Community’s budgetary resources and bring the resources paid by each Member State in line with its ability to contribute. The Commission was aiming to consider relative prosperity of the Member States. The Heads of State or Government at the meeting in Edinburgh in December 1992 approved the amendments.[95]

During this period, there were significant external developments. In fact, the collapse of Communism in the Soviet Union and Central and Eastern European Countries and its stimulation of the reunification of Germany in 1989-1991 opened up avenues of potential fresh markets and latest areas of investments in these regions.

As a result of the changes in the international scene and German unification, the Community’s regional and foreign aid programs[96] had to be revised seven times between 1988 and 1992. Apart from them, the FF was

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[95] The GNI-based own resource is obtained by applying a rate fixed each year under the budget procedure to a base representing the sum of the gross national products at market prices. It is calculated by reference to the difference between expenditure and the yield of the other own resources. It is the key resource, as it determines the cap on the VAT base, how the cost of the UK rebate is shared, and the ceiling on total resources under the financial perspective. The Edinburgh agreement of December 1992, which entered into force at the beginning of 1995, increased this overall ceiling from 1.14% to 1.27% (the ceiling was introduced in Brussels in 1988) (European Parliament, Draft Report on the Future of the European Union’s Own Resources (Provisional 2006/2205), 2007, pp.14-15. http://www.europarl.europa.eu/meetdocs/2004_2009/documents/pr/647/647440/647440en.pdf (accessed on 04 January 2010)).

[96] Such as assistance for the countries of Central and Eastern Europe and the republics of the CIS, humanitarian aid following the crisis in former Yugoslavia, the Gulf War, aid to Kurdish refugees and measures to combat famine in Africa.

revised in the middle of the term to boost internal policies and assistance to a number of developing countries. However, since the beginning of the FF the Community has been experiencing that revisions of FFs have been too frequent, which proved that the FF system is too inflexible to respond for unforeseen situations. Furthermore, the revisions were often complicated to negotiate and were made more difficult by the complex budgetary procedure of the Community. The change in external and internal developments has been set by the system of multi-year financial framework as a path dependent.

The Maastricht Treaty, which established the EU, entered into force in November 1993, implemented new areas of cooperation in the fields of Common Foreign and Security Policy (CFSP) and Justice and Home Affairs (JHA) and made each one, separate pillars of the Union. It furthermore formed a Committee of the Regions and Local Authorities, for the rising role of local governments in the Community affairs. One of the extraordinary reflections had come from Denmark, which surprisingly rejected the Treaty in the referendum held in June 1993. One of the adverse impacts of this development was about the reforms on the CAP and the Common Fisheries Policy, known MacSharry reform.[97] The MacSharry reform provided for a break in the link between price support and production. The CAP had progressed from unlimited support to a virtual price freeze and quantitative controls on production.[98] The reform signaled the beginning of direct payments in order to compensate for the decrease in the price support. Farmers were partly compensated for the lower prices through direct payments, based on the area on which they plant certain crops.[99]

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[97] More interestingly, the Treaty of Maastricht was only endorsed by the French voters in September 1992, by a small margin.

[98] After opt-out clauses from the Economic and Monetary Union (EMU), the European citizenship and security policies were granted to Denmark at the European Council of Edinburgh in December 1992, the Danes approved of the Maastricht Treaty in May 1993.

[99] The Mac Sharry reform enacted price cuts for agricultural products (meat and cereals) as a mean to ensure competitive domestic and international markets. In order to be eligible for these payments farmers also had to set-aside a certain amount of their land and limit the number of animals per hectare. It also introduced new subsidies to farmers for good environmental practices.

Moreover, while the 1970 Decision had devised a system of Community financing based on own resources, it was the EU Treaty entered into force in 1993 that amended Article 201 of the EEC Treaty and Article 173 of the Euratom Treaty, thereby altered the system of autonomous financing.

Even though the GNP based budgetary resource has been deemed as a type of own resources, it cannot be regarded as a constructive own resource since it is directed towards the Member States instead of the citizens of the Communities. Obviously, it is a source which resembles a national account of the membership fee that member states pay to any international organization in conformity with the portion of their GNIs. Conversely, this source has some advantages over the other resources such as, its simplicity, uncomplicated management and the incurrence of comparatively less administrative costs.

In summation, from the Community resources, the reductions in the VAT and increase in GNI based own resource to close the gap in the budget funding has signalled the dismantling of social constructive elements on the revenue side of the budget. Comparable effect was observed when the substantial allocation of structural funds was doubled on the expenditure side. The term of financial perspective represented the democratic deficit issue by conveying a negative message from the perspective of social constructivism, since the term of 5 years were truly established, but not operating within the same term of the EP, which would enable them to preserve their responsibility for 5 years in their term of liability over the Community budget. Presenting CFSP and JHA was a very prosperous development since both policies are considered as public goods and envoys social constructive influences to European citizens.

2.7. The Financial Framework II (Delors II): 1993–1999

Having entered into force The Maastricht Treaty came into force on November 1993, Austria, Sweden and Finland became members of the EU in

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(Institute For Agriculture And Trade Policy, “The Common Agricultural Policy: A Brief Introduction Prepared for the Global Dialogue Meeting”, May 14 and 15, 2007, Washington, D.C., p.2 http://www.iatp.org/iatp/publications.cfm?refid=100145 (accessed in May 2009)).

January 1995,[100] the Treaty focused on economic and monetary integration with its third attempt after the Werner Plan of 1971 and the establishment of the European Monetary System in 1979, which further provided a precise timetable of the proposed three stages.[101]

The Delors II package was proposed by the Commission in 1992 as a new financial perspective by taking into consideration the objectives of the Maastricht Treaty. Since the economy was more depressed, the Commission projected to adjust its proposal by extending the period of FF, from five to seven years, for achieving the objectives, ending in 1999 instead of 1997. This overall proposal was very much a continuation of the 1988 reform with regard to the structural funds, budgetary discipline and own resources. The proposal of the Commission was agreed in the Edinburgh Council meeting held in December 1992. Structural operations in the Community's most underprivileged regions where per capita GNP is less than 75 % of the Community average (Objective 1 regions) were given the highest priority during the meeting where particular attention was paid to external action of the Community.[102] The Council had called for the funding increase for the environment in favour to the competitiveness of the industry. The Cohesion Fund for countries with a per capita GNP of less than 90 % of the Community average (addressed to new member states such as, Greece, Spain, Ireland and Portugal) was to finance environmental or transport infrastructure projects to assist the beneficiary members fulfil the EU standards, which was

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[100] Austria applied in 1989, Sweden in 1991 and Finland in 1992.

[101] The first stage begun in 1990 when the Council went on evaluating the progress made by the Member States with regard to economic and monetary convergence, such as the adaptation of appropriate measures to comply with prohibitions on restricting capital movements, the granting of overdraft by the central banks, and maintaining the privileged access to financial institutions. The second stage came in 1994 when Member States made significant progress towards economic policy convergence, including the establishment of the European Monetary Institute, to enhance cooperation between the national central banks and to prepare member states for the introduction of the single currency. The third stage started in 1999 with the enforcement of national budgetary rules and a single monetary policy so that the euro was started to the circulation in 2002 as an outcome of this development. For details see http://europa.eu/legislation_summaries/economic_and_monetary_affairs/introducing_euro_practical_aspects/l25007_en.htm (accessed in May 2009).

[102] European Commission, "European Union Public Finance", Third Eddition, Office of Offical Publications or the European Community, 2002, p.75.

subjected to the founding of an economic convergence programme by these Member States. With the combined assistance of the Cohesion Fund and Objective 1 of the Structural Funds, the four Member States, eligible for the Cohesion Fund would, together, receive in 1999, twice what they had obtained under Objective 1 in 1992.[103]

Internal policy expenditures were increased for the funding of the trans-European networks by contributing to the development of networks in the transport, telecommunications and energy sectors in order to promote cross-frontier links between the member states' networks by 30 %. Research and trans-European networks were specially mentioned in the Edinburgh conclusions because of their importance. The adoption of the fourth framework programme (from 1994 to 1998) with increased allocations confirmed the renewed importance attached to Community research.[104]

The Edinburgh Council introduced some changes in the FF which concerned the splitting of the old heading 4 (Other policies) into two separate headings: internal policies (new heading 3) and external action (new heading 4) - and the removing of policies with multiannual allocations (the old heading 3). Research was included in the internal policies, and the extension of reserves (heading 6) to include two new reserves for external policies (emergency aid and guarantee of loans granted to non-member countries) alongside the agricultural monetary reserve.[105][106]

Delors II package predicted the persistence of the development of a financial perspective system for the subsequent fiscal year as well as the budgetary support for executing policies associated with the Maastricht Treaty.[107]

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[103] The European Commission "The Community Budget: The Facts in Figures", SEC(97)1200, 1997, p.60.

[104] *Ibid.*

[105] European Commission, "European Union Public Finance", Third Eddition, Office of Offical Publications or the European Community, 2002, p.55.

[106] For headings of this framework see, Annex: 4/B.

[107] Bunyaplanan, *op.cit.*, p.15.

The Lisbon European Council had witnessed the debate on a new financial framework in June of 1992. The Commission proposed a gradual increase of own resources ceiling from 1.2 % in 1992 to 1.37 % of GNP in 1997. An agreement was reached at the Essen European Council in December 1994 to launch an initiative on North Africa and Middle East. In the Barcelona conference of November 1995, a stability pact for the Middle East was agreed to contribute $6 billion in aid. For this reason, the ceiling for the total amount of own resources was revised upwards in order to increase the revenues of the Community. It was to rise from 1.21 % to 1.27 % of the total GNP of the Member States between 1995 and 1999.[108]

In order to decrease the role being played by VAT revenue in Community financing, and subsequently, to take more into account the ability of Member States to contribute, this Decision provided for the progressive reduction of the call-in-rate of the VAT resource from 1.4 % to 1 % between 1995 and 1999.

From 1995, the ceiling for the VAT base was fixed at 50 % of GNP with regard to Member States whose per capita GNP in 1991 was less than 90 % of the Community average.[109] This amendment was extended gradually between 1995 and 1999 to all the Member States. By so doing, the least prosperous Member States had benefited more from the new capping. This new threshold took effect for Greece, Spain, Ireland and Portugal and gradually applied to other member states. These reductions aimed to increase the significance of revenues based on the GNP of states derived from the level of prosperity and ability to pay of the member states.

Following the accession of Austria, Finland and Sweden, a financial perspective for the enlarged EU was respectively approved by the Council on 5 December 1994 and by Parliament on 13 December 1994. With this approval, the ceilings for headings 1 to 5 were raised for the whole of the period to cover the requirements resulting from enlargement of the Union.[110] A new heading 7 was

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[108] *Ibid.*, p.15.

[109] *Ibid.*

[110] See, Annex 4/C.

also added to cover the compensation which Austria, Finland and Sweden would receive from the CAP budget over the period running between 1995 and 1998. The compensation was granted to Austria, Finland and Sweden because they had not being received any direct per hectare aid in 1995, moreover, it was expected from these states to bring their agricultural prices in line with Community prices. There were some adjustments on the financial perspective to adapt it in line with some needs not directly related to enlargement. Structural operations (heading 2) were increased in three equal instalments between 1995 and 1997, which was aimed to finance the Northern Ireland peace programme. Internal policies (heading 3) was increased and spread evenly over the next five years, to finance the programme for the modernization of the textile industry in Portugal.[111]

In its communication entitled "Agenda 2000: for a Stronger and Wider Union", dated 16 July 1997, the Commission emphasized that the financial effects of future enlargement of the EU to include the countries of Central and Eastern Europe must be taken into account.[112] It meant that the existing system of own resources needed not be amended and could very well continue to be implemented between 2000 and 2006. The Commission communication highlighted a number of priorities, associated with the need to maintain the policy of economic and social cohesion, and also to pursue the reform of the common agricultural policy, to strengthen growth, employment and living conditions through the Union's internal policies and to allow the accession of new members, while maintaining budgetary discipline.[113]

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[111] The European Commission "The Community Budget: The Facts in Figures", SEC(97)1200, 1997, pp.61-62.

[112] The Berlin European Council reached an agreement on 24 March 1999, on the Agenda 2000 which covered four main areas: the reform of the common agricultural policy, structural policy reform, the pre-accession instruments and the new financial framework. The Commission has also proposed an amendment to the financial regulation on trans-European networks. (The European Union:
http://europa.eu/legislation_summaries/enlargement/2004_and_2007_enlargement/l60001_en.htm (accessed in June 2009).

[113] *Ibid.*

The Treaty of Amsterdam signed in October 1997 and came into force in May 1999 had made major revisions on Maastricht since it was aiming to prepare the EU for the next enlargement.

The system of own resources was assessed by the Commission in a report dated on 7 October 1998 which noted that the reforms introduced by the 1988 and 1994 own resources decisions had resulted in a reduction in the relative importance of VAT contributions.[114] Additionally, the volume of traditional own resources (agricultural duties, sugar levies and custom duties) was diminishing as a result of trade liberalization. Consequently the importance of the GNP based resource in the budget had gained relative importance over the years.

The report also analyzed the operation of the system of financing. Following this analysis, it presented some options for reforms designed especially to simplify the current system, improve its cost-effectiveness and transparency and increase the Union's financial autonomy. The report also included proposals for the introduction of new own resources. These resources were basically a modified VAT,[115] an EU tax, a CO_2/energy tax, excise taxes, seigniorage, corporate and personal income taxes, and new communication taxes.[116]

On the basis of this report, the European Council meeting in Berlin on 24 and 25 March 1999 determined the adjustments to be made to the Union's financing system, but it simply avoided introducing any new own resources.

Since enlargement became a likely prospect in the early 1990s, the CAP and the structural funds were widely identified as the problematic policy areas, the Commission persuaded the Member States that budgetary change would be incremental and this could afford enlargement.[117] Agenda 2000, launched in July 1997, was the Commission's formal response to the Council's Madrid meeting in

[114] The European Commission "Financing the European Union: Commission Report on the Operation of the Own Resource System", COM(98)560, 1998.

[115] A modified VAT would be as low as 1.5 % and as high as 3 %, total VAT revenues would be divided between the national budget and the EU, and national parliaments would determine the part to be attributable to the Community budget.

[116] *Ibid.*

[117] *Ibid.*

1995, which had requested ‘a composite paper on enlargement’ and proposals for the future budget arrangements for the Union into the next millennium.[118] Hence, the Commission's proposals in July 1997 were conservative and cautious.

The Commission maintained the ceiling of own resources at 1.27 % of GNP, which was the level arranged in the Delors II proposal for 1999. For the candidate countries, the proposals granted a provision for pre-accession aid which would then merge with EU budgetary flows when the candidate countries accessed to the Union. Negotiations took place among four groups; the net beneficiaries and the net contributors as one, the big contributors and proportionately less contributors as two, the CAP supporters and reformists as three and the UK and opposites who supports a generalized rebate system as four.[119]

The third FF, effective between 2000 and 2006, which was agreed at Berlin (24/25 March 1999), was the outcome of Agenda 2000. A key feature was the demands of the net contributors for a more equitable system of burden sharing of the budget, which was resonating *juste retour* issue. Germany was the first in demanding a reduction in its heavy contributions to the budget. The Netherlands was also a key player as a net contributor, since it had become a major contributor in per capita during the First FF (1988-1992). Among the new three Member States, Sweden and Austria demanded a fairer budget. France appeared as a large (but not net) contributor and wanted to sustain its position from the CAP payments. The UK preferred to defend the *status quo* for its rebate mechanism. The so called cohesion countries (or net beneficiaries) desired to keep the main characters of the EU’s cohesion policies, especially for their financial benefits taken from the structural and cohesion funds for which Greece and Portugal supported Spain’s strong negotiating position.[120]

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[118] Alan Swinbank, “EU agriculture, Agenda 2000 and WTO commitments”, *World Economy*, 22/1, December 2002, Pp 41-54.

[119] Euroactive, Enlargement and the Agenda 2000 budgetary agreement, *Euractive*, published: 20 April 2001 and updated: 29 January 2010 (http://www.euractiv.com/en/health/enlargement-agenda-2000-budgetary-agreement/article-116952 (accessed on 14 July 2009)).

[120] *Ibid.*

In Berlin, The agreement was finally reached through a series of compromises between the participants. The search for agreement turned around budgetary stabilization, the CAP reform and the fund for cohesion policy. The Agreement reflected a pre-enlargement perspective but the enlargement subject was tightened by budgetary limits.

The IIA of 1999 altered the decision-making procedures, which aimed at making it harder for spending increases. In the new procedure, the qualified majority in the Council and a majority of members with three-fifths of votes cast were needed for an increase of less than 0.03 % of GNP now. In case of revisions amounting to more than 0.03 % of Community GNI required the agreement from two institutions: the European Parliament and the Council.

There was a Commission crisis in 1999 for the first time with regard to the discharge of the budget. The report of the Court of Auditors (COA) on the budget of 1996 had pushed the Budget Committee of the EP in March 1998 for refusing to discharge of the whole budget by the EP. The reason was some fictitious contracts of Humanitarian Office (ECHO) resulted in some 600,000 ECU[121] being untraceable. The EP declined to discharge of 1996 budget in 1998 under the serious consideration of the COA's position on it, and then it laid down the monition of censure.[122] This crisis had resulted in creation of doubt about the management of the budgetary funds which would always raise questions with respect to the expenditure management of the EU. Moreover, this issue conveyed important messages about the usage of power of the Parliament on the budget, which raises the importance of democratic representation mechanism over the EU budget.

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[121] ECU is The European Currency Unit (symbol ₠), based on a basket of the currencies of the European Community member states, used as the unit of account of the European Community before being replaced by the euro on January 1, 1999, at the value of €1 = 1 ECU.

[122] Bache and George, *op.cit.*, p.191.

2.8. The Beginning of a Debate for a Constructive Reform and Financial Framework III: 2000–2006

This term was critical for the preparation of the big bang enlargement of ten states to the effect that the EU had to deal with reforms of policies and institutions to cope with future questions. For that reason, an allocation for pre-accession aids to the candidate countries was added as the seventh category as pointed out before. Two policies were particularly crucial in this term, agriculture and structural funds, because the candidate countries would benefit from these resources with their accession. Agriculture was accounted for 25 % of the GDP of the candidate states with the concentration in meat, dairy and cereals, but productivity in these states was lower than the member states. Application of the CAP directly to the new members would be likely to encourage higher output and have an unsustainable impact on the cost of the CAP, consequently increasing surplus. At the same time, the higher cost of foods to consumers would increase total price level in the new Member States. The major predicament was to convince the existing member states for the admittance of a CAP reform which was essential to pave the way for enlargement.[123]

The reform of structural funds was portrayed under the critical denial of the current beneficiary member states. They were not willing to accept the policies because they would have to relinquish from the findings of existing budgetary ceilings for the accomplishment of projected enlargement. The Commission's March 1998 proposal would result in no state losing more than one-third of its eligibility for funding in terms of percentage of its population covered by objective 2.[124] Long and generous transitional arrangements were made for regions that would lose objective 1 status.[125]

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[123] *Ibid.*, pp.192-194.

[124] Objective 2 is to support the economic and social conversion of areas in difficulty. Objective 1 is to promote the development of the poorest regions and to support the modernization of their economic structures.

[125] Bache and George *op.cit.*, pp. 193.

The Council Decision of Brussels on 29 September 2000, which entered into force on 1 January 2002, met the wishes expressed by the Berlin European Council. In order to continue the process of taking account of each State's ability to contribute and to reduce revenue from VAT, the maximum call-in rate of the VAT resource was to be reduced to 0.75 % in 2002 and to 0.50 % in 2004. For the same reasons, the ceiling for the VAT base remained fixed at 50 % of GNP for each Member State. In order to enable the Union to develop its policies and prepare for further enlargement, the ceiling for own resources (to cover payment appropriations) was maintained at 1.27 % of Community GNP.[126]

This Decision also provided for a technical adaptation to make available the use of the latest statistical concepts. In the European system of integrated economic accounts (ESA 95), the concept of GNP was replaced by GNI. In that decision, GNP is accordingly defined as being equal to GNI.[127] As a result, in order to maintain the amount of Community resources at the same level, the ceiling for own resources as a percentage of the Union's GNI was adjusted to a value of 1.24 %.

As regards traditional own resources, the fraction, which the Member States were allowed to retain so as to cover collection costs, was increased from 10 % to 25 %, effective from 1 January 2001.

The compensation granted to the UK was maintained, which was subject to the application of technical adjustments designed to offset the gains, which resulted from the increase in the percentage of TOR retained by Member States to cover collection costs and pre-accession expenditure. The Council Decision on the system of own resource on 29 September 2000 stated that the financing of the

[126] European Council, "Decision on the System of the European Communities' Own Resources", 29 September 2000.

[127] There is a small difference between GNI and GNP in their calculations. GNI contains the total value produced within a state, which makes its gross domestic product, together with country's income received from other states, and less similar payments made to other states. The GNI consists of the personal consumption expenditures, the gross private investment, the government consumption expenditures, the net income from assets abroad (net income receipts), and the gross exports of goods and services, after deducting two components: the gross imports of goods and services, and the indirect business taxes. The GNI is similar to the GNP, except that in measuring the GNP the indirect business taxes are not deducted. (for this see, http://www.sparknotes.com/economics/macro/measuring1/section1.html)

correction of budgetary imbalances in favour of the United Kingdom should be modified to allow Austria, Germany, the Netherlands and Sweden to see a reduction in their financing share to 25 % of the normal share.[128]

Effective from 2002, this correction mechanism was maintained for the sake of *juste retour* but brought another path dependency, which was dispersed from the first provision to the UK and now granted to four other member states by a similar mechanism.

Finally, it was decided that the Commission was to undertake, before 1 January 2006, a general review of the own resources system, including the effects of enlargement on the financing of the budget, to consider the possibility of creating new autonomous own resources as well as to review current financing system.[129]

The Commission's Report on the operation of the own resources system published in 2004 criticized own resource system due to lack of a direct link between the EU and its citizens. Indeed, most citizens do not know what and how much they pay to the EU budget.

> The own resources system and individual own resources can be assessed against specific criteria. It is virtually impossible for individual own resources to satisfy all possible assessment criteria. However, a system based on a combination of resources of different nature may reasonably meet the main relevant criteria. The following criteria are considered relevant to this report: visibility and simplicity, financial autonomy, adding to the efficient allocation of economic resources, sufficiency, administrative cost-effectiveness, revenue-stability, and equity in gross contributions.[130]

According to the Report, the current system has performed well with regards the criteria of sufficiency and stability, nevertheless, noticeably failed to fulfil the visibility and simplicity, moreover, did not significantly contribute to a more efficient allocation of economic resources in the EU. The financing system

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[128] European Council, "Council Decision on the System of the European Communities' Own Resources", 29 September 2000, Ref.14.

[129] European Council, "Regulation on the System of the Communities' Own Resources", 2028/2004, 16 November 2004, para.11. http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=OJ:L:2004:352:0001:0007:EN:PDF (accessed in June 2010).

[130] European Commission, "Financing the European Union - Commission Report on the Operation of the Own Resources System", COM/2004/0505 final, 2004.

of the EU has grown complex over the time, it is more impressivelly not only problematic for the EU institutions, and the Member States but also for citizens with regard to grasping how it works. Additionally, financial autonomy has been becoming more and more restricted due to the present structure of funding which is dependent on GNI based own resoruce. Although the budgetary financing was guaranteed by rules, binding the Member States, no mechanism was visualized to provide a direct link between the EU and its citizens or tax-payers so far. Instead the financing of the budget relied on transfers from the treasuries of the Member States.

The Commission proposed to introduce a generalized correction mechanism to address excessive budgetary imbalances, according to the proposed Council decision on the system of own resources and the accompanying proposal of implementing measures.[131] The Commission had discussed some alternative for future own resources and called on the Council to discuss the proposal and prepare a roadmap in view of replacing the current VAT resource with a genuinely tax-based own resource by 2014 such as, a resource based on energy consumption, national VAT bases and corporate income.[132]

> A resource based on energy consumption and conceived as an EU levy on motor fuel for road transport would be a sufficient and stable financing source for the EU budget and would create a direct link to the citizens. The tax base is already harmonized at EU level. It could be complemented by an EU levy on aviation fuel or the related emissions thus ending the current tax exemption for jet fuel and setting a price on the environmental

[131] The correction is to be calculated on the basis of the net budgetary balance of each Member State in relation to the budget of the EU. The mechanism should be triggered if net contributions exceed a threshold, expressed as a percentage of each Member State's GNI, reflecting the minimum accepted level of unlimited financial solidarity between Member States. Net positions exceeding such a threshold will be eligible for a correction (partial refund). Conversely, the total volume of corrections (refund volume) will be limited to a maximum amount, thus insuring those not benefiting from a correction against excessive costs of the mechanism. If the sum of all corrections exceeds the total predetermined volume, the refund rate is reduced accordingly. The new mechanism proposed by the Commission contains the following elements: - setting a threshold level as a percentage of GNI; - capping the total volume of corrections; - simplifying the financing of the corrections by basing them on GNI shares, whereby all Member States participate in the financing of the global amount of the corrections in proportion to their relative prosperity; - keeping the concept of allocated expenditure and the re-imbursement rate up to the maximum volume unchanged. (European Commission, "Financing the European Union - Commission report on the operation of the own resources system", COM/2004/0505 final).

[132] It is hoped that a new tax-based own resource which replaces the current statistical VAT-based resource and financing a considerable amount of the EU budget would make it possible to overcome the absence of a direct link to EU citizens.

> costs of aviation. Tax base harmonization in the field of VAT is quite advanced and it is a sufficient and stable source of revenue... From an administrative point of view, its introduction would not present any insurmountable difficulties. Due to the link to a common EU policy and the presence of cross-border externalities, revenue from a harmonized company tax base would also be a suitable financing source for the EU budget. The implementation of an energy- or VAT-based resource would be feasible over the medium-term, whereas a fiscal resource based on corporate income is to be seen as a much longer-term option.[133]

Indeed, a fiscal VAT and tax on motor fuel and aviation fuel or similar taxes such as tax on emissions are widely dispersed indirect taxes acquired from their consumptions, which could help to provide projected direct link to the citizens. On the other hand, corporate income tax is a direct tax sourced from the Companies, so that it will be able to establish this link between the EU level and the European commercial companies.

2.9. Conflicts between Continuity of Path Dependency and the First Voices of Constructivism (Financial Framework IV: 2007–2013):

At the Inter Governmental Conference held in 2000, Spain had secured a provision in the Treaty of Nice that qualified majority voting in decision-making regarding the Structural Fund and the Cohesion Fund would be instituted only after January 1, 2007. Spain together with Poland was the most opposed country to certain provisions of the draft Constitutional Treaty, and as a consequence of this, Germany linked the financing of these funds with the adoption of the Constitutional Treaty. In December 2003, the six leading net contributors; Germany, France, the UK, Sweden, Austria and the Netherlands who are the owner of almost 93.3 % of total budget,[134] sent a joint letter to the President of the Commission and called upon him to produce a budget based upon a ceiling of 1 % of the total EU GNI. The Commission rejected the letter by arguing that cutting spending at a time when the EU was integrating ten new member states

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[133] European Commission, "Financing the European Union - Commission report on the operation of the own resources system" /* COM/2004/0505 final, p.12.

[134] Germany, United Kingdom, France, Italy, the Netherlands and, Sweden are six biggest net contributors. Austria, Denmark, Finland and Cyrus are also net contributors in the last financial framework. (Openeurope, "Briefing note: European Communities (Finance) Bill", *Openeurope* http://www.openeurope.org.uk/research/budget07.pdf (accessed in July 2009))

and trying to upgrade its role in the world would not be acceptable. Afterwards, the Commission prepared a draft budget in accordance with 1.24 % of GNI. The Commission further introduced changes traditional categorization of headings on the expenditure side of the budget.[135]

The formal negotiation of the 2007-2013 FF was started with the proposal of the European Commission in February 2004.[136] It also proposed to the full financial inclusion of new ten member states by 2013 and Romania and Bulgaria by 2016.

Traditionally, EU policies have been concentrated on the agriculture, cohesion, structural fund, internal market etc., but during this time, the proposal focused on Lisbon goals to transform the Union into a dynamic knowledge-based economy with a solid industrial base, with targets implying growth rose to around 3 % a year, effective economic governance to deliver the balanced package of economic, social and environmental benefits,[137] which has reflected to the FF by adding up subheading with the name of "Competitiveness for Growth and Employment" to finance programs associated with these goals.

Barcelona European Council set operational targets such as increasing research and development to 3 % of the EU-GNI by 2010 as 1/3 from the public and 2/3 from the private sectors, after The Lisbon strategy had been adopted in March 2000. Following the Brussels European Council of 2002 which decided to freeze the CAP payments, the so-called Sapir Report introduced an increase in research and development allocations, a reform on the CAP and utilizing the cohesion policy to the new entrants.[138]

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[135] For details see Alan Mayhew, "The Financial Framework of the European Union, 2007-2013: New Policies? New Money?" *SEI Working Paper*, 78, 2004.

[136] European Commission, "Building our common Future: Policy Challenges and Budgetary Means of the Enlarged Union 2007-2013", Communication from the Commission to the Council and the European Parliament, COM(2004) 101, 26.2.2004.

[137] *Ibid*., pp.6-14.

[138] Sapir, A. *et al*., "An Agenda for a Growing Europe - Making the EU Economic System Deliver", Report of An Independent High-Level Study Group, 2003, p.5.

Three priorities were set for the next financial perspectives in the Commission proposal as completion of internal market, internal policies (citizenship, freedom, security and justice) and external policies (the EU as a global player):

> 1. The Internal Market must be completed so that it could play its full parts in achieving the broader objective of sustainable development, mobilizing economic, social, and environmental policies to that end. This encompasses competitiveness, cohesion and the sustainable management and protection of natural resources.
> 2. The political concept of European citizenship hinges on the completion of an area of freedom, justice, security and access to basic public goods.
> 3. Europe should project a coherent role as a global partner, inspired by its core values in assuming regional responsibilities, promoting sustainable development, and contributing to civilian and strategic security.[139]

When the requirement of significant financial support for the Lisbon strategy was added to the October 2002 CAP agreement, the Commission proposal exceeded the budget restrictions requested by six largest contributors. Indeed the Commission included a large financial support for the Lisbon goals as suggested by Sapir Report. To overcome this big resource requirement, the Commission proposed an increase in the relative level of GNI from 1.08 % in the current framework to 1.14 % of EU’s GNI.[140] In December 2005, the Heads of State and Government of the 25 EU member states agreed on a new FF for the years 2007-2013. Obviously, the main cleavage was yet again to be found between the CAP and the UK rebate.

In the new FF, even though the CAP was continued to finance relatively high, total amount of expenditure budget was reduced. The Lisbon goals together with the cohesion policy (heading 1a and 1b), citizenship, freedom security and justice (heading 3a and 3b) and enlargement and development aids to the non-EU member states and non-EU countries (heading 4 – the EU as global player) were given less priority.

The strategy that the Member States followed was different during the negotiations. France and the UK followed a separate policy. Even though they

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[139] For details see, European Commission, “Building our common Future: Policy challenges and Budgetary means of the Enlarged Union 2007-2013”, Communication from the Commission to the Council and the European Parliament, COM(2004) 101, 26.2.2004, p.6.

[140] Mayhew, *op.cit.*, p.11.

both showed their interest for new policies and willingness of decreasing the overall volume of expenditures, they were deviated from the others. France wanted to keep the payment level of agriculture from the direct subsidies,[141] while the UK wanted to maintain its rebate mechanism.[142]

The large six net contributors had succeeded the reduction in budget funding for following seven years. The recipients of funds other than the UK rebate were agglomerated as three groups: cohesion, agriculture and other policies. Agriculture group were observed in two sub-groups, old members and new members. With the attempt of France as stated, the fist pillar of the CAP (price, export and market support) was remained almost at the same level as before but Bulgarians and Romanians' shares were reduced under the ceiling. The reductions in the CAP were directed to the second pillar (rural development). The Cohesion group, compromised with Spain, Portugal, Greece and new member states had averted to diminish the cohesion funding. Ownerless policies such as competitiveness, external and internal policies suffered, among which the funding for the Lisbon goals was the biggest loser because of the priority of national objectives.[143]

The dividing line between net contributors and the net beneficiaries was sharpened considerably following the letter of six net players stating that EU expenditures should not exceed 1 % of the EU GNI. While the Commission's proposal remained unaltered in substance, the size of budget was significantly reduced to 1.045 % of the GNI but it was raised to 1.048 % with the IIA. The Agreement comprised several side payments to some of the Member States with the purpose of adjusting their net positions. Net balance issue dominated the negotiations rather than the concerns about the EU level policies. The main factor which resulted in breakdown of the negotiations was UK Prime Minister Tony

[141] France presented its request in the letter of six largest net contributors to protect the ceiling, set in the Brussels European Council in 2002.

[142] For this the UK used the veto power and blocked the Brussels European Council in June 2005 for possible early decision.

[143] For further information see, Mojmir Mrak and Vasja Rant, "Financial Perspective 2007-2013: Domination of National Interests", *EU-Consent EU-Budget Working Paper*, 1, 2007, pp.20-22 http://www.eu-consent.net/library/papers/EU-Budget_wp1.pdf (accessed in June 2010).

Blair's insistence to review as a *quid pro quo* for reducing the UK correction, which aimed to facilitate a need of fundamental reform of the budget in general, and the CAP and the UK rebate in particular.[144] This would open up a discussion for essential reform proposals of the budget at a later period.

In May 2006 three budgetary institutions agreed that the Commission should undertake a fundamental review of the EU budget, including CAP, the UK rebate and own resources to report in 2008/9.[145] Twenty years after the first financial framework, it was time for a European-wide reflection preparing the ground for a renewed consensus about the direction of the EU spending policies to be able to meet the challenges of the next decade and beyond. It will therefore not propose a new multi-annual financial framework for the period from 2014-2020, nor the overall detailed breakdown of the EU budget. It will rather set out the structure and direction of the Union's future spending priorities, assessing what offers the best added value and most effective results. It will also examine how the budget works, how to get the right balance between continuity and change for responding the new challenges, and whether it should be managed differently. Finally the review will take a fresh look at the best way of providing the resources necessary to fund EU policies.[146]

The Commission later invited all actors at local, regional, national and European level to participate in the budget debate for reforming the EU budget. These Reform debates and proposals are extensively analyzed in chapter 6.

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[144] Iain Begg, André Sapir and Jonas Eriksson "The Purse of the European Union: Setting Priorities for the Future Contributions", *SIEPS*, 2008/1, 2008, p.6 http://ec.europa.eu/budget/reform/library/contributions/us/20080409_US_18_en.pdf (accessed on 25.06.2010).

[145] IIA between the Parliament, the Council and the Commission on "Budgetary Discipline and Sound Financial Management", 2006/C 139/01, Official Journal of the EU, 14.6.2006, p.15. http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=OJ:C:2006:139:0001:0017:EN:PDF (accessed in May 2008).

[146] Communication from the Commission, "Reforming the Budget, Changing Europe, A public Consultation Paper in View of the 2008/2009 Budget Review", 12.9.2007 http://ec.europa.eu/budget/reform/library/issue_paper/consultation_paper_en.pdf (accessed in October 2009).

2.10. Conclusion:

It may be stated that the progress of the budget in the history of EU has faced many path dependent developments during the historical progress, which undoubtedly affected today's budgetary politics and stipulated urgent reforms necessities. It is hoped this time round that necessary reforms are developed by the considerations of the social constructivist mechanisms as will be explained in the following chapters.

The budget of the Community was started with genuine resources for financing during the ECSC, it was much more constitutive but limited with the perception of the businesses of coal and steel. Apparently, it focused on main energy resource and infrastructure materials of coal and steel, as an intergovernmental business community during that time. Therefore, there was no social idea for the citizens of the member states in the budgetary politics, even truthfully there was no need for this, because incomes and expenses of the ECSC were insignificant in amount and they were aiming to serve only in these two economic sectors. Merely, the budget was addressed to the sustainable management of the coal and steel as a core concern of the founding states.

While nuclear energy impressed the members from the second half of the 1950s, the USA coal policy over the Community destroyed the coal mining business which was followed by German regaining of industrial power and consequent demand for economic cooperation. By signing of the Treaty of Rome, intergovernmental structure of the budget was fortified by pooling agriculture policy to the Community level and supporting alleviations of regional disparities, in the favour of French and Italians, which had to be subsidized from German industry. The BBR, still effective as a budgetary principle, supported this development.

Although the EEC Treaty proposed to finance the policies with own resources, contributions from the member states had occupied a key place in the budget. Own resources from agriculture levies were withheld to come into force from 1962 to 1966, and it was implemented after adding up external tariffs to the levies following the budget crisis of the "Empty Chair". The decision about the weakening democratic representation by defining European expenses as compulsory and non-compulsory and leaving the EP powerless on the adoption of compulsory expenditures was noted as another advancement of path dependency, following agriculture and regional policies.

The Treaty of Luxemburg designed the budget to be independent from the contributions of member states. The resources from custom tariffs and agricultural levies were acquired from the community level activities but not fully addressed to foster the social construction of the Europe and its citizens. On the other hand, these resources were not enough for funding the overall expenditures as well, so that a percentage of VAT from the collection of Member States was added up to revenue mechanism of the EEC as another financial source of the budget. Particularly, VAT was expected to play a real social constructive role over the citizens. Nonetheless it had linked with the Member States instead of the Community citizens.

While successfully completing enlargements to the UK, Denmark, Ireland, Greece, Portugal and Spain between 1973 and 1986, the UK took up a position, which enabled an unpredictable path dependency. This position presented a *sui generis* rebate mechanism, eventually influenced some other members who were interested in benefiting from the same exemption with the view of *juste retour*. The outcome of rebate mechanism has enlarged this group of beneficiaries to Austria, Sweden, the Netherland and Germany.

The effect of SEA of 1986 by enhancing community policies to environment, research, technology and regional policy areas to increase effectiveness of the common market had positive influences. Unfortunately, the SEA did not recognize the deficiency of social constructive roles of budget, it even stepped up further and introduced GNI based own resources because of the compensation for the increased expenditures resulted from enlargement and anticipated by further integration. It might be simply said that the SEA aimed to strength common market and European common area, but without introducing a sustainable and constructive budgetary mechanism.

The introduction of multi-year financial perspective had brought sustainable long term budgeting framework and reduced budgetary conflicts.

However, it revealed a democratic deficit question when it especially increased its period from five years to seven years during the second financial perspective of 1993-1997 which was ended in 1999. Democratic deficit emerged because the seven year projection has transcended the five year service term of the EP.

As the reason for disadvantages of less prosperous member states, the VAT based own resource was projected by Delors. In spite of the fact that VAT might have been a first social constructivist source of financing, it was inefficiently implemented and inserted into the budget. Indeed this system was initiated based on the concept of *juste retour*. Nevertheless, the resource has later lost its importance over the years and took its place in today's budget as a complicated and problematic tool since the EU rebate and correction mechanism were connected to this resource.

By taking genuine steps, the Maastricht Treaty introduced some social integrative proposals such as CFSP and JHA on the expenditure side of the budget, therefore, they were still away from curing integration question of the EU in the areas yet, due to their low level of budgetary financing and still persistence of intergovernmental characteristics.

The entry of prosperous states like Austria, Finland and Sweden kept the issues silent for a while but commenced the discussion about budgetary reform. Even though some rehabilitations were expected before the big bang enlargement of 2004 and 2007, nothing have been done except keeping GNI base contributions as the biggest funding source of the EU budget, to a certain high level. Optimistically, the reform discussion has regained its importance, hopefully effective for the following financial term of 2014-2020, but this time to consider social constructivist solutions for the problems in expenditure, revenue and some institutional problems associated with the budget.

In sum, the history of the EU has demonstrated that, small or big, there are many path dependent developments, resulting from preferences and decisions, which internally or externally forced the budget to a path, from which became difficult to deviate now. The reform projections of the present budget must be revealed to these developments. As identified through the chapter, these path dependent developments can be defined as agriculture policy, structural and cohesion funds on the expenditure side and VAT based own resource and GNI based own resource on the revenue side of the budget. Similarly, the UK rebate and correction mechanism, seven-year projection of the multi-year financial perspective and the differentiations of expenditures as compulsory and non-compulsory at the budgetary decision-making can be considered path dependent associated with both sides of the budget and retaining of 25 % from the collection of traditional own resources of the EU can be regarded as a path dependent development as well. Even though it is presumed a path dependent development, the BBR, as discussed in chapter 3 and chapter 6, is not considered path dependent due to the reasons macro-economic stabilization function is not proper for the budgetary remittance of the EU.

CHAPTER 3

A SOCIAL CONSTRUCTIVIST FRAMEWORK FOR THE EU BUDGET

3.1. Theoretical Approaches to the Analysis of the EU Budget:

This chapter aims to attempt a theoretical contribution to the budget of the EU in connection with the outstanding problems that have impeded the integration of the EU level with its citizens. These problems are encountered in two distinct categories, explicitly the budget expenditures and budget revenues. This chapter endeavours to introduce a social constructivist policy approach in respect of these problem areas as an alternative to the most prominent approach of fiscal federalism in the literature. In other words, it attempts to shed in light on a social constructivist policy perspective to the EU budget and equally a budgetary approach to social constructivist studies.

On the assumption that the EU is a densely institutionalized social entity, the social constructive link between the EU level and EU citizens is weak because of many uneven path dependent developments that have emerged throughout the history of the budget, as already discussed in Chapter 2. Therefore, it is presumed that budgets in general and the EU budget in particular encompass social constructive roles over the societies, whose application mechanisms are implicitly or explicitly utilized for that purpose. The current questions within the two problematic areas of the budget are mostly associated with the outstanding weakness of this unreinforced link between the EU and its citizens. On the other hand, it will be argued that these problems can be resolved by assessing the social constructive elements on the expenditure and revenue sides of the EU budget.

In this regard, fiscal federalism, acquired from the economic literature as the most frequently referred theoretical approach with respect to financial management of governments needs to be cautiously examined. This analysis is expected to provide a perception that will enable one to compare it with social constructivist approach, thus eventually helping to devise a theoretical background for the outstanding problems. Although it conveys productive and comprehensive features for the financial policy of the EU, fiscal federalism is considered to be far from rehabilitating the outstanding problems that have appeared in the budgetary progress since it introduces federative assumptions for the integration of the EU. In fact, fiscal federalism contains federative assumptions so that it emphasizes a distinct magnitude with prosperous utilization of public goods and the seizure of the overall functioning of a budget in the public financial management.[147]

The expenditure side of the budget is the first of the problematic area of interest, which has been the major area of interest, which has been meticulously analyzed in the literature. Fiscal federalism has also paid great attention to the expenditures in the budget. It has generally emphasized the welfare gains, the allocation and stabilization functions of the budget expenditures attesting especially to the importance of decentralization of the allocation function. However, the governance of the EU does not fully entail the model that fiscal federalism introduces on the expenditure side for a number of reasons. Firstly, the EU institutions enjoy a lesser amount of power over the budget of the Union as compared with the centralized functions attributed by fiscal federalism. Secondly, the budget has been designed on a smaller scale as compared to that of a central government in a similar entity (such as a nation-state or federation). Thirdly, no budgetary provisions for certain macroeconomic functions are envisaged from the EU level. Finally there is no such existing governance designed for the overall role of the fiscal policies, nor equal norms of centralization and decentralization

[147] In the EU literature, however, the EU budget has been studied in particular areas of interests, in fact, some of them are comparative studies like contributions and benefits of member states to/from the budget, based on absolute rationalist assumptions. Some are concerned about the size of the budget, some are interested in the relationship between the budget and particular policy areas, such as enlargement or neighbourhood policy, some are interested in the revenues.

theorem applicable to the EU. Hence, macroeconomic stabilization and redistribution functions, as the main arguments of fiscal federalism, indicate top-down governmental tasks, which cannot be wholly attributable to the EU. Since such model tends to presume a greater degree of statehood than the presently existing governance framework of the EU, it is reckoned that the EU is far from utilizing such functions of fiscal federalism for the time being.

The revenue side of the budget, as the second problem area, has been accorded a great importance as well. The historical development of the EU has not pursued the pattern that fiscal federalism proposes on this side since fiscal federalism suggests that more taxation authority should be taken to the central level of the government, which does not exist in the EU. Therefore, the member states of the EU are reluctant to surrender their taxation powers to the EU, simply because this power would represent not only the pooling of the sovereignty of the states but also advocates strong EU level public governance. Taxation in the EU is implemented through the norms of harmonization or co-ordination of differences on national taxation systems of the Member States, which attempts to reduce taxation competitively among the states. Fiscal federalism provides some guidance about which taxes should be harmonized and which should not. It simply entails that taxes on mobile factors are to be harmonized, while taxes on immobile factors may not. This implies that taxes on mobile capital, including corporate taxes, are to be harmonized but that taxes on labour needed not be, at least to the same degree. VAT, for instance, would fall into the category of taxes on mobile factors,[148] because consumers can move across borders of states to engage in purchasing relations, which is needed to be harmonized according to fiscal federalism.[149]

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[148] Factor mobility refers the ability of resources, labor, or capital to be put to an alternative use or moved to another location.

[149] There is low labour mobility in Europe than in any other federal constitutions such as the United States, Canada, and Australia. Low labour mobility allows European governments to set labour income taxes and unemployment benefits more freely than would otherwise be. The greater mobility of capital than labour has tended to shift EU taxation away from capital towards labour. If capital is mobile, within the EU and outside of the EU borders, its income cannot be taxed very heavily by any of the member states. Hence, this tax shift is fundamentally a result of factor mobility, not of European economic integration or harmonization policies. For further

Contrary to fiscal federalism, social constructivism can accommodate more appropriate insights towards the policy approach. Indeed, social constructivism respects material and immaterial factors altogether without reconciling their comparative weight in theory building. If one of the major problems of the EU integration is attributed to citizen's underdeveloped sense of belonging to the EU level, it may be deemed that social constructivist policy approach may utilize the budgetary devices for this purpose. However, the projection of public goods as assumed by fiscal federalism for the allocation function of the budget might be useful to capture social constructivist policy approach as well.

In fact, within the divergent theoretical approaches to the EU budgetary system, fiscal federalism and its supplementary assumption relating to the terminology of public goods are considered as one of the most integrative proposals for the constitution of a European *demos.* In this regard, public goods as one of the most prosperous components of fiscal federalist terminology can be attributed to the EU budget as an integrative mechanism of social constructivist approach, because public goods are goods and services, which are supplied for common usage and aim for social construction of an entity. Indeed, the production of the EU level public goods which might serve for the social construction of the European *demos* maybe devised as a useful mechanism on the expenditure side for the allocation function of the budget.

The issue of taxation power would be problematic when taxation framework of fiscal federalism is applied to the EU, mainly since it targets state sovereignty. Whereas fiscal federalism would be very much interested in taxation power, social constructivism would concern only social constructive effects of the taxes on the EU's revenue side of the budget. Concerning taxation, social constructive elements seem more reasonable to take into account rather than focusing on factor mobility and their taxation. The sense of belonging to the EU level might be enhanced by using European level taxation policies so that such policies can address citizens to strengthen the supranational EU level materially

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analysis, see Mark Bainbridge and Philip Whyman (eds), *Fiscal Federalism and European Economic Integration*, Routledge, New York, 2004.

and normatively. The form of taxes and models of taxation would also be important as to give the European citizens a sense of supranational belongings. In fact, a widely dispersed taxation mechanism is recommended to embrace as the majority of citizens within the European territory. If taxation is presented as fair, effective and sustainable in order to provide justification, it would not harm social construction. Such an EU level tax will minimize the requirement of GNI-based own resource for financing as well.

In short, normative values of social constructivist approach might be applied to the expenditure and revenue sides of the budget to such extent that a sense of belonging of citizens to the EU level might be provided through appropriate revenue and expenditure mechanisms. The principal proposal of the introduction of a social constructivist policy approach is to enhance European citizens' sense of belongings to the European level and then facilitate their internalization of the European norms, values and identity, which eventually aspires to enhance European integration.[150] Recent discussions about the reform of the budget, which have been augmented particularly after 2005 following the FF 2007-2013 negotiations, are expected to introduce some contributions to the extent that the Lisbon goals are to be successfully accomplished. Even though these discussions have not reached a final consensus as yet to turn into a Community rule, apparently, the discussion of reforming the budget is directly related to the concerned two problem areas of the research, for which social constructive policy approach is expected to make certain contributions.

[150] Europeanization has been defined in a number of ways. Here it refers that the institutional interaction of policy actors at the various levels of European governance leads to the re-definition of national, regional and other identities within a European context, where the multiple levels of governance in Europe are not seen as necessarily in opposition to one another. (Robert Harmsen and Thomas M. Wilson, (ed.s) *Europeanization: Institution, Identities and Citizenship*, Rodopi, 2000, pp.51-79).

3.2. The Fiscal Federalist Approach

3.2.1. The Introduction of Federalism:

During the last three centuries, the richest nations of the world might be perceived as federal. For instance, the Dutch Republic from the late sixteenth through mid-seventeenth, England from the late seventeenth or early eighteenth to the mid-nineteenth centuries[151] and the USA from the late nineteenth century to the present. India and China are the latest federalist challengers in this century; nevertheless Russia, Argentina, Brazil and, Mexico have been developed as federal states, but naturally poorly.[152]

The term federalism, originally derived from the Latin word of *foedus*, refers to an idea, an ideology, and a theory that manifests itself in several political appearances, indeed most apparently in the form of a federation and a confederation. Presently, three primary facts might be aligned with federalism; firstly the English-speaking world, particularly the experience of the United States, secondly confederations which existed in the Germanic world, and thirdly federal unions that had been postulated in utopian peace plans for Europe which began in the fifteenth century.[153]

After stressing that federalism originated with the American Constitution, which Wheare defines a federal government as "an association of states so organized that powers are divided between a general government which in certain matters is independent of the governments of the associated states, and, in their turn, independent of the general government".[154] Consequently, William Riker by describing federalism as a constitutionalized bargain, stated that "a constitution is

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[151] A *de facto* federalist if not *de jure.*

[152] Barry R. Weingast "Second Generation Fiscal Federalism: Implications for Decentralized Democratic Governance and Economic Development", *Discussion Draft,* 2006, p.5 http://ssrn.com/abstract=1153440 (accessed in July 2009).

[153] Daniel J. Elazar, "International and Comparative Federalism", *Political Science and Politics,* 26/2, 1993, p.190.

[154] Thomas Christiansen, Jørgensen, Knud Erik and Antje Wiener (eds), *The Social Construction of Europe,* Sage Publications Ltd, 2001, p.35, Cristiansen refers to Wheare, 1964, 2.

federal if two levels of government do rule the same land and people, and each level has at least one area of action in which it is autonomous, and there is some guarantee (even though merely a statement in the constitution) of the autonomy of each government in its own sphere".[155]

In the same vein, federalism is defined as "the combination of self-rule and shared rule through constitutionalized power-sharing on a non-centralized basis".[156]

> [U]sing the federal principle does not necessarily mean establishing a federal system in the conventional sense of a modern federal state. The essence of federalism is not to be found in a particular set of institutions but in the institutionalization of particular relationships among the participants in political life. Consequently, federalism is a phenomenon that provides many options for the organization of political authority and power; as long as the proper relations can be developed that are consistent with federal principles.[157]

More concretely, Harbo has scrutinised four types of federations to determine which features the EU, that is institutional/constitutional architecture and decision-making capacity, and these countries have in common.

1. German federalism, a cooperative type based on shared sovereignty,
2. The federal system of the United States of America, a type of dual federalism with divided sovereignty based on two independent levels of decision-making,
3. Swiss federalism, a heterogeneous federation of a cooperative type where multilingual and multicultural diversity is accommodated,
4. The Canadian system, the first federation to combine federal and parliamentary systems in order to accommodate and reconcile territorial diversity within a fundamentally multilingual and multicultural (territorial) society.[158]

Indeed, federalism is rather difficult task of building unity by means of a comprehensive political federation of member states. In 1930, French statesman Aristide Briand advocated for a European federal union within the League of Nations, a model that visualized the gradual application of the federalist idea to

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[155] William H. Riker, *Federalism: Origin, Operation, Significance*, Boston, Little Brown and Co., 1964, p.13. http://www.clas.ufl.edu/users/kreppel/pos6933/riker.pdf (accessed in 18 June 2009).
[156] Elazar *op. cit.*, p.190.

[157] Rey Koslowski, "A Constructivist Approach to Understanding the European Union as a Federal Polity", Journal of European Public Policy, 6/4, 1999, p.564. http://www.informaworld.com/smpp/content~db=all~content=a713773758 (accessed on 17 July 2009) Koslowski refers to Elazar, 1987, 12.

[158] See Florentina Harbo, "Towards a European Federation?: The EU in the Light of Comparative Federalism", *Nomos Universitätsschriften*, 2005, p.131.

economics, finance, labour, and inter-parliamentary relations.[159] Despite progress in the institutionalization of the EU which might be conceived towards a federal state, the EU has not been declared as a federal entity yet. The EU is more than intergovernmental but less than federal and, more importantly, not necessarily going down the path to federalism.[160] If fact, it is a mix, which contains federal, confederal, intergovernmental and consociational characteristics.[161]

3.2.2. The Introduction of Fiscal Federalism:

The theory of fiscal federalism is analyzed into two generations in accordance with its progressive developments in the literature. The first generation theory of fiscal federalism, prevailed during the 1950s and 1960s, concentrated on the nature of public goods, the role of public and private sectors and public finance, which set forth an active and positive role for the government sector in the form of correcting various types of market failures, establishing an equitable distribution of income, and stabilizing the macro-economy at high levels of employment with stable prices.[162]

First generation of fiscal federalism refers to three tasks; the assignment of financial functions to levels of government, the welfare gains from fiscal decentralization, and the use of fiscal instruments.[163] Accordingly, the first

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[159] For details see, Alice-Catherine Carls and Megan Naughton, "Functionalism and Federalism in the European Union", *Public Justice Report*, Second Quarter 2002, pp.3-4 http://www.cpjustice.org/content/functionalism-and-federalism-european-union (accessed on 21 March 2010).

[160] For details see, Stelios Stavridis, "Confederal Consociation and The Future of the European Union: Overcoming the traditional 'Dialogue of the Deaf' between Federalism and Intergovernmentalism in European Integration", *Hellenic Foundation for European and Foreign Policy (ELIAMEP), Working Papers*, 2001, p.14.

[161] *Ibid*., p.11.

[162] Wallace E. Oates, "Towards a Second-generation Theory of Fiscal Federalism, *International Tax and Public Finance,* 12, 2005, p.350. http://www.economia.unict.it/web/MatDid_vecchio/Anno2006-2007/imazza/Materiale_Didattico/e2_economia_pubblica/Oates%202ndgenfisfed.pdf (accessed in June 2009) and Weingast, *op.cit*.

[163] Wallace E. Oates "An Essay on Fiscal Federalism", *Journal of Economic Literature*, 37, 1999, p. 1121. http://darp.lse.ac.uk/PapersDB/Oates_%28JEL99%29.pdf (accessed in June 2009).

generation studies stated that the central government should have the basic responsibility for the macroeconomic stabilization and redistribution in undertaking assistance to the poor. The central government must provide certain national goods (for example defense) and local governments must provide own goods, limited with their own jurisdictions. The decentralization provision would increase economic welfare above the provision of the center because the decentralized level of government can easily reflect the differences and preferences of the people in its local jurisdiction. The economic efficiency is the major concern for redistribution of resources. Regarding the taxation issue, the first generation offers benefit taxes for decentralized level and non-benefit taxes on mobile unit for the central government.[164] This generation delineates intergovernmental grants to be provided from the center as conditional grants if there are expected spill-over benefits for residents of other jurisdictions and unconditional grants for fiscal equalization purpose.[165]

The second generation fiscal federalism develops an approach from industrial organizations and microeconomic theory of utility maximization, and concentrates on political process and the behaviour of political actors. It assumes that these actors (voters and officials) follow their objective functions that they seek to maximize in a political setting that provides constraints on their behaviour.[166] Indeed this approach differs from the first generation since the former assumes that people seek the common goods and the welfare of their own constituencies. Studies categorized under the second generation have focused on more divergent subjects including market preserving federalism which can be defined so that a properly structured federal system and market economy can interact in ways that can be mutually reinforcing to provide fiscal federalism. It

[164] Benefit taxes are charged based on benefits, the taxpayer is the one who benefit from this service or good (user fees, property taxes etc.), for details see, Timothy J. Goodspeed, “Tax Competition, Benefit Taxes, And Fiscal Federalism”, *National Tax Journal*, 51/3, 1998.

[165] For further analysis see, Oates, “An Essay ...”.

[166] Oates, “Towards ...”, p.356.

implies that strong markets contribute to the viability of the federal structure of public sector.[167]

> From this perspective, a relatively decentralized public sector in which regional/local governments have the primary responsibility for providing public services and exercising key regulatory powers in the context of a common market without barriers to trade and a setting of hard budget constraints can provide a system with a "credible commitment" to protecting and encouraging the operation of private markets.[168]

First generation assumes a policy choice by an upper level social planner (central government) but second generation approaches this by its normative component of how to devise political and fiscal institutions to align the incentives of political officials with citizens so as to approximate to the idea of the first generation. Weingast, points out that second generation is complementary to first generation, in which case he lays out a set of three conditions for a federal system that characterize what he term 'market-preserving federalism' as a mode of second generation.[169] These conditions entail, decentralized governments, which have the primary regulatory responsibility over the economy, the system which constitutes a common market in which there are no barriers to trade, and decentralized governments that face 'hard budget constraints'.[170] Weingast refers to the third condition that lower level governments have neither the capacity to create money nor access to unlimited credit.[171] Weingast even further argues in historical terms that eighteenth-century England and the nineteenth-century United States were effectively in such a system of market-preserving federalism,

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[167] *Ibid*, p.368.

[168] *Ibid*.

[169] For further information see, Weingast, *op.cit.*

[170] Oates, "An Essay...", p.1139.

[171] Budget constraints can be identified in two categories: Soft budget constraints refers that governments shall involve bail out when needed in economy, also refers *fiscal means*, in the form of subsidies from the state budget or of tax concessions (remission, reduction, or postponement of tax obligations). The second group involves some form of *credit*. For example, loans may be offered to financially troubled firms that would not be eligible for credit were standard conservative lending criteria applied. Hard budget constraints do represent opposite actions of soft budget constraints. (János Kornai, Eric Maskin and Gérard Roland, "Understanding the Soft Budget Constraint", *Economics Working Papers*, 0019, Institute for Advanced Study, School of Social Science, 2002, p.4).

and one that fostered in important and fundamental ways the process of economic growth.[172]

3.2.3. Fiscal Federalist Discourse in the EU Studies

European federation is *"boîte de Pandore"* simply because the direction of the Union has not been defined yet. Therefore, the EU has been developing beyond an international organization. Whereas there are many elements which are similar to the federation, the EU has not been designed as a supranational constitution in this stage.

The EU is neither politically nor financially federal. It is not politically federal because there is no such a constituted structure or principle, which would qualify it as a federal constitution. It is not financially federal because the EU's fiscal system does not consist with a set of federal rules, which constrains general fiscal norms and regulations. One of the differences between the EU and other federal systems, for instance, is that most of the fiscal issues in the EU remain outside of the EU's competences, hence are carried out by national governments. The EU cannot be referred as fiscal federal with regards to its spending framework because there is no fully-fledged central authority originating from national governments for the centralized political and financial functions, moreover there are no local constituencies designated with the decentralized tasks either. The fiscal and political relations between centralized and decentralized levels are not similar to what fiscal federalism supposes. On the taxation side, there is no central authority exercising the taxation power and no European-wide common tax effective for EU citizens as well. Adversely, the fiscal system of the Union is designed to harmonize the taxes in the Member States on mobile factors. Simultaneously, it has ruled to enforce fiscal discipline on its member states through monetary and stabilization policies. Nevertheless the monetary policy and currency unit are not fully applicable to all member states since some of the

[172] Oates, "An Essay...", p.1139.

Member States have opted out and some others are unwilling to apply the projected financial criteria.

> Indeed the EU does not fit fiscal federalism since policies are tied with regulations. The EU fiscal system can't be completely studied and created congruent to the optimal theory of public finances. The main "public" instrument which is at EU's disposal when implementing its policies is regulation, instead of common politics and/or positive integration. Such a frame of political intervention limits the development of standard public finances system and includes the theory of public choice in analyzing and creating the EU fiscal system.[173]

In this regard, the fiscal policies of the EU can be visualized in three categories: the coordination of stabilization of fiscal policies of the Member States by applying the EU's fiscal criteria, the harmonization of taxes in the member states and the budget of the EU, itself. The EU budget policy can be distinguished from the other two fiscal policies because the execution of the fiscal policies from the EU level is channelled through the budgeting implementation mechanisms. Nevertheless, the rest of the system has been bound upon a set of different rules and arrangements for the engagements of and coordination with the member states, which are mostly associated with the tax harmonization and the policy coordination for fiscal stabilization by utilizing Stability and Growth Pact (SGP) and Maastricht convergence criteria as stated earlier.

Traditionally, the theory of fiscal federalism is concerned with three essential aspects:

1. The sharing of functions between the different levels of government particularly at
    a. Supply of public goods and services,
    b. Redistribution of income,
    c. Macroeconomic stabilization,
    d. Taxation,
2. The identification of welfare gains resulting from fiscal decentralization; and
3. The use of the instruments of fiscal policy particularly issues associated with taxation and intergovernmental transfers.[174]

Fiscal federalism designs a federal state structure, functional and political, and search for best distribution of financial powers and responsibilities.

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[173] Hrvoje Simovič, "Fiscal System and Fiscal Relations in the European Union: Political Restraints and Alternative Approach to Public Finance", *FEB Working Paper Series*, 07/04, 2007, p. 5.

[174] Rui Alves Henrique and Oscar Afonso, "Fiscal Federalism in the European Union: How Far Are We?", Faculdade De Economia Universidade Do Porto, 2007, p.5.

> Fiscal federalism explores, for example, the assignment of functions to different levels of government, as well as the design of systems of taxation and intergovernmental grants. It is interesting that much of the literature, especially the part addressing the assignment of functions, has been developed in the context of the modern nation-state. From this perspective, it presumes a substantial and strong central government with monetary, fiscal, and regulatory powers.[175]

At the most general level, the theory contends that the central government should have the basic responsibility for the income redistribution function in the form of assistance to the poor regions and/or people and the macroeconomic stabilization function to intervene in negative economic shocks. In this connection, fiscal federalism consigns three main domains as fiscal functions of the budget; resource allocation, income redistribution and macroeconomic stabilization functions. While considering overall public finance policy of the EU, these three functions might be more rational.

The decentralization theorem dominates the ***allocation*** part of fiscal federalism by distinguishing the distribution of local and central level public goods between local and central governances. The basic idea is that local public goods should be provided from local level, and common public goods from a central level of governance.[176] In other words, the theorem proposes for the EU that common public goods should be distributed from the EU level in the form of EU level public goods and the local public goods from the national governments. The theorem of decentralization, associated with the principle of subsidiarity in case of the EU claims that the activities of the central government are not necessary if the activities of member countries (local communities) do not lead to interstate extern effects (spillover) and the intervention at the EU level becomes necessary only in case of inter-border extern effects,[177] which means the central government will supply goods and services which will have cross border effects within the center's jurisdiction transcending the jurisdictions of local governments.

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[175] Wallace E Oates, "Fiscal Federalism and European Union: Some Reflections", SIEP, Pavia, Italy, 2002, p.37.

[176] Simovič, *op.cit.*, p. 6, Simovič refers to Tiebout 1956.

[177] Simovič, *op.cit.*, p. 6, Simovič refers to Cullis and Jones, 1998, p.303

Fiscal federalism offers the implementation of ***redistribution*** function at the central level due to the question of the mobility of production factors resulting from harmful tax competition, which includes a large tax base pertaining at the central level. Fiscal federalism also advocates implementation of redistribution function at the central level because of wider tax base through by taxation at the central level. According to fiscal federalism, the redistribution at the local level is a local public good, however once the redistribution is done efficiently at that level, it is expected not to move to the central level.[178] In tax policy of the EU, the redistribution function refers to fiscal harmonization, which aims to achieve the free movements of capital, goods, services, and people. Therefore, fiscal federalism advocates the harmonization of taxes whose bases are mobile.[179] Fiscal federalism introduces principles of applications for the roles to certain taxes at different levels of government, and further assesses negative effects appearing in case of non-implementation of redistribution function at the central level.[180]

> Musgrave set several criteria according to which certain taxes could be collected at the local level. First, the taxes suitable for economical stabilization should be collected at the central (national) level while the taxes which are collected at the local level should be neutral to cyclical trends. Second, progressive taxes for redistribution purposes, as a income tax, should be collected at the central level. Third, other progressive taxes should be collected at the level which best includes its tax. Fourth, lower levels of government should tax the bases whose mobility is low. The last, the taxes whose base is extremely unevenly divided all over the state should be collected at the central government.[181]

Even though the allocation and redistribution functions are suggested to be implemented at the lower level of governance (subsidiarity) in some cases, ***stabilization*** function is not possible to be implemented at that level due to economic efficiency limitations and internalization of external effects. The stabilization function of public finance is recommended to be implemented only at the central level even if it is, apparently not possible to employ such a function

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[178] *Ibid*., p.7.

[179] *Ibid*., p.9.

[180] *Ibid*., p. 7.

[181] *Ibid.*, Simovič refers to Cullis and Jones, 1998, 303.

at the local level. Moreover, the theory of fiscal federalism advocates balanced local budgets and controlled central government borrowings for stabilization function.[182] In this case, it is obvious that stabilization funding requires a higher authority.

Fiscal federalism advocates for the Central government to provide certain national public goods such as national defence which serve the residents of the entity, and it also advocates for decentralized governments to have their own ways with regard to the provision of goods and services consumed in the jurisdictions of decentralized governments. The important point here is that the efficient level of output of a 'local' public good is likely to vary across jurisdictions as a result of differences in preferences and cost differentials.[183] The fundamental principle of fiscal decentralization is presumed in this theory that the provision of public services should be located at the lowest level of government encompassing, in a spatial sense, the relevant benefits and costs.[184]

Fiscal federalism entails that, in the absence of significant externalities or economies of scale, expenditures should be carried out at the lowest possible level of governments so that expenditures may respond to the local needs and expectations as well as capture the differences. considering that, production factors are typically mobile across states national borders, taxation has to be conducted at the highest level of government to decrease tax competitions between local authorities given that this competition leads to under optimal levels of service provision. There is a need for a grant mechanism right from the central government to local governments in order to close the difference between high local expenditures and low local taxes, and between low central expenditures and high central taxes.

The EU financial system does not fit this structure from various aspects of these three functions that are allocation, redistribution and stabilization. Many

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[182] *Ibid.*

[183] For which the sum of residents' marginal benefits equals to marginal costs.

[184] Oates, "An Essay ….", p. 1122.

criticisms can be assessed especially on decentralization system established by fiscal federalism.

There are some policies (goods and services), which are needed to be provided from the central level as agreed by fiscal federalism. For instance, Oates presents a study from the USA that competition between decentralized levels of governments provided basic support for the centralization of environmental management in the United States.[185] These goods and services cannot be limited with security, environment or otherwise because there are some other goods and services which must transcend the jurisdiction of one local government to the other.

Fiscal federalism proposes balanced local budgets and controlled central government borrowing. Nevertheless, the budgets of the EU member states are not balanced. A balanced budget is essential for the decentralized level of governments because it deters the uncontrolled growth of the central budget's deficit.[186]

Fiscal federalism under the auspicious of Oates proposed a powerful central government in fiscal federalism, but "it [fiscal federalism] does not seem to fit very well the cases of ... the EU and its governance. Yet, it was further stated that using the fiscal federalist model to think about the EU does provide same powerful insights".[187] Furthermore, it was observed that the EU is equipped neither to engage in macroeconomic stabilization function using budgetary instruments nor to be fully equipped for redistribution, in stark contrast to the central governments of the states. As stated at the outset of this section, latest studies of fiscal federalism suggest that careful analysis of incentives and of the interplay between market forces and the public sector are essential in the allocation of expenditure functions[188] since the EU does not capitulate expected outcomes.

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185 *Ibid.* p.1135.

186 Simovič, *op.cit.*, p. 9.

187 Oates, "Fiscal Federalism ….", p.37.

188 For further assessment see, Oates, "Towards a Second-generation ….".

> Precisely due to political and constitutional limitations..., the EU fiscal system is relatively small and undeveloped compared to the fiscal systems of typical national countries. During the creation of the fiscal system and fiscal relations in the EU, the traditional theory of public finances [fiscal federalism] couldn't be completely used. It was necessary to establish such fiscal relations with which: 1) the EU member countries could keep a high degree of political and constitutional independence, 2) the supra-national or confederal level of government could have only the authorities the member countries gave them, 3) the fiscal rules set at a confederal level wouldn't be in conflict with the ones at the national level and 4) the monetary union should function within the confederation.[189]

Jurisdictional borders can limit some functions in the application of fiscal federalism to the EU, since the member states define their position more than what fiscal federalism assumes. Oates for instance stated this dilemma for the theory building that "in practice, much of the problem stems from a set of existing boundaries that are largely historically and culturally determined and that may make little sense in terms of the economic and geographical realities."[190] It is likely that there is an interjurisdictional competition between the member states (decentralized levels) which will hinder the applications of fiscal federalism. In fact, decentralization itself needs a strong centre to resolve harmful demands of decentralized levels. Blanchard and Shleifer argue that fiscal decentralization has been far more successful in China than in Russia, because a strong center in China (in contrast to Russia) has been sufficiently powerful to resist "local capture" and restrain debilitating practices at local levels.[191]

Decentralization is sometimes attributed as problematic for expansion. For instance Brennan and Buchanan subscribed to this view to the extent that the public sector can itself be envisioned as a monolithic agent, a "Leviathan," that seeks its own aggrandizement through maximizing the incomes that acquired from the economy.[192] Brennan and Buchanan see fiscal decentralization as a mechanism for constraining the expansionary tendencies of government.[193]

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[189] Simovič, *op.cit.*, pp. 4-5.

[190] Oates, "An Essay...", p.1130.

[191] Oates, "Towards....", p.364.

[192] Geoffrey Brennan, James M. Buchanan, *The Power to Tax: Analytical Foundations of a Fiscal Constitution*, Cambridge: Cambridge University Press, 1980, p.155.

[193] Oates, "Towards....", p.355.

Comparing the EU fiscal system with fiscal federalist propositions, it might be recognized that the EU public finance system scantly fits the prescription on the spending side, but undeniably not on the tax or grant side. The expenditures in the EU are mostly carried out by the member states and the expenditures from the EU budget are also shared with the Member States based upon the principle of subsidiarity. There is no effective central taxation and, of course, no grant mechanism transferred from the centre to the member states.

The CAP, structural and cohesion funds are implemented, based upon certain policies, which cannot be considered as grants or redistribution mechanism. Yet, Maastricht convergence criteria have been applied over the member states as an indirect fiscal mechanism for the budgetary controls of borrowings and spending of the Member States. The CAP, designed to stabilize and support farm incomes, reserves the biggest place in the budget as the largest central spending programme. There are several funds aimed to facilitate the growth of a single market and assist poorer regions, which are collectively referred to as the Structural and Cohesion Funds, which ranks after the CAP as the second largest EU spending. These funds are directed to develop infrastructure and promote adjustment in regions which economically lag behind the EU average or that face structural complications. These funds are not primarily geared towards redistribution of budget funds, and their size is not sufficient to heal economic inequalities within or across the member states.

The EU lacks spending programmes in a number of the fields that would normally be contemplated for the central government in longer-standing federations (or nation-states). The Union does not provide standard central services such as national defence, education, internal security and public health.[194] Under the orthodox principle of fiscal federalism, services such as primary education, police and fire protection, and local roads, now provided by local governments, should probably stay in that way. Services such as national

[194] There are some policies similar to those but they either not in the same content or value, those policies under the EU funding might be considered complementary to the national ones.

defence and inter-country projects should probably be pulled to the central level.[195]

Fiscal federalism argues that stabilization, monetary and fiscal policies are best to be managed from the central authority, but it will not make a provision in case a regional macroeconomic shock, affects some parts of the federation (the Union) more than the others. If there is a common monetary policy in the federation, the logical way to deal with different shocks is through differential fiscal policy.[196] The size of the budget indicates for the time being that differential fiscal policy will not play a large role in fiscal stabilization, because member states will control their much larger budgets and they could in principle enjoy acting differentially. Member states with excess demand pressure could tighten fiscal policies and those countries with deficient demand could ease it.

In case of the EU, many components of the stabilization function are not yet designed. There is no high level authority to such an assumption of stabilizing fiscal policy responsibilities as fiscal federalism considers. No automatic response mechanism to prevent shocks when it affects some parts of the Union more than others and no centralized income tax mechanism that will automatically absorb less from member states that are in recession and more from member states that are booming.

For the recession problem attributed to the role of the EU budget, Goodhart and Smith propose temporary additional fiscal contributions from countries experiencing booms and additional disbursements to countries in recession. Such a system would not protect against permanent shocks, and there would seem to be serious definitional problems regarding whether a country is in recession or in a boom.[197]

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[195] Edward M. Gramlich, Paul R. Wood, "Fiscal Federalism and European Integration: Implications for Fiscal and Monetary Politics", *Board of Governors of the Federal Reserve System International Finance Discussion Papers,* 694, 2000, p.5.

[196] The crisis in 2008 has unexpectedly hit the Eurozone despite the EMU and subsidiary policies, it proofed that the EU has no tools for the financial measurements in subranational level it also proofed that the system is still nation state dependent in terms of financial management.

[197] For further analysis see, C.A.E. Goodhart and S. Smith, "Stabilization, European Economy", *Reports and Studies*, 1993, p.5.

Special attention is attributed by fiscal federalism to public goods which might be elaborated for social constructivist approach as well.

3.2.4. Public Goods and an Assessment of the Budgetary Expenditures:

Public goods[198] are goods or services whose consumptions are open for everyone in the public entity without any impediment to use it freely.[199] Consequently, public goods can be described by three interconnected characteristics; first, they generate significant externalities, second, they are to a considerable degree "non-rival" and "non-excludable", and third, they create opportunities for the enhancement of welfare through collective public action. Non-rivalry guarantees that the consumption of the good by one individual does not reduce availability of that good for the consumption of others and non-excludability means its usage is open and free for everybody that no one can be effectively excluded from the usage of that good.[200]

State and local governments should provide public goods and services whose consumptions are specific to residents of their jurisdictions. Kindleberger has analyzed this issue from a global perspective and asserted that an international order can exist so far as a hegemonic power is willing to provide certain essential cosmopolitan goods.[201] In particular, he referred to three cosmopolitan goods, a system of international security, a currency that can be

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[198] Social good seems preferable in terminology therefore since the term of "public good" historically constructed and mostly used in the literature, it is also preferred in the text.

[199] It is sometimes called as a collective good or a social good.

[200] Sometimes non-rivalness and non-excludability may cause problems for the production of such goods. Specifically, some economists have argued that they may lead to instances of market failure, where uncoordinated markets driven by parties working in their own self interest are unable to provide these goods in desired quantities. These issues are known as public goods problems, and there is a good deal of debate in literature on how to measure their significance to an economy, and to identify the best remedies. These debates can become important to political arguments about the role of markets in the economy. More technically, public goods problems are related to the broader issue of externalities. (Ferroni, *op.cit.*, pp.1-2).

[201] Kindleberger (1973) in Guido Montani, "The European Union, Global Public Goods and Post-Hegemonic World Order", *The European Union Review*, 8/3, 2003, p.2.

used in international exchanges, and institutions to guarantee the freedom of the market.[202]

The central government should provide own "public goods" that are consumed collectively by everyone within the constitution of the centre, which reflect the promotions of a sense of belonging to the centre and strengthens the relations between two levels: the central level and citizen level. In this connection, creating a public good from the EU level expenditure policies is regarded as supranational progress. Indeed, the EU needs such supranational (the EU) level goods to strengthen its central level with its public area (citizens). Producing public goods at nation (or federal) state level does not overlap with the EU level as long as the EU citizens admit to these goods as European rather than national or regional, and are willing to adopt their sense of belonging to the EU level by connecting with the EU's common social area shared by all other citizens of the EU. The sense of belonging to the EU level is not projected to harm citizens' existing identities at any level; instead it's supplementary to the existing identities.

Tabellini has designated four obligatory tasks for a central government; a single market, stabilization policies (common monetary policy and common fiscal policy), public goods, and redistribution. He, then, referred the combination of these tasks to the components of fiscal federalism. He used single market and public goods instead of allocation function and kept the other two functions. According to him, public goods have large spill-over effects by means of large external effects on other localities and large economies of scale, such as defence, foreign policy, and law enforcement. He further analysed the type of activities such as foreign policy, defence, internal and external security, and immigration in this matter and then considered that these activities shall be taken to the EU level because their positive spill-over effects and economies of scale are very large.[203]

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[202] *Ibid.*

[203] For this see, Guido Tabellini, "Principles of Policy Making in the European Union: An Economic Perspective", *CESifo Forum*, 49/1, 2003, pp.76-77.

Oates truly stressed that "decentralized levels of government focus their efforts on providing public goods whose consumption is limited primarily to their own constituencies. In this way, they can adopt outputs of such services to the particular tastes, costs and other circumstances that characterize their own jurisdictions".[204]

There are some policies that contribute to common public goods, intensify development policies and in the meantime enhance the link between citizens and the EU level. These policies can be directed to produce European public goods by considering the enforcement of this link. Public good in the literature has been involved in the theory of fiscal federalism which can be used for the problems on expenditure side of the EU budget. On the other hand, they might be reconsidered as tools of social constructivist policies. In other words, the expenditures of the budget can be channelled for producing more public goods which have the capacity to strength EU's solidarity and identity. Indeed, public goods can be used for enhancing the sense of belonging of the citizens to the EU level, if they are approached from a social constructive policy perspective. It is likely that there are several mechanisms to make this impression, win which European public goods and services would carry on signs and symbols of the EU level and foster the European public area.

3.3. Problems of the EU budget and Social Constructivism

Fiscal federalism develops a "materialistic" approach, based on utility maximization and exclusion of the relations between financial functions and social facts. Indeed, fiscal federalism focuses on financial functions of different levels of government and functional relations among the centralized and decentralized levels of governments. However, financial functions and relations cannot be incepted without social enquiries because these functions are constructed and reconstructed by human actions in the society. Since people are

[204] Wallace E Oates, "Environmental Policy and Fiscal Federalism: Selected Essays of Wallace E. Oates", *Edward Elgar*, Aldershot, U.K., 2004, pp.11-37.

active actors in public area, their relations are to be taken into account to realize these functions.

Traditional psychology examines the explanations of social phenomena inside the person, by hypothesizing the existence of attitudes, motivations, cognitions, etc. These motives are held to be responsible for what individual people do and say. Sociology has traditionally countered this with the view that there are social structures such as the economy, or the major institutions such as marriage and the family, which give rise to the social phenomena that people see.[205]

Although traditional psychology and sociology have brought their reference to static entities, social constructivism by referring to the dynamism of social interactions which emphasize the importance of social progress, occupying a middle ground between rationalism and reflectivism,[206] focuses on human awareness or consciousness, which accentuates the social construction of reality. Accordingly, the social world is a world of human relations, thought, beliefs and ideas, not purely materialistic. The social world is not self-established entity something out there, which exists independent from historical interactions of the people. There are many signs, symbols, concepts, ideas, language and such norms and values, which present human consciousness of social construction.

Even though there is no single description of social constructivism which would adequately fit for all matters,[207] social constructivism focuses on enquiry of social practices of people and their social and material interactions with each other. Explanations are to be found neither in the individual psyche nor in social structures, but in the interactive processes that routinely take place between

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[205] For this see, Vivien Burr, *An Introduction to Social Constructivism*, Roudledge, 1995, p.5.

[206] Cristiansen *et al.*, *op.cit.*, p.16.

[207] Burr, op.cit., p.2.

people.[208] Meanwhile, it should be considered that there is no single social constructivist approach or theory[209] but there are various different approaches.

Social groups describe themselves with a set of ideas, which can be articulated in ways of interaction and communication, which can be exercised indirectly through the application of groups' symbols, codes or signs. Individuals expose different elements of their social identity depending on an explicit context. A socialization argument claims that idea and identity constructions become consensual when actors thoroughly internalize them, perceive them 'as their own', and take them for granted.[210]

If social construction is observed as a product of social interaction, there must be many components affecting this construction. If money, citizenship and newspapers for instance, are transparent social constructions – since they obviously could not have existed without societies[211]– there must be some factors which can captivate this construction process. Indeed, budget revenues (taxes and levies) and expenditures programs can be considered to be socially constructed but, in the meantime, these budgetary mechanisms can facilitate social construction of public area by effecting human choices. The budgetary expenditures and revenues are both normally linked to the society. Expenditures are addressed to different social levels and the public area, and revenues are derived from the same social groups through a taxation mechanism. These mechanisms are employed with political responsibility and a representation scheme in modern societies. In other words, they can both internally influence each other.

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[208] See Steve Smith, "Social Constructivism and European Studies: A Reflectivist Critique", *Journal of European Public Policy*, 6/4, 1999.

[209] *Ibid.*

[210] Thomas Risse, Martin Marcussen, Daniella Engelmann-Martin, Hans Joachim Knopf and Klaus Roscher, "Constructing Europe? The Evolution of French, British and German National State Identities", *Journal of European Public Policy*, 6/4, 1999, p.6.

[211] Paul Boghossian, "What is Social Construction?" http://as.nyu.edu/docs/IO/1153/socialconstruction.pdf (accessed in January 2010).

Social constructivism reveals that material structures, beyond certain biological necessities, have meaning only by the social framework with their interpretation, and the nature of agents and their relations with the institutional environment are important.

> It [constructivism] is based on two assumptions: (1) the environment in which agents take action is social as well as material; and (2) this setting can provide agents with understandings of their interests ("constitutes" them) Put differently, constructivism questions the materialism and methodological individualism upon which much contemporary scholarship, including much rational choice work, has been built.[212]

Social Constructivism emphasizes a process of interaction between agents and structures. The ontology is one of mutual constitution, where neither unit of analysis – agents or structures – is reduced to the other and made "ontologically primitive".[213]

Identity and interest are determined by the interaction of normative and material factors. Material factors such as money, power and similar assets can interact with normative factors and facilitate identity formation. Constructivists emphasize that while ideas and processes tend to explain the social construction of identities and interests, such ideas and processes form a structure of their own which impact upon international actors.[214] Indeed, this is extremely important because if ideas and processes form their material factors, the role of budgets in this regard cannot be ignored. In fact budgets as representing specially designed material factor can form the society by implementing policies and programs. Conversely, its revenue resources cannot be underestimated in the relationships with the community as well. The EU budget has been also socially constructed by the member states and the institutions. In turn it is expected from the budget to reflect this construction to form such a social structure.

Referring to Nau, identity formation in the EU might be institutionalized with the distribution of material power. In this regard, the EU budget might be

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[212] Joseph Jupille, James A. Caporaso and Jeffrey T. Checkel, "Integrating Institutions: Theory, Method, and the Study of the European Union", *ARENA Working Papers*, WP 02/27, 2002, p.5. http://www.arena.uio.no/publications/wp02_27.htm (accessed in October 2009).
[213] *Ibid.*

[214] Alexander Wendt, *Social Theory of International Politics*, Cambridge University Press, Cambridge, 1999, pp.29-33 and Martha Finnemore, *National Interests In International Society*, New York: Cornell University Press, 1996, pp.6-7.

truly one of the apparatus in the distribution of material power. He had identified a clear example of the tendencies so evident in American-style, conventional constructivism that a country's national interest "begins with what kind of society the nation is, not just what its geopolitical circumstances are", then advances ideas about the relations between the distribution of material power (equal or unequal) and the distribution of national identities (converging or diverging).[215]

> National interest has the advantage of measuring a nation in material terms –numbers of soldiers, weapons, and missiles; gross national output; population; and so on. National identity measures the nation in non-material... A person's identity is shaped both by external, physical and social, factors (family, class, community etc.) and by internal, biological and rational, factors (genetic and self consciousness).[216]

In opposition to the rational proposal of the methodological individualism and static conception of identity transformation offered, constructivists emphasize the co-constitution of the material and social worlds and stress the significance of norms, rules and values in the international arena.[217] The EU as a densely institutionalized environment seems to be a natural entity for theory of social constructivism.[218] Indeed, constructivists offer alternative ways of conceptualizing the relationship between norms, discourse, language and material capabilities, which can work alongside rationalist account to fully capture the range of institutional dynamics at work in contemporary Europe.

This approach concerns the issue of human consciousness such as the role in relations, and the implications for the logic and methods of social inquiry. Constructivists have the view that the building blocks of international reality are ideational as well as material; that ideational factors have normative as well as instrumental dimensions; that they express not only individual but also collective

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[215] He established power as material, Henry Nau R. and Richard C. Leone, "At Home Abroad: Identity and Power in American Foreign Policy", *Cornell Studies*, New York, 2002, p.16.

[216] *Ibid*., p.20.

[217] *Ibid.*

[218] O'Brennan, *op.cit.*, p.162.

intentionality; and that the meaning and significance of ideational factors are not independent of time and place.[219]

Constructivism criticizes rationalistic individualism for their direct concern about materialistic driven forces and utility maximization choice.

> Constructivists thus question reductionist versions of methodological individualism, which play such a prominent role in rational choice approaches. This agent-centred view asserts that all social phenomena are explicable in ways that only involve individual agents and their goals and actions; the starting point of the analysis is actors with given properties. In addition, the theories of action offered by constructivists differ from those stressed by rational-choice analysts. While the latter stresses strategic choice and consequentialist behaviour driven by means-ends calculations, the former often emphasizes arguing/deliberation and appropriate behaviour driven by (complex) learning and dynamics of socialization.[220]

One constructive approach concedes the importance of material structures but argues that these are invested with powerful social meanings. They are the social meanings that develop into the focus of analysis – how and by who are they constructed and how and from what do they evolve? – The significance of these social meanings is that they considerably influence actor behaviour, expectations and norms thus informed actions.[221] Alternatively, it is possible that actors are indeed engaged in rational choice and rational action, but that such choices and action include ideas and belief structures as subsidiary decision-making variables. Ideas in this context provide focal points of action or decision and offer road maps of alternative policy option or establish world views that underpin foreign policy decisions.[222]

The EU budget as a unique financial instrument might take imperative roles for enhancing the relationship between the EU level and citizens by emphasizing material interests through the expenditure of the budget, which will

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[219] John Gerard Ruggie, “What Makes the World Hang Together? Neo-utilitarianism and the Social Constructivist Challenge”, *International Organization*, 52/4, Autumn, 1998, p.33.

[220] Thomas Risse, “Let’s Argue! Communicative Action in World Politics”, *International Organization*, 54, 2000, p.5, and Jupille, *et al.*, p.7.

[221] John O’Brennan, “Re-conceptualizing Europe: Social Constructivism and EU Enlargement”, paper provided by *Université de Genéve*, 2000, pp.176, O’Brennan refers to Ben Tonra, 2000, p.11.

[222] *Ibid.*

be able to facilitate social interaction as defined by “interests not just ‘out there’ waiting to be discovered but constructed through social interaction”.[223]

In response to the question of how identity and interests are constituted in international relations, rationalists and constructivists have responded differently. According to the rationalists view, identity and interest as “fixed objects that are in some sense outside of social space and time and the production and re-production of identities and interests is not going on, not at stake in social interaction”.[224] Furthermore, Wendt stated that it has become commonplace to position power and interest as almost interchangeable factors in opposition to ideas in international life, but interests are surely predicted at the level of individual consciousness. According to the constructivist perception, actions continuously produce and re-produce conceptions of self and the other, and as such identities and interests are always “in process”.[225] Actions continually produce and reproduce conception of Self and Other, and such identities and interests are always in process, even if these process are sometimes stable enough that – for certain purposes – we plausibly can take them as given.[226]

Yet, a growing body of empirical research – some conducted by constructivists – indicates that European identities, discourses and public spheres are still dominated by their national counterparts or, at best, co-exist uneasily side by side with them.[227] Identity and public sphere are very crucial factors in the construction of European integration since both might be tandem to strengthen

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[223] Martha Finnemore, *National Interests in International Society*, Cornell University Press, 1996, pp.2, 6 and 7.

[224] Alexander Wendt, *Social Theory of International Politics*, Cambridge University Press, Cambridge, 1999, p.36.

[225] *Ibid.*

[226] *Ibid.*

[227] Jeffrey T. Checkel, “Social Mechanism and the Quality Cooperation: Are Europe and the EU Really that Different”, CES Arena Working Paper, 04, 2008, p.19.

social and institutional links. In this regard, public sphere can be perceived as an open field communicative exchange.[228]

Constructivist research on identity formation about the EU exists in three categories: the nature of a potential European identity, the reconstruction of national identities under the influence of the integration process, and the results of both. There is the question of the plurality of national identities and cultures, and the extent to which a European political identity or political culture can be founded upon such differences.[229]

Despite the similarities with traditional models of federalism as presented in the beginning of this chapter, EU citizenship combines political units in such a way that the composition of the European Parliamentary and local electorates do not necessarily overlap with national and regional electorates. In fact, European citizenship was stimulated in the Amsterdam Treaty of 1997 that citizenship of the EU is complement and not substitute to national citizenship.[230] Joseph Weiler recommends the constitutive dimension of a Union citizenship that separates citizenship from nationality and contemplating the Union outside of a state-centric constitutionalism.[231]

Identity includes not only individual's position on moral and spiritual questions but also a reference to a defining community. The sense of the EU citizenship is sometimes referred to as constitutional citizenship, which does not create immediate realization of a sense of EU civil identity and EU *demos* as well. The citizenship established with the Maastricht Treaty supposed a multi-level identity,[232] but opened the door on how an individual would use his/her

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[228] Hans-Jorg Trenz, "In search of the European Public Sphere: Between Normative Overstretch and Empirical Disenchment", Arena Working paper 2008/7, 2008, p.3.

[229] For details see, Thomas Christiansen, Knud Erik Jorgensen, Antje Wiener, "The social Construction of Europe"**,** *Journal of European Public Policy*, 6/4, 1999

[230] The Treaty of Amsterdam, Article 5b.

[231] Koslowski, *op.cit.*, p.573.

[232] The Maastricht Treaty, Article 8.

supranational identity without confusing it with his/her national identity.[233] If the EU level of identity is not replacement of the national one, how an individual can seek his/her EU level identity without first reaching at his/her national identity.

Koslowski following the examining of the EU federalism from a constructivist perspective considered a constructivist description as one which is not wedded to existing legal structures and actors, and which focuses on institutions as routinized human practices. As such, a constructivist account looks at a wider notion of institutions and practices and, thus, helps to 'retool' federal theories for 'more persuasive analyses'.[234] Apparently, this point is important for the sense of belonging subject, since citizens' interests can be constituted by using budgetary tools, which can advance to construct European sense of belongings by using budgetary tools.

Social constructivism considers human being by taking into account to his/her social interactions with each other and entities so that ideas and identities of social entity are internalized by them. In a society, material and social values are co-constructed together and there is no clear proportion dedicated the identity and interest in this social construction. Sometimes social values such as discourse, language, norms and believes might influence the actors more, sometimes material factors impact more.

3.4. Conclusion

In spite of their predominantly economic, social and military components, fiscal systems historically have always played important roles in the development of modern states and societies. Budgets as the most significant tools of fiscal system of states have always been attributed to undertake distinct roles for the progress of societies. Consequently, budgets have represented central authority,

[233] Carlos Closa Montero, "Between EU Constitution And Individuals' Self: European Citizenship", *Law and Philosophy,* 20, 2001, pp.360-361 http://www.springerlink.com/content/lq773g122754rk81/ (accessed in July 2009).

[234] Smith, *op. cit.* p.685.

its political, legal, military and economic power, its internal and external politics, and dedicated relations with civil society in public finance management. In the same vein, the budget of the European Union has accomplished also significant tasks in European integration. It is expected from the EU that it has to employ some mechanism on revenue and expenditure sides of the budget, which can stimulate social integration of the Union by strengthening the link between citizens and the EU.

Fiscal federalism proposes materialistic concept of utility maximization based upon decentralized and centralized governments with their dedicated tasks. Fiscal federalist projections about allocation, redistribution and stabilization functions dedicated to financial policies of these two levels of government have introduced advance assumptions for the EU as analyzed through this chapter. On the other hand social constructivism takes into account of social constructive material and normative values which co-construct each other and endeavour identity formation. In fact, budgetary material resources can be used for creating European level public goods which can reinforce the weak link between the EU and EU citizens without requiring a top down governmental structure as designed by fiscal federalism. Social constructive policy approaches can be used for the revenue generating mechanism as well through establishing a widely dispersed taxation instrument, which can also captivate the Union’s link with its citizens.

CHAPTER 4

IDENTIFYING THE FORMS AND NATURE OF THE EU EXPENSES

4.1. Introduction:

At present, imbalances in the EU budget have predominantly arisen on the expenditure side, particularly programs on the agriculture policy and structural operations favouring the cohesion countries. The data related to budget expenditures has been presented in different ways, repeatedly a source of confusion among the Member States as well as other stakeholders. Germany, not unreasonably, stresses the gross flows of funds from the budget to the member countries, Spain draws attention to per capita gains, while the UK constantly stresses its modest share compared to the Community average, and other states articulate their particular interests. Consequently, none of them is taken into account bona fide questions on the EU expenditures at the EU level. Apparently, fundamental a question remains, "how to alter the present path dependent spending structure to a more effective arrangement which will be able to deliver more public goods to the European public area?" In spite of delivering public goods to the European public area, social constructivist effects of public goods are more essential question for enhancing social integration. Obviously, the argument of public goods is relevant to social constructivism but may not fully associate with this subject matter, since a good and service can be deemed as public goods, however, may not provide essential social constructivist effects on the community. In fact, goods and services from a social constructivist point of view refer to a broader meaning than the economical definition of public goods.

Indeed, public goods are economic approaches, which may be adequate to provide for European social integration, if its social constructivist inceptions are taken into consideration. In this connection, this chapter aims to introduce budgetary expenditures by their categories in the budget and analyses whether they can be deemed public goods or not. This analysis presents the objectives of expenses, their targeted entities or beneficiaries and the method of fund management and other similar substances. Furthermore, the analysis of expenditures formulates assessments for each budgetary category to identify their presence in current budgetary applications. This target assists to identify weak areas on the expenditure side of the budget by eliminating path dependent policies which can be proposed to revitalize social constructivist policy approaches. The analysis is limited to the current financial framework of 2007-2013 to provide the assessment of present and future projections.

Technical Structure of the Budget:

The Financial Framework IV (FF4) as the effective multi-year financial perspective, composed by five main headings for the fiscal term of 2007- 2013. It introduced some amendments of the previous framework, such as the CAP was removed from the first heading to the second, the first heading was devoted to policies to promote competitiveness for growth and employment as an important policy of the Lisbon goals, the third heading was dedicated to ‘citizenship, freedom, security and justice’, the fifth and sixth headings continued as ‘the EU as a global player’ and ‘Administrative budgets’. The FF4 contains four subheadings and a range of programs which characterize the EU’s policies and projects during the fiscal years of 2007-2013 (Annex: 1 and 3).

In the latest framework, the budget expenditures are categorized under headings and subheadings which are helpful following the same classification in order to analyze the expenditures. The FF4 is simply classified under these headings: 1. Sustainable Growth (with two subheadings as 1.a- Competitiveness for Growth and Employment and 1.b- Cohesion for Growth and Employment), 2. Preservation and Management of Natural Resources (the CAP and rural area related), 3. Citizenship, Freedom, Security and Justice (with two subheadings as 3.a- Freedom, Security and Justice and 3.b-Citizenship), 4. the EU as a Global Player, 5. Administration, and 6. Compensation.

4.2. The Aims of Sustainable Growth:

The budgetary heading of sustainable growth endeavours to increase competitiveness, stimulate the European economy and create better jobs in Europe. The heading is composed with two sub-subheadings; *competitiveness for growth and employment*, and *cohesion for growth and employment* (Annex: 2).

4.2.1. Competitiveness for Growth and Employment:

The objective of competitiveness (sub-heading: 1.a) is to turn the EU into the most competitive and dynamic knowledge-based community as inspired by the Treaty of Lisbon. The objectives of the Treaty stress investment in knowledge, education, research, and innovation projects and promotion of competitiveness of EU companies in single market. It also aims at creating a European research area; improve education and training standards and achieving the social policy agenda in conjunction with legislation, the open method of coordination and social dialogue. Programs supported under this sub-heading aiming at the competitiveness of the EU, are principally public goods and have a bearing on social constructive effects all over the community. Major programs under Competitiveness are introduced in the following sections.

4.2.1.1. Framework Programme on Research and Technological Development (FP) is in consistence with European research programs and policies as a part of the Treaty of Amsterdam, which anticipates generating € 200 billion annual GDP increase in 2030s. The last FP proposed a direct influence of enterprises and persons, and advance international cooperation as complements to the other institutional activities of the EU. The program projection of FPs was adjusted to seven-years effective with the latest financial framework. About € 50 billion is allocated for seven years in the FF4, which covers 6.34 % of the total budget.[235]

Starting with the oil crises in 1970s research turned into a Community program and science was embraced as a Community responsibility with the SEA in 1984. In the long run, it has gradually gained stimulus over the years, for instance new technological developments was added with FP6 (2002-2006) since it was aimed to increase citizen's capacity building. The last FP aimed to create the "most dynamic competitive knowledge-based economy in the world" and the "knowledge triangle" (research, education and innovation). Apparently, the grand hope of Lisbon is to catch up with the US and other scientifically developed nations. To the contrary, there are visible quality and quantity gaps in overall spending on research and development (R&D) between the EU and the USA. There is a strong indication in labour productivity which has declined over the years in the EU, mainly due to lack of innovation, increasing the remoteness of the EU from the US, respectively, over the last decade. Consequently, the relative inefficiency of European R&D was linked to the segmentation of public research efforts, overlapping with competing research programmes, and thus, underutilization of available human resources. Programs are open to researchers, Small and Medium-sized Enterprises (SMEs) and, companies from all over the globe.

4.2.1.2. Lifelong Learning (Integrated Action Programme in Lifelong Learning - LLL)) which was adopted in 2004, embraces sectoral programmes on school

[235] Last three FPs (1998-2013) conveys important messages: The Fifth FP contained quality of life, information technology, promoting competitive and sustainable growth, energy, environment and development, promotion of innovation and encouragement of SME participation, improving human research potential and the socio-economic knowledge base. The sixth FP focused on European Research Area by aiming at scientific excellence, improved competitiveness and innovation through the promotion of increased co-operation, greater complementarity. (EuroIndia Research Center: http://euroindiaresearch.org/fp7_history.htm (accessed in June 2010))

First FP	1984–1988 (€3,750 total)	€750.0/year
Second FP	1987–1991 (€5,396 total)	€1,079.2/year
Third FP	1990–1994 (€6,600 total)	€1,320.0/year
Fourth FP	1994–1998 (€13,215 total)	€2,643.0/year
Fifth FP	1998–2002 (€14,960 total)	€2,992.0/year
Sixth FP	2002–2006 (€17,883 total)	€3,576.0/year
Seventh FP	2007–2013 (€50,521 total)	€7,217.3/year

education together with twinning actions held under the e-learning programme (Comenius), higher education reflecting the incorporation of advanced vocational training, including higher education student placements in enterprises (formerly in Leonardo da Vinci) and proposing specific mobility schedules for students on Joint Masters programmes (Erasmus), vocational training that mostly focuses on the transfer of innovation among countries (Leonardo da Vinci) and improve adult knowledge and skills, facilitate personal capacity and enhance employment prospects (Grundtvig) and an additional Jean Monnet programme which projects European integration in the academic fields and supports institutions and associations active in education and training.[236]

Through supports and supplements of the Member States, the programme intends to promote interchange, cooperation and mobility between education and training institutions to avail them a world quality reference. Pupils, educational institutions and persons, people in the labour market, Non-Governmental Organizations (NGOs), research institutions and beneficiaries of FP funds are eligible.[237]

4.2.1.3. TEN-T and TEN-E (Trans-European Networks-Transportation and Trans-European Networks-Energy) emerged in 1980s after the Single Market due to the need for a proper link for regions and national networks by efficient infrastructure. Three sectors are targeted; transports, energy and telecommunications. TEN-T secures the free movement of goods and passengers which are also financed by the cohesion funds (in countries with a GDP per capita under 90% of the EU average) together, but the aim is to provide energy connections and bridge the negative incentives of energy suppliers in this area.[238]

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[236] The European Commission: http://ec.europa.eu/research/fp7/pdf/fp7-inbrief_en.pdf (accessed in June 2010).

[237] Rosalba La Grorotteria, "Reference Model to Support the Implementation of Lifelong Learning", European Commission, P.3. http://www.forward.tn.it/public/documents/FORWARD_definitivo.pdf (accessed in June 2010).

[238] Trans-European Networks - The European Commission: http://ec.europa.eu/ten/index_en.html (accessed in June 2010).

The advantages of funding transport connections in wealthier member states through the EU budget are debatable and may conflict with the additionality. The system is supervised and operated in the form of a concession as a part of a Public-Private Partnership (PPP). The EU and European Space Agency (ESA) Member States and third countries subject to approval by the European Council are eligible for funding.

4.2.1.4. Competitiveness and Innovation Framework Programme (CIP) has aimed for the first time with FF4, to improve the information and communication technologies (ICT) usages for better access to finance, promotion of energy efficiency and, environmental technologies to develop a European information society along with almost 350,000 SMEs.[239] The CIP is the outcome of the Lisbon mid-term review (MTR) of Kok for simpler, more visible and more empowered EU actions towards stimulation of growth and jobs. There are three major programs under the CIP; Entrepreneurship and Innovation, the Information Communication Technologies-Policy Support and the Intelligent Energy Europe. The programme instruments are in line with the principles of subsidiarity and proportionality, European Free Trade Association (EFTA) states, candidate and Western Balkan countries, and other countries when the agreement allows, are the beneficiaries.[240]

4.2.1.5. Galileo aims to establish an independent civil satellite navigation system for Europe that competes and complements the American GPS system, contributes to the Global Navigation Satellite System, spreads its benefits to

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[239] ICT, “Lifelong Learning and Innovation reports in e-Learning at the Workplace”, Learnovation Consortium, 2008, pp.6-7. http://www.elearningeuropa.info/files/lo/workplacelearning.pdf (accessed in June 2010).

[240] European Commission, “Proposal for a Decision of The European Parliament And of The Council establishing a Competitiveness and Innovation Framework Programme (2007-2013)”, COM(2005) 121 final, Brussels, 6.4.2005, p.3. ftp://ftp.cordis.europa.eu/pub/innovation/docs/cip_com121_06042005_en.pdf (accessed in June 2010).

transport, security and, leisure areas, facilitates economic development, and generates new markets.[241]

4.2.1.6. Internet Plus programme aims to promote the safer use of online technologies and the internet, particularly for children, and to fight against illegal and undesired content by the end-user, it covers technologies as diverse as 3G mobile phones, online games and chat rooms and deals with contents ranging from child abuse images to racism. It follows the recent developments in ICT and supports cooperation among the different actors, from mobile operators to child welfare Non Governmental Organizations (NGOs).[242]

4.2.1.7. IDABC (Interoperable Delivery of European e-Government Services to Public Administrations, Business and Citizens) supports the cross-border public sector services to citizens and enterprises across EU borders, and to improve competence and partnership between European public administrations, to create an attractive environment to live, work and invest. The principal beneficiaries are the Member States' public administrations and European Economic Area (EEA) Countries, in particular national authorities and European institutions.[243]

4.2.1.8. Marco Polo II seeks to resolve the structural problems associated with cargo-transport for the effective function of the market. It assists the building of transport networks, which support the initiation of the railway, sea and river transport into the progress of cargo transport by public highway. It facilitates the short movements. The budgetary commitment is based on contracts negotiated between the Commission and the beneficiaries, but there is a minimum indicative

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[241] For further details see, European Commission, "Communication from the Commission to the Council, the European Parliament, the European Economic and Social Committee and The Committee Of The Regions", COM (2010)308 final, Brussels, 14.6.2010 http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=COM:2010:0308:FIN:EN:PDF (accessed in June 2010).

[242] The EU Media Training Portal: http://www.2007-2013.eu/by_scope_saferinternet.php (accessed in June 2010).

[243] The European Commission: http://ec.europa.eu/idabc (accessed in June 2010).

subsidy threshold which varies according to action. The assistance is limited to 35% - 50% of the total expenditure based on tone kilometres shifted from road to short sea shipping, rail or inland waterways, or based on the avoidance of tonne kilometres or vehicle kilometres of road freight.[244] Commercial undertakings from the Member States and close third countries such as all Candidate Countries and EFTA Countries are eligible.[245]

4.2.1.9. Customs 2013 reinforces security and safety at the external border of the EU and reduces frauds and increase efficiency and administration of the customs.[246]

4.2.1.10. Fiscalis 2013 intends to enhance fiscal policy administration of the member states, for which potential members and candidates who have the policies to check fraud and exchange of information between national tax administrations are eligible.[247]

4.2.1.11. An Assessment for the Competitiveness for Growth and Employment:

In 2004, a commission headed by Wim Kok reviewed the development of Lisbon program and presented a report. In this report he concluded that in spite of some progress, it was unfortunate that most of the agenda goals were not achieved. It was disappointing that the delivery of the strategy was delineated,

[244] ECORYS Transport, "Ex ante Evaluation Marco Polo II (2007-2013)", Final Report-1, European Commission, DG TREN, Rotterdam, 15 June 2004 http://ec.europa.eu/transport/evaluations/doc/2004_marco_polo.pdf (accessed in June 2010).

[245] The EU Media Training Portal: http://www.2007-2013.eu/by_scope_marcopolo.php (accessed in June 2010).

[246] The EU Media Training Portal: http://2007-2013.eu/by_scope_customs_2013.php (accessed in June 2010).

[247] The EU Media Training Portal: http://www.2007-2013.eu/by_scope_fiscalis_2008_2013.php (accessed in June 2010).

primarily due to lack of firm political action, the overloaded agenda programming, poor coordination and conflicting priorities.[248]

The achievement of Lisbon agenda conveys very important projections because the agenda items are mostly European level public goods and they have social constructive possessions over the citizens. Therefore, the outcomes of most of the achievements are not available for the time being, since they are being implemented for the first time with the FF 2007-2013. Programs under competitiveness of the EU are mostly financed for the programs that are shortly portrayed. Among them FP with 5.5 % of the total budget and 65% of the total competitiveness expenditures takes the biggest part which is followed by TEN and LLL with the amount less than 1 % of the total budget.

Many critics have challenged the FP as the biggest budget fund of this subheading. FP is important because it accounts 5.5 % of the total budget and also underpins the delivery of public good in the EU's important areas. There are some problems observed during the implementation progress. Major obstacles can be listed in managerial inefficiency such as its lengthy administration and funding process, thorny budgetary decision-making process (co-decision), and some observations of staff maladministration. Generally, beneficiary companies and universities are big and make consortia, which isolate progressive research companies. The selection and contract negotiating process normally lasts a year or more, which curtails motivation towards innovation due to the bureaucracy in program management. Not infrequently, the EU is taking decisions on funding while technologies are moving into the market place. Therefore, the FP7 targeted closer partnership between the Member States and the Commission and more

[248] The report calls for determined action to be taken in five policy areas: 1. The Knowledge Society: increasing Europe's attractiveness for researchers and scientists, making R&D a top priority and promoting the use of ICT; 2. The Internal Market: completing the Internal Market for services, especially financial services and removing obstacles to the free movement of goods; 3. The Business Climate: reducing the total administrative burden; improving the quality of legislation; facilitating the rapid start-up of new companies; and creating an business supporting environment; 4. The Labor Market: rapidly delivering on the recommendations of the European Employment Taskforce; developing strategies for lifelong learning and active ageing and partnerships for growth and employment; 5. Environmental Sustainability: stimulating eco-innovation, building leadership in eco-industry and pursuing policies which lead to long-term and sustained improvements in productivity through eco-efficiency. (William Kok, "Enlarging the European Union", Robert Schuman Centre for Advanced Studies, 2003).

coherent policy making at national and the Community level, and closer involvement of stakeholders as well.

The actual performance of R&D spending is varied, partly because of lack of funds. Nonetheless, there are many cases of misallocation of funds. Therefore, public authorities have an oscillating record in picking the most successful ventures.

On the other hand, FPs fundamentally transmit social constructive purposes in their orientations that they, in principle aim to integrate citizens with research institutions and regions, as well as connect science, technology and innovation, as the most important public goods to the EU level by spreading the outcomes over the citizens in the European territory. The funds are directly managed and evaluated by the EU level administration which echoes on the beneficiaries the EU level influences. FPs are required for more sound and efficient management to increase credibility of the Union in the face of the beneficiaries. There is an imperative need for more EU level features in the administration. European symbols and values can be added for more coherent institutional building delivery of goods. in addition to more EU level sense in the implementation phases, strong objectives given prior to the funding and measurable outcomes for performance of programmes to eliminate national features are needed. Outputs must be expected to reflect as extensive as to cover most of the EU citizens, and they must be affordable by the citizens as the supranational product of the EU. In the evaluations procedure of the projects, it must be given the precedence over the projects which extensively produce the EU level public goods and services.

The CIP Programs financing the entrepreneurship, SMEs, innovation, industrial competitiveness, ICT development and the use of environmental technologies and intelligent energy, essentially visualize to provide public goods, since the underlying force of motive is to convey the Community programmes and activities together in the field of competitiveness and innovation into one coherent and synergetic framework, while at the same time addressing complementary environmental concerns. Its central management by the European Commission accordingly provides the EU level sense to the citizens.[249]

Other programs under the competitiveness such as LLL, TEN, IDABC are naturally public goods which target member countries, accessing countries, potential member countries, and sometimes neighbour states and other beneficiaries. Program policies are aimed at enhancing the EU level integration, in other words, they contain the EU level public goods whose benefits may extend beyond national and in some instances the EU boundaries. The outcome of the funding may in the long run constructive values to the European public area. However, there are deficiencies in this category, mostly associated with the programs application, such as lengthy administration and project management cycles and unavailable and immeasurable outcomes. These programs are key growth factors and the combination of ideas inspiring the emphasis of the Lisbon agenda on the 'knowledge society', but efficiency remains an important element. Major constraint is the insufficiency of low budget allocations comparing with the other developed countries in the proportion of GDPs.

4.2.2. Cohesion for Growth and Employment:

Under this subheading (1.b), the cohesion policy is composed of structural funds (European Regional Development Funds-ERDF and European Social Funds-ESF), which are designed for regions with a GDP per capita as low as 75 % of the EU average and Cohesion Funds (CF) for countries with a GDP under 90 % of the EU average, which was designed to assist such regions and countries, economically lagging behind of the EU average and to avoid deepening centre-periphery income disparities within the EU territories.[250] The cohesion policy endeavours to strengthen the economic and social cohesion while promoting

[249] There are contact points in every member states, those are generally corresponding Ministers.

[250] Council Regulation, "General Provisions on the European Regional Development Fund, the European Social Fund and the Cohesion Fund and Repealing Regulation", (EC) No 1260/1999, 1083/2006, 11 July 2006, pp.22-24. http://europa.eu/legislation_summaries/agriculture/general_framework/g24231_en.htm (accessed in June 2010).

sustainable and balanced developments. It is calculated to diminish disparities between the developed and underdeveloped regions and the Member States as well as the backwardness of the least favoured regions or islands, including rural areas.[251] One of the objectives was to counter-balance the effects of the completion of the internal market in less developed Member States. The aid is basically projected to complement states' contributions rather than replacement of structural expenditures of a Member State. The ESF and the ERDF were set up in 1958 and 1975, respectively, but it was the SEA of 1986 that posited the basis for a genuine cohesion policy, and Established in 1993 by the Maastrich Treaty to help Greece, Ireland, Portugal and Spain as they were the least prosperous Member States at that time.[252]

The budget for cohesion has increased from 17 % to 36 % between the FF1 and FF4. The Structural and Cohesion Funds in the FF4 are categorized under three objectives; convergence (ERDF, ESF and CF are dedicated), regional competitiveness and employment (ERDF and ESF are dedicated) and European territorial co-operation (ERDF is dedicated) as outlined below (Annex: 2/A, B, C, D, E).[253]

The changes in last FF pose no modification in funding but make only categorical classification (Table 1).

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[251] For further information see, Katja Mirwaldt, Irene McMaster and John Bachtler, "Reconsidering Cohesion Policy: The Contested Debate on Territorial Cohesion", *EoRPA Paper*, 08/05, 2008 http://www.eprc.strath.ac.uk/eorpa/Documents/EoRPA_08_Papers/EoRPA_08-5.pdf (accessed in June 2010).

[252] Regional Policy – European Commission, http://ec.europa.eu/regional_policy/funds/procf/cf_en.htm (accessed in June 2010).

[253] Convergence, the Regional Competitiveness and Employment and the Territorial Co-operation occupies 82 %, 16 % and 2 % of the allocations respectively. (The European Commission, EU Budget 2009, Financial Report, 2009. http://ec.europa.eu/budget/library/publications/fin_reports/fin_report_09_en.pdf (accessed in June 2010)).

Table 1

The Changes in Cohesion Policy Funding

2000-2006	-	2007-2013	-
Objectives	Financial instruments	Objectives	Financial instruments
Cohesion Fund	Cohesion Fund	Convergence	ERDF
Objective 1	ERDF	-	ESF
-	ESF	-	Cohesion Fund
-	EAGGF-Guarantee and EAGGF- Guidance	-	-
-	FIFG	-	-
Objective 2	ERDF	Regional Competitiveness and Employment	ERDF
-	ESF	regional level	ESF
Objective 3	ESF	national level: European Employment Strategy	-
Interreg	ERDF	European Territorial Cooperation	ERDF
URBAN	ERDF	-	-
EQUAL	ESF	-	-
Leader+	EAGGF - Guidance	-	-
Rural development and restructuring of the fisheries sector apart from Objective 1	EAGGF - Guarantee	-	-
	FIFG	-	-
9 Objectives	6 instruments	3 Objectives	3 instruments

Source: European Union:

(http://europa.eu/legislation_summaries/agriculture/general_framework/g24231_en.htm)

Convergence embraces Member States with a per capita GDP below 75% of Community average. convergence actions attempt to improve economic development and employment, increase investment, facilitate the development of a knowledge based society, support environmental protection and render public administration more effective in managing the structural funds and the CF.[254] *The Regional Competitiveness and Employment* covers basically the regions that are not addressed by the Convergence objective, i.e. the EU's wealthier regions. *Employment and Territorial Co-operation* aims to strengthen cross border cooperation by supporting inter regional cooperation and transfer of experience

[254] The European Commission, “Restructuring Economic Change and Restructuring in the European Social Fund 2007-13”, p.3. http://ec.europa.eu/employment_social/esf/docs/tp_restructuring_en.pdf (accessed in June 2010).

and best practices.[255] Admittedly, convergence policies and R&D have some environmental aspects to the effect that environmental funding is very low and the EU environmental actions are regulatory.

The Document is prepared by each member state, in accordance with the Guidelines which outline operational programmes. One operational programme covers only one objective and can obtain funding from only one source (except transport infrastructure and environmental projects eligible for the CF where joint financing through ERDF and the CF is possible). After endorsement by the Commission the programmes are implemented at national levels. The responsible authority of a Member State implements monitors and assesses the projects and oversees payments. On the other hand, the Commission monitors program implementation in coordination with Member States and initiates annual budgetary commitments for each fund and each objective, individually, for each Member State. If the committed financial resource is not used within two years, the Commission reclaims the unused contribution.[256]

4.2.2.1. The ERDF supports regional development, economic change, better competitiveness and territorial co-operation only for the Member States. There are three priorities, *innovation and the knowledge economy* (through supporting regional R&D), *environment and risk prevention* (through stimulating investment in environmental, biodiversity, energy efficiency and renewable energy, development of risk and prevention plans and protection of cultural and natural heritage), *access to transport and telecommunication services of general economic interest* (through progressing networks and improving the uptake and efficient use the ICT, in particular by SMEs).[257]

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[255] The European Commission, "Working for the Regions: EU Regional Policy 2007-2013", January 2008.
http://ec.europa.eu/regional_policy/sources/docgener/presenta/working2008/work_en.pdf (accessed in June 2010).

[256] Regional Policy – European Commission, http://ec.europa.eu/regional_policy/funds/procf/cf_en.htm (accessed in June 2010).

[257] The European Parliament and the Council, "Regulation on the European Regional Development Fund and Repealing Regulation", (EC) No1783/1999", No 1080/2006, L 210, Official Journal, 31.7.2006.

The Fund supports direct aid for investments in enterprises which targets creation of sustainable jobs, infrastructures related to research, innovation, telecommunications, environment, energy and transport, support through financial instruments (capital risk funds, local development funds) for regional and local development and encouragement of cooperation between cities and regions.[258]

4.2.2.2. The ESF deals with four important areas: boosting the adaptability of workers and enterprises, enhancing access to employment and participation in the labour market, reinforcing social inclusion through combating discrimination and facilitating access to the labour market for disadvantaged people, and promoting partnership in employment.[259]

The Fund targets reinforcement of economic and social cohesion and support for creating more and better jobs and preparing regions for a changing economic and social environment, and promoting lifelong learning and networking between businesses, educational and innovative establishments. The level of funding depends on the region and socio-economic factors and can vary between 50 % - 85 %.

4.2.2.3. The Cohesion Fund targets the environment and TEN issues. It relates to the Member States with a GNI of less than 90 % of the EU average. It specifies that the 14 new Member States as well as Greece, Portugal and Spain (on a transitional basis) have been eligible for funding since 2004.

CF differs from the structural funds because it is dedicated to the member states, not to regions. It aims to foster and stabilize economies, increase transport infrastructure and contribute to sustainable development. It is implemented through transport infrastructure as outlined in the TEN-T (railways, road traffic, inland waterways, civil air transport, etc.) and environment projects, in the areas

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[258] The EU Media Training Portal: http://www.eutrainingsite.com/erdf.php (accessed in June 2010).

[259] The European Commission: http://ec.europa.eu/employment_social/esf/discover/participate_en.htm (accessed in June 2010).

of sustainable development (energy efficiency, renewable energy and transport projects outside the priority fields of TEN-T).

The Fund is implemented at a national level by a national managing authority.[260] The volume of allocations for each country is determined on the basis of GDP per capita, population, total area, and socio-economic factors related to the transport infrastructure system. The funding is connected with conditionality. If public deficit of a beneficiary Member State exceeds 3 % of national GDP (EMU convergence criteria), no new project will be approved under the CF until the deficit has been regulated.[261]

Community initiatives are financed by the Structural Funds and pertain to identify the most efficient and effective solutions to common problems. If they demonstrate success they may be mainstreamed and become an EU instrument. The Funds' technical assistances instruments such as Jaspers, Jeremie and Jessica are implemented in collaboration with the European Investment Bank Group (EIB), the European Bank for Reconstruction and Development (EBRD) and others.

4.2.2.4. JASPERS (Joint Assistance in Supporting Projects in European Regions) prepares major projects between the EU, the EIB and the EBRD in the form of a technical assistance partnership. It largely focuses on projects supported by the CF and the ERDF, and on the sectors that are most likely to obtain aid, such as roads, rail, public transport, water supply, wastewater treatment and solid waste. Projects provide expertise without charge, to support structural fund managing authorities with the preparation of key projects, which embraces technical, economic and financial sides. Its main endeavour is to ensure high quality

[260] Improvement of the quality of surface waters, drinking water and air, ensuring anti-flood security and cohesion of communication network within the country and between individual regions with other European countries, development of safe road infrastructure, and rationalization of waste management and protection of the earth surface.

[261] European Council Regulation (EC) No 1164/94 of 16 May 1994 establishing a Cohesion Fund http://europa.eu/legislation_summaries/regional_policy/provisions_and_instruments/l60018_en.htm (accessed in June 2010).

projects and augmenting the impact of fund transfers on growth and jobs. Member States which do participate in JASPERS are also not permitted to borrow from the EIB or the EBRD and the EIB.[262]

4.2.2.5. JEREMIE (Joint European Resources for Micro to Medium Enterprises) is a joint initiative of the EU and the European Investment Fund to facilitate accession to finance for SMEs and expansion of micro credit in regions supported by the ERDF. The program aim is to enable regions to utilize their structural fund allocations in a more proficient and flexible way. The states are responsible for implementing, selecting and contracting with a holding fund. Accordingly, the fund chooses and accredits the intermediaries before providing equity, guarantees or loans to the accredited financial intermediaries, who, then, make the equity, loans or guarantees available to SMEs, with a special emphasis on technology transfer, innovation and micro credits. The financial intermediaries monitor the investments. The reimbursement of loans and resources returned to the holding fund are reused by the Member State for the benefit of micro to medium enterprises. The reuse of resources is a key point in improving access to finance for small enterprises.[263]

4.2.2.6. JESSICA (Joint European Support for Sustainable Investment in City Areas) is an initiative of the EU, the EIB and the Development Bank of the Council of Europe which aims to encourage sustainable investment, economic growth and jobs in urban areas. The projections include coordination of the approaches of these institutions and provision of financing for urban renewal and development actions. It also targets social housing by using a mix of grants and loans and providing funding for PPP or other urban development projects capable of repaying in the long-term. It is also expected to attract contributions from international financial institutions, banks, and the private sector, thereby

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[262] For details see, Jasper Portal: http://www.2007-2013.eu/initative_jasper.php (accessed in June 2010).

[263] For details see, Jeremie Portal: http://www.2007-2013.eu/initative_jeremie.php (accessed in June 2010).

achieving greater leverage from scarce grant resources, allowing managing authorities access to expertise, as well as accessing of loans in the field of urban development.[264]

This program is implemented through two ways; initially, an authority launches a call for expression which is followed by a funding agreement signed between the managing authority and the selected urban development fund. The fund then provides PPP and other urban projects with loans, equity or guarantees. Secondly, it is organized through holding funds, which are those investing in more than one urban development fund, providing them with equity, loans or guarantees. A funding agreement is signed between the Member State and the holding fund, the fund then provides PPP and other urban projects with loans, equity or guarantees.[265]

Regions for Economic Change is an initiative to increase competitiveness and economic modernization by drawing on experience and facilitating transfer of best practices. It functions within the European Territorial Co-operation Objective that the initiative works alongside the Interregional Co-operation and the Urban Development network programmes, setting economic development themes to promote economic modernization.[266]

The initiative also supports the Community's strategic guidelines on cohesion which creates a voluntary communication for Member States, regions and cities to share successful development structures. While Member States and regions may decide a theme to steer their actions, the Commission provides four thematic options: improving Member States, cities and region's appeal and accessibility (while preserving the environment, innovation, entrepreneurship and

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[264] The European Commission: http://ec.europa.eu/regional_policy/funds/2007/jjj/jessica_en.htm (accessed in June 2010)

[265] The European Commission, http://ec.europa.eu/regional_policy/funds/2007/jjj/jessica_en.htm (accessed in June 2010).

[266] The EU Media Training Portal: http://www.2007-2013.eu/initative_rec.php (accessed in June 2010).

knowledge), creation of more and higher quality jobs, improve growth potential and allowing for equal regional development.[267]

4.2.2.7. An Assessment of Cohesion for Growth and Employment:

Structural and cohesion expenditures basically target the poorer regions of the member countries because these regions are prone to risk since their weaker economies are treated to the full impact of competition as a consequence of the internal market forces and a common currency circulation of the EU. The empirical evidence, suggesting that EU structural funds have, on average, accelerated economic convergence of poor regions is not as strong as expected.[268] One of the reasons this evidence came up, is that the eligibility of funds is not based on objective and transparent criteria associated with relative economic and social development as envisaged by Agenda 2000, application of eligibility is associated with additional desirable consequences that the funds obtained by each country are influenced, but not directly determined by political negotiations among the member states which would help to enhance the perception policy as a kind of European public good.[269]

Another criticism of the cohesion policy lies in their ineffective performance. Some studies have found few indications that the economic growth of assisted regions under the structural funds has been enhanced by transfers. While the transfers undoubtedly boost the incomes of recipient regions, the stark implication is that the policy is, in practice, a redistribution of funds instead of the anticipated 'structural' policy objectives. Indeed the budget of the EU is dedicated to fund redistribution in this area, which limits anticipated public good effects and diminishes the constructive role of the programmes.

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[267] The European Commission, "The Urban Dimensions in Community Policies for the Periods 2007-2013-Guide-", pp.22-24.
http://www.infocooperare.ro/Files/urbanguide1_en_20093192738509.pdf (accessed in July 2010).

[268] Daniel Gros, How to Achieve a Better Budget for the European Union? *CEPS Working Document*, 289, April 2008, p.5.

[269] *Ibid*.

Economic progress has to be achieved with due regard to the need for sustaining or strengthening social cohesion and environmental safeguarding. According to fiscal federalism, whilst social cohesion is better served at the national level, there is a strong incentive for EU intervention on the issues related to environmental protection.[270] Social cohesion is placed within the structural funds through the European social funds but the environmental funding is scattered across different funds in the budget, with infrastructural and other programs being funded under a number of headings.

Investments are adversely affected by decreasing marginal returns and require a longer maturity period. Some more complex investments for the long term, such as investments in the education system, may not have a significant effect during the time span of single financial perspectives, but may be crucial for the extended commitments. The latest reforms in the cohesion policy, calling for a redirection of funds towards actions in line with the Lisbon objectives, also reflect the decreasing marginal returns on infrastructure.[271]

Another criticism of the cohesion policy, as the latest cohesion report admits, is associated with the divergences in GDP per capita among regions. The report discloses that they have not narrowed (sigma convergence)[272] and displays some evidence that it has even worsened.[273] Regional growth has concentrated in

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[270] Jorge Núñez Ferrer, "The EU Budget the UK Rebate and the Cap - Phasing Them Both Out?" *Ceps*, Task Force Report, 2007.

[271] *Ibid.*, p.281.

[272] The two most popular measures are the *beta*-convergence and *sigma*-convergence. The former implies that the *poor countries (regions) grow faster* than the richer ones and it is generally tested by regressing the growth in *per capita* GDP on its initial level for a given cross-section of countries (regions). In turn, this *beta* convergence covers two types of convergence: absolute and conditional (on a factor or a set of factors in addition to the initial level of *per capita* GDP). In contrast, *sigma*-convergence designates the reduction in the dispersion of *per capita* GDPs within a sample of countries (regions). See, Camela Martin, Carlos Mulas Granados, Ismael Sanz, Spatial Distribution of RD Expenditure and Patent Applications Across EU Regions and Its Impact on Economic Cohesion", Investigaciones Regionales, 6, p.44 http://www.ucm.es/info/ecap2/mulas_carlos/articulos%20en%20revistas%20nacionales/Spatial%20Distribution%20R&D%20Expenditure.pdf (accessed in June 2010).

[273] ESPON, "The Territorial Impact of CAP and Rural Development Policy", *ESPON Report 2.1.3*, (European Spatial Planning Observation Network funded by the European Commission), 2004.

some regions of the wealthy Member States. This trend has triggered the criticism that regional policy is failing to deliver expected outcomes as well.

Besides these inefficiencies, one of the main weaknesses of the policy is that the planning, implementation and control processes are heavily dependent on the national and regional authorities. The Commission's power in the project selection process for the majority of the funds is limited and budgetary negotiations are carried out exclusively by the nation states.[274] This clearly delegates to member states control over the priorities and performance of the budgeted funds. Additionally, the Commission's culture of ensuring the 'absorption' of funds as one of the key measures of success has fostered their suboptimal use in the pursuit of fast expenditures.[275] The uneven performance of funds can often be traced to the lack of implementation quality in the member states. Indeed, budget applications, by and large, reflect institutional, personnel and material capability of the Member State which acknowledges the social structure of the governments as well. The Commission has been shifting its position on this issue, with more emphasis on integrated planning and requirement to earmark expenditures for Lisbon initiatives. The performance of the funds, however, is still under the control of member governments. It only has blunt legal instruments to act in cases of fraud – for blocking the funds and bringing a member state to the European Court of Justice if the fraudulent operations are not effectively pursued at the national level.[276]

Besides argued deficiencies the development attempts of poor regions in the EU borders is considered beneficial to the Union since this funding basically aims at improving European social area. However program management and

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[274] For further information see, Gian Paolo Manzella and Carlos Mendez, "The Turning Points of EU Cohesion Policy", Working Paper, *European Policies Research Centre*, University of Strathclyde, United Kingdom, January 2009. http://ec.europa.eu/regional_policy/policy/future/pdf/8_manzella_final-formatted.pdf (accessed in July 2010).

[275] Markéta Šumpíková, Jan Pavel and Stanislav Klazar "EU Funds: Absorption Capacity and Effectiveness of Their Use, with Focus on Regional Level in the Czech Republic", 402/03/1221, 2003, p.1.

[276] Ferrer, *op.cit*., p.31.

funding are linked to the Member States. The objectives of the cohesion policy is to increase competitiveness and employment at the regional level which may be considered as an instrument for mobilizing regional and local players around the EU priorities and which may ensure that the benefits of European public goods such as research and innovation are proportionately shared. The policy moreover projects to facilitate growth in areas lagging behind of the EU average, in line with the EU support to create the ground for growth, strengthen industrial base, unlock the full potential of SMEs and close the infrastructure gap in transport, ICT, environment, energy, human capital, education and research so that the policy will eventually have to ensure full connectivity to the Single Market and strive to provide more public goods necessary for growth that could not be financed without EU support to the regions.[277] There is another policy projection that fosters integration across borders of the EU which will encourage coordination and the provision of public goods such as energy and transport interconnections that are not capable of providing them at the national or local level.[278]

The migration and security problems aroused in most of the Member States are depressing the individual states, which apparently highlights a need for the EU level policies and programs. Similarly environmental concerns and neighbourhood relations pose a challenge for further cooperation.

‘An Agenda for a Reformed Cohesion Policy’, the report of Fabrizio Barca, conveyed a strong phenomenon for a place-based (regional) European development policy which aims at addressing market failures through mobilizing territorial potentials and providing bundles of public goods.[279] The report presented some precious proposals to increase the effectiveness of the policy, such as concentration on core priorities, performance and evaluation,

[277] For details see, Paweł Samecki, “Orientation Paper on Future Cohesion Policy”, 2009, pp.4-5 http://ec.europa.eu/regional_policy/newsroom/pdf/pawel_samecki_orientation_paper.pdf (accessed on 11 June 2010).

[278] *Ibid.*

[279] Fabrizio Barca, “An Agenda for a Reformed Cohesion Policy - A Place-based Approach to Meeting European Union Challenges and Expectations”, Independent Report prepared at the request of Danuta Hübner, Commissioner for Regional Policy, April 2009.

simplification of management and control systems and introduction of a high-level political debate on results.[280]

Cohesion policy is the crucial EU tool to mobilize territorial assets and potentials and consecutively address European integration. The policy entails some net fiscal transfers across the member state boundaries. Even if spending on cohesion policies is believed not to be contributing to growth or employment in aggregate (or even having a net cost), it could be justified if it resulted in higher GDP or employment in parts of the EU deemed to be worthy of support for equity reasons.[281]

In spite of the fact that most of the cohesion funding is accepted public goods in some percentage or economically valuable commitment in the literature, they cannot be deemed as a main source of delivery of public goods for social constructivist purposes. Indeed, the policy funding might be considered local or regional level public goods instead of the EU level. Some policy funding, such as trans-European networks or R&D target cross border and transnational cooperation but most of them are connected with the member states and regions in the states, which rather turns it into a decentralized government funding. Even if the program expenditure sounds a kind of public goods, most of the decisions about eligibility, management and evaluations are under the control, influence and capacity of the governments of the Member States. A requisite link between the EU level budgeting expenditures/policies and citizens is not stipulated from the EU level. Moreover, there is no symbol in the delivery channels of the policy findings which somehow presents social constructive influences to beneficiary citizens.

[280] *Ibid.*

[281] Iain Begg, "The 2008/2009 Budget, EU Consent EU-Budget", *Working Policy Paper*, 3, 2007, p.21.

4.3. Preservation and Management of Natural Resources:

Preservation and management of natural resources is placed under the heading 2 of the budget and essentially refers to the agriculture policy of the EU which originated from the need to counterbalance income disparities between the farming community and the industrial and service sectors.[282] As stated in the Chapter 2, it was the prize given to France for the price of signing the Treaty of Rome; nevertheless it has become a path dependent expenditure in parallel with the consecutive enlargements. Today, almost 30 million people are working in 14 million farms, which comprise 45 % of the land area of the EU.

Policies under the heading provide a number of crucial biological and ecological services, such as food and fodder, renewable non-food products, landscape, biodiversity, water management, the recycling of nutrients and organic waste, plus a number of social services such as employment, rural vitality and tourism.[283]

The CAP has two pillars in budgetary classification; direct aid and rural development, financed by two financial instruments European Agricultural Guarantee Fund (EAGF) and European Agricultural Fund for Rural Development (EAFRD). Although the EAGF finances some activities in a centralized conduct of the Commission, both funds are implemented by means of shared management between Member States and the Commission, nevertheless funding amounts are transferred to the Member States for the payments to farmers and fishermen.

4.3.1. Agriculture: Direct Aid and Market Support:

The agricultural support is much debated since it accounts the biggest part of the EU expenditures (34% of total budget). The **EAGF** aims to support

[282] The mechanism of agriculture policy had been implemented when most foodstuffs were in deficit. The existence of surpluses in the most significant markets signified that the mechanism was ill-adapted to the situation and could only lead to further growth in production.

[283] European Commission - Agriculture: http://ec.europa.eu/agriculture/index_en.htm (accessed in July 2010).

economical, environmental and societal sustainable agriculture, and ensures high quality and safety food production and animal health. The Fund is used for direct payments to farmers, refunds for export to third countries granted under the Common Organization of Markets (CMO), intervention payments to regularize agricultural markets and certain informational and promotional measures.[284] It also finances measures not strictly related to the management of agricultural markets such as specific veterinary and plant health measures, control programmes, farm survey systems, evaluation actions and measures to conserve, characterize, collect and use genetic resources in farming.[285]

These activities are managed by the Commission but the major component of the EAGF is handled at a national level with a specific amount of money allocated to each country. Nevertheless, only a very limited part is implemented on EU level by the use of call for proposals method. The EAGF finances expenditures originating from application of market and price policies.

The reform of agricultural support in 2003 introduced the ***Single Payment Scheme***, which is an annual payment based on entitlements taken from the 2000-2002 period and granted to farmers with eligible land holdings.[286] The major advantage is that the funding is decoupled from production which thus gives greater freedom to farmers about their preferences on production so that the system eliminates previously established link between price support and production. In order to receive full payments, farmers must comply with certain cross compliance standards such as good land conditions, public, animal and plant health standards as well as environmental requirements.[287]

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[284] Europe Media Portal: http://www.2007-2013.eu/by_scope_eagf.php (accessed in July 2010).

[285] *Ibid.*

[286] S. H. Gay, B. Osterburg, D.Baldock, A. Zdanowicz, "Impact of Environmental Agreements on the CAP Recent Evolution of the EU Common Agricultural Policy: State of Play and Environmental Potential", MEACAP, WP6 D4b Common Agricultural Policy, March 2005 http://www.ieep.eu/publications/pdfs/meacap/WP6/WP6D4B_CAP.pdf and Europe Media: http://www.eutrainingsite.com/eu_funds_details.php?id=65 (accessed in June 2010).

[287] European Commission DG of Agriculture, http://ec.europa.eu/agriculture/capreform/infosheets/crocom_en.pdf (accessed in July 2010).

4.3.2. Rural Development:

Rural areas cover 80 % of the European territory. The funding of rural developments aims to ensure sustainable development initiatives in the rural areas through helping to a variety of activities and create new sources of income and employment. Flexible decentralized aid, based on the principle of subsidiarity, plays a vital role for strengthening the agriculture and forestry, enhancing the competitiveness of rural areas and preserving the environment and rural heritage.[288] The EAFRD is used as the instrument of rural development supporting progress of the competitiveness of agriculture and forestry by preserving reconstruction, development and innovation, improving the environment and the countryside via better land management and quality of life in rural areas and the diversifying economic activities.[289]

4.3.3. European Fisheries Fund (EFF) targets to strengthen the competitiveness and the feasibility of the fisheries in the sector, to promote environmental friendly fishing habitat and production methods and to encourage sustainable development of the areas. The Fund supports five priorities: adapting fishing capacity and efforts to available fish resources, supporting the various industry branches, enhancing sustainable development of fisheries-dependent areas and providing technical assistance to the Member States to facilitate the delivery of aid.[290] For these three policies, agriculture, rural development and fisheries, the Member States prepare a strategic plan, covering all areas of policy, which is considered as a base for the selection to finance. On the other hand, the Member

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[288] Council Regulation (EC) No 1698/2005 on "Support for Rural Development by the EAFRD", 20 September 2005.

[289] The Fund is implemented through four axes: 1: Competitiveness, 2: Land management, 3: Wider rural development, 4: Leader (The Commission, "The EU Rural Development Policy: Facing the Challenges", 2008 http://ec.europa.eu/agriculture/events/cyprus2008/brochure_en.pdf (accessed in June 2010)).

[290] European Commission-Fisheries: http://ec.europa.eu/fisheries/cfp/eff/index_en.htm (accessed in June 2010).

States decide how to allocate the financial support between the priorities of the fund.

4.3.4. LIFE+[291] is an instrument for the implementation, revision and development of environmental policy and legislation, including integration of the environment into other policies, which in effect also contributes to sustainable development by supporting the implementation of the Environment Action Programme, which was developed to combat climate change, halt the decline in biodiversity, improve the quality of life and ensure the sustainable use and management of natural resources.[292]

4.3.5. An Assessment of Preservation and Management of Natural Resources:

The CAP came into operation in 1958 with the establishment of the Community, which designed in such a way that the responsibilities for negotiations of the farmers and other public were transferred from member state level to the Community level. Currently, most of the funding is dedicated to direct aid to farmers (76 %) the remaining funds are to rural developments (22 %) and environment (2%).

As one of the major reforms in agriculture policy, the MacSharry reform launched two main innovations in 1992, reductions in administered support prices for the first time, with farmers compensated for possible income loss through the introduction of coupled direct payments, and a set of accompanying measures to

[291] LIFE+ For action grants, the maximum rate of co-financing shall be 50%, whereas, the maximum co-financing rate for LIFE+ Nature and Biodiversity may be up to 75%, comprises three components: LIFE+ Nature and Biodiversity LIFE+ Environment Policy and Governance LIFE+ Information and Communication.

[292] European Parliament and the Council, “Regulation Concerning the Financial Instrument for the Environment (LIFE+)”, (EC) No 614/2007, 23 May 2007.

the market reforms to promote more extensive and environmentally tolerable modes of production.[293]

Direct income support, at that time was being paid for field crops and certain livestock which aimed to be structured in accordance with social and regional aims.[294] Even though it was not extensively formulated, this proposal was echoing a reform for public goods and services that public money should be used for. A change, of course, should thus have been brought about, by a combination of policy instruments containing both structural and technical aspects.[295]

Agenda 2000 introduced several rural development measures including diversification, establishing producer groups and supporting young farmers, most importantly; it further assessed Agri-environment schemes compulsory for every Member State.[296]

There was another decisive change in direct payments (Mid-year review (MYR) of the Agenda 2000) in 2003. It was decided to introduce so-called de-coupling (member states may choose to maintain a limited amount of specific subsidy), which resulted in an end to the payment of price compensation for previously price-supported certain crops or livestock. The new single farm payments were focused to "cross-compliance" conditions, which were related to environmental, food safety and animal welfare standards. Many of these were already either good practice recommendations or separate legal requirements regulating farm activities. The aim was to make more money available for

[293] Alan Matthews, "Reform of the CAP: MacSharry, Agenda 2000 and the Mid-Term Review", http://www.tcd.ie/Economics/staff/amtthews/FoodPolicy/LectureTopics/EUAgriculturalPolicy/Lecture8.htm (accessed in June 2010).

[294] The reforms reduced levels of support by 29 % for cereals and 15 % for beef.

[295] Lutz Ribbe, "The Long term Development of the Common Agricultural Policy Analysis and Recommendations for an Ecological Orientation of Agricultural Policies" *IFOAM Paper on Common Agricultural Policy*, 2009, p.2.

[296] Agenda 2000 –A CAP for the future:
http://ec.europa.eu/agriculture/publi/review99/08_09_en.pdf (accessed on 14 June 2010)

environmental quality or animal welfare programmes.[297] The reform, undertaken as part of the MYR of Kok, reinforced the EU's position at the World Trade Organization (WTO) negotiations and reduced market distortions in the EU, but has left largely intact, the distribution pattern of support at the national, regional and farm levels.[298]

The Council agreed to revisit this policy in 2008 with a projection of reforming the farming sector in 2010. After the budget review conference organized by the Commission, in November 2008, some leading agricultural economists from all over Europe published a declaration known as "A Common Agricultural Policy for European Public Goods", in November 2009.[299] In April 2010, the Commission launched a public debate on the future of the CAP to have the opinions of different sectors of society. These developments signalled that there is new understanding at the EU level and at some other levels to seek public goods for the European agriculture policy.

There are many critics of the CAP. a report of the Court of Auditors harshly criticized the distribution of rural development funds for less favoured areas (LFAs) in June 2003.[300] It was apparently realized that there was lack of a justified methodology for selecting the beneficiary areas, which caused member states' refusal to offer information about the methodology used. This situation increased suspicion that the designation of areas was not based on relevant socio-economic indicators. The disparity in classifications might also lead to disparity in the treatment of beneficiaries in different member states. Yet, contrary to the

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[297] Aqua-stress Integrated Project, "Mitigation of Water Stress through new Approaches to Integrating Management, Technical, Economic and Institutional Instruments", *Aqua-stress Integrated Project* Water saving in agriculture, industry and economic instruments, December 2008, p.19. http://www.aquastress.net/download/FO4_a.pdf (accessed on 14 June 2010).

[298] Ferrer, *op.cit*., p.21.

[299] See the CAP reform portal: http://www.reformthecap.eu/ (accessed on 14 June 2010).

[300] Court of Auditors, "Special Report No 4/2003 Concerning Rural Development: Support for Less-Favored Areas, Together With the Commission's Replies", Official Journal of the EU, C 151: 01–24, 27.6.2003.

regulation proposed by the Commission, the eligibility criteria for LFAs were not tackled.[301]

Eligibility criteria of funding need to be more clearly defined with territorial considerations. Allowing each area to freely develop its own strategy and measures, either choosing its references from the existing policy supply in Member States or elaborating innovative actions are crucial.[302] Rural areas being part of regions, a coordinated approach is required when both funds target the same area, but they should be able to co-exist, as the scales of operations are generally different.

Agricultural subsidies are not an effective instrument for the implementation of social policies. If financial aid is linked with the level of agricultural production or land ownership, wealthy farmers and landowners receive more assistance while poor non-farmers are disadvantaged. By contrast, maintaining a diverse, traditional, well-kept landscape is primarily a national, not European level public good. Most benefits will remain within the country without transcending the Member States' borders – by direct enjoyment, as an advantage to attract qualified human resources. When a country wishes to subsidize a more decentralized settlement structure, this is a national choice rather than a supranational European one.[303]

According to fiscal federalism, there is hardly any rational explanation to support agriculture policy at the EU level. While agricultural land and the preservation of rural areas and their environment can be deemed as public goods, intervention through the price-support mechanism and direct payments in the CAP policies are far from the economical and social construction of the EU. At

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[301] *Ibid.*

[302] Saracano has given two examples of this model. The first is the experience of the reformed Structural Funds, including the Community Initiatives which have experimented with innovative approaches in different sectors. The second is the experience of the LEADER programme, which is specific to rural development and provides examples of the innovative strategies that rural areas are capable of, when left free to design and implement their self-defined strategies (Ferrer, *op. cit.*, pp.26-27, Ferrer refers Saraceno, 2003).

[303] A Common Agricultural Policy for European Public Goods: Declaration by a Group of Leading Agricultural Economists, Declaration (http://www.reformthecap.eu/declaration-on-cap-reform-html (accessed on 14 June 2010)).

the political platform, the policy contribution to the EU level can even be regarded as adverse settlement, considering the implications of the policy from the EU budgetary perspective. On the other hand, environmental actions and those common targets aimed at income diversification may be deemed as European public goods but questions still remain about the acceptable level of competence in some areas. Some aspects of the policy, especially the environmental policies, food safety and development fields may be regarded as social constructive policy funding, therefore these policies need to be designed and managed with more European level values.[304]

Food in general appears to be a private good since its consumption bears rivalry, but it is rational that everybody feels better in the community when the community does not starve. The essential question, therefore, is not whether any public interest can be identified or not, but how strong the public interest in a given objective is, and to what extent the attainment of this objective is endangered.[305]

The present division of the CAP into two pillars is rather problematic because the first pillar of the CAP is mostly devoted to finance market intervention as interfering with prices and direct income support for beneficiaries without considering their income level (whether rich or poor), level of activation in farming (active or passive in farming), produce more public good or damage public goods, while the second pillar, on the other hand, is a filled with numerous measures such as investment support for modernization of farming, agri-environmental projections, and village renewals etc., which are programmed by the member countries.[306]

However, there are very limited coordinated environmental actions at the EU level devoid of clearly dedicated environmental budget category. The heading

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[304] Reform the CAP – Harvest a Better Europe: http://www.reformthecap.eu/declaration-on-cap-reform-html

[305] Valentin Zahrnt, “Public Money for Public Goods: Winners and Losers from CAP Reform,” ECIPE Working Papers, 51300, *European Centre for International Political Economy (ECIPE),* 2009, p.15.

[306] *Ibid.* P.13.

of preservation of natural resources could have been expected to have a major environmental protection component in the agriculture policy of the EU, but it has not been the case in reality. There is therefore a need to assess whether the EU budget should be more active in the area of the environment or not.[307]

A category of rural public goods is recommended by the requirements for accessing the Commission's structural funds for agriculture and rural development. These structural funds co-finance investments in individual holdings, processing and marketing, standards and grades, protecting the rural environment, diversification, village renovation and development, land improvement and re-parcelling, rural infrastructure, water resources management, and forestry.[308] Nevertheless not all of these activities can be regarded as strictly as public goods as analyzed in Chapter 6.

The agriculture policy of the EU has various shortcomings. Agricultural tariffs and subsidies distort not only European economy but also social integration of the EU, because they are not aligned with its comparative advantage and social integration at the EU level.[309] Recent reform discussions highlighted a high volume of dissatisfaction regarding the agriculture policy which in short can be articulated as follows: It economically distracts EU trade interests by discrediting the free-trade issue and serving as a pretext for preserving barriers to trade in agriculture, manufacturing and services, it is socially unfair, because poor farmers are getting less from the CAP payments (20% of recipients get approximately 80 % from the direct income support), furthermore, many farmers are asset-rich since they own their own farming equipments and farm buildings, it demonstrates a pathetic environmental record,

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[307] Ferrer, "The EU Budget the UK Rebate ...", p.14.

[308] Nick Maddock, "What's left to plan? Public Goods in Rural Development", *Rural Development and Food Security*, 11/2008, p.9. http://www.developmentandtransition.net/uploads/issuesAttachments/23/DT11_eng.pdf (accessed in July 2010).

[309] For further details see, HM Treasury, "A Vision for the Common Agriculture Policy", *HM Treasury*, Norwich, December 2005 http://www.defra.gov.uk/foodfarm/policy/capreform/documents/vision-for-cap.pdf (Accessed in August 2010).

undermines global food security and the fight against poverty, because European tariffs and export subsidies, in particular, lower world food prices, which hurts farmers and depresses wages for unqualified labour in developing countries.[310] The CAP illustrates a serious burden on the integration progress of the EU, since it displays an image of a bureaucratic, non-transparent, and ill-managed EU, in the face of European citizens. The resources allocated for this policy can be dedicated to more constructive goods and services that can facilitate European social integration. As an alternative it may be projected to spend the EU budget funds on European public goods. Agricultural policies can be financed by the member states which are in a better position than the EU to pursue local preferences with financial responsibility; so that the first pillar of the CAP can be progressively transformed in the member states and can be managed by institutional level harmonization of the policies to avoid to distort competition or hurt the environment.[311]

In short, this heading is one of the difficult subjects to overcome in the financial management of the EU. The current structure of the policy is not socially constructive since there is no link between the beneficiary citizens and the EU level. It is really historically constituted path dependent circumstance, causing statist approaches and influences over the citizens. It has always an upward trend under the pressure of large beneficiary population in this sector which have been increased and complicated through enlargements. It also turns to politically sensitive subject for the EU level which makes even worse to deal with. Reforming the CAP has been discussed for long time and appeared different forms of adjustments in the policy but not as expected as so that it now implies that it is at the critical stages for a decisive radical decision. Except some minor expenses such as multinational environmental benefits generated by agriculture, enhancing biodiversity and preserving the viability of the rural areas by maintaining agricultural production, and helping to preserve rural heritage

[310] Reforming the CAP, Harvest A Better Europe: http://www.reformthecap.eu/cap-reform-in-a-nutshell (accessed in June 2010).

[311] *Ibid.*

landscapes, the other categories of expenses are not considered as public goods. Meanwhile, the policies are not serving the social construction of the EU either.

4.4. Citizenship, Freedom, Security and Justice:

This heading (Heading 3) has two subheadings in appropriate with its budget title *Freedom, Security and Justice (3.a)* and *Citizenship (3.b).*

4.4.1. Freedom, Security and Justice:

Programs related to freedom, security and justice have placed in Subheading 3.b of the budget. Even though the initial steps in security and justice cooperation was taken in 1976 with the establishment of the TREVI group from the justice and home affairs ministers of the 12 member states, the first real cooperation was the signing of the Schengen Implementing Convention in 1990 which opened up the EU's internal borders.[312] Furthermore, major development was the establishment of JHA as one of the EU’s ‘three pillars’ of the Maastricht Treaty. The idea of an area of freedom, security and justice was introduced in May 1999 with the Treaty of Amsterdam which stated that the EU must have policies such as external border controls, asylum, immigration and the prevention and combating of crime. The Treaty also transferred the areas of asylum, immigration and judicial cooperation in civil matters from JHA to the Community pillar. The remainder of the JHA pillar was renamed as Police and Judicial Co-operation in Criminal Matters.[313] In 2009, Treaty of Lisbon abolished the pillar structure and merged the two areas and regrouped all JHA matters together once more under the area of freedom, security and justice.

This subheading occupies 7.7 % of the total budget but more than half of this amount is taken by the migration policy of the EU.

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[312] For further information see, Tony Bunyan, “Trevi, Europol and the European State”, *Statewatching the New Europe*, 1, 1993. http://www.statewatch.org/news/handbook-trevi.pdf (accessed in July 2010).

[313] Treaty of Amsterdam, Article 1/5.

1. Fundamental Rights and Justice

The purpose of Fundamental Rights and Justice is to bring the States to the same way on the subjects of the rights and justice of the EU's citizens. The intention is to develop a European Society, which focuses on the rights of European citizens, respects the Charter of Fundamental Rights, and supports those groups considered at risk of having their rights violated (especially women and children), work together against violence, preventing the use of drugs by providing information and advice to one another and improve judicial cooperation among the Member States and the relevant authorities.[314] This programme is further divided into five sub-programmes among which Daphne and Criminal Justice share the biggest portion of the sub-heading:

Daphne is taken on the societal and trans-national levels and support to prevent violence against children, youth and women on the societal level, by assisting and supporting NGOs and relevant organizations, raising campaigns, creating cooperation and action at the state level by establishing multidisciplinary networks, supporting knowledge exchanging and, supporting victims.[315] The program does not only seek to combat violence within the EU but also in the states on the periphery of the EU such as EFTA states, Candidate countries and Balkan countries.

Drugs Prevention and Information program seeks to reduce the demand for and supply of drugs and terminate drug travel in the EU. The programme is also open to EFTA states, Balkan countries and Candidate countries.

Fundamental Rights and Citizenship aims to ensure EU citizens the rights which are afforded under the Charter of Fundamental Rights and aims to combat racism and ensures the EU citizens to live freely and openly without fear of persecution or danger. It looks for to educate the EU public to know and use their rights as citizens in line with established rights in the Charter. Candidate

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[314] Europe Media Portal: http://www.2007-2013.eu/by_scope_fundamental_rights_citizenship.php (accessed in July 2010).

[315] The Charities Information Bureau, the UK, http://www.fit4funding.org.uk/help-and-advice/funding/europe/ (accessed in July 2010).

countries, the western Balkan countries or any other country can participate in this programme together with the Member States.[316]

Criminal Justice aims to promote judicial cooperation and the adjustment of existing judicial systems, in order to improve the daily life and general well-being of EU citizens and businesses, providing easy access to the judicial system.

Civil Justice aims to promote judicial cooperation in civil matters and the adjustment of Member States' existing judicial systems to the EU system and then improve the lives of EU citizens through access to justice. The programme intends to enhance the contact and exchange of information and good practice between legal, judicial and administrative authorities. The Member States, candidate countries, western Balkan countries, Denmark legal officials and other states whose involvement would contribute to the achievement of the objectives of the fund are the possible participants.[317]

2. Solidarity and Management of Migration Flows

It aims to manage the flow of migration into the EU by fostering common objectives, cooperation and legislation among the states. There are four funds and programs implemented under this program which is organized at a multiannual level, covering two terms; one from 2007 to 2010 and another one from 2011 to 2013. External borders and integration of third country national programme takes lion share from this category.[318]

Refugee Fund seeks to improve the mutual understanding and common strategy among the members with regard to the proper handling of refugees, asylum seekers and displaced persons from third-countries or stateless persons.

External Borders Fund dedicates resources and action towards securing the external borders of the EU and Schengen Member States to ensure security

[316] *Ibid.*

[317] Europe Media Portal: http://www.2007-2013.eu/by_scope_civil_justice.php (accessed in July 2010).

[318] European Commission, "Communication from the Commission to the Council and the European Parliament - Establishing a Framework Programme on Solidarity and the Management of Migration Flows for the period 2007-2013", COM(2005) 121 final, Brussels, 6.4.2005.

for all citizens within the Schengen borders. As this programme applies to the Members of the Schengen Area, Denmark, the United Kingdom and Ireland are not involved.[319]

The Integration of Third-Country Nationals (INTI) influences the economic and social cohesion of the EU by aiming to integrate third country nationals within the Member States. The programme requires the development of national integration strategies for third country nationals and provides financial assistance, common strategies and goals for the integration of third countries nationals in all Member States,[320] providing a common administration.[321]

European Return Fund aims to improve the management of third country national's return to their home country.

3. **Security and Safeguarding Liberties**

It encourages cooperation among European authorities in the fight against crime and terrorism, among which fighting against crime consumes more than 80% of the budget of this program.

Prevention, Preparedness and Consequence Management of Terrorism aims to prevent and reduce the risk of terrorist attack through judicial cooperation, and also seeks to protect critical health and security infrastructure as well as environment, public health, transport, economic and social cohesion.

Prevention and Fight against Crime aims to fight all forms of crime. While it directly promotes coordination and cooperation among law enforcement agencies, national authorities and the EU, it also encourages the development of new methods effective protection of victims and witnesses.

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[319] Europe Media Portal: http://www.2007-2013.eu/by_scope_external_borders.php (accessed in July 2010).

[320] Denmark opted out of participation of the program.

[321] European Commission, “Communication from the Commission to the Council and the European Parliament Establishing a Framework Programme on Solidarity and the Management of Migration Flows for the period 2007-2013”, COM(2005) 121 final, Brussels, 6.4.2005.

4.4.2. Citizenship

The subheading of Citizenship (Subheading 3.b) is concerned with promoting of the quality of citizens' life, investing in public health, enhancing consumer protection, and fostering European culture and diversity. Youth and media programs take more than half of the Citizenship sub-heading in the budget.

4.4.2.1. Public Health Programme is an incentive measure designed to protect and improve citizens' health security, promote health for prosperity and solidarity, and produce and disseminate the knowledge of health. The programme promotes the co-operation and co-ordination between the Members and other legislative measures, instituting high quality standards and safety of tissues and blood, measures in the veterinary and phytosanitary fields.[322]

Program activities are managed with respect to the responsibilities of the Member States improve service capacity, facilitate healthy active ageing, and bridge inequalities, promote co-operation between health systems on cross-border issues such as patient mobility and health professionals, lessening alcohol, tobacco and drug consumption and exchanging knowledge and best practice by bringing together expertise from different countries.[323]

4.4.2.2. Culture 2007 Programme objects to enhance the common cultural area by encouraging cultural cooperation, to encourage the emergence of European citizenship, by promoting the transnational mobility of people working in the cultural sector, encouraging the transnational circulation of works and cultural and artistic products and intercultural dialogue.[324] In addition to EU Member States, the programme is open to the participation of EFTA countries (Norway, Iceland and Lichtenstein), Candidate countries, the Western Balkans Countries;

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[322] The European Commission, Health and Consumer Protection DG, http://ec.europa.eu/health/ph_programme/programme_en.htm (accessed in July 2010).

[323] *Ibid.*

[324] Europe Media Portal: http://www.2007-2013.eu/by_scope_culture.php (accessed in July 2010).

and third countries, which have concluded association or cooperation agreements with the EU.[325]

4.4.2.3. Youth in Action aims to support experiences of European citizenship and solidarity among young people aged from 13 to 30 and to develop the youths' sense of initiative, creativity and entrepreneurial spirit, to enhance the quality of support systems for youth activities and the capabilities of civil society organizations, to promote cooperation in youth policies.[326] Natural persons may receive grants, but financial support may be in the form of subsidies or scholarships. The programme is open to the same beneficiaries of Culture 2007 Program along with Switzerland. Participating countries may utilize national funding available to beneficiaries to be managed in accordance with the rules of the programme and, to this end, use the decentralized structures of the programme, as long as it ensures the complementary proportionally funding of these structures.[327]

4.4.2.4. Media 2007 is a new action for the audiovisual industry to contribute to translation of European cultural values into a competitive worldwide industry and creation of a favourable socio-economic environment for the audiovisual sector. It endeavours to stimulate private financing for the sector (particularly to SMEs) in order to enable companies active in the audiovisual sector to enhance their competitiveness.[328] MEDIA 2007 had replaced MEDIA Plus and MEDIA-Training Programmes due to conclusion of their financing in 2006.[329] Depending on the type of action, financial aid may take the form of grants or scholarships,

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[325] *Ibid.*

[326] The Charities Information Bureau, the UK, http://www.fit4funding.org.uk/help-and-advice/funding/europe/ (accessed in July 2010).

[327] Europe Media Portal: http://www.2007-2013.eu/by_scope_youth.php (accessed in July 2010).

[328] Europe Media Portal: http://www.2007-2013.eu/by_scope_media.php (accessed in July 2010).

[329] The European Commission: http://ec.europa.eu/culture/media/index_en.htm (accessed in July 2010).

although it may not exceed 50 % of the final costs of the operation supported. The programme is open to same countries benefitting from Culture 2007 and participating States that are parties to the Council of Europe Convention on Transfrontier Television. The beneficiaries may also be individuals.[330]

4.4.2.5. Europe for Citizens encourages active European citizenship. The main scope is to bridge the gap between citizens and the EU through financial instruments that promote citizenship. It intends to promote cooperation between citizens and their organizations from different countries. Local authorities and organizations, European think-tanks, citizen's groups, non-governmental and other civil society organizations, platforms, networks, trade unions, educational institutions are eligible, as long as they are from Member States, Liechtenstein, Norway, Island, Western Balkan states, Turkey and FYROM.[331]

4.4.2.6. Civil Protection Financial Instrument aims to promote and complete the efforts undertaken by the Member States concerning the civil protection. It protects people against disasters, environment and property, including cultural heritage, against catastrophes. It also searches to strengthen co-operation between Member States in the field of civil protection. It is open to Members and Candidate Countries. Other third countries may co-operate in the activities when agreements so allow.[332]

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[330] European Parliament Resolution, "The Implementation of a Programme of Support for the European Audiovisual Sector (MEDIA 2007)", COM(2004)0470 – C6-0093/2004 – 2004/0151(COD), 25 October 2005.

[331] For further acknowledgement see, the European Commission, Europe for Citizens Programme, November 2006. http://www.2007-2013.eu/documents/legal_documents/citizen_prov_guide.pdf (accessed in July 2010).

[332] The European Commission, Humanitarian Aid and Civil Protection http://ec.europa.eu/echo/civil_protection/civil/prote/finance.htm (accessed in July 2010).

4.4.3. An Assessment of Citizenship, Freedom, Security and Justice:

The contents of citizenship, freedom, security and justice are European level policies aimed at strengthening the social area of the EU. These are normative values, such as citizenship, culture, justice and security.

Walzer argues that "the primary good that we distribute to one another is membership in some human community. Men and women without membership anywhere are stateless persons."[333] He endeavours to demonstrate that without membership, there can be no hope of sharing in all other social goods such as security, wealth, honour, office, and power then the theory of distributive justice begins with an account of membership rights. Thus, he begins his attempt to offer a system of justice by building a concrete foundation for membership. After doing this, he builds on this foundation; the complex equality which he believes will be a just distribution of goods and services. He affirms that membership determines from whom compliance can be required and taxes collected, and to whom [public] goods and services should be allocated.

With neighbourhoods, clubs and families, there is almost always some level of homogeneity and commonality that binds the members together. Bader notes that they are "warm, horizontal [communities] … based on consent" whereas states are "cold vertical institutions, based not on free entry but on enforced membership and physical violence. Strictly speaking, [states] are not associations at all, but institutions."[334]

The citizenship issue itself fundamentally altered after the French Revolution, when allegiance transformed from being a member of a community to being a member of a State. Modern politics has become institutionalized, bureaucratic and efficiency-oriented.[335] Williams sees that citizenship is linked back to a bureaucratic and "anti-political" State and not to an ideological

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[333] Michael Walzer, *Spheres of Justice,* Basic Books Inc, New York, 1983, p.31.

[334] Veit Bader, "Citizenship and Exclusion: Radical Democracy, Community, and Justice or, what is Wrong with Communitarianism?", *Political Theory,* 23, 1995, p.218.

[335] Jeramy Townsley, "Walzer, Citizenship, Globalization And Global Public Goods", Dec 2004 http://www.jeramyt.org/papers/walzer.html (accessed in July 2010).

community of actors, engaging each other in citizenship.[336] In some cases citizenship is illustrated with three components: civil, political and social. Among them the civil component is seen necessary for the achievement of individual freedoms including the right to justice.[337]

Walzer's concern of protecting the distinctiveness of each culture and binding this value to the need of controlling immigration are crucial. He also believes that such a globalized state would function better in distributing goods, "but we can generalize from the history of centralized states and propose that global distributive justice might be better served by a strong government that was able to mobilize resources from, and apportion them among, all the countries and regions of the world."[338]

One of the most promising avenues for providing global justice is the concept of global public goods such as respect for universal human rights, peace and security. The EU in this expenditure category is somehow attempting to strengthen its ties with citizens. Fundamental rights, criminal justice, terrorism, crime, drug prevention, migration and citizenship are all supported programs under these two sub-headings and considered essential public goods so that they play very significant socially constructive roles over the citizens. Therefore the percentage of the commitment of the budget resources to these programs is too low, which only takes a share as little as 1.2 % of the total budget.

4.5. The Eu as a Global Player:

This heading (Heading 4) deals with external relations and programs. The EU did not set out an agenda to become a world power in the establishment.

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[336] *Ibid.*

[337] Bryan S Turner, "The Erosion of Citizenship", *British Journal of Sociology*, 52, 2001, pp. 189-190. http://www.eduglobalcitizen.net/index2.php?option=com_docman&task=doc_view&gid=54&Itemid=32 (accessed in June 2010).

[338] Michael Walzer, "International Society: What is the Best We Can Do?, The Multatuli Lecture", 1999, p.3 (http://www.kuleuven.be/ep/viewpic.php?LAN=E&TABLE=EP&ID=250 (accessed on 19 June 2010).

Indeed, its first concern was bringing the nations and peoples of Europe together. Nevertheless, it was planned to define its relationships with the rest of the world since the Union expanded and attached more responsibilities. Just as it has worked to remove trade barriers, develop poorer regions and promote peaceful cooperation within its frontiers, the Union coordinates with other countries and international organizations to convey to everyone the benefits of open markets, economic growth and stability in an increasingly interdependent world.[339] For more than 40 years, the Cold War divided the world into two camps. The end of the Cold War exhibited a more complex and fragile world order especially in Europe, which required greater EU involvement for the prevention of conflicts, the provision of peace and stability. The EU is needed to safe and secure life within and around its borders.

The EU's external policies engage in trade, development assistance and cooperation agreements as well as humanitarian assistance and support to areas in crisis. The EU seeks to promote respect for human rights including, civil, political, economic, social and cultural rights, as well as the rights of women and children, minorities and displaced persons.[340]

This heading takes 5.8 % of the total budget, mainly dedicated for pre-accession, neighbourhood and development and economic cooperation. Under the heading 'neighbourhood and pre-accession' and 'development and economic cooperation' occupy more than 90% of the budgeted amount under the heading. In order to strengthen its roles in the world the EU financial structure has been simplified by eliminating approximately 30 legislative instruments.

4.5.1. European Neighbourhood and Partnership Instrument (ENPI) objects to achieve sustainable development and introduces a radical change in supporting cross-border cooperation along the external borders. ENPI takes 20% of the

[339] European Commission, "A World Player, A European Union's External Relations", 2004, p.3 http://ec.europa.eu/publications/booklets/move/47/en.pdf (accessed in July 2010).

[340] *Ibid.*, p.7.

heading and 1.1% of total budget. The ENPI has replaced MEDA[341] and TACIS[342] and other existing instruments such as the European Initiative for Democracy and Human Rights. The framework of this instrument is provided by the existing bilateral agreements between the EU and the neighbouring countries. Legislative approximation, regulatory convergence and institution building have been supported through exchange of experience, long-term twinning arrangements with the Member States or participation in Community programmes. Funds allocated to individual country programmes depending on their needs and absorption capacity as well as their implementation of agreed reforms.[343]

4.5.2. Instrument for Pre-Accession Assistance (IPA) replaced the 2000-2006 pre-accession financial instruments of PHARE, ISPA, SAPARD, the Turkish pre-accession instrument, and the financial instrument for the Western Balkans (CARDS). IPA is aimed towards assisting candidate and potential candidate countries to better perception of the EU's working system, and adapting policies of the Member States, rules and regulations in preparation for membership. The objectives are strengthening democratic institutions, promotion and protection of human rights and fundamental freedoms and improving respect for minority rights, developing civil society, regional and cross-border cooperation of beneficiary countries.[344]

It is consistent with five components; Transition Assistance and Institution Building, Cross-Border and Regional Co-operation, Regional Development, Human Resources Development and Rural Development

[341] Algeria, Egypt, Gaza/West Bank (Palestine Authority), Israel, Jordan, Lebanon, Morocco, Syria, Tunisia, Libya, Turkey.

[342] Armenia, Azerbaijan, Belarus, Georgia, Kazakhstan, Kyrgyzstan, Moldova, Mongolia, Russian Federation, Tajikistan, Turkmenistan, Ukraine and Uzbekistan.

[343] Marco Overhaus, Hanns W. Maull and Sebastian Harnisch, "The New Neighbourhood Policy of the European Union", *Foreign Policy in Dialogue***,** 7/19, July 27, 2006, p.11 http://www.deutsche-aussenpolitik.de/newsletter/issue19.pdf (accessed in July 2010).

[344] For further details see, The European Council, "Council Regulation Establishing Instrument for Pre-Accession Assistance", 1085/2006, 17 July 2006.

Components. The assistance under IPA includes finance investments, procurement contracts, grants, including interest rate subsidies, special loans, loan guarantees and financial assistance, budgetary support, and other specific forms of budgetary aid, and the contribution to the capital of international financial institutions or the regional development banks. Any natural or legal person based in the eligible countries is entitled to apply for funding under IPA.[345]

4.5.3. Development Cooperation and Economic Cooperation Instrument (DCECI) undertakes to help developing countries achieve the Millennium Development Goals,[346] and consequently, reduce poverty, and support cooperation in development, economic, financial, scientific and technical fields with the partner countries and regions. Those countries that are ineligible also for assistance under the IPA and the ENPI are eligible for DCECI.[347]

4.5.4. Instrument for Stability provides an adequate response to instability and crises and to longer term challenges, with a stability or security aspect. It is complementary to the IPA, ENPI and the DCECI, and provides assistance to establish the necessary conditions for the implementation of the policies

[345] The European Commission European Neighborhood Policy, http://ec.europa.eu/world/enp/index_en.htm (accessed in July 2010).

[346] At the 2000 Millennium Summit the international community adopted the Millennium Declaration, committing itself to a global project designed to definitively reduce the many aspects of extreme poverty. The EU made specific commitments to achieve these goals by 2015. There are eight Millennium Development Goals (MDGs): eradicating poverty and hunger in the world; achieving universal primary education; strengthening gender equality; reducing child mortality; improving maternal health; combating HIV/AIDS, malaria and other diseases; ensuring environmental sustainability; developing a global partnership for development. The European Union (EU) made specific commitments to achieve these goals by 2015. (The Commission: http://europa.eu/legislation_summaries/development/general_development_framework/r12533_en.htm (accessed in July 2010)).

[347] Europe Media Portal: http://www.2007-2013.eu/by_scope_dceci.php (accessed in July 2010).

supported by these three instruments. The Instrument is an effective, immediate and integrated response to situations of crisis and instability in third countries.[348]

4.5.5. Humanitarian Aid is to victims of conflicts or disasters (both natural and man-made) in countries outside the EU, but the allocation for this purpose is very modest since Member States have their own humanitarian aid mechanisms.

4.5.6. Macro Financial Assistance assists the political and economic reform endeavours of the states with the stabilization on the financial situation and establishment of market-oriented economies. It is connected with support programmes from the International Monetary Fund (IMF) and the World Bank. It typically offers long-term loans, but in some cases as grants or as combination of loans and grants.[349] The assistance concentrates on the Balkan countries (Albania, Bosnia and Herzegovina, and Serbia and Montenegro), also New Independent States (NIS) (Ukraine, Belarus, Armenia, Azerbaijan, Tajikistan, Kazakhstan, Georgia, Tajikistan, Kyrgyz Republic, Moldova, Russia) and a few Mediterranean countries that also receive other forms of macroeconomic support from the EU, notably under the MEDA Structural Adjustment Facilities.[350]

4.5.7. Common Foreign and Security Policy covers conflict prevention and crisis management, non-proliferation and disarmament, conflict resolution, verification support for the peace process and stabilization, emergency action, predatory and follow-up measures and, EU Special Representatives. Conversely, this budget cannot fund expenditure of military character. This is so because the Treaty of the EU stipulates that military expenditure is jointly financed by the Member States, but the latter do so outside the Community budget and in

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[348] The European Commission, "Communication from the Commission to the Council and the European Parliament on the Instruments for External Assistance Under the Future Financial Perspective 2007-2013", COM(2004) 626 final, Brussels, 29.9.2005.

[349] European Commission, "Report from the Commission to the European Parliament and the Council on Borrowing and Lending Activities of the European Union in 2008", COM(2010)69 final, Brussels, 04.3.2010, pp.7-8.

[350] Europe Media Portal: http://www.2007-2013.eu/by_scope_mfa.php (accessed in July 2010)

accordance with the Gross National Product scale.[351] A special mechanism, "Athena" has been put in place to manage this expenditure. It takes only about 0.2% of the total budget as shown in the Table 2.

Table 2
CFSP Budget in FF 2007-2013

	2007	2008	2009	2010	2011	2012	2013	Total	Average allocation/ Year
2004 prices	150	185	220	250	285	310	340	1.740	249

Source: ABGS (http://www.abgs.gov.tr/tarama/tarama_files/31/SC31EXP_CFSP%20Budget.pdf)

4.5.8. An Assessment of the EU as a Global Player:

The instruments and programs funding in principle are public goods since they basically aim at bringing potential candidate states, neighbour countries and the states surrounding the EU in line with the EU political and economic policies and precedence to afford a collaboration structure with them. The EU has the opportunity to expand admittance of its norms and values. The CFSP within other polices deserves preferential treatment because it is considered one of the divergent social constructive public good as it enhances solidarity between people and strengthens ties of citizens in social and common political arena. Nevertheless the fund is as low as 0.1% of the total budget since military operations are funded jointly out of the EU budget.

Even though defence expenses and military expenses are mostly under the direct influence and custody of the member states, CFSP generally falls under the category of social constructive policy good. Pre-accession aid as a unique instrument also aims at playing an exclusive role over candidate countries by providing social construction public goods to candidate states and taking them in line with the Union values and standards.

[351] The Treaty of European Union, Article 28.3.

4.6. Administration

The Heading 5 is about the EU's institutional administration. The public administration is a key institution of government and perception of the European political order. It is a model for the European space because it carries its components to the targeted public. The administration budget covers salaries, pensions, buildings and equipment of the EU administration. As much of the EU's work takes place in Belgium and Luxembourg, almost three-quarters of the spending is allocated to these two countries.

4.6.1. An Assessment of "Administration" Heading of the EU Budget:

The Commission accounts for almost half of the total spending on EU administration, employing approximately 33,600 people in 2009.[352] It takes almost the same share as the Heading 4 (external relations and foreign policy or the EU as a global player) from the budget. It is impressive that it is five times bigger than total allocations of heading 3 (internal policies or citizenship, freedom, security and justice) (heading 3a and 3b altogether) and bigger than 7th Framework Program (under competitiveness policy) as well.[353]

The administration of the EU is an EU level establishment and the costs pertaining to this establishment represent institution building and also a kind of social constructive policy approach. The EU administration is an EU social area at the top level where different people come together and work for a common goal. In the meantime they share the values and norms of the Union and establish and disperse an institutional level sense of belonging.

[352] BBC: http://news.bbc.co.uk/2/hi/8036096.stm#start (accessed in July 2010).

[353] See Annex:1 and Annex:2 for comparisons.

4.7. Compensation

This heading (Heading 6) is temporary and includes some compensation amounts (0.1% of the total budget) for Bulgaria and Romania related to the latest enlargement of the Union.

4.8. Conclusion

It is amply stated in the Sapir Report of 2003 that "since the 1980s, it [the EU] has increasingly taken on new responsibilities, either through extended competence (EMU) or as a result of a collective commitment *vis-à-vis* European public opinion by the heads of state and government (Lisbon). The scope of what are now explicitly or implicitly regarded as 'European public goods' has thus increased dramatically."[354] Later, Andre Sapir identified that single market, Lisbon strategy including energy and environment and Europe itself are public goods.

> The first European public good, relates to the process of integration, [the Single Market.] … However, the public goods we think of today relate primarily to EU objectives, which are set at the European level. This would include the Lisbon Strategy, which was set in 2000 and is not only still with us today but has been very much renewed as a process. … The second public good is energy and the environment and again we can see in the discourse at the EU level that globalisation is always at hand, where energy and environment are key issues. I would also add a third public good. The Europe of today, with its greater disparities is far different from the Europe of the past and it needs to function. This is in itself an objective and could therefore be viewed as a public good.[355]

The subject of public goods has been increasingly appearing in the reform agenda of the EU currently. In the submissions to the budget review in 2008, there was a reference to the need to focus on EU policy priorities and, in particular, to advance and fund European public goods.

Italy proposed public goods whose benefits cannot be appropriated from would-be private investors and/or where the national scale may be inefficient, Finland proposed that the budget has to focus on supporting growth,

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[354] Sapir, *et al.*, "An Agenda for a Growing Europe …", p.89.

[355] Begg, *et al.*, *op. cit.*, p.16.

competitiveness, expertise and innovations in policy areas where it is able to operate more effectively than the Member States, and to produce European level public goods, such as internal and external security and protection of the environment, the Scottish Government noted that there is certainly a strong case for public spending to be better focussed on specific schemes that can be shown to deliver public goods in line with the EU's own strategic priorities.[356]

The governments in their review also provided examples of some public goods such as safety, external border control, high environmental standards (Cyprus), environment, ecology, food safety standards, animal welfare, and rural development (in the context of the CAP) (Denmark), measures providing material and immaterial infrastructure and actions aiming at modernizing services and markets, in order to strengthen a particular Region's capacity to attract capital, business and jobs, and improve citizens' quality of life (in the context of cohesion policy) (Italy), Life+ and rural development policy (Sweden), road, public transport, water treatment and the environment and public goods produced by farmers (Ireland).[357]

Some of the other contributions even proceed further about public goods. For instance, Begg and the others exemplified the Single Market, the Lisbon Strategy, energy, the environment, enlargement, Trans-European Networks, etc. as European public goods,[358] it also noted a further range of policies which can be regarded as public goods, such as policies dealing with 'global challenges such as climate change, energy supply and ageing' and regional challenges 'such as common border control along the external frontiers of the EU [and] the European neighbourhood policy aimed at ensuring stability in the regions adjacent to the

[356] For further information see, Fabian Zuleeg, "The Economic Rationale for EU Action: What are European Public Goods?" Prepared for *the BEPA Workshop* on 'The Political Economy of EU Public Finances: Designing Governance for Change, 2009. (http://ec.europa.eu/dgs/policy_advisers/docs/eu_public_goods_zuleeg.pdf (accessed in May 2010)).

[357] *Ibid*., p.6.

[358] Begg, *et al*., *op. cit*., p.16.

EU'.[359] Often, only certain elements of the CAP are highlighted as public goods. There are also some internal and external security policies which fall under the public good definition. For example, effective control of all EU borders might provide a public good for all EU citizens. The legal framework with effective protection of property rights, European democracy and the Internal Market might thus all be examples of European public goods[360] but not with all aspects. Many of these also depend on membership of the EU.[361]

Most of the above mentioned researchers have agreed that programs funding for energy security, environment, climate and sustainable development are public goods. Cross-border issues such as crime and network connectivity across borders such as transport or ICT, the investment in research and also cross-border education initiatives might be public goods.[362]

Consequent upon the concerns about European public goods, the Commission has also made an attempt to increase European level public good in the negotiation process of the framework 2007-2013. This attempt was hampered by agreeing reductions on the Commission's proposal of public goods in the IIA. By analysing expenditures in the latest FF, it appears that providing the EU level public good was projected in a gradual transformation, excluding the most path dependent policy of agricultural subsidies and in some way, cohesion. Table 3 illustrates how this projection was postponed during the FF 2007-2013 because of reductions in the sections of competitiveness, citizenship and EU's global roles.[363] Reductions from sections of competitiveness which conveys the goals of Lisbon was €80 billion, from freedom, security, justice and citizenship €10 billion and, from EU as a global partner €16 billion. There were reductions in

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[359] András Vértes and Miklòs Losoncz, "New Ideas versus Continuity: Budgeting Perspectives in EU for the post-2013 Period", *GKI Discussion Paper*, 2008 p.6. http://ec.europa.eu/budget/reform/library/contributions/p/20080612_P_51.pdf (accessed on 14 June 2010).

[360] *Ibid*., p.12.

[361] They are called sometimes as club goods.

[362] Vértes and Losoncz, *op.cit*., p.13-14.

[363] Mrak and Vasja, *op.cit*,. p.3.

natural resources, but this is not reflecting direct payment schema. In comparison with € 8 billion reduction in first pillar of the CAP (direct aids), second pillar (rural development and environment) -which conveys some public goods, was reduced € 21 billion.

Table 3

Comparisons of the Commission Proposal and IIA on FF4

	Commission proposal 2007-2013		Inter-institutional agreement 2007-2013		
Appropriations for commitments 2004 prices by headings	billion EUR	% of total	billion EUR	% of total	% change
1 Sustainable growth	462	45%	382	44%	-17%
1 A Competitiveness	122	12%	74	9%	-39%
1 B Cohesion	340	33%	308	36%	-9%
2 Natural resources	400	39%	371	43%	-7%
CAP (1st pillar)	301	29%	293	34%	-3%
CAP (2nd pillar)	99	10%	78	9%	-21%
3 FSJ (3 A) and Citizenship (3 B)	21	2%	11	1%	-49%
4 EU as a Global Partner	85	8%	49	6%	-42%
5 Administration	58	6%	50	6%	-14%
6 Compensation	0	0%	0,8	0%	n.a.
Total	1,025	100%	864	100%	-16%

Source: European Commission (2004), European Parliament et. al (2006)

Source: Mojmir Mrak and Vasja Rant, "Financial Perspective 2007-2013: Domination of National Interests", EU-Consent EU-Budget Working Paper, 1, July 2007, p.6

Even though most of the above-mentioned categorization of goods can be considered in their orientations, after analysis might be said that by and large the following funding of European policies might be delineated as public goods based on review of the EU expenditures under FF4:

- Sub-Heading 1a-Competitiveness for Growth and Employment (Research Framework Program, LLL+, TEN-E, TEN-T, Marco Polo, Galileo, Nuclear Decommissioning, the CIP, Customs, Fiscalis, Fight Against Fraud, safer internet, e-Government, Social Agenda, Safety, and others);
- Some expenses in Sub-Heading 1.b-Cohesion for Growth and Employment (transport, ICT, environment, energy, human capital, education and research and similar);

- Very limited expenditures in the Heading 2-Preservation and Management of Natural Resources (such as preservation of sustainable farming and environmental expenses when they target multinational programs mostly stay in 2%),
- Sub-Heading 3a-Fredoom, Security and Justice (migration, justice, universal rights, liberty, violence protections, victim supports, drug prevention, criminal and civil justice),
- Sub-Heading 3b-Citizenship (public health, culture, support of youth and media, civil protection, internal security measures and citizenship),
- Heading 4-The EU as a Global Player (IPA, ENPI, stability, CFSP, humanitarian aid) and,
- Heading 5-Administration (in case of their efficiency and effectiveness appraised).

CHAPTER 5

IDENTIFYING THE FORMS AND NATURE OF THE EU REVENUES

5.1. Introduction:

Financial autonomy has been one of the core concerns of states in history, since it has been treasured as one of the major factors of reference of independence and central power. Financial independence is important because it guarantees to a state a self-regulating political power, executing sovereign policies and taking free decisions. A state can be characterized by financial independency if it really possesses its own resources, because sovereignty is measured by the independent taxation power within its jurisdiction. Considering the EU, there is a historically constructed revenue structure jeopardizing its financial independence as the revenues of the EU are not designed for constructing a common European sphere through their implementation mechanisms and understandable taxation norms. This chapter analyzes the revenues of the EU budget to identify the absence of social constructive mechanism in the current revenue system of the EU budget.

Through the 1970 decision on own resources, the EEC was disengaged from intergovernmental organizations since such organizations rely on contributions from their member countries. It was resolved under the Treaty of Rome in 1957 that the EEC was to be financed through national contributions for a transitional period before changing over to a system of own resources.[364] This

[364] The EU: http://europa.eu/legislation_summaries/budget/l34011_en.htm (accessed on 18 May 2010).

was the beginning of resemblance to an intergovernmental organization, but the real intention was contrary to the objective as stipulated in Article 201 of the Treaty that "without prejudice to other revenue, the budget shall be financed wholly from own resources."[365] Own resources may be considered a financial source separate from, and independent of, the Member States - some kind of revenue assigned, once and for all, to the Community to finance its budget and due to it by right, without the need for any subsequent decision. As a result of the customs union and common agricultural policy, own resources from customs duties and agricultural levies were initiated in the face of French opposition, culminating into the Luxembourg compromise later on. This Decision marked the end of national contributions, through which the Member States had enjoyed some scope for control of the policies undertaken by the Communities, as well as the beginning of an independent system of financing by "traditional" own resources (agricultural levies and customs duties) and a resource based on VAT.

Own resource mechanism was effectively inserted in the revenues of the EU, however, its meaning was not clearly defined. Initially, the Maastricht Treaty stated that 'general budget should be reinforced by the own resources entirely'[366] but not elaborating the nature of own resources in the text. Subsequently, the Council specified that the own resources are the so called "traditional" own resources (agriculture duties/sugar levies and custom duties), the VAT resources and so called fourth resource which is based on Member States' direct payments from their national budgets, according to their GDP levels.[367] From those four resources, traditional own resources and somehow VAT represent real own resources and to be considered as social constructive, however, own resources (traditional resources and VAT) have been financing the EU expenditures in a limited percentage.[368] Moreover, there is the so called British rebate, which is a

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[365] http://www.hri.org/docs/Rome57/Part5Title2.html (accessed in July 2010).

[366] The Maastricht Treaty, Article 71.

[367] Council Decision of 29 September 2000, Official Journal, No L 253, Article 2.

[368] Traditional own resources account for about 12 % and the VAT-based resource accounts for around 11 % of total EU revenues.

crucial path dependent reduction mechanism for the benefit of the UK from the total calculation of revenues (VAT based own resource) based on the agreed formula.

The revenue mechanism of the EU differs from that of a nation state and an intergovernmental organization, respectively. The own resources of the EU are apparently different from those of a classical nation state, because the EU has no classical tax revenue that a modern nation state normally has in different forms, such as income tax, profit tax, cooperate tax and VAT.[369] Indeed, the sources of tax income are classified as their reason of ownership in three categories, from incomes, expenditures and wealth, which in general are known as real revenue resources of government.

It is basically different from international organizations as well, because international organizations generally obtain resources from contributions of member states based on diverse criteria and formula determined by member states. In this respect, GNI based own resource as the biggest resources of the EU can be categorized as similar to that of an intergovernmental organization. For instance, as the largest intergovernmental organization, the United Nations has been determining contributions based on GNI of member states.[370] The regular

[369] The Organisation for Economic Co-operation and Development (OECD) publishes perhaps the most comprehensive analysis of worldwide tax systems. According to categorization the kinds of taxes are as follows: Ad valorem, Bank tax, Capital gains tax, Consumption tax, Corporation tax, Currency transaction tax, Environment Affecting Tax, Excises, Expatriation Tax, Financial activities tax, Financial transaction tax, Income tax, Inflation tax, Inheritance tax, Poll tax, Property tax, Retirement tax, Sales tax, Tariffs, Toll, Transfer tax, Value Added Tax / Goods and Services Tax, Wealth (net worth) tax. (The OECD Classification of Taxes and Interpretative Guide, Organisation for Economic Co-operation and Development, 2004. http://www.oecdwash.org/PUBS/ELECTRONIC/SAMPLES/revenue_methodology2004.pdf (accessed in June 2010)).

[370] The minimum assessed contribution is 0.001%. The scale of assessments for each United Nations (UN) member for the required contributions to the regular budget is determined every 3 years on the basis of GNP. The USA has the maximum assessed contribution to the UN regular budget 22%. In 2009 the assessed amount is $598,292,101 (http://www.eyeontheun.org/facts.asp?pl=28&p=230 (accessed on 12 June 2010)).
Only nine countries (starting with the largest contributor: United States, Japan, Germany, United Kingdom, France, Italy, Canada, Spain, China) contribute 75% of the entire regular budget. Cuba contributes 0.043% of the regular budget. Oil-rich Saudi Arabia contributes 0.713% (Alan Wittbecker, *Global Emergency Actions for a Small Urban Industrial Planet*, Urania Science Press, Sarasota, 2008, pp.129-130 http://www.syngeo.org/bkgeaintcur.pdf (accessed on 11 June 2010)).
In addition to their contributions to the UN regular budget, member states contribute to the peacekeeping operations budget and the cost of international courts and tribunals. The level of

two-year budgets of the UN and its specialized agencies are funded by assessments and voluntary contributions from member states. The regular budget of the UN and the budgetary assessment for each member states are under the responsibility of the UN General Assembly. Assessment is generally made based on the relative payment capacity of each member state to the budget and measured by their GNI, bearing in mind adjustments for external debt and low per capita income.[371] All of the other EU resources such as agricultural duties, sugar levies and custom duties are unique and different from those of an intergovernmental organization. Other minor revenues of the EU such as fines, adjustments and other operational incomes are almost similar to an international organization as well as a budget of a nation state.

The EU has agricultural duties, charged on trade with non-member states in agricultural products, sugar levies charged to the sugar producers in the EU and custom duties levied at external frontiers of the EU on imports of products originating from third countries. Moreover, it has VAT revenue transferred from a certain percentage of VAT collections of Member States and contributions from member states as a proportion of their GNI. They are rather similar to a nation state and somehow to an international organization, but not particularly attributable to any of them.

As this chapter depicts, the revenues of the EU, to the extent that they are historically constituted as path dependent, which now hinders the reform requisites and possible implementation, exposes a crucial problem of the deficiencies with regards to the social constructive roles in income resources and their implementation methodology. It is exposed as the aim of this analysis that the present assignment of social constructive roles to the EU's revenue

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these contributions is based on their assessed contributions to the regular budget plus variations which take account of permanent membership on the Security Council. UN members also make voluntary contributions to UN specialized agencies and subsidiary organizations. The administrative costs of such bodies, though, are met from the regular budget.
(http://www.eyeontheun.org/facts.asp?pl=28&p=230 (accessed on 11 June 2010)).

[371] National Urban Poverty Alleviation Programme, "Internship Report on National Urban Poverty Alleviation Programme", A Joint Project of United Nations Development Programme, Oct 3, 2009, p.3 http://download-reports.blogspot.com/2009/10/internship-report-on-national-urban.html (accessed on 11 June 2010).

mechanism is best suited for curing the outstanding problems on this side of the budget.

In terms of theory building, fiscal federalism is not advisable for the revenue side of the budget, because there is a controversial perception of the term ‘federal’ among the European states. Although the term is perceived by some federal countries such as Germany, Austria and Switzerland as fortification of the second tier of government, the constituent members (such as *Länder*, *Cantons*, *Autonomous Communities*), it is understood absolutely in the opposite within Anglo-Saxon countries as a means of the strengthening the federal government. Consequently, in some countries -especially the UK, the word “federal” is akin to taboo, needless to say, distorting discussions pertaining to the new European constitution/Lisbon Treaty. Although Spain is a *de facto* federation, for instance, it deliberately avoids using the term “federation”.[372] Additionally, there is a strong hint that some other Member States – especially members from Central and Eastern Europe – who had somehow unsuccessful experiences from the federation will also surely refrain from using the term of “federation.”

Subsequently, fiscal federalism in these circumstances is not deemed appropriate because it is overvalued with some functions which cannot be applied to the EU financial policy-making because there are many inconsistencies between a federal system and the EU at present.

Federative solutions are proposed for most of the EU’s fiscal issues in the studies under the theory of fiscal federalism. Accordingly, three fiscal functions are ascribed by fiscal federalism to a federal budget that is to say: allocation, redistribution and stabilization functions. Allocation function of a budget refers to allocation of public funds to incur expenses or obligations up to a specified amount, for a specific purpose, and within a specific period. Redistribution function entails that a nation’s wealth is channelled, from those who prosperous to those who are below a certain income level, through taxes that cater for welfare benefits to close social, inter-regional and inter-sectoral gaps. On the other hand,

[372] See Felix Knüpling, “Federalism and Multi-level Governance: Comparing the EU with Other Federal States”, in *Towards Multi-Level Governance in Europe?*, Committee of the Regions, 1, 2009, p.2.

stabilization function refers to the usage of budget resources for any fluctuation on the price levels during macroeconomic shocks.[373]

Allocation functions are referred to in the previous chapter by explaining public goods and social constructive roles of budgetary expenditures. Similarly, the revenue side of the budget is also taken into consideration from the perspective of social constructivist policy approach. By the virtue of taxation, fiscal federalism devotes the functions to the central government to access the tax bases that are more mobile, more sensitive to cyclical factors and less uniformly distributed, but the central government can share its tax revenue with the decentralized government in case their incomes are not adequate to finance for the functions assigned to them.

Therefore, the absence of an essential link between the EU level and the citizens of the Union through the EU level taxes are obviously desirable for both fiscal federalism and social constructivism. As a matter of fact, the dissimilarity between the two approaches might be distinguished as fiscal federalism concerns supranational taxes equivalent to the federal state which will provide redistribution function of the budget, on the other hand social constructivism will only concern a sense of belonging to the supranational level of the EU by using a widely dispersed taxation mechanism but without requesting to create a top-down federative structure. Taxation has to be conducted at the highest level of government to decrease tax competitions between local authorities given that this competition leads to under optimal levels of service provision. There is a need for a grant mechanism right from the central government to local governments in order to close the difference between high local expenditures and low local taxes, and between low central expenditures and high central taxes.

Indeed, the citizens have no mechanism to experience their commitment to the EU level in the current structure. The only tiny link was concluded through businessmen, firms and Member States who pay some EU level taxes (levies and duties) and rest of the other resources, which would not be adequate. In fact, an

[373] Yuddy Chrisnandi, "The Political Dilemma of Defence Budgeting in Indonesia", *UNISCI Discussion Papers*, 15, October 2007, p.13

indirect connection has been afforded through the transfers of capped percentages from the VAT collections of Member States, being the sole constitutional mechanism aimed to consider the citizens rather than businessmen, firms and states into the revenue mechanism of the EU. Agricultural duties and customs duties were linked to the businessmen and companies, but GNI based revenue addressed to the contributions from Member States with its one-third of the share in the budget. In this way, the own resources mechanism as a symbol of the fissure shall be filled by constructive and sustainable sources of the EU budget in the future.

5.2. Path Dependency and the Revenues of the EU Budget:

The ECSC was financed by genuine own-resources based on a levy raised on each ton of steel production payable directly by the coal and steel producing companies, which represented supranational contribution, but this was provided by the ECSC level activities. The expected link between the EU level and citizens was only provided through companies and businessmen who had a commercial relation based on steel and coal with the ECSC. It might be tolerated that this level of connection could be appropriate with the level of projections compared with the aim of ECSC. On the other hand, the EEC needed to be financed by national contributions, nevertheless, only for a transitional period, which would be followed by a switch over to a system of own resources. The Luxembourg European Council of 1970 agreed a decision terminating national contributions and introducing a new system based on two own resources –agricultural levies and custom duties– complemented by a third resource, which was a VAT based own resource. Since it was started to the application of common customs, it was expected to have enough resources for budgetary financing in this term. Nevertheless while the resources became inadequate, the Brussels European Council of 1988 recreated GNP resources, dependent contribution from member states,[374] which has been later on insurmountably dominated in the budget

[374] As from 2002 the concept of GNP has been replaced by GNI in the area of the EU budget.

revenue structure. Therefore, GNI based own resource is typically an intergovernmental resource and as a consequence of this, it might be stated that it is far from enhancing further integration of the EU. The reason behind this change was twofold; firstly one, due to the consecutive enlargements (Denmark, Ireland and the United Kingdom in 1973, Greece in 1981 and, Spain and Portugal in 1986) and secondly one, due to the decline in revenues from the common custom applications, conversely offering no other similar resource to compensate this deficiency.

The special exemption, allotted to the UK at the Fontainebleau Summit in 1984, as a guaranteed special rebate from the excess payments, has provided a long-term path dependency. The UK has been repaid 66% of the differences between paid amounts in revenues from VAT. The EU budgetary exemption dedicated to the UK has been causing exceptional frustration among other states and hence hindering further integration. Moreover, it has constructed an exemption system which is partially extended to four other member states in the assessment of VAT based own resources in later occasions.

Although, Article 269 of the EC stated that “without prejudice to other revenue, the budget shall be financed wholly from own resources,” the traditional own resources system has been losing its dominance against contributions from the member States for over two decades. The revenues of the EU, on the other hand, have been dominated by relative contributions of member states in proportion to their GNI. In other words, the funding of the EU apparently became intergovernmental. As long as the budget has been financed from an equal percentage of the every member state’s GNI, the constructive role of revenues has remained rather problematic as well. Since the EU has enlarged from 12 to 27 members in the last twelve years and at the same time has been attempting to accomplish political and economic deepening, the descending proportion of own resources system has not addressed equal progresses to catch up these advancements. Surely, the current revenue resources have been increasingly relying on national contributions and not assuring a direct link between the EU and its citizens.

The European Council of 15-16 December 2005 concluded that the own resources system to be modified with effect from 1 January 2007. In order to implement the European Council conclusions, the new own resources decision (2007/436/EC, Euratom) was adopted on 7 June 2007. Following ratification by the national parliaments of the Member States, the decision entered into force on 1 March 2009 with retroactive effect from 1 January 2007. Nevertheless, this decision has presented interim solutions contrary to providing constructive long-term proposals. It basically introduced a new rate in VAT based own resource calculation, a generalized correction to four Member States, a reduction on GNI based contributions of two Member States and limited the UK rebate.

- Replacement of the former complicated system of calculating the VAT rate of call with a fixed rate, corresponding to 0.30 % of the capped VAT base of each Member State.
- For the period 2007–2013 only, four countries shall benefit from reduced rates of call of VAT to reduce their respective budgetary burden. During this period the rate of call of VAT for Austria shall be fixed at 0.225 %, for Germany at 0.15 % and for the Netherlands and Sweden at 0.10 %.
- For the period 2007–2013 only, two countries shall benefit from gross annual reductions in their GNI-based contributions to reduce their respective budgetary burden. During this period the Netherlands shall benefit from a gross annual reduction in its GNI contribution of € 605 million and Sweden from a gross annual reduction in its GNI contribution of € 150 million, expressed in 2004 prices.
- A permanent adjustment of the UK correction by excluding non-agricultural expenditure in Member States having acceded to the EU as from 2004 from the calculation. This adjustment will be gradually phased in between 2009 and 2011 and the total cost to the UK of this adjustment cannot exceed 10.5 billion euro (in 2004 prices) during the period 2007–2013.[375]

Currently there are nine categories of revenues in the EU budget that own resources contain four important sub-categories among them:

1 - Own Resources:

a. Levies and other duties provided for under the common organisation of the markets in sugar,
b. customs duties and other duties,[376]
c. own resources accruing from value added tax,[377]
d. own resources based on gross national income,[378]

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375 European Council, "Decision on the System of the European Communities' Own Resources", 2007/436/EC,Euratom, 7 June 2007 http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=CELEX:32007D0436:EN:NOT and European Commission http://ec.europa.eu/budget/budget_detail/orig_develop_en.htm

376 Referred to in Article 2(1)(a) of decision 2007/436/EC, Euratom.

377 Pursuant to Article 2(1)(b) of decision 2007/436/EC, Euratom.

378 Pursuant to Article 2(1)(c) of decision 2007/436/EC, Euratom.

2 - Surpluses, Balances and Adjustments,
3 - Revenue Accruing From Persons Working with the Institutions and Other Union Bodies,
4 - Revenue Accruing From the Administrative Operation of the Institutions,
5 - Contributions and Refunds in Connection With EU/Community Agreements and Programmes,
6 - Interest on Late Payments and Fines,
7 - Borrowing and Lending Operations,
8 - Miscellaneous Revenue.

Revenues other than first category do not represent any important venue because they are exceptional, extraordinary resources and they only comprise around 1% of the total revenues in the budget. Four categories of own resources take percentages from total revenue of FF4; sugar levies 0.1 %, custom duties 11.4%, VAT 11.3% and GNP based own resources 76 %. Other resources occupy around 1% including revenue accruing from persons working with the EU about 1% and, rest of the other revenues does 0.2% of the total revenues (Annex: 5 and Annex: 6).

5.3. Identifying the Forms, Nature and Questions of Own Resources

Own resources are characterized under four categories in the budget but it is preferred to classify them into three categories by respecting institutional jargon: traditional own resources, VAT based own resources and GNI based own resources. Traditional own resources are revenues from sugar and agricultural levies and custom duties.

In 1988 Agricultural duties and sugar levies was 6.2%, custom duties 22.3%, VAT 57.2 % and GNI 10.6%, respectively. Table 4 shows how the revenue structure has been altered over time in favour of GNI. Revenues acquired from traditional own resources and VAT based own resources declined in terms of shared percentage in the total budget.

In preceding twenty years, agricultural duties and sugar levies have diminished from 6.2% to very tiny figure of 0.1%, custom duties from 22.3% to 11.4%, VAT resource from its superfluous figure of 57.2% to 11.3%. On the contrary GNI based resource has been increased more than seven times between 1998 and 2007-2013 in average and 10.6% to 76.0 % in percentage.

Table 4
Percentage of resources (1988-2013)

Type of revenue	**88**	**89**	**90**	**91**	**92**	**93**	**94**	**95**	**96**
Agri. duties-Sugar levies	6,2	5,2	4,0	4,4	3,3	2,9	3,1	2,6	2,2
Customs duties	22,3	22,5	22,1	20,4	18,9	16,8	16,9	16,7	14,5
VAT resource	57,2	57,3	59,1	55,8	58,0	52,5	50,4	52,2	41,8
GNI based resources	10,6	9,8	0,2	13,3	13,9	25,2	26,8	18,9	29,0
Misc-Surplus from prev. year	3,7	5,2	14,6	6,1	5,8	2,6	2,7	9,7	12,5
TOTAL %	100	100	100	100	100	100	100	100	100

Type of revenue	**97**	**98**	**99**	**00**	**01**	**02**	**03**	**04***	**05****	**07-13**
Agri. duties-Sugar levies	2,4	2,3	2,5	2,3	2,1	1,5	1,5	1,2	1,5	0,1***
Customs duties	15,2	14,4	13,5	13,0	14,5	10,7	10,2	10,2	9,8	11,4
VAT resource	42,5	39,2	35,9	38,1	32,7	23,6	23,5	14,4	14,0	11,3
GNI based resources	33,4	41,4	43,2	42,3	37,5	48,7	55,5	73,4	73,8	76.0
Misc-Surplus from prev. year	6,5	2,7	5,0	4,3	13,1	17,6	9,2	0,8	0,9	1.2
TOTAL %	100	100	100	100	100	100	100	100	100	100

Source: the EP and own calculations
*** Figure represents only sugar levies because agricultural duties are added in custom duties

5.3.1. Identifying the Forms, Nature and Questions of Traditional Own Resources

Customs duties, and agricultural and sugar levies, in definition, are recognized as traditional own resources since they are the first set of resources in the EU budget. Agricultural levies were introduced in 1962, by initiating charges on agricultural trade with non-member countries. The reason for formulating such charges is that agriculture has been one of the earliest foundations at the Community budget, which came right after the pursuit of coal and steel establishment. These own resources which are levied on economic operators, are indirect taxes raised on behalf of the EU as a whole, mainly import duties on goods brought into the EU. These are collected by the state where imports are transacted and passed on to any of the EU Member States from that point. On entry into the European Union, imports can be moved freely to their final destination in any of the Member States, however, duties are payable at the point of entry into a Member State. In other words, the country of initial point of entry is not necessarily the country in which the goods are sold. It therefore doesn't make sense to 'communitize' such revenues because they are specific and derived from own policies of the Community. There are some ports in some countries where most of the EU's imports transit through, although most of these goods travel to countries other than the point of entry. Therefore, it is misleading when calculated as a proportional commitment of the member states to the budget with regard to these levies, because the country whose ports are mostly used, exhibit bigger contributions of TOR to the budget. To overcome this problem, the EU makes maximum benchmarking on effective measurement of duties and then distributes them to each Member State to determine real commitments of Member States. This calculation has, apparently, been made for the sake of distorting *juste retour*.

The European Commission is responsible for operating a system of inspectors to scrutinize the collection of these taxes in states and ensuring compliance with the rules. There is potential conflict of interest on the part of the collecting authorities because the consequences of a state failing to collect these taxes will imply that other states will have to contribute more to the budget. Countries are individually liable to any loss of revenue due to their own administrative lapses. The Commission might charge interest over late payments due to the fact that the budget does not have to suffer from Member State's errors.[379]

Agricultural Resources:

Agricultural duties are a kind of import duties levied on agricultural products imported from non-member countries. They are categorized into two groups; agricultural duties and sugar levies. The agricultural duties – earlier known as agricultural levies – were introduced in 1962 under the common agricultural policy and assigned to the Community by the Decision of 21 April

[379] House of Lords, "Funding the European Union", 12th Report of Session 2004-2005, London, p. 10 http://www.publications.parliament.uk/pa/ld200607/ldselect/ldeucom/64/64.pdf (accessed on 18 June 2010).

1970. They are charged on trade in agricultural products with non-member countries and are designed to offset the difference between world prices and the price levels agreed to apply within the Community (principle of Community preference), and vary according to price levels on the world and European markets, respectively. The difference between agricultural duties and custom duties was removed after transposal of the multilateral trade agreements (Uruguay Round, April 1994) into Community law.

Another agriculture resource is the levy on the production of sugar, isoglucose and insulin syrup.[380] The CMO effective for the Community's sugar sector was founded in 1968. It played two basic roles establishing quotas for internal production and import levies to protect sector. Sugar levies are taken as a budget resource to cover the cost of export surplus. The UK's membership resulted to open up importing raw cane sugar to certain African, Caribbean and Pacific (ACP) countries for refining and selling on the UK market which increased internal production and caused extra export supports from the budget to sale these overproductions. Similar development was observed when Portugal, Finland and then Slovenia joined. Uruguay Round resulted limitation of export refunds in 1995 which did not allowed excess sugar available on the Community market to be exported anymore. When the market was opened to central and eastern European countries in 2001, sugar inflows was followed by production quota limitations. Due to the fact that the CMO keeps a Community price much higher than the world price, the EU market is very attractive.[381]

Although the levies on agricultural imports are external to the Community, the levies on the production of sugar are considered as internal which are charged on Community sugar producers. As long as, sugar levies are characterized on the production and storage of sugar in the EU, accordingly, this is an own resource that comes from internal, rather than external, sources to finance the export refunds for sugar. In other words, the EU sets quotas for the

[380] The levies are split 42% to sugar factories and 58% to growers. They are collected in full from the factories but the latter recover the growers' share when they purchase their beet.

[381] For Further details see, European Commission, "A Description of the Common Organisation of the Market in Sugar" (AGRI/63362/2004), p.4.

volume of sugar as part of the CAP that can be produced in its member states. The governments of the member states then have to distribute the quotas to individual sugar producers, and then the sugar producers pay the EU fees for these quotas.[382]

Sugar levies are a part of the EU policy derived from the CAP on sugar and similar mechanisms can be observed in nation states as well. Even though it addresses to European sugar companies dealing with sugar business and aims to protect sugar sector of the EU.[383]

Customs Duties

These duties are levied at external frontiers on imports of products coming from third countries, at rates based on the common customs tariff introduced in the 1970 Decision, as an outcome of deficiency of the traditional own resources to finance the Community budget. Nevertheless, the need to harmonize the VAT base had caused more delay which extended the utilization of this complex revenue resource until 1980. It is obtained by applying a given rate to a base determined in a uniform manner. The Treaty of Rome had earmarked customs duties as the principal resources to be assigned to the EEC to finance its expenditures. The customs duties of the ECSC also have been included in the EEC since 1988. The second own resources Decision on 7 May 1985 raised the ceiling to 1.4% effective from 1 January 1986 to coincide with the accession of Spain and Portugal. This increase was apparently designed to meet the costs of enlargement. From 1988 to 1994 the base could not exceed 55% of the Member States' GNP. After 1995 the limit was lowered to 50% of GNP for Member States with a per capita GNP below 90% of the Community average.[384] Between

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[382] In the beginning of FF4 the EU has paid compensation payments to some sugar processors for closing down their factories.

[383] For further information see Massimo Geloso Grosso, "Reforming the EU Sugar Regime", *Association of Sweets Industries of the EU,* Master's Project Commercial Diplomacy.

[384] Robert F. Van Brederode *Systems of general sales taxation: theory, policy and practice,* Kluwer Law International, 2009, p.274.

1995 and 1999 the new limit was gradually extended and is now applicable in all Member States. The own-resources decision of 2000 finally cut the maximum call-in rate to the current level of 0.5% of the harmonized and capped VAT base.[385] The 2000 own-resources decision, currently in operation allows Member States also to retain 25% of traditional own resources in compensation of their collection costs.

The tariff is common to all EU members, but the rates of duty differ from one kind of imports to another, depending on their nature and their origin. The rates depend on the economic sensitivity of products. Therefore the tariff is the name given to a combination of the nomenclature (or classification of goods) and the duty rates which apply to each class of goods. In addition, the tariff encompasses all other Community legislation that has an effect on the level of customs duty payable on a particular import, for example country of origin.[386]

As these levies are indirect taxes, the importers who pay them to the EU are not those who bear the burden. Therefore, it is multiplied by the total of these taxes collected from all EU taxpayers by a member state's share of imports to the EU, in order to calculate how much the taxpayers of this particular country have contributed on these indirect taxes of the EU.

5.3.2. An Assessment of Traditional Own Resources:

Agricultural resources (agricultural duties and sugar levies) and custom duties are natural revenue resources which represent resources acquired from the activities and functions of the EU, based upon real time economic operations.

Agriculture duties are payable by agricultural importers in accordance with internal rules and regulations, whether an EU company or a company from outside of the EU. It is to say that none of them are real taxpayers according to

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[385] The EU Portal: http://europa.eu/legislation_summaries/budget/l34011_en.htm (accessed in July 2010).

[386] For further acknowledgement see, http://europedia.moussis.eu/books/Book_2/3/5/2/1/index.tkl?all=1&pos=55

taxation principles. Along with the fundamental principles of the taxes, there are two types of responsibilities in accordance with the types of taxes. There is a direct responsibility in which a taxpayer who directly pays the tax to a tax authority, on the other hand, shifts the tax burden to a final taxpayer and, a direct responsibility of a real taxpayer who shoulders the burden and pays it directly. Based on this definition, taxes are classified as direct taxes and indirect taxes. A direct tax is levied by the government directly to the taxpayers, whereas an indirect tax (or a collectable tax) is collected by intermediaries, who eventually register tax returns and pay it to the respective tax authority. Even though income taxes, corporate taxes and transfer taxes might be distinguished as direct taxes, the VAT and sales tax remain in the category of indirect taxes. From this classification, Agricultural duties shall take its place in the category of indirect taxes so that the importers transfer this responsibility to the consumers by adding up this amount to the selling price of goods and services. It is obvious that the citizens of the EU are real taxpayers for agricultural duties and in the meanwhile they contribute this payment to the supranational EU level indirectly.[387] However an important question remains, that the EU citizens who bear such levies are not able to realize their contribution to the EU level because of lack of linkage mechanism unestablished in the taxation structure. Since, agricultural levies are associated with a policy particularly attributed to the EU level policies which are natural incomes to the EU budget.

Sugar levies are charged on the EU sugar producers for the production and storage of sugar in the EU to recover the part of the cost of subsidizing the export of surplus EU sugar onto the world market. Sugar producers in the EU Member States have to pay fees to the EU for the quotas provided by the EU. This is the revenue acquired from raw sugar importers/sugar producers. In other words, taxpayers are a limited number of sugar production companies financing the export refunds of sugar. They are levied on economic operator and collected by the Member States on behalf of the EU. Naturally these payments assume the EU level impression to those companies as long as the projected link is provided.

[387] Without considering citizenship all consumers whether citizen or not who consume these products are paying this levy.

Nevertheless there is a national involvement in the selection of the companies about production of sugar. Sugar levies cannot be considered as real own resource but again the EU citizens who bear levies are unable to realize their contribution to the EU level because there is no proper mechanism in this structure of the EU. Therefore sugar levies are associated with a special policy of the EU on sugar sector and no other reform can be proposed because of the nature of this policy.

Customs duties are payable by importers for the goods coming from third countries. They are similar to the agricultural duties but customs duties take broader and complex subjects and need a comprehensive administration for efficient management, however, the cost of administration should be proportionately low when compared with collections with this resource. Custom duties are similar to agricultural levies, because they are in the category of indirect tax and final payer is again the consumers in the EU but the link between citizens is provided with an indirect connection. Again custom duties like sugar levies are associated with institutional policies of the EU and because of the nature of this policy no other reform can be proposed rather than some amendment in the administration.

5.3.3. Own Resources Accruing from Value Added Tax

Own Resources Accruing from Value Added Tax are derived from the application to each Member State's VAT base, which is determined in a uniform rate by the EU rules.[388] Following, the reform in June 1988, the uniform rate is established as 1.4% rate to the VAT base. The rebate and correction mechanism to the UK and other member states is devoted to this resource as well.

Both the VAT rate and the capping rate have been gradually reduced later on. The existing uniform rate, valid for all member states to the harmonized VAT assessment bases determined according to EU/Community rules is fixed at

[388] The assessed base is calculated as the ratio of the net VAT income and the weighted average of the tax rates imposed in the member state.

0.30%.[389] The assessment base to be taken into account for this purpose shall not exceed 50% of GNI for each Member State. Only for the period of 2007-2013, the call rate of the VAT-based own resource for Austria were fixed at 0,225%, for Germany at 0.15% and for the Netherlands and Sweden at 0.10%.[390] The resultant reduction in the relative share of VAT resources in the total own resources has been stimulated to finance the budget which is to be offset by an increase in the GNI based resource.[391]

An annual statement showing the total VAT tax-base, including adjustments to take account of variations in national VAT practices, to the Commission by 31 July of the year following the year concerned is sent by each Member State. This statement includes all necessary information such as data, sources, methods and formula used to establish and adjust the base. The Commission verifies the credibility and plausibility of the figures. There might be a side visit for the control of figures, paid by the EU authorities. After that the Controllers present their reservations in a report highlighting figures, problems of sources or methodology, the Member State then submits its acceptance or contests the findings. If this communication is not garnering consensus, the Commission may initiate infringement proceedings against the Member State and if no agreement is reached, the case may go before the European Court of Justice. In 2006 the Commission carried out 9 on-the-spot controls, 5 of them in Member States that joined the EU in 2004, which were controlled for the first time.[392]

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[389] The percentage of capping does not result from any specific criteria. As shown by its successive gradual reduction, this percentage is purely based on a burden-sharing deal among the member states. It is worth noting that the present rules do not exempt member states whose VAT base is capped from making the complicated calculations underlying the VAT resource. Consequently, the Commission carries out the corresponding controls. (Gabriele Cipriani “Rethinking the EU Budget: Three Unavoidable Reforms”, *Centre for European Policy Studies*, 2007, p.48).

[390] European Council, “Decision on the System of the European Communities’ Own Resources”, 2007/436/EC, Euratom 7 June 2007 on (OJ L 163, 23.6.2007, p. 17), and in particular Articles 2(1)(b) and 2(4) thereof.

[391] Gros, “How to….”, p.7.

[392] The Commission, Financial Programming and Budget http://ec.europa.eu/budget/budget_detail/revenue_detail_en.htm (accessed in July 2010).

5.3.4. An Assessment of VAT Based Own Resources:

The VAT-based own resource system was assigned in 1970, but eventually commenced in 1979. The French delegation was concerned and worried about the decision on own resources originating from national VAT during discussions for the delegation of budgetary decision-making authority to the EP. As a consequence of the French reservation, this concern resulted in the exclusion of the EP, accessing the VAT own resources.[393] The reason behind the French opposition was that VAT was seen as a key domain and responsibility of the French National Assembly, and it would not be feasible for the French government to bestow equal power to the EP.

VAT is not a direct fiscal resource, representing a certain percentage of VAT collected in each Member State, it is a kind of contribution from Member States, calculated on the basis of a harmonized VAT assessment base to which a uniform call rate is applied. The harmonized VAT base which is derived statistically, represents the estimated value of all goods and services subject to VAT, calculated in a harmonized way to ensure that differences in VAT legislation across Member States do not influence the amount of own resources payable to the EU. On the other hand, the significance of the VAT-based own resource was successively diminished, through a significant reduction of the percentage of the VAT base paid and a capping of the VAT base.

Moreover, the maximum call-in rate for the VAT resource was reduced to 0.75% for 2002 and 2003 and to 0.50% for 2004 to present, which resulted in reduction of total revenues of the budget. In 2000 the Council has decided that the correction in respect of budgetary imbalances in the UK is calculated on the basis of the difference between the share of the UK VAT base in the EU's total VAT base, and the share of the UK in total allocated expenditure.[394] Germany, Austria, the Netherlands and Sweden are entitled to a reduction in their share of the financing of the correction in favour of the United Kingdom, which is reduced

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[393] Wolfram Kaiser and Leucht B. Rasmussen M. (Eds.), *The History of the European Union: Origins of a Trans- and Supranational Polity 1950-1972,* Routledge, 2009, pp.180-181.

[394] Council Decision 2000/597/EC, Euratom, 29 September 2000.

to one quarter of its normal value. It might be said that the UK correction has caused conditionality over the VAT resources, because Germany, Austria, the Netherlands and Sweden used their net contributor power to the EU budget.[395] The study shows that the reduction in the British rebate set for the UK, combined with the reductions in contributions granted to other net contributors (the Netherlands, Sweden, Germany and Austria), significantly reduces the difference between these Member States in terms of net balances. If there is improved fairness in terms of net balances, it is nevertheless not the case in terms of gross contributions. Five Member States above contribute less to the financing of the budget, in proportion to their GNI, than many Member States that are, notwithstanding, less prosperous.[396] The British rebate, as well as the generalized correction mechanism granted to the Netherlands, Sweden, Germany and Austria are to be financed by the remaining Member States.

VAT based own resource is the only tax collected at the national level. It is collected from all types of consumers[397] who purchase goods and services from any of the Member States. Tax is paid to a Member State for goods and services initially crossing its borders. Afterwards, the EU takes some percentage from the collected VAT according to the formula. This system apparently tends to establish a link between the EU level and the citizens, nevertheless, not directly. Indeed, in VAT based own resource, there is no real connection established with citizens, because the mechanism was instituted through the Member States. It does not inspire a sense of citizenship and belonging to the European level, since citizens are not going to be aware of what they pay for the EU.

In sum, VAT based own resource is derived from the EU's commercial activities and consumption turnovers, but the current operational system

[395] Net contributor is used if a member's contribution to the EU budget is bigger than its total receiving from the expenditures of the budget.

[396] Federal Planning Bureau "The European Budget Compromise for 2007-2013: What is the Financial Impact on Belgium?", *Federal Planning Bureau*, Belgium, 19.05.2006 (http://www.plan.be/publications/articles_det.php?lang=en&TM=37&KeyPub=526&PRN=Y (accessed on 02 July 2010))

[397] Except the one who use his/her tax exemption in accordance with the rules and regulations.

regarding its implementation has deficiencies which necessitates a reform to bring it in line with social constructivism to be more effective over the citizens.

5.3.5. Own Resources Based on Gross National Income

Own resources based on the Member States' GNI was introduced by the European Council in 1988, because the revenues from TOR declined, contraray to the increases in budget spending.

The GNI-based contribution is equal to approximately 0.6% of a member state's GNI. The rate is calculated for each year to cover the difference between the budgeted expenditures and expected income from all other resources.[398] For the period 2007-2013, two countries acquired some rebates from this contribution: the Netherlands' contribution to be reduced by EUR 605 million and Sweden's by EUR 150 million expressed in 2004 prices.

Since GNI-based own resources occupies the biggest and important part in the budget, its management and calculation methodology is quite complicated. It is calculated based on statistical information acquired from Eurostat in the calculation of member states GNIs. Nevertheless, in practice, much of the control effort with regard to GNI calculation is carried out by national accounts specialists from Eurostat, but they demonstrate close partnership with their colleagues from the Budget Directorate General of the EU. The Member States have drawn up inventories of the sources and methods used to calculate their national accounts under the current European System of Accounts (ESA 95). All but one of these national inventories are currently subject to reservations pending the resolution of questions raised by Eurostat concerning certain items, or, in the case of one Member State which was late in sending in its inventory, pending detailed analysis. Each Member State returns an annual questionnaire detailing its gross national income to the Commission. These questionnaires are subject to an examination by Commission and are presented to the GNI Committee during

[398] GNI is the well known GDP minus money made by foreigners in the country, plus money made by country's residents abroad. (Therefore, countries with a high proportion of foreign workers have their GNI much lower than the GDP - e.g. Luxembourg.).

which the national government confirms accuracy of the data in the presence of representatives of both Eurostat and the Budget Directorate. The GNI Committee adopts an opinion and considers the data to form an accurate basis for the determination of GNI-based own resource calculation.[399]

5.3.6. An Assessment of Own Resources Based on Gross National Income

The criteria to be applied for the contribution of Member States from their budget is very important if the purpose of providing *juste retour* is sustained, that every member is bound to pay according to their relative prosperity for which every EU citizen is indirectly enumerated in the calculation when GNI is measured. Therefore considering cash flow, money is not collected from citizens whose national income is subject to calculation in the estimation of GNI. Instead, money contributed to the EU budget through GNI is paid from the national budget of the Member State. The budgetary resources of Member States are dependent upon their tax collections, borrowings, loans and miscellaneous incomes which are not necessarily to be taken directly from the citizens. Actual payers in this case are not the same persons from which the base of the GNI is calculated. This can be justified with the view that prosperous citizens pay to the national budget on behalf of others in *juste retour* language. However, *juste retour* represents an issue of the Member States. However, from the EU perspective, the issue is not *juste retour* but a lack of an integrative mechanism between the EU level and its citizens. In this regard, GNI based own resource is not providing a mechanism to forge a link between the citizens and the EU.

GNI-based own resource is complementary to the other resources, but there is no proof whether it really complements the difference between expenditure budget and other revenue resources. The technique, which has been followed up to this time, is that expenditures are not taken as reference in the first

[399] European Commission: http://ec.europa.eu/budget/budget_detail/revenue_detail_en.htm (accessed in July 2010).

instance. Generally Member States fix the rate with little incentives or without taking into consideration the expenditures budget, presented by the Commission.

GNI-based own resource structure is not enough to carry out a social constructive role for the EU so that the reform for revenues of the EU should be taken into consideration of social constructive mechanism for the sustainable revenue source of the EU budget.

5.4. Other Revenues:

5.4.1. Surpluses, Balances and Adjustments

Those are surpluses arising from previous years and some accounting adjustments and amounts posted to the income accounts for balancing such as:

> Surpluses from previous year/s surpluses of own resources resulting from a transfer from the EAGGF Guarantee Section chapters, surplus own resources resulting from repayment of the surplus from the Guarantee Fund for external actions, balances and adjustment of balances based on vat for the previous financial years resulting from some applications, balances and adjustments of balances based on gross national income/product for the previous financial years as a result of some applications, refunds to member states, adjustment relating to the non-participation of certain member states in certain policies in the area of freedom, security and justice, result of the definitive calculation of the financing of the correction of budgetary imbalances for the united kingdom, result of intermediate updates of the calculation of the financing of the correction of budgetary imbalances for the united kingdom.[400]

These surpluses and account adjustments are not a real revenue source and can't take any role for the revenue subject of the EU.

5.4.2. Revenue Accruing From Persons Working with the EU

This revenue category is related to deductions from the employees of the EU institutions for instance taxes, temporary contributions, levies, contributions to the pension schema and miscellaneous taxes and other revenues.[401]

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[400] Author's inceptions form Financial Statements of the EU, for instance Official Journal of the European Union, 14.03.2008 http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=OJ:L:2008:071:0040:0049:EN:PDF (accessed in August 2010).

[401] See for instance Financial Statement of 2008 for further details,

5.4.3. Revenue Accruing From the Administrative Operation of the Institutions

These are the revenues, from non operating activities such as sale of movable goods, loans, investments, miscellaneous compensations etc. They are minor revenues acquired from extraordinary activities.[402]

5.4.4. Contributions and Refunds in Connection With EU/Community Agreements and Programmes

These are revenues acquired in implementation of some special agreements such as contributions, repayment of miscellaneous expenditure, revenue from services rendered against payment, revenue concerning EAGF and EAFRD and financial corrections. These contributions, refunds and corrections are resource of the revenues but assigned for specific purposes based on the agreements.[403]

5.4.5. Interest on Late Payments and Fines

Those are fines and late payments.[404]

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http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=OJ:L:2008:071:0537:0539:EN:PDF (accessed in August 2010).

[402] See for instance Financial Statement of 2008 for further details http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=OJ:L:2008:071:0337:0342:EN:PDF (accessed in August 2010).

[403] See for instance Financial Statement of 2008 for further details http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=OJ:L:2008:071:0547:0572:EN:PDF (accessed in August 2010).

[404] See for instance Financial Statement of 2008 for further details http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=OJ:L:2008:071:0573:0576:EN:PDF (accessed in August 2010).

5.4.6. Borrowing and Lending Operations

Revenues acquired from capital repayments and interest in respect of special loans and risk capital granted in the framework of financial cooperation with Mediterranean non-member countries and dividends paid by the European Investment Fund.[405]

5.4.7. Miscellaneous Revenue

These are revenues other than the above-stated categories.

5.4.8. An Assessment of Other Revenues

Revenues acquired from non-core issues are resources coming from some adjustments and corrections under these titles; Surpluses, Balances and Adjustments, Revenue Accruing From Persons Working with the Institutions and Other Union Bodies, Revenue Accruing From the Administrative Operation of the Institutions, Contributions and Refunds in Connection With EU/Community Agreements and Programmes, Interest on Late Payments and Fines, Borrowing and Lending Operations, Miscellaneous Revenue. Those are the revenues not common and not representing actual sustainable sources which has no need for any recommendation since they are not in the schedule of recommendations and cannot take any significant role.

5.5. British Rebate and Path Dependency

The "British rebate" (The UK correction) is a compensation negotiated by the British Prime Minister, Margaret Thatcher at a Council Summit in 1984. The UK argued for the rebate because, at the time it was the third poorest member of

[405] See for instance Financial Statement of 2008 for further details http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=OJ:L:2008:071:0577:0581:EN:PDF (accessed in August 2010).

the Community, but on course to become the largest net contributor to the EU budget. In the meantime, the UK had relatively few farms, so it received a small share of farm subsidies from the CAP of the EEC, which at the time made up 70% of budget expenditure.[406] In 1984, the formula for determining how much a country paid into the Community budget was also unfavorable to the UK due to its emphasis on VAT-related income. The UK was in effect penalized for raising more revenue from VAT than most other member states and for importing more goods from countries outside the Community.

In principle, the remaining member states reimburse Britain each year 66% of the difference between its VAT-based and GNI based own resource to the EU budget on the one hand, and the EU subsidies received by Britain on the other. The individual contributions are based on the countries' share in the European GNI (minus Britain). Four countries - Netherlands, Germany, Sweden and Austria - have a rebate from the rebate, paying only 25% of their share in the GNI. The remaining states finance these rebates from the British rebate according to their shares in the GNI. That is why for example the Czech Republic pays more than Sweden or Austria.[407]

The UK's agreement in December 2005 ended in giving up a total of EUR 10.5 billion of the rebate between 2007 and 2013. By 2007, the rebate was worth around EUR 5.2 billion, and in 2009, it rose to EUR 6.3 billion. The volume of the rebate is rising, as net contributors pay more to cover the increased cost of the enlarged EU. Since the rebate is calculated as a percentage of payments, whenever the payments increase the rebate correspondingly increases.

[406] Even now the UK receives less in farm subsidies than France, Germany, Spain and Italy.

[407] The amount to be reimbursed is calculated as follows: (VAT own resources + GNI own resources – EU expenditure to the UK) x 0.66. This compensation is financed by the other member states but there is a maximum threshold for total rebate. Austria, Germany, Sweden and the Netherlands only pay 25 percent of the calculated amount of compensation, the rest falls on the other member states.

5.5.1. An Assessment of British Rebate

British rebate is neither a revenue resource for funding the EU expenses nor a type of expenditure channelled to an EU program - it is a Trojan horse abnormally developed as one of the biggest path dependent mechanisms. It is a rebate or correction which appeared as *de facto* as the case emerged from the special character of the UK.

For the sake of *juste retour,* it represents a fair approach because if the CAP was initiated for the benefit of France, structural funds for the benefit of Italy, the common market was for Germany it was right to dedicate this rebate to the UK. There were two reasons to do so firstly the UK was not benefitting from the CAP payments, secondly since it was importing its goods from third countries, which was causing it to pay the highest VAT to the EU budget comparing with the other states. After the UK, other Member States such as Sweden, Austria, the Netherlands and Germany have wished similar advantage for them.

It proves that revenue resources have not been taken into consideration from the perspective of more integration by using the income resources of the EU budget; instead they were depended upon classical notion of *juste retour* rooted in intergovernmental negotiations. It is now very difficult to alter this commitment because the issue of British rebate is tied by the UK with the dedication of removing the CAP from the budget. It is not clear whether this is a UK policy to defend their position not to lose this advantage with the conditionality of taking the French and others who are benefitting from the CAP on its side or a genuine willingness to reform these two path dependencies of the EU budget, one from the expense and another from the income side, respectively.

5.6. Conclusion

Tax independence in the EU is limited because the EU revenues are not autonomous from Member States. The Taxation power is exclusively in the domain of the EU member states and tax regulations are a part of the national tax system. In order to strengthen the common internal market, the EU has used diverse guidelines and other legal regulations to influence the development of the legal systems of the EU member countries. In this way, the EU used the fiscal harmonization by avoiding direct involvement due to the reluctance of exercising this power. Since Member States are reluctant to give up their fiscal sovereignty in the area of taxation, they have carried on the harmonization of taxation.

There are agricultural duties and custom duties which are derived from the EU level policies.

Therefore there is a VAT based own resource which is not serving social construction in reality, because citizens are not directly aware of the taxation of their consumptions, but there is no established mechanism to render them. VAT based on own resource is not properly designed. Although its source can be assumed to be accurate because it depends on the consumption of the citizens, it is not well perceived by the citizens. Since the link is established between the member states and the EU.

GNI based own resource mechanism dedicates the EU to the notion of an intergovernmental organization. It is a complementary resource to bridge the difference between other revenue sources and total expenditures. There is no possible way for providing perception of citizens.

There are urgent needs of some other revenue resources and mechanisms to make a linkage between citizens and the supranational EU level without stirring federalist constitution.

CHAPTER 6

THE ANALYSIS AND REFORM PROPOSALS FOR THE EU BUDGET: A SOCIAL CONSTRUCTIVIST VIEW

6.1. Introduction:

This chapter analyses expenditures, revenues and a number of institutional questions of the EU budget from the perspective of social constructivist reform options. Considering social constructivist policy approach is an alternative to fiscal federalism with regard to theory building for EU integration. This chapter attempts to build its analysis based upon social construction of the EU through utilizing its budgetary instruments, following which, it proposes comprehensive reform options from this point of view towards strengthening the integration of European *demos*.

The EU budget has mirrored key steps in European integration throughout its historical progress. The single market, enlargements, the growth of a global vision for Europe and similar developments have constantly required shifts in the pattern of EU spending. The profile of EU spending has altered considerably from the establishment of the ECSC up to today. However, the budget over the last three decades has demonstrated insufficient and uneven developments, compared with developments in other areas of the Union. Indeed, the bulk of the EU budget has been concentrated on relatively modest funding for the policy areas where additional subsidy and comprehensive budgetary mechanisms are required. It might not be erroneous if one concludes that it is the EU budget *à la carte* as a reflection of the EU *à la carte*.[408]

The issue of budgetary reform has been yearned for from time to time in the history of the EU, but has always faced an inbuilt conservatism and difficulties aroused from pertaining path dependent circumstances. The reform obligations of the EU budget have imperatively increased since the beginning of this century, consequently, an agreement was reached between the European Parliament, the Council and the Commission in May 2006, to undertake a fundamental review of the budget covering all aspects of EU spending, including the CAP, and of resources, including the UK rebate, and to report in 2008-2009.[409] In September 2007, the Commission called for discussion of the EU budget reform "without taboos" which was followed by launching a public consultation on the future of EU's funding under the theme of "Reforming the Budget – Changing Europe." In November 2008, the results of the public consultation revealed that the majority of EU member states, non-governmental organizations, universities, scientists, social partners, citizens and companies revealed the following as Europe's biggest challenges, which should be hopefully reflected in future budgeting: climate change, competitiveness, security of energy supply and inequalities between EU's countries and regions, demographic trends (ageing populations) and external pressures (security threats, migration).[410]

This time round the political situation seems to considerably favourable to the reform options due to two major factors. Firstly, the heads of state of the three member states France, Germany and the UK, who wield the most weight at the

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[408] The EU *à la carte* refers to the idea of a non-uniform method of integration which allows Member States to select policies as if from a menu and involve themselves fully in those policies; there would still be a minimum number of common objectives. (European Union Official Glossary. source: http://europa.eu/scadplus/glossary/europe_a_la_carte_en.htm (accessed in August 2010)).

[409] Declaration No 3 annexed to the Interinstitutional Agreement between the European Parliament, the Council and the Commission on budgetary discipline and sound financial management - OJ C 139, 14.6.2006. http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=OJ:C:2006:139:0001:0017:EN:PDF (accessed in August 2010).

[410] The Commission Web Portal for Change: Reforming the Budget – Changing Europe website http://ec.europa.eu/budget/reform/index_en.htm (accessed in August 2010).

EU negotiating table, have appeared as the reformers at this time. They have unequivocally expressed their intentions to improve the functioning of the EU accordingly. Most significantly, the French President has clarified that he is willing to tackle the main obstacle to the reform of the budget, particularly addressing the CAP. Secondly, the agreement on the 2007-2013 financial framework has discreetly paved the way for a reform option. The member states decided on a budget framework for 2007-2013 without introducing significant changes of the previous financial framework of 2000-2006, under pressure to avoid a crisis following the Dutch and French veto of the constitutional treaty, coupled with President Jacque Chirac's obstinate stance on agriculture which thwarted real progress.[411] The 2007-2013 financial framework was agreed in 2004, right before the big bang enlargement but it didn't introduce any significant budgetary implications. Fortunately, the Treaty of Lisbon successfully took its place in the budget with modest commitments after the enlargement.

These two factors facilitated reform options in the budget. Many studies have been initiated for reform. However, no proper theoretical ground has been introduced, particularly taking into account the social integration of the EU.

Federalists have proposed reform options for the EU budget from a federal perspective which mainly addresses the provisions of fiscal federalism.[412] According to fiscal federalists, Europe has to cope with serious challenges such as economic recovery from the financial crisis and fight against climate change.[413]

Fiscal federalist approach cannot be applied to the EU at this stage of integration. Fiscal federalism offers a top-down fiscal system which cannot be

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[411] Filipa Figueira, "The EU Budget – Is this the Moment for reform?", *CEPS*, 2007, p.1.

[412] Fiscal federalism gives the following main insights: The EU budget should be used to provide public goods with large economies of scale: for example, defense policy, internal security (including protection against organized crime or border patrols) and aid to developing countries. It should also be used to fund policies with positive externalities: for example, research and big transport infrastructure. On the contrary, it should not be used to fund policies with big heterogeneity problems: for example, it should not be used to fund the EU country's welfare policies. (Figueira, *op. cit*, p.3).

[413] Guido Montani, "The EU Needs a Federal Budget", *the New Federalist*, 02.01.2010 http://www.thenewfederalist.eu/The-EU-needs-a-federal-budget

utilized by the EU, because it necessitates federalist movements in its budgetary functions. Indeed, a federal top-down governmental structure is essential for financial functions of fiscal federalism. These functions can simply be identified as allocation, redistribution and stabilization functions as discussed in chapter 3.

Indeed, fiscal federalism cannot be completely applied to the EU at this stage of the European integration, because it has been overloaded with budgetary projections. Therefore, the advantage of fiscal federalism can be dedicated to the terminology of public goods, which is extensively used for the budget's allocation function.

> In essence, the theory of fiscal federalism offers a cost–benefit analysis of centralization. On the one hand, centralization comes at a price: with the central provision of public goods, it becomes increasingly difficult to differentiate policies according to preferences which can be assumed to differ between national jurisdictions and vary even more so between countries. Although central provision does not necessarily mean complete uniformity, local provision reduces the costs of differentiations.[414]

Fiscal federalist approach is useful but not sufficient to present a complete analysis for the present situation of the EU, because fiscal federalism assumes that any policy that can be effected more efficiently at EU level should be done at that level, and inversely, anything which can be undertaken more efficiently by national governments of the Member States should not be an EU responsibility.[415] This argument would have been coherent if the EU had been formed as a central level of governments of the Member States. However, the EU is an economic, political and social entity created with specific objectives,[416] but separate from the Member States and cannot be utilized as a federal entity yet. Reallocation function of the budget can be dedicated to social constructiveness of expenses in line with the EU's progressive institutionalization and developments instead of efficiency, as stated by fiscal federalist approach. Fiscal federalism concerns enhanced efficiency resulting from the decentralization of allocation

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[414] Friedrich Heinemann, Philipp Mohl and Steffen Osterloh, "Reforming the EU Budget: Reconciling Needs with Political-Economic Constraints", Centre for European Economic Research (ZEW), Mannheim, Germany *Journal of European Integration* 32/1, January 2010, p.61.

[415] Figueira, *op. cit*, p.3.

[416] *Ibid.*

functions. On the other hand, a central government is capable of performing the redistribution function and macroeconomic stabilization function more efficiently.[417] As propounded in the "Introduction" section of Chapter 5, redistribution function of fiscal federalism is not fully compatible with the EU since there is no central taxation authority in the EU.

The EU is not deemed to pertain to stabilization function at this stage because, among others, it will necessitate vast resources. In fact, a large monetary reserve will be needed in the budget for the effectiveness of this task. However, such a resource could not be easily generated from the currently effective own mechanism of the EU. It can weaken fiscal control when stabilization function is transformed to the EU level. Furthermore, it can cause distress of inequality among member states when the stabilization funds are applied for bailing out of some members to mitigate macroeconomic crisis. Indeed, the signal of this distress was observed during the recent financial crisis in Greece.

In sum, stabilization, allocation and redistribution functions of fiscal federalism do not fully entail overall aspects of the question areas in the budget so that they cannot afford expected social integration as discussed in the analysis section of expenditures and revenues (Chapter 4 and Chapter 5) of this thesis.

Referring to the deficiencies associated with fiscal federalism, it can be projected for the EU to strengthen its social constructive influence over European *demos* by means of its budget expenditures and income generating mechanisms. The subject of public goods seems to be properly applicable to social constructivist policy approach to some extent. Therefore, the structure established between centralized and decentralized governments and pure utility-maximizing assumption of fiscal federalism, are not fully relevant for the further integration of the EU. In Contrast with fiscal federalist policy approach, it can be deduced that not all allocation functions are recommended for management from a decentralized level. There are some goods and services which must be delivered from the central level. Fiscal federalist proposals of macroeconomic stabilization function are designed for a federal state, but such design does not exist in the

[417] For radical federalism and fiscal federalism see Fabrizio Balassone and Daniele Franco, "Fiscal Federalism and the Stability and Growth Pact: A Difficult Union", *SIEPS*, 2000.

financial management of the EU. The redistribution function of fiscal federalism does not encounter the EU system because this approach necessitates federal taxation power and policies at the central level. These three functions as attributed by fiscal federalism might be a theme of the final stage signalling a federalist constitution.

As an alternative to fiscal federalism, social constructivism provides concurrent assessments for the reform options of the EU budget in the problem areas. For this purpose, this chapter will review and analyze how to rehabilitate current expenditures and revenues of the EU budget to make them subservient for the social construction of the Union, which now contains some historical dependencies, hindering further integration. It will also examine some of the significant reform proposals in the two problem areas. Finally, it will present reform proposals from the perspective of social constructivist policy approach regarding the stimulation of further integration of the Union. As a matter of fact, some other questions associated with expenditures and revenues are also analyzed under the institutional problems section of this chapter.

6.2. Reviewing Significant Reform Proposals

The European Commission's Consultation Report *"Reforming the Budget, Changing Europe"* has stressed the aim of the reform being based on European level contribution which will meet the needs of the EU level integration and result in the elimination of unnecessary policies and then, combine some new policy areas or ways to the implementation;

> Public spending at European level – as at national and local level – must give citizens confidence that it is focused on their own priorities and that the funds entrusted to the EU are well spent... EU spending must therefore be based on an assessment of the added value of the different aspects of EU spending.
> Different elements determine whether EU spending meets the added value test. It has a political nature – for example, to show solidarity, to increase visibility and, above all to further the Union's key policy objectives... The budget review 2008-2009 should help in making these choices and determining spending priorities: there may be policy areas where European spending is no longer needed or where its return is limited; on the other hand, there may be new and cross-cutting policy priorities which call for new resources.

> At the same time, the need to complete ongoing activities and to continue funding policies which deliver good results will also have to be taken into account.[418]

The Commission's consultation in preparation of the budget review motivated a total number of 305 contributions,[419] most of which, concerning the future of the EU budget, came from different stakeholders such as national governments or lobby groups and, were apparently inspired by self-interests. Among them, a number of contributions from universities and scientists must be undeniably taken into consideration.

Notre Europe[420] invited various prominent scholars and EU observers to discuss the EU budget reform proposal. Consequently, the outcome was submitted by Iozzo, Micossi and Salvemini in a policy paper,[421] in which they proposed to dividing the EU budget into three separate chapters, each one with a different function such as redistribution, provision of public goods and investment of long-term pan-European projects which are financed through different means, including through national contributions, an EU-VAT tax and Eurobonds, respectively.[422]

The Commission established a Round Table dubbed "a sustainable project for tomorrow's Europe", which proposed removing the ceiling on own resources and progressively increasing the Community budget and creation of the first European tax, which could be in the form of a supplementary company tax.[423]

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[418] European Commission, "Consultation report, reforming the budget, changing Europe. Short Summary of Contributions", Brussels, 3 October 2008, pp.7.

[419] *Ibid*. P.11.

[420] *Notre Europe* is an independent think tank devoted to European integration. Under the guidance of Jacques Delors, who created *Notre Europe* in 1996, the association aims to "think a united Europe." Official Web Page: http://www.notre-europe.eu/en/

[421] Alfanso Iozzo, Stefano Micossi, and Maria Teresa Salvemini, "A New Budget for the European Union?", *CEPS Policy Brief,* 159, Brussels, May 2008, pp.2-4.

[422] See Annex 8 for the details of these separations.

[423] Dominique Strauss-Kahn, "Building A Political Europe 50 proposals for tomorrow's Europe", A project for tomorrow's Europe, Paris, 2004, pp.19-20.

Recently, an independent study undertaken by the Commission, applied the criteria of fiscal federalism.[424] The authors of ECORYS[425] took all budgetary items to a subsidiarity test, which was based on the criteria of preference, heterogeneity, economies of scale and externalities. It also took account of political-economic arguments related to the disciplining function of competition or the relative power of lobbies at the national and European level. It is concluded that according to the economic principles, the following policy areas are incompatible with a rational assignment: parts of cohesion policy (in particular, the funding for the Competitiveness and Employment Objective, which works for the benefit of the rich countries), the income and price support of the CAP and, a considerable share of the funds for rural development. The authors recommend that the funds might be shifted from the EU budget to the member states for all those areas. Conversely, other parts of the EU budget should be promoted on such areas of spending on research and development, transport, energy, foreign aid, environment, maritime policies.[426]

Cerniglia and Pagani are the first to analyze the preferences of European citizens towards the centralization of policies at the European level in greater detail. By and large, they were able to identify three groups of policy domains: policies based on which exist clear majorities in favour of centralization among the citizens, policies based on which exist clear majorities against centralization and consequently empower citizens call for decision-making at the national level, and policies under which citizens of different countries are rather split in their attitudes towards centralization.[427]

Indeed, European citizens have very positive (and homogeneous) preferences towards the centralization of policy domains such as environment,

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[424] ECORYS, CPB, and IFO, “A Study On EU Spending”, *ECORYS, CPB, and IFO* Final Report, FP/BV/NVG/AG15996B, Rotterdam, 2008, pp.19-20.

[425] Ecorys is a European research and consultancy company.

[426] Heinemann, *et. al., op. cit.,* p.62.

[427] See for details, Florina Cerniglia, and Loura Pagani, “The European Union and the Member States: An Empirical Analysis of Europeans’ Preferences for Competences Allocation, *CESifo Economics Studies*, 55/1, 2009, pp.197–232.

humanitarian aid, research, the fight against organized crime or terrorism and foreign policy. These policy domains would appear as significant social constructive effects. On the contrary, citizens are normally opposed to a centralization of policies where differences in preferences can be observed, such as education, social welfare or culture. Interestingly, the CAP, which is of prime interest due to its large budget share, a pronounced heterogeneity of preferences concerning centralization can be observed among the member states.[428]

By reflecting reform declaration of three institutions, the Commission's September 2007 Consultation Paper listed twelve questions related to current and future challenges.[429] The Paper referred to questioning sufficient responsiveness of the budget to changing needs, right balance between the need for stability and flexibility in FFs, the interconnectedness of key issues of new decades with new policy challenges and, generating criteria for European value added. Questions were related to;

> 1. Linking policy objectiveness with spending priorities, 2. Timeframe for reorientations, 3. Improving efficiency and effectiveness of budget expenditures, 3. Enhancing transparency and accountability of the budget, 4. Possibility of maximizing spending returns and political responsiveness by flexibility, 5. Applicable principles of revenues and their reflections to the own resource mechanism, 6. The issue of correction and just retour, 7. Relationship between citizens, policy priorities, and the financing of the EU budget.[430]

Even though all of them are crucial in respect to the development of reform proposals, the last one is extraordinarily important in the implementation of social constructive policy proposals.

European Round Table of Industrialists stressed the importance of designing policies and measures to increase competitiveness and economic reforms corresponding to the multi-faceted definition of sustainability, emphasizing R&D and the introduction of innovative infrastructures, technologies and energy sources and, adapting the CAP to reduce its impact on

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428 Heinemann, *et. al., op. cit.,* p.63.

429 European Commission, 2007, "Reforming the Budget, Changing Europe", Communication SEC(2007), 1188 final, Brussels, p.9-10.

430 See for details Tamás Szemlér and Jonas Eriksson, "the EU Budget Review: Mapping the Positions of the Member States", *SIEPS*, 2008/2, 2008.

the budget, while safeguarding the Single Market and demonstrate some policy recommendations.[431]

The problems taken one to the other by the concerned partners regarding the budget can be grouped as expenditures and own resources under two categories. Therefore, there are some other issues which also need to be analyzed such as *juste retour*, British rebate and democratic deficit arising from the budget.

6.3. Analysis and Social Constructive Reforms for the EU Expenses:

6.3.1. Introduction

The effectiveness of the budget without increasing funding has been proposed in five policy areas where EU funding might be very efficiently used (Table 5): research, education, transports, cohesion policy and home affairs. Those are the policy areas where the EU budget can make the best contribution to the EU objectives. Education and research can be grouped under one heading, since only the higher level of education and universities shall be concerned in this delineation, since they, both could produce public goods through research in the end. A Few of these five areas are considered crucial such as research, education and convergence. That is because the EU home affairs and transport policies – exclusively international transport – have smaller budgetary implications.[432]

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[431] European Round Table of Industrialists (ERT), "ERT's Vision for a Competitive Europe in 2025 with Recommendations for Policy Action", *European Round Table of Industrialists,* November 2009.

[432] Figueira, "How to Reform ….. ", p.16.

Table 5
Effectiveness of policy areas in meeting EU objectives

	High effectiveness	Medium effectiveness	Low effectiveness
Growth	Research; Education; Transports		
Convergence	Cohesion policy		
Sustainable Growth		Environment; Restructuring and employment policies	Rural development
Internal Security	Home affairs		
External Security		Defense; Development; Foreign policy	

Source: Filipa Figueira, "How to Reform the EU Budget? Going beyond Fiscal Federalism", p.16.

In the same vein but most appropriately, distributions of the budgetary expenditures in connection with four factors (spill-over, economies of scope and scale, solidarity and public goods) might be presented by assigning spending to EU level (Table 6).

Table 6 illustrates that environmental programs and infrastructure expenditures such as bridges, rail networks and water management systems (€ 0.5 billion and € 1 billion budgetary allocations, respectively), have "limited" public goods effects. According to the same Table, external assistance in the form of pre-accession and development aid (€ 8 billion altogether) has "some" public goods effects, and internal and external security (€ 2 billion) and administrative expenses[433] (€ 8 billion) have "strong" public goods effects (with total allocations of € 10 billion). Considering all these allocations have "strong" public goods effects, total public goods effect will be € 19.5 billion, within the total budget of € 127 billion, which will amount to 10 % of the 2013 budget. If the administrative expenses are not taken into account on both sides of the analysis, it will come to € 11.5 billion in the total budget of € 119 billion (9.7 % of the total budget). If these ranges are validated between strong public goods and limited public goods, this

[433] The study of Copenhagen Economics didn't consider administrative expenses as strong public goods but this thesis agrees this expense category as strong public goods.

percentage will be range from 5 % (€ 10 billion/€ 127 billion) to 10 %. Finally, it can be concluded from this analysis that public goods in the budget of 2007-2013 are dedicated from 5% to 10% of the total expenditures.

Table 6
Matching spending with four factors from assigning spending to EU level

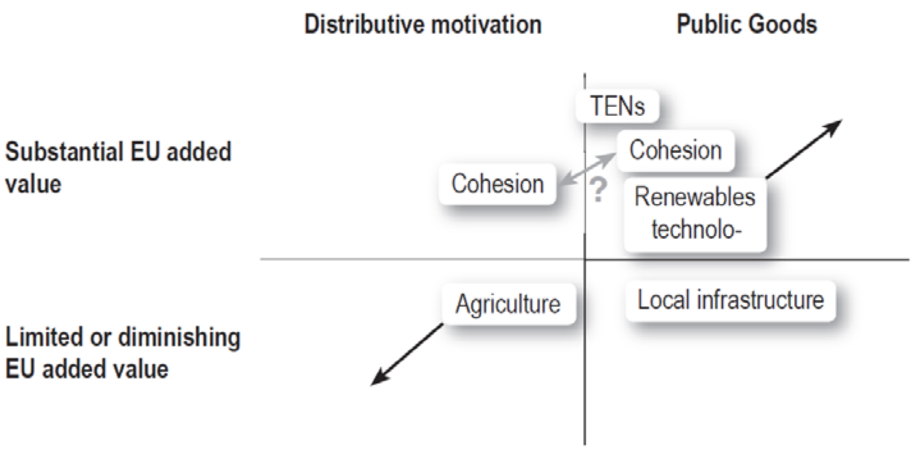
	Spending in 2013, billions 2004 prices	*Spillovers*	EU public good	Economies of scope and scale	Solidarity
Structural Funds	45				
To low income countries	34	Limited	No	No	Strong
To low income regions in median/ high income countries	7	No	No	No	Limited
To other regions in median/high income countries	4	No	No	No	No
Natural resource management	51				
Market support	2-3	No	No	No	Limited
Direct payments	36	No	No	No	Limited
Rural development fund	11	Limited	No	No	Strong
Environmental programmes	½	Limited	Limited	No	Limited
Growth policies	13				
Research	9	Strong	No	Some	Limited
Innovation/higher education	2	Limited	No	Some	Limited
Infrastructure (transport and	1	Limited	Limited	Some	Limited
External assistance	8				
Pre-accession	2	No	Some	No	Strong
Development aid*	6	No	Some	Limited	Strong
Internal and external security	2.0	Some	Strong	Limited	Some
Administration cost	8	Administrative costs are incurred to support goals			
Total	127				
Share of GDP	0.9%				

*Note : *Aid disbursed under the EDF is not included. Fisheries programmes included in Natural Resource Management with € 0.9 billions but not shown explicitly. The terminology follows the conclusions drawn in the main chapters of the study. The degree of matching is ranked on a scale from "No", "Limited", "Some", and "Strong".*
Source: Brueghel, Eurostat, DG Budget and Copenhagen Economics

Source: Copenhagen Economics, "EU Budget Review Options for Change", June 2009, Table 1.1, p.13

Begg, Sapir and Erikson have considered the TEN and renewable technologies as public goods in their analysis (see Figure 1), but cohesion policy, according to them, has still been discussed whether it is a public good or not. In fact, there are different views, some of which consider that the cohesion is public good because it fosters the developments of the EU economy. If this be the case, it would be admissible for all of the Community members because of its potential to spread prosperity and from there; the prosperity would have a spill over effect. In the analysis it is stressed that agriculture policy has been providing a negative social constructive effects and local infrastructure spending (regional policy) would have limited public goods effects.

Figure 1
An Analysis of Spending



Source: Iain Begg, André Sapir and Jonas Eriksson, "The Purse of the European Union: Setting Priorities for the Future Contributions", SIEPS 2008, Figure: 2, p. 32

6.3.2. Analysis and Reform Options of Competitiveness Policy

As discussed in Chapter 5, the competitiveness policy of the EU is in line with the Lisbon goals which echo social constructive establishments. Thus, it can be proposed that the EU must indisputably continue to support these policies. It might be further stressed that there are some areas in this policy which explicitly require further adjustments and improvements. The Lisbon projections have, by and large, addressed the European-level public goods which obviously convene social constructive effects. Nevertheless, since the fiscal term of 2007-2013 (being the first time budgetary application of the competitiveness policy) has not ended yet, performance results of the policy cannot be fully and efficiently assessed for the time being.

Competitiveness occupies about 8.5% of the total budget in FF4 (Annex: 1), among which the FP covers the biggest portion with 5.5% of the total budget and 65% of the total expenditures of competitiveness subheading. Among the remaining programs, two big policies in this category, TEN and LLL together take less than 1% of the total budget.

As presented in Table 7, the Sapir Report assumed that the EU budget would be limited to 1% of aggregate GDP, it was further proposed to abandon the CAP in order to concentrate resources on two main headings devoted to "growth and competitiveness" (45% of the total) and "convergence" (40% of the total). The lion's share of "growth" funds is assigned to R&D (25%) and sizeable resources are reserved for infrastructures (12.5%) and a little bit more strengthened common action for education (7.5%). The main indication of convergence allocations is that two-thirds of the allocations should be reserved for new entrants and one-third for old members of the EU. Some "restructuring" funds are earmarked to assist the mobility of displaced workers and phase out agricultural expenditure.[434]

Comparing Gross and Micossi with Sapir, former proposed to add (continue) policies such as foreign policy and external action, freedom, security and justice and defence at 7.5% for each of them with the savings from removal of the CAP (15%) and 7.5% less commitment to competitiveness (5% from education and 2.5% from infrastructure). They further proposed 10% convergence funding for environment which was not proposed by Sapir.

[434] Gros, "Better Budget for....", p.15.

Table 7
Budget Proposals of Sapir, the Commission and Gross and Micossi

Appropriations for payments	Sapir Report	Commission**	Our budget
Growth & competitiveness	45.0	13.0	37.5
R&D	*(25.0)*	*(4.0)*	*(25.0)*
Infrastructure	*(12.5)*	*(8.0)*	*(10.0)*
Education	*(7.5)*	*(1.0)*	*(2.5)*
Structural adjustment	-	10.0	-
Agriculture	15.0	30.0	-
Convergence	40.0	35.0	40.0
Environment	-	-	*(10.0)*
Foreign policy and external actions	-	10.0	7.5
Freedom security and justice	-	2.0	7.5
Defence	-	-	7.5
Total	**100**	**100**	**100**
Own resources ceiling (% of GNP)	1.00	1.24	1.00
VAT resource	-	0.25***	0.95
GNI (residual) resource	-	0.75	0.05
Notional yearly amount (€ billion)	115	145	115

Source: Daniel Gros and Micossi, S., "A Better Budget for the European Union – More Value for Money, More Value for Money", CEPS Policy Brief, 66, 2005, p.15
Not: Commission proposal was reduced later

In terms of budgeting, competitiveness took its place in the budget from the beginning of 2007 for the first time, nevertheless, with a small level of funding. The Commission had proposed a very low percentage (13%) for competitiveness, when comparing the proposals of Sapir (45%) and Gros and Micossi (37.5%). Encouragingly, the forecasts of the allocations in the FF4 have projected a gradual increase from 2007 to 2013 in total figure. For instance the biggest policy categories have demonstrated increases such as, 7th FP by 75%, LLL by 40% and, TEN by 102% from their initial amount in 2007.[435] When Table 8 is compared with Table 6, it can be observed that average budgetary appropriations of competitiveness in FF4 is four times less than Sapir and three and half times less than Gros and Micossi.

[435] See Annex 1 last column for comparison.

Table 8
Comparison of Competitiveness Policy: 2007-2013

	2007	2013	Percentage change
R&D orientated spending	6.4	10.4	62%
7th Research framework programme	5.2	8.9	71%
Competitiveness and innovation (CIP)	0.4	0.5	33%
Life Long Learning + Erasmus Mundus	0.9	1.0	21%
Infrastructure spending	1.0	1.4	44%
Transport	0.9	1.3	44%
Energy	0.0	0.0	63%
Other	1.0	1.2	14%
Total	8.4	13.0	54%
Total as percentage of EU27 GNI	0.07%	0.09%	-

Note: Other includes Nuclear decommissioning social policy agenda, internal market, statistics, fight against fraud etc.
Source: EC (2006) and EC (2007)

Source: Copenhagen Economics, EU Budget Review Options for Change, June 2009

Even though total R&D spending will be reached to € 10.4 billion with 62 % increase in 2013, this increase refers a very low figure in proportion to total allocations. For the fiscal year of 2007, it takes 6.4 % from the total budget which makes 0.07 % of GDP (Table 8).

As it may be easily observed, the main constraint of this subheading is its low level of allocations. The European Parliament has exposed its concern "that previous innovation and competitiveness programmes have failed to deliver the necessary link between fundamental and applied research and industrial innovation partly due to the fact that the financial resources were rather limited".[436]

Rather than the volume of the allocation for the competitiveness, questions are associated with the ineffective program management that influences the performance of whole programs. The Member States intolerably involve the funding priorities. For instance, there are some observations regarding

[436] See European Parliament, Resolution of 8 June 2005 on Policy Challenges and Budgetary Means of the Enlarged Union 2007–13, para. 52 www.europarl.europa.eu/comparl/tempcom/finp/report/562937en.doc

intergovernmental pressures on distribution of funding, especially for large projects.

> The disputes on the distribution of task for the Galileo programme show to what extent member states demand a portion of the budget pre-allocated, regardless of the impacts on efficiency. In addition, Framework Programmes are still the result of political negotiations in the Council and bureaucratic preferences of the EU, with the selection procedures highly influenced by the European Commission. Consequently, there is a risk that the technology initiatives and the financial allocation are also driven by political pressures, giving preference to certain technologies rather than others.[437]

Since the aspiration of Lisbon goals is to transform the Union into a dynamic knowledge-based economy with a solid industrial base, it implies that the EU is to catch up with the US and other hi-tech entities. Appraisal proves that total EU level spending on R&D accounts for a much smaller part of the underlying GDP. Total R&D share in the EU is 0.06% (2007) compared to 0.64% in the US (2006).[438] In spite of a higher federal share, the overall public support for R&D spending in the US is lower. The EU's overall R&D deficit then stems from a low share of private sector spending. Infrastructure is 0.07% of GDP in the EU, while it is 0.53% in the US.[439]

With regard to Europe's competitiveness, most private sector contributions stress the importance of focusing on economic efficiency, while others, especially NGOs, often emphasize objectives linked to sustainable development, such as social inclusion and maintaining the European social model.[440] In this regard, two alternatives might be projected. The EU should either encourage the private sector to invest in R&D or close this gab by financing the disparity from the member states or provide funding from the EU level budgetary allocations.

For the efficiency and effectiveness of research and development allocations, the establishment of a European Science Agency similar to the

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[437] Gros, *op. cit.*, pp.6-24.

[438] See Copenhagen Economics report, "EU Budget Review Options for Change" *The Dutch Ministries of Finance, Economics Affairs and Agriculture*, June 2009, p.72.

[439] *Ibid.*

[440] European Commission, "Consultation Report Reforming the Budget, Changing Europe: Short Summary of Contributions", SEC (2008) 2739, Brussels, 3.11.2008, p.4.

National Science Foundation of the United States is imperative.[441] Such a foundation may foster social integration since building a European level institution is considered a social constructive establishment.

Policy goals may be advisable to be determined and given in advance. The assessments can be made, based on these predetermined objectives particularly for the large projects. The Lisbon growth strategy sets a target of investing 3% of EU GDP in R&D in order to foster competitiveness. It makes sense, for instance, to carry out large research and innovation projects directly at the EU level.[442]

Research area can be extended to the environment, training, social inclusion and industrial projects. Technological needs of environmental requirements can be extended to greenhouse gases, pollution, noise or waste in various sectors.

By considering economic, social and environmental impacts, some programs can be supported for instance, transportation programs which transfer road traffic towards more environmentally acceptable transportation modes, multi-state public transportation, or the motorways of the sea and railway infrastructures. There is no real sign of decoupling the energy consumption of transport from economic growth.[443]

There is an apparent need to secure energy as highlighted by the 2006 Green Paper on EU Energy Policy.[444] It was dubbed an urgent need for investment because approximately one trillion Euros worth of investments will be required during the next 20 years, in Europe alone, to meet anticipated energy demand and to renovate old infrastructure. It is also referred to as investment for combating climate change for which funding is needed from the EU level by

[441] Gros, "Better Budget for...., p.6.

[442] Marco Buti and Mario Nava, "Towards a European Budget System" *EUI Working Papers,* Robert Schuman Centre for Advanced Studies, 2003/08, p.22.

[443] Eurostat, "Measuring Progress Towards a More Sustainable Europe, Monitoring Report of the EU Sustainable Development Strategy", *Eurostat*, 2007.

[444] European Commission, "A European Strategy for Sustainable, Competitive and Secure Energy", Green Paper, COM (2006) 105 final, Brussels, 8.3.2006.

virtue of solidarity between the Member States.[445] There are some needs for improvement to present infrastructures to construct them to defy climate change (such as protection against flooding, and prevention of the effects of heat waves on public health) and also a reorientation of the new infrastructures that will have to be placed accurately and adapted to the new climate conditions (such as roads resistant to water and heat). The most concerned sectors are energy equipment, water distribution and treatment facilities, health systems, port installations, and coastal and mountain tourist facilities.[446]

Environmental projects indeed are public goods and enhance integration especially in the area of employment particularly with projects with cross-border influences. If the Member States adopt the Commission's legislative proposals of a 20% reduction in the EU's greenhouse gas emissions by 2020, a large funding will be required, with restructuring in sectors, based on fossil fuel, such as heavy industry, electricity generation and road transport, and new opportunities on energy efficiency and low-carbon technologies.[447] These adaptations will inevitably convey changes in many other sectors, such as agriculture and tourism.

Competitiveness may be strengthened by increasing its funding amount for projects in energy, transportation, environment, climate change, research and development. Furthermore, the amount of funding will be based on policy priorities. It is recommended at 30% and 40%, respectively, by the Sapir Report and Gross and Micossi, accordingly. The system of program management in competitiveness needs to be rehabilitated for efficient and effective management of the funds. Program objectives can be determined with expected measurable outcomes. Administrative decision-making process concerning selection and contract negotiations can be shortened and fostered and a project control cycle can be inserted into the system to check funding abuse. The budgetary funding is

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[445] Notre Europe, "The Contribution of 14 European Think Tanks to the Spanish, Belgian and Hungarian Trio Presidency of the European Union", *Notre Europe*, March 2010, Intro. XXII.

[446] ETUC, "Reforming The Budget, Changing Europe" Public Consultation In View Of The 2008/2009 Budget Review Sec (2007) 1188 Final *ETUC Contribution*, Brussels, 4-5 March 2008, p.7

[447] *Ibid*., pp.7-8.

required to be widely dispersed to reach as many beneficiaries as possible through which opportunities are availed to the new establishments and small research centres and companies. The development and use of energy-efficient technologies may also be promoted. The main idea for these rehabilitations is to enhance social constructive effects of these programs on the ground. Indeed funding must be prioritized in favour of the social constructive outputs which are to be accepted by the citizens as the EU level goods and services.

Since research influences the Community positively, because the outcome of research and development projects transcend national borders of the member States. It also leads to growth and employment; finally it provides constructive benefits for entire Community. It can be recommended that it is advisable to support research programs right from the EU level. Education, particularly higher education, is also a public good since final investment contributes to the European common area. The pupils will serve the community in the future, produce knowledge and contribute to the Community. The funding of education from the EU budget can be very efficient and constructive. Transport infrastructures require public funding because they are admitted also public goods. Due to the fact that the private sector is reluctant to fund such public projects, and some of them contain multi-state interventions, they can be taken to the EU level. Nonetheless, these policies must be transferred to the European public by carrying signs and symbols of the EU during the funding and program implementation process. Major aim is to influence European *demos* about the origin of funding level.

6.3.3. Analysis and Reform Options of Cohesion Policy

Introduction

Naturally cohesion expenditures are not considered as public goods but they can be formulated for being more socially constructive, albeit, with some modifications. Reform necessities with regard cohesion policy have been taken into account from various aspects, but social constructivist assessment through creating public goods, is to take place in the reform agenda of the policy. Commissioner Hübner underscored this deficit thus, that the aim of a modern cohesion policy is to provide 'public goods' aimed at improving skills, innovation capacity, entrepreneurship, sustainability, employment and accessibility, to enable all European territories to realize their full potential.[448]

In principle, the Cohesion Policy of the EU targets the places of the Member States eligible for funding. The Policy ultimately aims to develop a place where people live and obtain benefits from the overall development of the region, so that the policy enhances the standards in the regions such as geographic, environmental, economic and social conditions. The Cohesion policy has a central hub of enhancing the integration between the EU regions to stimulate economies, increase synergies and interconnect European cities and regions. As a consequence of these benefits, it is expected that the policy will provide public goods to the regions. The Policy indeed implies to levy resources in the Member States to provide public goods through regional policy, partly implemented in the States where these taxes have been collected. [449] This feature is common to many public policies and does not imply particular inefficiencies.

Cohesion policy is the second largest item of the EU budget and represents 37.5% of total expenditures,[450] which is stretched across the Member States, except Luxembourg and Denmark (and Belgium and the Netherlands, from 2007) which do not have at least one region assisted by the so-called Objective 1 intervention of the cohesion.[451] Of the three funds, the ERDF and

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[448] Danuta Hübner, 'EU Regional Policy Post-2013: More of the Same or A New Beginning?', *European Policy Centre Report*, 1 July 2008 http://epceu.accounts.combell.net/events_rep_details.php?cat_id=6&pub_id=930&year=2008 (accessed on 13 June 2010).

[449] What do you really know about European cohesion policy? Dirk Ahner.

[450] See Annex: 1.

[451] Convergence Objective (Formerly Objective 1): covers regions whose GDP per capita is below 75% of the EU average and aims at accelerating their economic development. It is financed by the ERDF, the ESF and the Cohesion Fund. The priorities under this objective are human and physical capital, innovation, knowledge society, environment and administrative efficiency. Regional Competitiveness and Employment Objective (Formerly Objective 2): covers all regions of the EU territory, except those already covered by the Convergence objective. It aims at reinforcing competitiveness, employment and attractiveness of these regions. Innovation, the

ESF are used to finance regions under formerly defined three objectives. Objective 1[452] is for convergence regions with a GDP per capita under 75% of the EU average. Objective 2 is for assistance to other regions that face specific socio-economic difficulties and high unemployment. Objective 3 is for territorial cooperation, promoting it on a cross-border, transnational and interregional basis, the cohesion fund is for assistance on transport and environmental infrastructure to member states with an average GDP per capita below 90% of the EU average (Annex: 2A-2E).

The cohesion policy was strengthened with the Internal Market programme and with the plan of EMU. It was argued that the EU needed to compensate poorer member countries for agreeing to the steps of EMU, leading to a large increase in structural fund to support for the poorer countries and regions of the Union.[453]

Recently, the policy has been projected to institute the image of an integrated EU2020 strategy with Lisbon goals, which entails synergies between the National Strategic Reference Frameworks and the National Reform Programmes developed, and their potential better exploited through enhanced administrative coordination at the levels of the EU, national, regional and local administrations in order to increase governance.[454]

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promotion of entrepreneurship and environment protection are the main themes of this objective. The funding comes from the ERDF and the ESF. Territorial Cooperation Objective (Formerly Objective 3): This objective builds upon the Interreg initiatives of the previous years, which were originally planned to be fully incorporated into the main objectives of the structural funds. Financed by the ERDF and, its aim is to promote cooperation between European regions, as well as the development of common solutions for issues such as urban, rural and coastal development, shared resource management or improved transport links. This objective is divided in three strands: cross-border cooperation, transnational cooperation and, interregional cooperation. (Source: European Commission).

[452] This is the result, *inter alia*, of the predominant regional focus of EU cohesion expenditure and of cohesion negotiations driven by net balance considerations. Net balance considerations find their natural humus in the EU cohesion policy, because the Council needs unanimity to agree on this policy, which gives to each and every country a *de facto* veto. National political constraints make that each country worries more about being able to flag “a negotiation success” than about being sure that funds are spent in those policies having a higher Community added value. (Buti, *op. cit.* footnote 16).

[453] Gros, “How to….”, p.3.

[454] European Parliament, “Report on the Contribution of the Cohesion Policy to the Achievement of Lisbon and the EU2020 Objectives”, (2009/2235(INI)), 30 April 2010

During the implementation period especially after the Maastricht Treaty, the empirical literature assessing the efficiency of the EU Cohesion Policy has revealed confusing results – studies show that the efficiency of cohesion policy as a whole is low, but this conceals a disparity in the results between the poorest regions (where efficiency is high) and the richest regions (where it is low).[455]

Main deficiencies of the policy can be categorized under these subjects; its lengthy process, weak involvement at the institutional level thorough local authorities, inefficient administration for designing, implementing, communicating and evaluating, lack of data for analysis and efficiency measurements, poorly developed links with the Lisbon goals. There is need of methodology of measuring the efficiency since a number of objectives complicate measurements of the results.[456]

Indeed, the European Parliament in its cohesion report admitted that the relations between programme allocations and actual expenditure cannot be confirmed at this stage because of late commencement of the programmes and the lack of data. There is no observed measurement of the soundness of the Lisbon related expenditures, particularly in less advanced countries. The European Parliament further criticized the lack of an overall assessment of the impact on regional development and called upon the Commission to assess the territorial impact of earmarking Structural Funds to the Lisbon Strategy and to evaluate whether this system is actually contributing to the balanced and coherent regional development.[457]

Resolutions adopted by the European Parliament in early 2009 underlined several factors regarding to weakness of the Cohesion Policy:

> -The weak synergies that existed between National Strategic Reference Frameworks and the National Reform Programmes under the strategy,

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[455] Figueira, "How to Reform…", p.13.

[456] Jarosław Pietras, "The future of the EU budget - In Search of Coherence of Objectives, Policies and Finances of the Union", *Centre for European Strategy*, Warsaw, 2008, p.40.

[457] European Parliament, "Report on the Contribution of the Cohesion Policy to the Achievement of Lisbon and the EU2020 Objectives", 2009/2235(INI), 30 April 2010.

-Teak multi-level governance which limits of the Lisbon Strategy, with the insufficient involvement of regional and local authorities and civil society in the design, implementation, communication and evaluation of the strategy,
-A need of more sustainable and smart policy
-A need of the Commission to monitor the implementation of the partnership principle in the Member States more effectively.[458]

The report of Fabrizio Barca ‘An Agenda for a Reformed Cohesion Policy’ has presented some distinct proposals to increase the effectiveness of the cohesion policy, such proposals included concentration on core priorities, stronger focus on performance and evaluation, simplification of management and control systems and introduction of a high-level political debate on results.[459]

Moreover, the Sixth Progress Report on Economic and Social Cohesion concluded that public policies at different levels require taking into consideration of their territorial impact to avoid ambiguous effects. Coordination and complementarity between policies were stressed to be improved both at EU and the Member State levels. The three strands of territorial cooperation were unanimously recognized as a key to territorial cohesion and clear examples of EU value-added, which are regional, national and the EU.[460]

The Court of Auditors scrutinized the control failures in all of the audited programmes. It is not necessarily required to reflect fraud or other serious irregularities, but may be a result of administrative complexity. More significantly, programmes have a long lead time between project idea and its start-up, up to two to three years, are (…) over- controlled and, generate management costs equal to 15% of the overall sum involved.[461]

Analysis and Reform Options of Cohesion Policy

[458] *Ibid.*

[459] Barca *op.cit.*, pp.VI-IXI.

[460] European Commission, “Sixth Progress Report on Economic and Social Cohesion”, Report from the Commission to the European Parliament and The Council, {SEC(2009) 828 final} Brussels, 25.6.2009, COM(2009) 295 final, p.13.

[461] Copenhagen Economics, *op. cit.* p.36.

Although cohesion expenditures are directed to the regions through member states, the policy would provide some social constructive enquiries in connection with Lisbon and EU2020 goals together with other similar proposals. Reform options can be dedicated to these proposals changing the eligibility criteria, increasing social constructive expenditures by focusing on the Lisbon and EU2020 related expenditures, increasing cross-border and multi-national expenditures and, other similar proposals might be introduced such as the elimination of unconstructive expenditure programmes, presenting efficient management and control mechanisms.

As regarded by the literature of fiscal federalism, if cohesion policy is viewed as the policy which demonstrates the function of income distribution, it would be very difficult to pinpoint a reason why the policy funds have to be transferred from the EU level to the regions. It is even ambiguous, if this transfer is made into the wealthy states. Cohesion policy cannot be reduced to the redistribution issue between more and less prosperous regions of the EU. Conversely, it is expected from the policy to support such projects which might have a high social constructive influence through financing public goods. Indeed, reducing the cohesion policy to the question of redistribution is attached to the spending of those resources, determining objectives to be met and precise programming and tight monitoring of the European Commission when it comes to fulfilling the objectives.[462] An assessment of cohesion policy should be made in the context of the EU, meeting the objectives of integration.

The policy takes the reference of regions with a GDP per capita under 75% of the EU average without considering the prosperity of the member states. According to one opinion, this shows that the policy could be made considerably more efficient by changing the current “regional focus” into a “country focus”.[463] This is undesirable, as it would be much more proficient if the richest Member States fund their own lagging regions.

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[462] Pietras, *op.cit.*, pp. 38-39.

[463] Figueira, “How to Reform ….”, P.13.

Some mechanisms are accessible for the reform of the funding such as compensation by the budget of the member states[464] or financing the new Member States by reducing allocations of the old Member States.[465] Cohesion can focus to reduce income in some EU countries, caused by enlargement, for which funds can be allocated to low-income countries. In other words, the new member states from Eastern and Central Europe) rather than poor regions of relatively rich countries (refers the old 15 member states or EU-15) can be supported.[466]

Eligibility criteria can be based on objective and transparent criteria of relative economic and social development, as already heralded by Agenda 2000, as well as incorporating incentives to reward best performers.[467]

In some studies it is argued to redesign the EU cohesion funds to make it more effective. It is advised to focus funds on fostering income convergence of poorer countries, and reduce the social costs of factor reallocation. For that reason two different funds are recommended, “Convergence Aid” and “Restructuring Aid”. The former is dedicated to helping backward states and regions and the latter is proposed to facilitate the resource reallocation distressed by economic shocks. Convergence Aid should be used for institution building and growth-enhancing expenditure (such as R&D, education and training, infrastructure, etc.). Restructuring Aid should be available to those entities, in any country, affected by structural adjustment.[468] Nevertheless the EP has the opinion that there is no need to create any new fund and change in the system of funding.[469]

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[464] EU Budget Reform Taskforce, “EU Budget Review: An Opportunity for a thorough Reform or Minor Adjustments? Executive Summary of the Final Report, Government Office for European Affairs of the Republic of Slovenia, October 2007, p.14.

[465] EU Budget Reform Taskforce, *op.cit.*, p.15.

[466] Cipriani, *op.cit.*, p.3.

[467] Gros, “How to….”, p.3.

[468] See Buti, “Towards…..”, p.12.

[469] European Parliament, “Report on the Contribution of the Cohesion Policy to the Achievement of Lisbon and the EU2020 Objectives”, 2009/2235(INI), 30 April 2010, para.37.

Another problem is associated with the administrative capacity to efficiently integrate funding objectives. It requires a good coordination, planning, monitoring and evaluation for better development for this purpose. Nevertheless, most cohesion countries are short of capacity in general. The absorption capacity of member states and regions must be considered carefully, not only in terms of administrative resources but also as regards the wider macroeconomic consequences of EU funding.[470]

There are a range of policy proposals which are considered social constructive in this category such as a better coordination of the Structural Funds and the Framework Programme to maximize the benefits of the funding for research and innovation in the future and for the development of regional innovative clusters within and between Member States, educational and training programs, investing for infrastructure especially in the poor regions and their cross-border cooperation in the fields of in transport, energy, telecommunications and IT infrastructure.[471]

Lisbon/EU2020 and Social Constructive Commitments

In the application of the present FF, cohesion fund has been obliged to meet Lisbon earmarking requirements, focusing on infrastructures, education and training, networking or research. This step appropriately can help to develop more strategic regional thinking. Indeed, they would provide local public goods, eventually. However, cohesion policy should not be overloaded with too many targets. Where earmarking applies, the wide scope of eligible activities may imply a limited effect on allocation decisions.[472] Indeed, public policies can play an important role in raising productivity, growth and employment. However,

[470] Businesseurope, "Position Paper Position on The EU Budget Review An EU Budget That Matches EU Ambitions", *Businesseurope*, 11 April 2008, p.5.

[471] European Parliament Report on the contribution of the Cohesion policy to the achievement of Lisbon and the EU2020 objectives (2009/2235(INI)) 30 April 2010.

[472] Businesseurope, *op. cit*. p.4.

larger public spending will not work, unless there is an economic and social environment open to competition and favourable to risk-taking and change.[473]

Priorities and objectives can be defined with respect to the EU's sustainable development commitments. European funds can be allocated in line with priorities that stimulate synergy between the economic, social and environmental programmes and this synergy may disperse European level influence.[474]

The Cohesion Report of the European Commission (2007) provided the right direction for cohesion policy. It proposed amalgamation in more broad objectives of the Lisbon Strategy and combating climate change and reduction of greenhouse gas emissions.[475] The EP has earmarked some weaknesses, particularly in connection with the Lisbon targets, such as lack of an effective evaluation facilitating data comparison and aggregation among regions,[476] the weak synergies that existed between National Strategic Reference Frameworks and the National Reform Programmes under the strategy. The EP recommended a stronger and regular dialogue at all levels, between responsible administrations, strengthening particularly JEREMIE and JESSICA programmes, simplifying rules to allow greater use by beneficiaries.[477] It is imperative to implement the EU2020 priorities, especially in the areas of non-polluting transport, drinking water, drainage and waste management systems, more effective environmental management, and the sustainable use of natural resources and renewable energies. Moreover, the EP urged to adopt specific provisions for the regions characterized

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[473] Gros, "How to….", p.3.

[474] See ETUC, *op.cit.*, p.4.

[475] European Commission, "Growing Regions – Growing Europe", the Fourth Report on Economic and Social Cohesion, Communication of the European Commission, May 2007.

[476] For that reason the EP urged the Commission to come up with a proposal for evaluation indicators before 2012 in order to provide the means to measure the impact produced, also as regards quantity and quality, and to make the necessary adjustments for the next programming period.

[477] European Parliament, "Report on the Contribution of the Cohesion Policy to the Achievement of Lisbon and the EU2020 Objectives", 2009/2235(INI), 30 April 2010.

by natural or demographic handicaps of a serious and permanent nature, such as coastal, islands, mountain, cross-border and the remotest regions.[478]

Similarly, The European Trade Union Confederation (ETUC) also considered climate change and energy security to be two major challenges as well as other environmental challenges, such as sustainable transport, sustainable production and consumption, conservation and management of natural resources, and public health. In accordance with this framework, ex-ante evaluation of projects supported by European funds must be made systematic, taking into account not only the economic and environmental impact, but also the social consequences, in particular jobs created by connecting regions to major networks.[479]

The EU budget must provide a well defined sustainable development framework, which satisfies the needs of societies. The EU's sustainable development strategy stipulates that European policies must "promote integration of economic, social and environmental considerations so that they are coherent and mutually reinforce each other."[480] This is the view that social progress, economic growth, environmental protection and maintaining biodiversity and a sustainable and safe energy system are seen as objectives which are mutually reinforcing, necessary for productivity and employment.[481] In fact, those points will indirectly help social construction of the Community by creating a conducive social environment.

In conclusion, BUSINESSEUROPE has advised some projections to implement under cohesion, easier access to funds, faster payments from cohesion funds, simplify procedures, open the financial ceilings for small-scale projects,

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[478] *Ibid.*

[479] See ETUC, *op.cit.*, 2008, p.5.

[480] See European Council Conclusions, "Review of the EU Sustainable Development Strategy (EU SDS) − Renewed Strategy", 10117/06, 9 June 2006, p.5.

[481] See ETUC, *op.cit.*, 2008, p.4.

develop a system for certain legal uncertainties in the control and audit aspects, shut down non-performing programmes, support low-income regions.[482]

Proposals on Environment:

The EU cohesion policy is needed a larger budget to mitigate actions on environmental issues, natural catastrophes (such as wildfires and flooding), low carbon emission, energy efficiency, renewables, and transportation. Many mitigation and adaptation programmes reflect EU priorities, and their benefits or impacts have cross-border impact. The EU budget can develop a mechanism to finance projects that have social constructive effects which will go beyond the territory of a certain member state, such as the creation of low carbon zones and green energy,[483] the transformation of energy and transport systems in poorer countries and regions and the creation of green jobs, as well as the development of a modern knowledge economy, but there is a need, however, to improve the strategic planning and implementation capacity in member states, as well as the in-depth collaboration among state departments, regional bodies, the research community, private business and wider civil society is for many administrations unprecedented.[484] There is an opportunity offered in the new member states for replacing the decaying housing stock with energy-efficient buildings[485]

Proposals on Energy efficiency and Renewable Energy

Due to the limited capacity of national budgets and the outstanding large needs to improve energy efficiency, the share of the allocation in the new member states does point to a relative weakness. Even when taking into account

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[482] Businesseurope, *op. cit*., pp.4-5.

[483] Jorge Núñez Ferrer, "For a Future Sustainable, Competitive and Greener EU Budget Integrating the Climate Change Objectives", the EU Final Report of a CEPS Task Force, 2009, p.iv.

[484] *Ibid*, p.iv.

[485] Arno Behrens, Jorge Núñez Ferrer and Christian Egenhofer (2008), "Financial Impacts of Climate Change: Implications for the EU Budget", *CEPS Working Document*, 300, August 2008, p.27.

that energy efficiency and reduction of greenhouse gas emissions can be achieved through the support in other aid categories (urban transport, regional aid, rail network expansion or communal heating system improvements), climate concerns are not well integrated in the development plans.[486]

Moreover, it can lead to a fundamental transformation of the energy and transport infrastructure in some EU member states and regions, especially those covered by infrastructural support through the cohesion policy.[487] The present assistance for green energy still consists of single projects without a coherent strategy. The EU could help build highly effective and coordinated programmes.[488] It can be a catalyst for change in the trans-European electricity grid and the completion of the single market in energy.

Proposals on Climate:

There is a lack of coherence in the approach to climate change as concluded by the various reports. With respect to energy, the ESPON analysis pinpointed that while a number of actions on energy efficiency were taking place, there was, for example, lack of connectivity between strategies in renewable energy and energy efficiency, i.e. new renewable energy systems may supply energy to energy inefficient houses or industries as stated above. This is important for cohesion funds, if projects creating energy consuming activities are not energy efficient, because the benefits will be partly eroded.[489]

Furthermore, to foster the switch to greener transport systems, it is recommended that member states can introduce the Eurovignette to their motorway networks, using part of the revenues to develop greener transport systems.

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[486] *Ibid*. p.30.

[487] Ferrer, "EU Budget Integrating…", p.2.

[488] *Ibid*, p.iv.

[489] Christian Egenhofer, Arno Behrens and Jorge Núñez Ferrer, "Does The EU have Sufficient Resources to Meet Its Objectives on Energy Policy and Climate Change?", *Centre for European Policy Studies*, Jan 2008, p.39 http://www.pedz.uni-mannheim.de/daten/edz-ma/ep/08/EST20191.pdf (accessed on 17 August 2010).

Proposals on Transportation:

Transport absorbs the highest share of the EU funds in the new member states, such as between 20% and 30% of the funds, 53% of this figure is allocated to road transport. Nevertheless, the planning for public transport is still inadequate in the structural fund strategies in most of the new member states.[490]

It is necessary to complete the TEN rail and waterways systems, particularly for cargo, which demand greater budgetary intervention. Since transportation investment is one of the most important public good, it enhances social integration and contraction as well.

Conclusion

By addressing the regions in the Member States, cohesion policy normally represents a national public good. Therefore, integration of EU2020 strategy together with Lisbon goals may hopefully provide some synergy and the sense of social construction. Those are the social, economic and environmental policies such as climate change, environmental protection, energy security and efficiency, public health, transportation and similar which will enhance social integration and contribute more social constructive sense over citizens..

The size of funding to cohesion regions consumes almost one third of the total EU budget, which demonstrates the importance of this funding category. Cohesion policy does not actually reflect social integration. Indeed the link between citizens and the EU level cannot be established in the existing framework. There are some public goods as illustrated above which can serve social construction of the European *demos.* It is highly recommended that the proportion of such goods in this subheading must be influential to establish such a link. The remaining percentage can be sustained for new member states and low income states.

[490] Behrens, *op. cit*., p.30.

As an alternative, the Policy can be prioritized for large regions by eliminating the national borders of the Member States. If the objective is to facilitate economic developments of the regions there would not be any objection to establish such a structure. In other word, regions in the borders of the neighbour countries of a member state can be treated as European regions altogether to eliminate a national ownership of regional public goods.[491]

Finally, the focal point is here to assure the public that these goods/expenditures are not national, but European. Policy implementation can be exposed with imposing signs and symbols of the EU, direct control of selected policies, and in some cases by direct involvements of implementation of the policies so that the European people who are benefitting from funding shall implicitly or explicitly internalize these goods and services as European goods.

6.3.4. Analysis and Reform Options of Agriculture policy

Introduction

Except for some tiny allocations of Lisbon related projects recently injected into the Policy areas, the form of the CAP funding has not represented social constructivist implementation from its first inception. Therefore two complex proposals remain in the agenda of the EU regarding future projections of the CAP, either "phasing out" or "rehabilitation".

First option is more difficult to succeed but easier to propose an ultimate solution, in fact the unconstructive nature of policy can be totally removed from the budget. However, this is unsurprisingly coupled with the phasing out of British rebate. The proposal practically abolishes the first pillar and accepts the continuation of the rural development policy, but not with any significant form of increases in budgetary funding. Consequently, this means that the position supports a substantial reduction of the EU budget funds, in the absence of any increase from the other items in the budget.

[491] See Maps of Cohesion Regions (Annex: 2A-2E).

The second option endeavours to preserve the existing system which affirms that the most important issue for the farmers is stability, and no significant reform is required. This option supports the procedural simplification in funding. However this should not be regarded as a French position, but must be based on a much more comprehensive reform study to come up with appropriate proposals which might eventually address social construction of the EU.[492]

With regard to reforming current policies as a second option, a fundamental proposal is needed on the policy of the CAP, since more than 40% of the total EU budget has been dedicated every year to that policy without committing crucial contribution for the EU level. The Agriculture budget is expected to promote the society's interests and become legitimately viable for EU citizens. The CAP is required to be redesigned to strengthen its constructive effects. Even though it is indeed very difficult to find out expected explorations, still there would be some options, such as the fight against climate change, the protection of biodiversity, reducing greenhouse gas emissions, and soil and water management at lower costs including avoidance of pollution, scarcity and floods.[493]

There are some important factors supporting changes to the CAP. First of all there are critics from the Member States regarding the role and importance of agriculture. A number of countries have supported the first pillar of the CAP for making European public goods. Second, the CAP has lost public confidence due to dissatisfaction about its objectives and the policy mechanisms. It is no longer seen as socially biased. On the contrary, it is utilized in such a way that the biggest direct payments are shared by large landowners. Third, there are now external pressures linked to the WTO negotiations framework. The Doha Round enhanced reform through a later market liberalization and export support abolition, which presents ongoing international pressure for the liberalization of the direct price support mechanism. Fourth, net budgetary contributors have been

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[492] Mrak and Vasja, *op.cit.*, p.15.

[493] EU Budget Reform Taskforce, *op.cit.*, p. 12 and Tamsin Cooper, Kaley Hart and David Baldock, "Provision of Public Goods through Agriculture in the European Union", *IEEP*, 2009, p.15-16.

building pressures for reform. There is an indication that a country's concern on the CAP has a crucial impact on decisions. There is organized pressure to preserve the income level of agricultural producers (income pressure), and the pressure to reach a common agreement in Community bodies (institutional pressure).[494]

There is broad agreement that the policy does little to foster cohesion, as most subsidies are actually paid to richer and more efficient farmers in richer member states,[495] which might be combined with the lack of projected time span and suitable review and measurement mechanisms. Consistent with this argument another question remains whether a policy of income support is to be continued since large farms are generally very profitable and receiving a big portion from the CAP budget.[496] There are some advantages and disadvantages of small and large farms. Smaller farms can adopt less intensive management techniques since they testify more limited economies of scale. On the other hand large farms may have more capital and assets to dedicate. Their economic returns and production levels or adopting practices that are more sensitive to the environment are comparatively high. They can invest in more technically advanced apparatus. However, the CAP has not aimed at increasing efficiency and productivity, and the EU has no such a question to stimulate the CAP.[497] Nevertheless, constructive nature of expenses must be widely dispersed in the policy areas to provide social constructive agriculture policy. As a matter of fact environmental policy implementation should not focus on large farms since social constructive effects of this policy can be provided while attempting as many farms as possible.

Although agricultural spending represented 71% of the 1975 budget, in the following ten years this percentage was decreased to 68%, and finally it fell below 47% since 2006. In the Financial Perspective of 2007–2013, the CAP

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[494] See for details, EU Budget Reform Taskforce, *op.cit.*, p.12-13.

[495] Gros, "How to….", p.3.

[496] Pietras, *op.cit.*, p.42.

[497] Reform Homepages: Reform the CAP – Harvest a Better Europe! http://www.reformthecap.eu/blog/public-goods-ieep

budget (excluding rural development), composed with market related expenditures and direct aids, represents 34% of the budget. Other agriculture related expenses present 9% so that the budget for preservation of natural resources altogether has represented 43% of the financial framework.[498]

From the first inception, the CAP has experienced a number of reforms. Particularly the MacSharry reform of 1992 and the Fischler reform of 2003 conceptually changed the policy, as it was ultimately redirected from providing market-price support mechanism (with import protection, export subsidies and other forms of intervention, which was found to be necessary after World War II for ensuring food security) to direct payment support. Liberalization of the agriculture market and the gradual abolition of market-price supports were also accompanied by a pointed redirection to a rural development policy as the second pillar of the CAP.

In spite of these changes, the distribution of support has mostly remained linked to a spot in the agricultural sector which does not correspond with current desires. Because of its present structure, the CAP plays a controversial role in the fund distribution. It extends benefits to countries with the highest yields from specific products, and to the largest and often wealthiest producers within these countries.[499] Another inconsistency is that the highest yields in agriculture are usually observed in the most developed states. Consequently, the wealthiest countries such as Belgium, Denmark, France and Ireland receive the largest amounts. Funds have been inefficiently allocated due to lack of program reviews for regional policy.[500]

Regarding the first pillar of the CAP two explanations might be considered for direct payments. Firstly, direct payments are mostly income support to farmers, which tracks the conception of redistribution. In this case,

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[498] Annex 1/B.

[499] The payments per farm are not necessarily based on the historical farm yields, as often regional or national averages are used. Nevertheless, farms in historically high yielding countries and/or regions still receive higher payments and larger farms more than smaller ones. Direct payments indirectly and unofficially continue to compensate for the intervention price reductions in the years 1992 and 2000. (Ferrer, "The EU Budget the UK Rebate ...", p.17).

[500] Ferrer, "The EU Budget the UK Rebate ...", pp.17-18.

funding for support from the EU budget is completely unconvinced, because, in accordance with fiscal federalism, the redistribution function between individuals is decentralized which entails the national budgets in case of the EU. Furthermore, payments under this pillar are a divergent justification since the disparities in aid received per hectare amongst Member States are extremely large (€90-€680/ha).[501] Secondly, direct payments are calculated to guarantee specific cost-free public services, such as landscape appearance, safe and healthy food and the sustainable management of agricultural resources, and they, therefore, more closely associated with the concept of public goods. Even if the argument about adherence of these types of direct payments to the concept of public goods is accepted, it is yet to be established that it is more appropriate to finance these payments from the EU budget rather than from national budgets.[502]

The main criticisms concerning the efficiency of support for the first pillar of the CAP can be defined as the efficiency of the transfer of income distributed under the second pillar, the leakage of aid towards unintended beneficiaries, water pollution and the limited impact of agri-environmental and eco-conditionality aid programmes.[503] Originally there is no environmental objective for the CAP in the EU Treaty, but the detrimental implications of the policy on the environment have been important.[504]

Social Constructive Reform Proposals for the CAP

There might be some public goods even in the agriculture policy, including but not limited to, environmental protection, conservation of biodiversity, soil fertility, water quality, landscape preservation, food safety, animal and plant health, and rural development. In fact, agricultural funding of

501 EU Budget Reform Taskforce, *op.cit.*, p.13.

502 *Ibid.*

503 Nadège Chambon, "Reforming the CAP Budget – A Perfect Test for the EU", *Notre Europe*, 2010, p.271.

504 Núñez Ferrer, J., "Can reforming own resources foster policy quality?", *SIEPS report* 2008/3, 2008, p.22.

the EU has to seek European level public goods instead of national or regional level policies, so that those goods may play an extensive role for influencing citizens.

Environmental protection and climate change are global challenges with a supranational flavour. Program payments for climate-friendly farming are needed. Likewise, the protection of biodiversity needs EU support because, animals, ecosystems and biodiversity-threatening pollution go beyond the borders, clean water, averting water scarcity and flooding hazards are the EU concern, because Europe shares rivers, lakes, seas and lands. Some high level issues related with environmental, animal welfare, and other ethical aspects of production methods, seek international harmonization of ethical and environmental production standards, but monitoring greenhouse gas and carbon emissions are difficult in agriculture.[505]

The European Environmental Bureau highlighted some objectives for rehabilitation of agricultural policies of the EU among which some of them are important for the production of European public goods such as preservation and improvement of the environmental quality of the farmland.[506]

By contrast the first pillar and second pillar of the CAP is closer to the concept of public goods, since measures for improving competitiveness, implementing high quality services and allocating activities and incomes to rural areas should receive the highest priority for financing.

Policies under the second pillar can be systematically amended to consider the policies that promote genuine European public goods. In connection with public goods issue in the CAP, direct support can be progressively abolished, since it is not relevant to public goods issue. The Single Farm Payment

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[505] For details see, Reform the CAP, Harvest a Better Europe! http://www.reformthecap.eu/declaration-on-cap-reform-html

[506] Maria Buitenkamp, "EBB's Vision for European Agriculture: 2008 – 2020", *EEB Publication*, 2008/007, October 2008, p.4.

does not represent social interest since it was originally introduced to compensate farmers for lower price support.[507]

Another way of reducing the unconstructive structure of the CAP is the co-financing of the policy from the resources of the Member States which is at present intensively discussed as a way of downsizing the budget of the CAP. It provides the governments of the Member States with an important argument *vis-a-vis* national rural interests; failure to top-up the CAP budget from national resources makes them more resistant to the lobbying pressure of that sector.[508] It is noted at the same time that although renationalization would serve to lower expenditure of the EU budget on agriculture, it would as well increase the spending of the Member States for this purpose and decrease the positive impact of cohesion policy.[509]

The proposal of co-financing is disputed because it may shift the burden of financing an "anomaly" on to the level of the budgets of the Member States. For instance Poland farmers have been receiving almost twice as big in comparison with the period before accession.[510]

The Commission document on the "CAP health-check" introduced some proposals but, assuming that, the policy should not change the rules of the game in a short time. The Commission believed that, the increase in the level of compulsory modulation and introduction of the limit of direct payments per farm (capping) would increase the acceptance for the reformed CAP.[511] The Commission is also planning to increase transparency concerning the spending of EU funds on direct payments, market support or support of rural areas. The

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[507] Reform the CAP, Harvest a Better Europe! http://www.reformthecap.eu/declaration-on-cap-reform-html

[508] Pietras, *op. cit.*, p.42.

[509] G.P. Zanias, "The Distribution of CAP Benefits among Member States and the Impact of a Partial Re-nationalisation: A Note", *Journal of Agricultural Economics*, 1, 2002, p.108–112.

[510] *Ibid.*, p.45.

[511] European Commission, "Preparing for the *Health Check*" of the CAP Reform", Communication from the Commission to the Council and the European Parliament, COM(2007) 722, Brussels 20 November 2007, pp.9-10.

Commission goes even further, and proposes introduction of single payments per 1 ha in the entire EU in future. Area payments in the new Member States are precursors of this approach.[512] The most contentious assumption at the moment is not so much the entire disposal of the CAP or even its radical transformation, than the change in the sources of its financing.

Besides the idea of co-financing the CAP, there is an interesting idea of separation of the budgets to overcome the deadlock of the current system which was developed in Ferrer. It is proposed that the CAP is to be placed in a separate budget which will provide contributions proportional to the countries' gross value added (GVA) of the agricultural production. This proposal deems that the productivity of the agriculture sector, and thus its GVA, is highly correlated with the support received by the countries, to the effect that this reform would eliminate redistribution between member states through the CAP to a large extent. Moreover, it is emphasized that a separation of expenditures, in particular of the CAP, is also possible with co-financing as stated before.[513] Furthermore, Wostner advocated a separation of a European public goods budget from expenditures with localized benefits.[514]

These proposals will be addressing the issue of *juste retour* specifically in agriculture policy, and enhancing the efficiency of the budgetary spending. This shall further reduce the CAP budget so that it will allow the budget to focus more on social constructive expenditures. Nonetheless, the CAP will continue to be far from funding social constructive goods and services, if these expenditures in the new budgetary system would be addressing the member states yet again, but in a more reasonable way. Reversely, the separation of public goods budget from the general budget may help more if the incentive was given to the funding for public goods rather than subsidizing some policies.[515]

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[512] *Ibid.*

[513] For further details see, Ferrer, "Can Reforming…", pp.26-27.

[514] Peter Wostner, "On the Character of the EU and Its Budget: Look into the Future", *EU-Consent EU-Budget Working Paper*, 8, 2008, pp.13-14.

[515] Similar provision is made by Iozzo, *et.al.*, *op.cit.*, p.3.

Splitting the CAP budget into two budgets appears to be more reasonable if the CAP still persists. A significant reduction must be provided by proposing the gradual phasing out of some subjects and/or regions. While social constructive expenditures can be maintained in the general budget, direct subsidies can be separated. To reduce the burden and ineffective subsidy, budget co-financing can be offered. In fact, a mechanism for gradual reduction is the best way not to hurt farmers. Additionally, the areas of the unconstructive expenditures (subsidies) can be compensated and supported by taxation policies to provide necessary link with farmers and fishermen as proposed in the VAT section of this chapter.

Conclusion

There are two options for the CAP, either removing it totally from the budget or rehabilitating it in connection with generating the EU level public goods. Two categories of practices are most associated with the provision of public goods:

> 1) Those that are inherently less intrusive on the environment, for example, those that do not involve deep cultivation, irrigation, heavy input use, the removal of semi-natural vegetation, etc. Many correspond to more traditional extensive practices but also include some modern ones (for example, drip irrigation). 2) Those that are designed to address a specific environmental concern, for example, the use of buffer strips, skylark scrapes, or slurry injection.[516]

In the future, the CAP and the sustainable development objectives set by the Lisbon and Gothenburg Strategies (creation of quality jobs, social cohesion and environmental protection) must be consolidated and strengthened.[517]

If the rehabilitation option is developed, direct financial support can be directed in such way that better reflects the estimated costs of accomplishing the

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[516] Reform Homepages: Reform the CAP – Harvest a Better Europe! http://www.reformthecap.eu/blog/public-goods-ieep

[517] See ETUC, *op.cit.*, 2008, p.6.

policy's objectives. Historical yields can no longer be taken as reference and farms with large turnovers cannot be supported.[518]

Co-financing of agriculture is something that might be well considered as an option given that 50% co-financing would be half of the expenditures and still retain precisely the same policy. Co-financing is a way of cutting down the cost to the budget.[519] There are other options such as predefined net positions and correction at the revenue side which can deal with equal burden sharing of the Member States of the cost of the EU budget, and increase performance of the EU funding on agriculture policy. A separate agriculture budget may be acceptable if funding of public goods in the budget of agriculture is likely to be proportionally larger than subsidies.

Lands, other than food and arable lands, such as forest and other natural lands (public lands of the member states) can be protected as well since they are also public goods. The public good protection can include forest protection, sea protection, fire protection, and inter-land developments. It is expected from the reform that it must achieve a more reliable food supply, reduced greenhouse gas emissions, greater biodiversity, and more responsible soil and water management at lower costs. The EU has a legitimate role to play in encouraging research and development in both public and private sectors, since the benefits of research and development are often shared across borders, and member states can benefit by pooling their research endeavours. Such an EU support can easily be integrated into the EU's existing research policy. An institution building for this purpose is also encouraged since this is also a European public good and expands social constructive effects to the Community.

Expenditure capable of transcending borders of the Member States should be supported by the European level, such as; expenditures on climate change, ecosystem, harmonization of environmental studies regarding to agriculture to create socially responsible and environmentally respectful lands, animal health

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[518] Ferrer, "The EU Budget the UK Rebate ...", p. 22.

[519] Begg, *et al.*, *op. cit.*, pp.25-38.

and food safety expenditures, soil fertility, water quality and such other related to sustainable agriculture.

The aim of the reform in general is to address social construction of the EU, in this regard, intergovernmental elements in the CAP are to be eliminated; either through total removal of direct payment from the budget or separation and minimizing or co-financing of direct aid budget. The EU level public goods, listed in the Annex: 9, which are transcending the certain member state and/or regions are to be supported.

6.3.5. Analysis and Reform Options of Budgetary Administration

Budgetary administration of the Community has been taken into consideration from social constructivist perspective since administration is the result of an augmentation of professionals from the member States and conveys EU level policies. The Commission assumes the biggest role for administration of the EU budget. It improves the Commission's budgetary and administrative culture in parallel with the needs accruing from deepening and widening of the Community.[520] Sound and Efficient Financial Management Programme (SEM 2000) was initiated for this purpose in 1995 with the objective of improving effectiveness and supervision of the management of funds, monitoring the execution of decentralized tasks together with increasing the accountability of institutions and workforce. In 2000, the "revolution in the Commission's operating procedures" culminated into a White Paper on Reform,[521] facilitating "a real organizational and cultural reform.[522] During this reorganization, audit

[520] See Annex: 10 for effects of expenditures in policy areas

[521] See European Commission, "Reforming the Commission", White Paper, COM(2000) 200, Brussels, 1 March 2000.

[522] The relationships between objectives, actions and resources were established with Activity-based management. To make the best possible use of human resources, measures were proposed to favour a greater degree of meritocracy, more credible and verifiable performance appraisal, lifelong learning and devolved management responsibility. (See European Commission, Progress "Report On The Commission Reform Beyond The Reform Mandate", COM(2005) 668, Brussels, 21 December 2005, p.3).

personnel have been increased and their accountability enhanced, especially with the reporting obligations of Directors-General.

The EU operates three types of management systems in its budgetary implementation: centralized management, shared management or decentralized management, and joint management methods.[523] The Commission directly or by employing an agency of third parties engages in the implementation in centralized management, the Member States (the members or other states benefitting from the EU funding) through the method of shared or decentralized management and international organization implements certain tasks designated by the Commission.

On the expenditure side of the budget, the Commission directly controls some expenditure in the area of research, certain external actions and administrative expenditures. The CAP, structural funds, pre-accession aids and the migration policy (there are four types of funds: the external borders, the integration, the return and the European refugee) are managed through shared or decentralized management system with the member states. Humanitarian aid is managed by international organizations.[524]

Shared management associates with the principles of subsidiarity and proportionality, according to which the Community intervenes only if the objectives of the proposed action cannot be sufficiently achieved by the Member States and can therefore by reason of the scale or effects of the proposed action, be better achieved by the Community.[525]

Obviously, there is an absence of a genuine Community administration in shared management. Hence the system gives the impression of utilization/exploitation of the appropriations.

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[523] Council Regulation (EC, Euratom) “Financial Regulation Applicable to The General Budget of the European Communities’, No. 1605/2002 of 13 December 2006, Article 53-57.

[524] The Commission: EU Budget Financial Report 2008, p.8 http://ec.europa.eu/budget/library/publications/fin_reports/fin_report_08_en.pdf

[525] Article 5 of TEC, Consolidated Version Of The Treaty On European Union, Official Journal of the European Union, 29.12.2006.

The EU in many aspects needs more assessments regarding the implementation and evaluation of the policies. Policies such as the cohesion and the CAP health check are not compatible with their processes, because they are not carried out by independent bodies of the Union. That is why the roles of the Parliament and the Court of Auditors are strongly required over the budget. Since the Commission is in charge of expenditures, these independent bodies are to be autonomous from the Commission for effective management.

The expenditures of the EU still demonstrate high irregularities on vital issues in the expenditure management. In some cases the Court of Auditors has unearthed serious irregularities, for instance in cohesion and external aid payments, development and enlargement, including pre-accession and neighbourhood policy, and additionally a higher level of irregularities in the framework programme for research and technological development and rural development expenditures.[526] The Auditors have recognized that cases of irregularity most common in interim and final payments and are the result of ineligible claims by beneficiaries, over-declaration of eligible costs, and non-compliance with conditions for payment, in particular public procurement rules. The two principal causes the Court has identified for such errors are, deficiencies of systems to control the risks at the final beneficiary level, and the complexity of the eligibility rules and other conditions with which beneficiaries must comply.[527]

Although changes have been made to financial management for FF 2007-2013 programming period, it is too early to say whether irregularities have been reduced to the certain level since most payments so far have been completed as pre-financing or advance payments.

The quality of data obtained from the Member States is required to improve their quality to supply the Commission, especially in the areas of the CAP and Cohesion Policy.

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[526] Court of Auditors, "Improving The Financial Management Of The European Union Budget: Risks and Challenges", Opinion 1, 2010, p.3.

[527] *Ibid.*

There is a need to assess the possible effects on the quality of spending and introduction of simplification in the areas of irregularities, such as improving the selection, design and operation of expenditure programmes and schemes. In particular, the Court takes notes of the following eight problems:

> • Expenditure programmes and schemes not delivering genuine European added value;
> • Too wide-ranging, unclear or somewhat conflicting policy objectives;
> • Insufficient policy instruments and resources to meet the objectives set;
> • Unclear "intervention logic" setting out the causal links between the funded activities and the desired outcomes;
> • Overly complex or unverifiable eligibility criteria increasing administrative costs and the risk of non-compliance as well as undermining control and targeting;
> • Unclear roles and responsibilities (a particular problem in areas of shared management and development assistance) which undermines ownership and reduces effectiveness and sustainability;
> • Deficiencies in monitoring and evaluation arrangements;
> • Inadequate access to documents and information in some areas of joint management involving international organizations preventing effective monitoring.[528]

Even though most of the findings of the Court negatively affect the delivery of public goods which hinder social construction of the Community, the management of the funds is very critical for the assessment of social constructive mechanisms. The fund management can break the established link between citizens and the EU level, if citizens get bad image regarding the fund administration. Indeed, among them first six problems are especially important since they undermine belongings to the EU. In the management formation, objectives of a European level influence must be reflected everywhere and to everybody.

The Court adopted a decision that the Commission's existing processes for developing policies, in particular its practice of ex-ante evaluation and impact assessments could be further strengthened to ensure that due consideration is given to these issues and to the question whether and how a programme brings European added value.[529]

The layers of procedures, intervention levels and management and control bodies that characterizes budgetary implementation in shared management

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[528] *Ibid*., p.5.

[529] This Opinion has been adopted by the Court of Auditors in Luxembourg at its meeting of 14 January 2010, opinion No: 1.

arrangements inevitably brings with it, the dilution of the responsibilities of the various protagonists.[530] The budget has a limited form of administrative and financial responsibility with regard to the implementation of the funds because there is no one genuinely liable. Indeed the implementation under shared management is with the control of the Commission but there is a lack of clarity on mutual responsibilities and obligations between the Commission and other stakeholders.

6.3.6. Increasing Social Constructive Expenditures

By analyzing policies of defence, foreign policy, environment, poverty and social exclusion, agriculture, research, unemployment, regional aid, education, immigration and terrorism, Cerniglia and Pagani investigates[531] which individual characteristics make European citizens more prone to prefer centralization of competences. They have first distinguished pro-Europeanness of the Member States (EU-15) as below:

Table 9
Pro-Europeanization of EU-15

Member States (15)	**Pro-Europeanist**
Italy, Portugal, Spain, Greece and Belgium	More
France, Germany	High
1. The Netherlands and Austria 2. Ireland and UK 3. Finland, Sweden, Denmark and Luxemburg	Less

Source: Author's inceptions from Cerniglia, and Pagani, 2007

Table 9 indicates that more Europeanist Member States are generally net beneficiaries. The Member States in the less Europeanist group, the UK and Ireland excepted, are largely net contributors. Nonetheless, there might be many

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[530] Cipriani, *op.cit.,*, p. 126.

[531] Floriana Cerniglia and Laura Pagani, "The European Union and the Member States: An Empirical Analysis of Europeans' Preferences", *CESifo Working Papers*, 2067, 2007, p. 28-30

factors affecting the degree of Europeanism that budgetary funding should be considered among them. This table is important from another angle to conclude that social constructive roles of the EU budget might be intensified in those states which are not in favour of the Europeanism and in those policy areas which are inadequately assessed.

Table 10
Centralization and Decentralization Policy Preferences of EU-15

Policies	**In favor of the EU Centralization**	**In favor of Nationalization**
Poverty and social exclusion and fight against international terrorism	Sweden	
Defense	the Netherland, Italy	
Foreign policy	Belgium, Germany and Finland	
Environment	Germany, UK, the Netherlands, Sweden	
Agriculture	Denmark, Belgium, Germany, Sweden &the UK (Oldest MS)	
Regional	Denmark, Sweden	
Unemployment and education	Italy	
Immigration	Italy, Greece and Spain	
Research, unemployment, education and immigration	Female citizens	
Regional aid		Female citizens
Foreign policy, poverty and social exclusion and regional aid		Oldest Europeans
Agriculture		Farmer-fisherman
Poverty and social exclusion, agriculture and immigration		Rightists
Education		Leftists

Source: Author’s inceptions from Cerniglia and Pagani, 2007

Table 10 shows how the Member States (EU-15) and some groups present their concern in Funding at national or EU levels in accordance with their priorities and interests: In some policy areas there are large majorities in preferences of centralization (for instance terrorism) or decentralization (for instance education) but, in some policy areas (such as defence, immigration, policies for tackling the challenge of an ageing population, rules for political asylum, unemployment and agriculture) there is a heterogeneity across countries.

In various policy areas more budgetary involvement are required which will expand the amount of budgetary funding, such as research, infrastructure security, defence, environmental issues and global challenges. As an example, Sapir and Gross and Micossi proposed almost 6 times bigger funds for research and development projects and 2 to 7 times bigger budget for education. Gross and Micossi even further proposed a seven times bigger budget for security and defence, and extra funding for environmental projects (see Table 7). The proposal of Gross and Micossi seems rather reasonable and modest, but their assumptions are based on elimination of the CAP and structural funds within the expenditures, which account for 40% of the total budget. In case of complications with regard to removal of these expenditure categories from the budget, total funding will be 40% bigger than their proposal.

Freedom, justice, security and citizenship are promising social construction, but their shares in the budget are too low. Human rights, peace and security are universal public goods if initiated and supported from the EU level, which will extend European values to other communities. Protection of citizens from external material and immaterial threats would enhance social connectedness. In this regard, policies such as criminal justice, terrorism, crime, drug prevention, migration would also be advisable. The budgetary funds are advised to focus on citizens and social areas which yield more social integrations. Social projects might be developed in the areas of sports, family and other social activities at the EU level which might be included in neighbouring and accessing states.

The deficiencies in the program management and implementation can be taken in line with the administration proposals, funding conditions should be clearly defined in line with institutional objectives and management and fund control capacity should be strengthened.

6.3.6.1. CFSP in the Future Budget

Security, defence and crime prevention, peace-building, peacekeeping and humanitarian expenditure have been considered as public goods.[532] The failure of headline goals for ESDP will affect the EU's position at the world stage. The EU

[532] See *at.al*. Zuleeg, *op.cit*.

should execute the tasks set out at Petersberg, such as peacekeeping and peacemaking and humanitarian operations. If there is no substantial increase in the defence budget, there should be far more emphasis on sharing among Member States to mitigate the damage caused by ever more limited defence resources afterwards. In the area of security and foreign policy the European public would agree with being more European since it is imperative in a rapidly changing international environment to make the EU speak in unison and act collectively in external relations, against the growing tide of globalization, US unilateralism and new security threats.

There is no proper mechanism to measure the efficiency and effectiveness of such policy since it will depend on a particular perspective: the EU institutions, the Member States, third countries or European public space will advance different points of view. Nevertheless, one can easily observe that foreign and security policy can bring the EU to world scene with its norms and common sense which is what social construction intends to do.

In fact a major increase in the CFSP budget is necessary if the EU intends to make important progress towards dispersing its influence. The CFSP budget is a very modest (€ 249 million a year in average),[533] which is expected to cover crisis management operations,[534] conflict prevention, resolution and stabilization, monitoring and implementation of peace and security processes, non-proliferation and disarmament, emergency measures as well as covering the costs of EU special representatives.

The CFSP can serve as a multiplier for EU influence, through concrete actions in the fields of conflict prevention, crisis management, peacekeeping, peacemaking and disaster reactions. In determining the appropriate level of the CFSP budget, two essential philosophies should be taken note of: budgetary resources should follow objective foreign policy needs, and adequate “common”

[533] See Annex 1/A.

[534] Only civilian, military operations are outside of the Treaty scope.

budgetary resources are essential to underpin geographical solidarity among Member States with diverging foreign policy priorities.[535]

There is pointed criticism that the ambiguity of funding for the CFSP is likely to be similarly disappointing, especially after the Kosovo crisis. Indeed, the EU's capacity to take on broader tasks will be hampered by the absence of suitable funding.[536]

There is no doubt that the EU should have identity and legal personality on the world scene and the budget allocation for CFSP is imperative, not only in the operational capacity of security issues, but also efficient foreign policy practices. Besides the increasing volume and number of the activities in this category, the budget can support military research and developments as well, bearing in mind that any such settlement related to security shall broaden social construction of the Union. Similar advancements might be proposed for the candidate countries whose approach to the EU in this matter is viewed as positive advancement.

6.4. Social Constructive Reforms for the EU Revenues:

6.4.1. Introduction

There are many arguments about reforming the EU budget revenues among which a dedication of financial resources in line with the expectation of a greater degree of financial autonomy takes the first place in order for the EU to deal with the new challenges without depending on contributions from the Member States. On the other hand, as discussed, for example, in Alves, it would appear that it is essential for the EU to reduce the divergence between the high

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[535] Karel De Gucht,, "Shifting EU Foreign Policy into Higher Gear", *EU Diplomacy Papers*, 1 / 2006, 2006, pp.6-7.

[536] Iain Begg, "Reshaping the EU Budget: Yet Another Missed Opportunity 'National and Supranational Economic Policy to Correct Internal Disequilibrium under EMU'", *ESRC Policy Paper*, 1/99, 1999, p. 16.

level of economic integration and the low level of political integration.[537] Strengthening economic and political developments with social integration would be relevant in enhancement of democratic participation and citizenship or the institutional capacity to take decisions and actions for enhancing social constructive inventions by using the budgetary mechanisms as well.

In this connection, the theory of fiscal federalism infers that it would be valuable to include larger intervention at the EU level by way of supplying goods and services that are obviously supranational in nature. The redistribution function of the budget is associated with revenue mechanism. Even though fiscal federalism stresses the need of centralization for this function, the EU doesn't also entail this model.

> In the European integration context centralised inter-personal redistribution is far away from meeting the necessary political conditions to achieve it: not least because the degree of inter-state solidarity is low, but also (and mainly) because such modality of redistribution requires an instrument (income taxes) that is not available in the supranational catalogue of competences. National governments' resistance to transfer competences to the supranational level, as far as income taxes are concerned, is well documented. Without the appropriate tool at the supranational level, it is unthinkable to envisage a system of supranational transfers.[538]

If it is admitted that an effective response to the new challenges includes a profound change in the EU's political and institutional model (as it is defended, in fact, in previous studies mentioned above), in the sense of creating a "Federation of Nation States", such a change will entail an equally profound reform at the level of the community budget, precisely, political federalism, in this case, must be accompanied by fiscal federalism.[539]

Therefore, the reforms of the EU budget are not in line with the projections of fiscal federalism. Conversely, it is supposed that they can be implemented more effectively by social constructivism. In fact, the weakness in

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[537] Rui Henrique Alves, "European Constitution and (Fiscal) Federalism", *in* McCombie, J. E Gonzalez, C.R. (eds.), *European Union: Current Problems and Prospects*, Palgrave Macmillan, 2007, pp. 154-172.

[538]Paulo Vila Major, "Unveiling Fiscal federalism in the European Union.", *Sussex European Institute*, 2003, p.4.

[539] Rui Henrique Alves and Oscar Afonso "Reforming the EU Budget: How to Increase Financial Autonomy?", 2008, p.8.

the progress of the European integration might be attributed to questions in the development of social and political integration which can be rehabilitated by using the EU's budgetary mechanisms. In effect, this approach necessitates changes in the composition of the expenditures and revenues in their method of administration and rehabilitation of institutional level questions.

One of the significant debates regarding the issues of financing the EU expenditures is the composition, volume and resources of the revenues which is now associated with the reform issue of the present budgetary revenues. The debates about financing the EU budget basically revolve around issues such as the composition of own resources, the issue of self-sufficient financing, probability of developing new financial resources, etc.

The Commission presented a report about the evolution of own resources in September 2004, in which it proposed gradual substitution of the present revenue model with additional one which is supposed to be more directly oriented towards citizens. However, the report didn't demonstrate any intention for the proposition on a new own resource for the subsequent period. The Lisbon Treaty, following this, also surprisingly did not introduce any change to the existing system of the own resources.[540]

The reform proposals about budget revenues have intensely increased from this period onto present that some of them are shortly highlighted in the following paragraphs.[541]

The current system is criticized for the lack of transparency and complexity. Enlargement and the Lisbon objectives, introduces an opportunity to a new system of own resources and a possible European income tax.[542]

By recalling the proposal submitted by the Economic and Social Council (ECOSOC) of the United Nations, ETUC supported the possible creation of a

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[540] See European Commission, "Financing the European Union", Commission Report on the Operation of the Own Resources System, COM (2004) 505.

[541] See COM (2004) 505 and see Philippe Cattoir, "Tax Based EU Own Resources: An Assessment", *European Commission Working Paper*, 1/2004 Taxing papers.

[542] See ETUC, "EU Financial perspectives 2007-2013", Resolution adopted by *the ETUC Executive Committee*, Brussels, 5-6 December 2005http://www.etuc.org/a/1835 (accessed in June 2010).

European transport infrastructure fund that would be financed by a levy of one cent per litre of fuel consumed by all vehicles.[543]

New revenue structure must introduce solutions for the existing derogations and exemptions and focus on choices based upon support from Europe's citizens by establishing social responsibility relationship between the EU and citizens which can introduce new indirect resources including green taxes.

With regard to the amendments of the current system, Alves and Afonso have stressed that there might be three possible hypothesis to establish; substitution of traditional own resources by the GNP-based resource, simplification of the method of calculating resources based on VAT, eliminating their association with the British rebate and introducing a uniform VAT rate for all Member-States, and full substitution of the present set of own resources by the GNP resource.[544] Therefore the subject should not only be providing a sustainable resource for financing the EU expenditures, but also proposing social a constructive establishment for the integration questions. In so doing, the second option looks manageable against the other options.

The Commission suggested, in the medium-run, the introduction of a new own resource based on taxes.[545] This resource would have to substitute the present resource based on VAT and finance a significant part of the community budget, enabling the main disadvantages of the present system to overcome, including the overwhelming dependency on transfers from national budgets. The Commission also considered that the resource based on GNP should continue to play an important role, though it would come to represent a smaller part of the total own resources than in the present system.[546]

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[543] *Ibid.* second to last para.

[544] For further development of this aspect, see, e.g., Maciej Cieślukowski and Rui Henrique Alves, "Financial Autonomy of the European Union after Enlargement", *FEP* Working Papers, 217, 2006.

[545] European Commission, "Financing the European Union, Commission Report on the Operation of the Own Resources System", COM (2004) 505, 2004.

[546] Alves, and Afonso, *op.cit.*, p.10.

Financing the EU is sometimes linked to the central concept of greater financial autonomy. Some studies have focused on own-resources system for the sake of the Union's financial autonomy, Cieślukowski and Alves for instance have recommended two reforms; simplifying the own-resources system and widening fiscal bases of own resources to secure financial autonomy. The own resource system according to them must have some features from the territory of the commune, revenue from these resources should entirely reinforce the community budget, and revenue must not have a time limit.[547] They have further discussed that real own resources should also meet more features and at least partially come directly from EU citizens and companies but not from member states' national budgets.

Menėndez has proposed European taxes from a federative perspective. According to him European level VAT would be unfair because the less well-off member states would have to pay a relatively higher share for the cost of Europe.[548] Nevertheless, his view represents a member state perspective, in spite of a social constructive one. He has further proposed a tax authority within the member states. This idea seems quite reasonable from a social constructive perspective for providing EU level influence over the citizens with a new institutional setting for the EU public governance. However, he left an important subject unanswered, which is the cost-benefit estimation of this proposal in the establishment.

Musgrave has set several criteria for certain taxes to be collected at the local level. First, the taxes suitable for economical stabilization should be collected at the central level, while taxes which are collected at the local level should be neutral to cyclical trends. Second, progressive taxes for redistribution purposes, as an income tax, should be collected at the central level. Third, other progressive taxes should be collected at the level which best includes its tax. Fourth, lower levels of government should tax the bases whose mobility is low,

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[547] Cieślukowski,and Alves, *op.cit.,* pp.8-15.

[548] Menėndez, Augustin Josė, "Taxing Europe. The Case for European Taxes in Federal perspective, Stein Rokkan Centre for Social Studies Working Papers 20-2002, 2002.

and the last, the taxes whose base is extremely unevenly divided all over the state should be collected at the central government.[549]

Musgrave's approach presents pure fiscal federalism,[550] which demonstrates some deficiencies in the application to the EU. First of all, the stabilization function and stabilization taxes are not suitable for the EU Income tax, as a type of progressive tax can bring social constructive effects. Second factor mobility of taxes shall be extremely difficult and present advance stages for the EU.

More concretely, the European Commission report of 1998 has discussed eight kinds of potential own resources: CO2- or energy tax, modified value added tax, excises on tobacco, alcohol and mineral oil, corporate tax, tax on transport and telecommunication services, income tax, interest income tax, and a tax on the ECB gains from seignorage.[551] All recommendations are acceptable from social constructive point of view, as long as their implementation mechanisms are well established and these taxes are channelled to serve for social construction of the EU.

Finally, the Draft Report on the future of the EU's own resources has decreased these eight taxes to three main categories: a share of a tax rate on energy consumption (eco tax), a share of the national VAT rate and a share of the corporate income tax. The tax based on energy consumption could be conceived in two ways: as a tax with a broad base (coal, gas, oil, etc) or as an EU tax on fuel for road transport. The tax would be paid by consumers through the energy suppliers, creating a direct link between the EU budget and European citizens. This would certainly constitute a stable source of financing for the community budget and enough for a level of needs close to that of the present.[552]

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[549] For details see, R. A. Musgrave, "Who Should tax, where and What?" in Charles McLure (ed.), *Tax Assignment in Federal Countries*, Australian National University Press, Canberra, 1983.

[550] *Ibid.*

[551] The European Commission, "Financing the European Union: Commission Report on the Operation of the Own Resource System", COM(98)560, 1998.

[552] European Parliament, Draft Report on the Future of the European Union's Own Resources (Provisional 2006/2205), 2007,

6.4.2. Analysis and Reform Options of Traditional Own Resources:

Traditional own resources are resources obtained within the scope of common policies of the EU by nature and, they, thus, include customs duties, resulting from the application of the common tariffs and agricultural duties, accruing from the imports of agricultural products from non-member states which are linked to the CAP. Since they are products of EU trade and agricultural policies, they accrue to the EU budget.[553]

Since these resources are derived from the EU level policies, they should be retained as policy outcomes, although they are established in a complex system of calculation and administration. Among two categories of the TOR, agricultural duties are comparatively trivial, but custom duties take almost 11.4% of revenues in the latest FF, which gives it undeniable importance within the revenues.

The Member States deduct 25% from the collected amount of taxes. The deduction of 25% from the total collections as the administrative cost of the member states is not effective and constructive for the EU level. It is wished that this deduction is to be given up on the credit of the EU so that the percentage of the custom duties will come up to 15.2% (11.4% / 75%) with approximately 0.4% increase. Therefore, a part of this increase can be channelled to customs administrations of the Member States, for instance in a form of a direct payment to the customs officers, which might be a part of their emoluments and a share of some costs of the custom administration. A customs union – social and administrative – fund can be established from this 25% deduction. Indeed, this system can bring customs administrations near to the EU level not only physically but also normatively, because it will strengthen belongingness to the EU level provided through such financial instruments.

[553] House of Lords, “Funding the European Union”, 12th Report of Session 2004-2005, London, p. 10,

There can be a series of other reforms regarding the administration of customs, but it is not within the scope of this thesis to demonstrate maximum level of proposals, but just to introduce an initial idea in the direction of increasing social constructive domains, incrementally in the European society so that such domains might give the EU level influence over citizens and other stakeholders.

6.4.3. Analysis and Reform Options of Own Resources Accruing from Value Added Tax:

VAT based own resource is a kind of fee estimated from the national VAT collected on the national level but harmonized by the EU. It might be taken into account from several concerned areas. First of all, the British rebate unfortunately annexed to this resource in its estimation based on a formula, which is about to 3% of the budget.[554] After the rebate was passed on to the British, it was dispersed to the other Member States in a way of correction mechanism as discussed in the British Rebate section of this chapter.

Secondly, the present collection method, managed by the Member States is simple and it bears no cost to the EU, but since it has been carried out through the Member States, citizens' sense of belonging to the EU level remains un-established under this structure. VAT is a widely dispersed tax taken from the consumption of goods and services. Indeed, it is dispersed and derived from economic and commercial activities in a state. It is an appropriate resource to be taken to the EU level as one of the distinct sources, which can really boost social construction of the European *demos*. Providing that, the present collection mechanism of the EU necessitates changing, for which there might be two options to be proposed: either to manage whole process and administration of the European VAT, or to participate in VAT mechanism of the Member States without taking the administrative role. The first option of taking the

[554] Calculated from Annex 6, the Netherland: € 625m and Sweden: € 141m and the UK: 3,079m and total is €3705m when it is divided by total budget of € 128,655m,

administration of VAT to the EU level is not recommended, due to the fact that this system would require a bottom-up involvement of the EU to the process for which neither the capacity of the EU nor the motivation of Member States would be ready to cope with such a complex and dispersed mechanism. Therefore, second approach can introduce enhanced social constructive contents between the EU and citizens without causing inter-institutional problems. Indeed, the aim is not to enhance political links between the EU and the Member States, but to establish a link between the EU and European citizens.

There is a negative inquiry about the VAT resources that it tends to discriminate poorer countries where the VAT base is relatively large due to a higher consumption ratio.[555] This concern echoes the idea of *juste retour* which sounds fair returns and contributions, and obviously the most influential factor at the debates during the FF 2007-2013. Nevertheless, *juste retour* can be disregarded for the benefits of the integration since it cannot be an object of the EU for the realization of social construction.

This negativity was exposed by the EP in 1990 by noting “that VAT, which turned into the main source of revenue, while having the advantage of being applied to a tax which is almost harmonized, has the grave disadvantage of interpersonal and spatial regressivity, and should therefore in future not occupy the pre-eminent position it enjoys at the moment”.[556] Yet some authors are not convinced that the regressivity of VAT is a bona fide issue. For example, Gretschmann[557] has challenged the opinion that the VAT resource has a significant regressive effect.[558]

There is a relevant comment made by the Court of Auditors in 1998 that the existing VAT resource poses a problem of consistency. If it is to be considered a contribution by the member states, it should logically have been

[555] Heinemann, *op.cit*., pp.63-64,

[556] See, European Parliament, Resolution of 22 November 1990 on the future financing of the European Community, para. 16.

[557] Klaus Gretschmann, “Reform of the Own-Resources System and net Positions in the EU Budget”, *Working Document*, European Parliament, October, 1998, p.25.

[558] Cipriani, *op.cit.*, p.47.

abolished in 1998 and replaced by the GNP resource. If, on the other hand, it is meant to be a tax on the final consumption of European citizens, capping it in accordance with GNP may reasonably be questioned.[559] Indeed, in the latter case, it should be considered a genuine own resource, and capping it would therefore not be justified because this would nullify its primary function. The Court concluded that a resource based on the taxable consumption of citizens only has a *raison d'être* if it is based directly on a tax base declared by the taxpayers.[560]

In the face of some hesitations expressed in the past concerning the regressive effect of VAT, it decided to propose more specifically the creation, in place of the existing VAT and GNP resources, of a new source of revenue "which should take the form of a specified percentage of VAT … directly imposed on the basis of tax declarations, and denoted as such on invoices."[561]

In 2004, the Commission approved the proposal of Rapporteur Langes with the enthusiasm that a genuine fiscal VAT resource would be implemented through an EU rate as part of the national VAT rate paid by taxpayers.[562] It would imply a specific percentage rate of VAT that would be levied for the benefit of the EU. The rate would be incorporated in, and levied together with, the national rate and thus on the same taxable base. Citizens would not have to support an additional tax burden as the Community rate would be offset by an equivalent decrease of the national VAT rate.[563] For example, if the national VAT rate is 21%, and assuming the introduction of an EU rate of 1% of VAT, the national rate would be applied at 20%. The total VAT rate levied would still be 21%. For visibility purposes, the Community VAT and national VAT should appear as separate taxes on an invoice or receipt.

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[559] European Court of Auditors, "Special Report Concerning the Court's Assessment of the System of Resources Based on VAT and GNP", 6/98 OJ C 241, 31.7.1998, para. 3.16 and 5.5.

[560] *Ibid.*

[561] See, European Parliament, Resolution of 21 April 1994 on a new system of own resources for the European Union, paras 9 and 10.

[562] See European Commission, "Technical Annex, Financing the European Union, Commission Report on the Operation of the Own Resources System", Vol. II, COM(2004) 505 final, Brussels, 14 July 2004(g), p. 54.

[563] *Ibid.*

The EP had claimed full budgetary powers over both expenditure and revenue and emphasised that increasing the EU's financial endowment by means of endorsement of revenues[564] regarding its position of "no representation without taxation."

However, it is stated in the recent Resolution "that the time for a new European tax has not yet come in the short term". This resolution extinguished hopes for independent financing. Moreover, the Parliament has stressed full respect for the principle of the fiscal sovereignty of the member states, "who might, however, authorise the Union, for a limited period to be revoked at any time, to benefit directly from a particular share of a tax as is the case in most member states with regional or local authorities".[565]

The latest opinion of the EP appeared to be returning back to the 1994's in terms of the EU level VAT which is "directly imposed on the basis of tax declarations and denoted as such on invoices" but designation of supranational taxation power to the EP is not necessarily insisted upon, because the aim in the first appearance is to provide a direct link to citizens.[566] The democratic legislative power derived from the motto of "no representation without taxation" is necessary only for the percentage of tax together with taxing subjects agreed by the Member States being transferred to the EU level.

VAT as an excise tax is addressed to the delivery of the EU level sense but if it is projected to pool the some portion of the payments of this tax from the citizens of the EU without touching the administration. This reason calls for a strong recommendation to generate an EU-VAT which will be a certain percentage of the national VAT. To introduce such social constructive role of VAT, it should be demonstrated on the invoices and other documents of every transaction which is used as taxation source. The system has to be similar to the system of a federal government where some percentage of taxation sovereignty is

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[564] See European Parliament, Resolution of 29 March 2007, para. 29.

[565] See European Parliament, Resolution of 29 March 2007, paras 10, 23, 26, 37 and 38, European Parliament *Annexes to the Explanatory Statement, Working Document No. 1 on the European Communities Own Resources*, A6-0066/2007, 13 March.

[566] *Ibid.*

ceded to the local authorities, but federal taxation remains the preserve of the federal government. VAT is normally collected by federal tax bureau in such a system, but the local percentage component is transferred to the local authorities. In the case of the EU, VAT might be collected by the Member States, and its agreed percentage might be transferred to the EU.

On the administration side, the European tax collection office which will be working besides the national administration, might have been advised to utilize European level influence, nevertheless this system would be too costly and duplicative. Indeed implementing the EU-VAT through the national tax collection mechanism does not harm social constructivist approach because the link between the EU level and taxpayers would be established by all means so that remaining mechanism would be just a collection and transfer of taxes.

Federal VAT is being discussed in the literature, for instance, on the way of transferring some percentage to the local states form the federal system. There is a Canadian experience regarding double taxation of VAT at both levels of management, local and federal. The existence of a supra/national VAT would facilitate, but is not a *conditio sine qua non* for exercising compliance control over state or provincial VATs.[567] Bird and Gendron concluded in their conference paper[568] that, despite its sophisticated nature, this system works reasonably well in Canada. They further conveyed three lessons to be learned from the Canadian experience:

> The first lesson is that, from the point of view of the federal GST [VAT], it simply does not matter what form provincial sales taxes take. In contrast, the second lesson is that the nature of their sales taxes matters a great deal to the provinces concerned. Finally, the third lesson is that federal cooperation, while not essential, can both provide critical support to any provincial sales tax and an incentive to improve those taxes from both an economic and administrative perspective.

Afterwards, they have reached that single administration and common base of tax would be more efficient.

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[567] Reuven S. Avi-Yonah, "Structuring A Us Federal VAT, Public Law And Legal Theory", *Working Paper Series* ,153, May 2009, John M. Olin Center For Law & Economics Working Paper, 09-012, p.10.

[568] *Ibid.*, p.9.

> With good tax administration, it is thus perfectly feasible to operate a VAT at the sub-national level on a destination basis, at least for large regional governments. In principle, it is immaterial whether there are two separate administrations or one; or, if there is one, which level operates it. Clearly, a single central administration and a common base is likely to be more efficient, but this degree of convergence in this respect is less essential than a high degree of intergovernmental cooperation, e.g. through unified audits or at least through a uniform VAT registration system and a very high level of information exchange. Most importantly, from the perspective of improving accountability, each taxing government should be able independently to determine its own VAT rate.[569]

However the proposed VAT taxation is not the same as the Canadian or similar federal constitution but almost the reverse in the case of the EU, because the taxation power will be derived from supranational level (read the Member States for the EU) to national (the EU) one, nevertheless, the idea of a single central administration and requisite of a high level of information exchange and transparency in the administration are accurate for the reverse system too. In the EU, the VAT in the Member States can be taken to the EU level. Therefore, the tax administration can remain with the state. Only a percentage of VAT is to be presented on the invoices and then to be taken to the EU level with a clearly defined portion of the EU tax on them. By coming to the subject of EU-VAT, among the Commission's proposals[570] of eight candidates,[571] besides the other indirect taxes, six of them; (energy tax; modified value added tax; excises on tobacco, alcohol and mineral oil; tax on transport and telecommunication services; interest income tax; and a tax on the ECB gains from seignorage) are, main candidates implemented socially constructive as explained in agriculture and cohesion sections of this Chapter.

On the other hand, Article 10 of the EC Treaty does not provide for such a system to be implemented from the EU level. In fact, the Article stipulates that Community programmes and activities within the border of the member states are

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[569] *Ibid.,* p.8.

[570] The Commission Report on the Operation of the Own Resources Reforming the European Budget COM (1998) 560.

[571] CO2- or energy tax; modified value added tax; excises on tobacco, alcohol and mineral oil; corporate tax; tax on transport and telecommunication services; income tax; interest income tax; and a tax on the ECB gains from seignorage.

implemented by their public administrations, which implies that it is not possible, nor indeed desirable, to create a separate EU tax administration for this reason.

Among the reform proposals, Alves and Afonso proposed that modulated VAT, which is the VAT paid by the consumer, would result in a combination of national VAT and European VAT, with the rate of the former defined by the national parliament and the latter by the EU – a rate of 2% was initially suggested for the European case, and may be raised as community responsibilities evolve.[572] This proposal seems sufficiently reasonable, but shall unveil two intertwined questions; surrounding sovereignty of the states decision-making dilemma. This proposal can be taken to mean transferring the sovereignty of the Member States to the EU level if taxation power is transferred to the EU level. It is likely that there would be a predetermined maximum percentage such as 2% recommended and denoted the decision about the percentage and/or amount of the tax to the EU institutions, by staying within the given limit. Even though it seems that it doesn't require the relinquishing of member states from their taxation sovereignty, it obviously means the surrendering of it in a percentage transferring to the EU. This issue may divulge a sovereignty question and might be faced with tremendous dissent of the states. Normally, taxation power is exercised by the Parliaments of nation states as a prerequisite of the "power of the purse" as expressed earlier. The taxation power of the institutions will also divulge debates on the way and power in jurisdiction of taxation for the EU.

Indeed the proposal of a VAT at the EU level to be administrated by the Member States in accordance with selection of their social constructive effects seems more reasonable to manage. The percentage and/or the amount of the VAT as well as the type of goods and services on which the rate is excised will be the subject of further study. As already discussed in the first section of this chapter, some policy areas which remain socially unconstructive can be strengthened with a special rate and amount of VAT in a design which reinforces social construction in these sectors. For instance if the CAP and Cohesion Policies remain as the EU subsidies, a special rate or particular taxation subject can be

[572] Alves and Afonso, *op.cit.*, p.11.

developed and applied for the beneficiaries of these programs, especially in the subject of policy related consumptions.

The stated rate of 2% can also be considered suitable for this proposal. Presently, the VAT based own resource has placed 11.3% of total revenue resources which is based on 0.30% of the VAT collected.[573] Assuming that none of the member states have reached their 50% GNI on the rate of call, 1% of VAT will be equal to 37.6% and 2% VAT will be 75.3% of the total budget. Obviously, this rate of 2% was capitulated to provide self sufficiency and independency of the EU budgetary resources, which basically aimed to replace GNI based own resources. However, it is wise to reconsider the subject of tax on goods and services from a social constructivist policy perspective. It might be assessed that this source will turn out from 1% to 2%, depending on the level of consumption of those goods and services whose taxation is socially constructed in the territorial borders of the EU. The amount from this estimation would come up to approximately 50% of the total budget of the EU on average.

In addition to the possibility of constituting a sufficient and sustainable source of revenue, this proposal would make the EU financing reasonably visible for the EU citizens. Additionally, from the administrative point of view, its introduction would also not demonstrate insurmountable difficulties for the EU and the Member States.

6.4.4. Analysis and Reform Options of Own Resources Based on Gross National Income

GNI as a base of calculation has been used for some purposes both the revenue and the expenditure sides of the budget. On the expenditure side, it is used for the measurement of determining eligibility of cohesion and structural funds beneficiaries. On the revenue side, total own resources are fixed as a percentage of GNI since the GNI resource constitutes the main source of

[573] For the details of the calculation and derogations see Council Regulation (EEC, Euratom) No 1553/89 of 29 May 1989 on The Definitive Uniform Arrangements for the Collection of Own Resources Accruing from Value Added Tax and its reference texts.

financing of the EU budget and, the same statistical categories are used in the calculation of the VAT resource.[574] Moreover, government deficits and debts of member states are monitored in the framework of the excessive deficit procedure through reference values based on the GDP as well.[575]

After deduction of rebates dedicated to some member states, approximately 76% of the FF4 has been financed by national contributions based on the GNI level of Member States. The GNI based contribution, while having other positive facets, is at the top of the debate about *juste retour* subject which hampers a genuine discussion on the added value of any EU expenditure.[576]

While preserving the principle of the budgetary equilibrium, the source of the GNP contributions by having an obvious national identification should be reduced in favour of new sources of funds. Indeed, this source of revenue is not social constructivist and has no means of connecting citizens to the EU level. Accurately, it is a financing instrument mostly used by intergovernmental organizations as a simple source of direct contribution.

This unconstructive revenue resource is recommended to be decreased from existing outstanding large volumes. This decrease can be incrementally decreased to a reasonable percentage.[577] This percentage is used for financing some expenditure which are not socially constructive. For instance, it can be used for a reserve to unpredictable disasters or to some other expenditures which are not constructive, such as direct payments of the CAP or the cohesion. This new schema will be appropriate with the issue of complementarity of this resource to the others. It may also be used as a mechanism for increasing the size of the budget whenever necessary. Indeed the reasonable percentage makes it really

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[574] The VAT resource is basically calculated by dividing the total net VAT revenue collected by the weighted average rate of the VAT. The establishment of the VAT weighted-average rate requires a breakdown of transactions by statistical category from national accounts, such as final consumption of private households, intermediate consumption and gross fixed capital formation. (See Gabriele Cipriani, *op.cit.,* p.71).

[575] See Art. 104 TEC.

[576] Buti, *op.cit.* 2003, p.2.

[577] Such as between 10 % to 30 % in the next financial perspective of 2014 - 2020 and between 5 % to 20 % afterwards.

complementary because the present value of 76% of the GNI based own resource cannot be considered as complementary.

6.4.5. Analysis and Reform Options of British Rebate

The Fontainebleau European Council established the principle that "any member state sustaining a budgetary burden which is excessive in relation to its relative prosperity may benefit from a correction at the appropriate time."[578] The principle of the clause has given an examination on a case-by-case basis when a need for a rebate subject is raised. Indeed there is no automatic mechanism that would allow other member states to qualify for a correction. Even though specific requests were made by several member states,[579] the rebate has thus been barely applied in favour of the UK. Furthermore, since member states benefiting from the rebate do not contribute to its financing, a linear application of the UK rebate rules would imply that the burden of these huge rebates would have to be borne by the less favoured member states.

The Commission proposed a generalisation of the correction mechanism in 2004 to resolve the question of the budgetary burden permanently. The aim was the introduction of a sort of safety net for large net contributors, whose net contributions (calculated on the basis of the net budgetary balance) exceeded a certain level meant to represent the maximum accepted level of financial solidarity among member states (0.35% of a member state's GNI).[580]

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[578] European Council (1984), Conclusions of the Session of the European Council at Fontainebleau, 25-26 June.

[579] In early 1998, Germany, Austria, Sweden and the Netherlands made such a request. The extension of the correction mechanism to other net contributors would have implied a huge – more than fourfold – increase of the rebates, from €2.9 billion (with the UK as the sole beneficiary) to €12.4 billion (with the UK and the other six member states), as it has been calculated by the European Court of Auditors (European Court of Auditors, "Special Report No. 6/98 concerning the Court's assessment of the system of resources based on VAT and GNP", OJ C 241, 31.7.1998., 1998, para. 3.27). See also European Commission, "Financing the European Union, Commission report on the operation of the own resources system", COM(1998) 560, Brussels, 7 October. 1998, p.33.

[580] European Commission, "Technical Annex, Financing the European Union, Commission Report on the Operation of the Own Resources System", Vol. II, COM(2004) 505 final, Brussels, 14 July 2004, part II.6.

The Commission's proposal for a generalised correction mechanism calculated on the basis of the net budgetary balance of each member state is far-flung to account fully for the benefits resulting from EU membership. The EP has described generalized correction in the form of a rebate as a "double mistake since it would only strengthen the anti-communitarian character of the system and cement the short-sighted approach of a quantifiable *juste retour*."[581]

One of the major critiques of the Rebate is about its violation of the 1970 Decision.[582] A financial mechanism was introduced in 1976,[583] for a period of seven years, based on Article 235 of the EC Treaty (actions not foreseen by the Treaty).[584] The Court of Auditors has stated that aid correction is still justified.[585]

Similarly, the establishment of the ceiling for the rebate at two-thirds of the negative budgetary balance is utterly conventional, and subjective. The EP reported the calculation of the UK rebate as "using a system which is complex and incomprehensible for the politicians in the budgetary authority. It is therefore impossible to judge whether it is sound or not".[586]

The UK's rebate is the outcome of successive intergovernmental deals. The rebate mechanism is tied with the unanimity rule, which gives it a little chance of discontinuing without commencing similar compensations and specific

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[581] See European Parliament, Resolution of 29 March 2007 (op. cit.), para. 19.

[582] Cipriani, *op.cit.,* p.87.

[583] Community financing was agreed in 1974, one year after UK's accession and it was formalised at the Dublin summit of March 1975.

[584] See Council Regulation (EEC) No. 1172/76 of 17 May 1976 setting up a financial mechanism (OJ L 131, 20.5.1976). A partial reimbursement of a member state's VAT-based contribution would be applied, depending on three conditions to be met simultaneously: GNP per capita of less than 85% of the Community average, growth rate of per capita GNP of less than 120% of the Community average and a member state's share of financing the EU budget that is higher than 10% of its share of the Community GNP. No member state fulfilled the conditions for a payment. This was also because the transitional measures laid down by the Treaty of Accession limited the UK payments to the budget and because the Own Resources Decision of 1970 only came into full effect in 1980. The conditions for the application of the mechanism were relaxed in 1980 solely for the UK (Council Regulation (EEC) No. 2743/80 of 27 October 1980 amending Regulation (EEC) No. 1172/76 setting up a financial mechanism, OJ L 284, 29.10.1980).

[585] European Court of Auditors, *Special Report No. 6/98,* 1998, *op. cit*. para. 3.26.

[586] European Parliament, "Report on the System of Own Resources in the European Union", A3-0228/94, Rapporteur: H. Langes, 1994, 8 April, p.8.

arrangements for other member states. It would be more logical in many respects, if all member states were prepared to accept a single financing system, applied to all member states in the same way,[587] but the elimination of the UK rebate, without any other mechanism replacing its place, would be an key contribution to breaking the link between national treasuries and the EU budget.[588]

British rebate and general correction mechanism and *ad hoc* decisions about their budgetary applications are the major dilemma of the EU which cannot be offered to rehabilitate or replaced with any other mechanism. The only solution seems to move this system away from the EU budget. However, if removing the rebate mechanism in its entirety cannot be completed at once, it may be projected to a gradual removal, starting from the 2014-2020 financial perspective. This can also be succeeded by reducing the effective rate. By following the recommendations on VAT and GNI based own resources as discussed in the previous section, decreasing the proportion of contributions from VAT and GNP based own resources not recorded in the budgets of the Member States would reduce the level of sensation in discussion about correcting the net position of the Member States because of the formula from which the amount of rebate is derived

(VAT own resources + GNI own resources – EU expenditure to the UK) x 66 %)

Even if the rebate at two thirds of negative budgetary balance (66%) are kept, the reduction of the VAT and GNI based own resources will reduce the amount.

The setting up of one instrument of the correction, based on one parameter of assessment of “excessive” contributions (in relations to GNP), the setting up of conditions upon which the limitation is due (so that once they are granted they would not become a permanent privilege independently of the changing situation) and the dilution of the threshold making the “correction”

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587 Cipriani, *op.cit.*, p.87.

588 Gros, “Better Budget for....”, 2005, p.12.

possible could help to tighten the system and make it easier to accept for the countries which take the burden of financing the hitherto chaos in this area.[589]

If the rebate and correction system would persist, there would be only one way acceptable as an alternative. A new rebate mechanism can be developed after eliminating or diminishing of the GNI based own resource system and introducing the EU-VAT mechanism by removing the VAT base own resources from the budget as proposed in previous sections which will a simple and fair framework is likely to set up. Therefore, this is not recommended because it would not be socially constructive.

6.4.6. Increasing Social Constructive Revenues

As already discussed in previous sections, different combinations might be applied for the revenues of the EU budget in order to provide the social construction among the citizens, but this will need several factors including, eliminating or minimizing the revenues which are intergovernmental temperaments and strengthening and increasing social constructive revenues, the substitution of GNI based own resources and/or reducing this resource to the certain low level in the coming periods of financial perspectives, and finally removing rebate and generalized correction mechanism or at least lowering the mechanism.

An EU-VAT based upon a certain percentage of the national VAT which shall be demonstrated on the sales invoices separately with the name of an EU-VAT in the form of a percentage or a lump sum amount on certain goods and services. The EU-VAT can be intensified in some areas to balance the expenditures of the Union. In other words, if, for example the CAP partially remains unchanged and is handled as local public good delivered from the EU level, it might induce a higher volume of EU-VAT on agriculture materials and consumables, which shall be mostly purchased by farmers in the subsidized areas of the CAP. The aim is plausibly to give the CAP beneficiaries, which are

[589] Pietras, *op.cit.*, p.56.

benefitting from direct supports of the CAP, a sense of *Europeanness* by using EU-VAT in the areas when a sense of deficiency is observed. The same technique can be used in other areas of expenditures of the EU budget where they remain nationalistic, rather than European. This can be succeeded by reducing national percentage of VAT in these concerned subjects of the VAT. For instance, if the percentage of VAT in that a certain taxation theme is 10%, in accordance with the involvement of the EU in this subject –and conducive to the aim of enhancing social construction- a reasonable percentage, such as 4%, can be dedicated to the EU - while it was for instance 2% in normal circumstance - and residual 6% can remain as the share of the Member State.

Retaining 25% from the collections of agricultural duties and custom levies as administration costs of the Member States can be terminated and this amount can be dedicated to custom administration for improving social construction of the customs administration.

Even though those analyses are tolerably assessed by Alves and Afonso, these mechanisms could be appraised whether they yield social constructive outcomes in their applications. Alves and Afonso have further recommended an EU surcharge on national personal income tax in terms of introduction of a new taxing resource of the increased size of the EU budget.[590] By agreeing Cattoir's opinion[591] on "*personal taxes constitute one of the most direct and visible links between taxpayers/citizens and elected authorities*" they have believed that the creation of such a resource could help towards the true appearance of a feeling of belonging to a new space of political loyalty. They have proposed three options.

> First, certain amount of tax could be established for each European citizen to pay. Second, a European tax could be created on personal income, separate from the national one, also with deductions, progressivity, etc. Citizens would have to fill in two declarations, one for the State in which they are residents or taxpayers and another for the EU. And third, a surcharge could be applied to the amount of national income tax owed by each individual and the revenue would revert directly to the budget.[592]

[590] Alves, and Afonso, *op.cit.*, pp.12-15.

[591] Cattoir, *op.cit.*, p.30.

[592] *Ibid.*

They further publicized their preference on the third option since it has the same advantages as the previous options, at the same time enabling the consideration of equity mechanisms and the non-occurrence of high operating costs.

The proposals discussed above, have their own negative consequences. For instance, a tax on energy either by way of increasing rate of VAT or pooling some percentage from the collections might lessen the competitiveness of EU goods and services against those of non-European competitors. A corporate income tax which represents 2.6% of total EU-GNI may not convey sufficient amounts of funds. Additionally, the realization of cooperate tax is not certain due to fact that corporations have the most powerful lobby groups at the EU. Consequently, the EU-VAT, in this circumstance, seems a reasonable option because of its flexibility in the application of different purposes and adaptability for social constructive purposes.

6.5. Social Constructive Reforms for the Institutional Level Problems:

6.5.1. Is Stabilization Function Necessary for European Integration?

There is a broad agreement that the budget should be active in some areas such as mitigation and adaptation to climate change, or to assist in mitigating the impact on sectors, regions and industries of asymmetric shocks caused by global economic conditions.[593]

The stabilization function of a central budget is assumed in a nation state or a federation which requires a comparatively bigger budget by having reserves to be used in conditions of adverse shocks. Fiscal federalism traditionally assumes a significant role, a kind of insurance for the central budget which will be able to exercise an important degree of stabilization, by using financial transfer mechanisms between states or regions which are positively affected by asymmetric shocks and the states and regions which are negatively affected by the same shocks.

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[593] Ferrer, “Can Reforming …”, p.25.

The provisions of the Maastricht Treaty and SGP have determined the macroeconomic fiscal rules in the EU. Essentially, Article 104.3 of the Treaty has set the excessive deficit procedure for that purpose. In other words the Treaty sets out basic stipulations, whereas the SGP defines their operational content. A deficit ceiling of 3% of GDP for actual government budget is set in the Treaty as reference value. Larger deficits are considered "excessive" unless "the excess over the reference value is only exceptional and temporary and the ratio remains close to the reference value."[594]

The exceptionality condition in the SGP can be defined as an unusual incidence happening outside the control of the State and impacting the financial position of the state or an abrupt cyclical downturn. A member must take correct measures to eliminate an excessive deficit; otherwise it has to pay an annual interest-free deposit. If the deficit cannot be eliminated, a fine can be imposed to replace this deposit.

There is also a dept ratio set by the Maastricht Treaty that gross government debt should not exceed 60% of GDP. If it does, the debt ratio should be decreasing "at a satisfactory pace." The wording must be interpreted such that government debt is not allowed to increase when it is above the 60% ceiling, but there are no monetary sanctions in the event of violations.[595]

A symbol of the federal states of Europe, stabilization function of the EU budget as postulated by fiscal federalism is not recommend for the EU, unless the EU turns into a political mode of a federation. Not only that, there are many other reservations with regard to stabilization. First, the measurement of the risk of the expected asymmetric shocks which defines the level of allocation cannot be readily determined by the EU. Moreover, this level of allocation would open a big debate among the Member States. On the other hand transferring the stability provision to the EU level would accelerate deficit tendencies in the budgets of the Member States. Indeed one can argue that without totally transferring the budget

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[594] Lars Calmfors and Giancarlo Corsetti, "How to Reform Europe's Fiscal Policy Framework", *World Economics Journal*, 1, 2003, p.2 http://www.iies.su.se/~lcalmfor

[595] *Ibid.*

of the Member States to the EU level, the basis for injecting the stability function to the EU level has no common ground. As excerpted lessons from the recent financial crisis in the EU area starting from Greece in 2009 and dispersing to some other states such as Spain and Portugal has questioned the action that "at which level of crisis the EU shall take measurements and involvements."[596] Third, the question regarding the size of the budget associates with another problem, "from which resources would this increase resulting from stabilization be financed from." Considering the 3% budget deficit of GDP of the Member State as a reference of maximum deficit, this will indicate an allocation of an amicable rate of 2% of total GDP of the EU. This will stimulate a necessity of double budget revenue, financed by 1.24% of the Community GNI now it may reach 2.48% of GNI. Fourth, "on which base now the Member States' budget deficit and debt mechanism will be utilized?"

Indeed, maintaining the stabilization funds within the budgetary allocations of the Member States would be more effective, and less problematic in terms of requirement of additional funding and dissatisfaction of the states that is likely to become constantly funding of the negatively affected member states. In fact, that may cause another path dependency to finance chronic asymmetric shocks and may cause unpredictable results. There is a difficulty to determine which regions are negatively affected and vice versa. Normally, this might be ignored in a political entity such as a federation, since the political unity is provided within the entity. Moreover, in case all member states are negatively affected from asymmetric shocks, the degree of effects cannot easily be determined and the disbursements of stabilization reserve may cause dissatisfaction, because this will increase nationalist movements at the EU level. All these projections are not socially constructive. The stabilization function can be disregarded, since shocks might not be derived from structural and global reasons but might be totally nationalistic, reasons from economic and financial mismanagement of the member state.

[596] This is about Germany's unwillingness for assisting to Greece during the crisis.

6.5.2. Analysis and Reform Options of the Size of the Budget

The EU budget plays a modest role in the economic policy of the EU and in the euro area due to its small size, lack of flexibility and historically-determined (rather than priority-oriented) composition. This translates into the fact that, at the central level, the EU is left, *de facto*, without one of the most powerful instruments of economic governance, the budget.[597]

In spite of the new grand projects such as the introduction of the euro as the common currency, the adoption of the Lisbon Strategy or enlargement to countries of Central and Eastern Europe, the EU has not increased the share of expenditures either in terms of total GNP. It is worth stressing that there is no theoretical basis for the EU budget to account for a fraction of the Union's GNP. This is always the result of a political compromise and agreement which reflect the willingness of the Member States to jointly reach certain objectives and finance them from common resources.[598]

The measurement of the size of the EU budget is linked with the percentage of total GNI of the Member States, since there is no other mechanism introduced as a more accurate resource. In last three decades, the budget of the EU has been doubled and reached to the peek in terms of GNI, especially, in the entry year of the Maastricht Treaty of 1993 but it has been declined over the years in relative term. Presently, the budget accounts little bit more than 1 % of the GNI of the Member States.

The MacDougal report had already suggested in 1997 that in order to have a perceptible macroeconomic effect on the Community economy as a whole, the minimum volume of the EU budget should be 2% to 2.5% of member states' joint GDP.[599]

However, there is no 'ideal' size for the EU budget. Indeed, the size is relevant only to the objectives of expenditures set out in the budget. As the

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[597] Buti, *op. cit.*, 2003, p.27.

[598] Pietras, *op.cit.*, p.12.

[599] See European Commission, "Report by the Study Group on the Role of Public Finance in European Integration", Rapporteurs: D. MacDougal et al., Luxembourg, April 1977, p. 17.

Commission has stated in the context of future enlargements, “[T]he Union needs to ensure…that its budget is commensurate with its objectives and with its financial resources.”[600] The size matters if it is intended to achieve certain objectives. The size ought normally to be determined by the total sum of the costs of the policies assigned to the EU and their performance in the applications of budgetary resources.

The volume of the budget becomes an issue especially when it is compared with a federal system or sometimes with the Member States. The size of the budget in federal systems is almost twenty times higher than the EU. For instance, the federal budget of the United States represents the equivalent of some 20% of US GDP and that of Canada some 18%.[601] The EU budget represents only between 2% and 2.5% of the Member States’ budgets and national budgets, measured as the average of public spending, amounted in 2002 to 48% of GDP in the euro area and 47% of GDP in the EU as a whole.[602]

Both of the comparisons are well grounded only if the EU is considered to be directed towards a federal political entity. Therefore, the questions which would confer the response for the size of the budget are, “which type of activities must be financed from the EU level”, “why” and “how”? The answers to these questions shall determine the size. Since it is proposed to support the expenditures which take the social constructive roles over the EU citizens, the size of the budget will depend upon the share of social constructive expenses in the budgetary funding and shall not limit the size of social constructive revenues. In other words, besides the budgetary size, sustainable, constructive expenses and revenues will be important.

6.5.3. The Question of Juste Retour

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[600] See European Commission, “Communication on Enlargement Strategy and Main Challenges”, 2006–07, COM(2006) 649, Brussels, 8 November 2006(b), p. 20.

[601] Cipriani, *op.cit.*, p.12.

[602] Buti, *op. cit.*, pp.1-2.

The '*juste retour*' refers each EU member state's priority for securing the best possible individual net financial position *vis-à-vis* the community budget over any other consideration concerning the community budget.[603] The perseverance of this attitude may seriously jeopardize the evolution of the EU budget and may also obstruct further enlargements.

This approach, embodied by Margaret Thatcher's famous utterance "I want my money back", consisted in a rather crude calculation of the accounting difference between estimated payments from and expenditure to any given Member States of the EU. However, economic added value generated by the EU expenditure, externalities of the EU expenditure and revenues (which by definition are very large), the economic significance and reliability of the accounting evidence are totally disregarded by the net balance approach.[604]

Starting from this initial assessment, two alternative approaches are possible. Either, one considers that the current EU budget is a "political equilibrium" whereby money is transferred across countries according to the logic of the *juste retour*[605] which should take priority on the issue of "who pays what" or consider social constructive approach has integrative influences generated by EU expenditures.

There are two different mechanisms observed, and mostly applicable for determining the distribution of contributions among member states in an international organization, the equality method and the payment capability method. The equality method obliges a member state to pay contributions in proportion to its benefits from membership, while the payment capability method applies the relative size or prosperity of a member state as the variable to determine the revenue obligation. Therefore sometimes some uneven methods are observed based on the intergovernmental decisions and/or rules of the international organization. For instance, the UN preserves a method which is the same as with the EU's GDP based own resource, so that member states contribute

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[603] Richter, *op.cit.*, p.1.

[604] Buti, *op. cit.*, 2003, p.2.

[605] *Ibid.*, p.2.

the budget in accordance with the proportion of their GDP within the percentage of the total GDP of all member states.[606]

However, the EU can neither fit the first group nor the second one, because the progressive integration of the EU is far beyond that of an international organization where the equality method is practically and theoretically in operation. On the other hand, solidarity is preserved in the Treaty of Rome, by indicating that EU member countries have taken a constitutional decision to take account of relative wealth in their decision on burden sharing.[607]

As in the case of an intergovernmental organization, the GNI based own resource mechanism of the EU budget can be acceptable as the payment capability method, which only represents an almost ideal way of this mechanism, since many other details of the revenue system distort the link between relative wealth and burden sharing.

Therefore, in this case, it is not in reality fair to look at the basic calculation of net benefits and loss articulated from the budget applications, since there is no mechanism to take into consideration side-benefits, benefits articulated from some policies through spill-over and, other similar benefits such as normative commitments and contributions. Additionally, some expenditures, which have multi-national – and social constructive – features in their applications are difficult to distribute to the Member States – even to the users in the states –based upon. It is apparent that *just retour* is not fully representing net balance of the Member States in the applications of the EU budget; rather it is demonstrating basic and coarse algorithmic calculations of plus and minus. This mechanism barely weakens the impact of the EU budget from negotiation procedures to the final policy implementations, because even national representatives in the Council focus only on their financial net balances.

6.5.4. Other Institutional Level Problems

[606] For details see, Heinemann, *et al., op.cit.*, p.64.

[607] *Ibid.*, p.63.

Since 1988, the budgetary decision-making question between three institutional powers of the EU; the Commission, the Council and the Parliament, involved in the EU budget procedure has been removed from the EU agenda by introducing IIA. This improvement presented in budgetary stability has gone hand in hand, with a diminution in the flexibility of the budget and an increase of the complexity of the governing rules.

The adoption of the Delors I package in 1988 introduced the first Financial Perspective, which set financial framework for every five years and later increased the ceilings to seven years. This budgetary system presents inflexibility because once the FF is set, member states displays determined reluctance to shift resources across years and headings. At present, moving un-utilized resources, even within the annual budgetary procedure, from one to the other budgetary heading (or even subheading), is difficult if not impossible altogether.[608]

Since 1975 to the Treaty of Lisbon, the Parliament had the last word on non-compulsory expenditure (see Annex 7 for classification of expenditures), and could reject the budget. Therefore its power to increase non-compulsory expenditure was limited to a maximum rate, established on the basis of economic conditions in the Community. The power of the Parliament limited with NCE sounded democratic with regard to deficits in the EU until it was abolished by the Treaty of Lisbon. Now, the Parliament will be exercising this power for the first time in its history, in the budget of 2011.

Consecutively, another democratic deficit issue lies in the seven year projection of FF which is not complying with the five year term of the Parliament. By the same token, the European Parliament has requested for a change of this term for reasons of democratic responsibility and accountability, and in favour of equality between the duration of the financial perspective and the five-year mandates of the European Parliament and of the Commission. Further citing reasons of democratic responsibility and accountability, reminded that the Constitution provides for a duration for the future MFF of a minimum of five

[608] Buti, *op. cit.*, 2003, p.18.

years, which would allow for co-ordination with the terms of office of the Commission and of the Parliament.[609] It was apparent that from the same decision the Commission's position was in favour of seven-years because the Commission considers that a shorter time framework would be technically and politically impractical, and that a longer financial perspective will contribute to the stability of the system and facilitate the programming of the cohesion policy and of other financial instruments of the common budget.[610]

Assuming that the EP has a more European perspective than the Council and it would ensure a more efficient allocation in this regard, more empowerment of the EP will be desirable. The EP might be considered more socially constructive, since its members are directly elected by the EU citizens and responsible citizens as well. This approach, however, mainly depends on the assumption that national interests do influence the EP. Survey-based evidence from Heinemann, Mohl, and Osterloh suggests that national interests do play a significant role in the attitudes of the parliamentarians towards the introduction of an EU tax, as this would have fiscal consequences for the member states,[611] but there is no clear evidence for the expenditure allocations. Therefore if the roles of the EP over the budget are intensified, it will definitely have more European reflections in such responsibilities.

The Parliament also carries out the sole responsibility of granting budgetary discharge, which is defined as a certifying proper implementation of the budget after each financial year. Budgetary discharge is a political process which represents the closing the budgetary accounts and political discharge of the government which was in charge of managing the funds for a particular period (mostly one year). This is almost effective for the EU, because the EU is a

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[609] European Parliament, "Draft Report on Policy Challenges and Budgetary Means of the Enlarged Union 2007-2013", 2004/2209(INI), 22.3.2005, p.10.

[610] See**,** European Commission, "Building our common Future: Policy challenges and Budgetary means of the Enlarged Union 2007-2013", Communication from the Commission to the Council and the European Parliament, COM(2004) 101, para. 33.

[611] Friedrich Heinemann, Philipp Mohl, and Steffen Osterloh, "Who's Afraid of an EU Tax and Why? –Revenue System Preferences in the European Parliament", Discussion Paper No. 08-027, ZEW.

collection of democracies which requires democratic representation in the budgetary process from beginning to end. Budget discharge is defined as the decision by which the Parliament, on the basis of the recommendation from the Council and the declaration of assurance provided by the Court of Auditors, closes the life of a budget exercise. It covers the accounts of revenue and expenditure, the resulting balance and the assets and liabilities shown in the balance sheet.[612]

Even though budgetary discharge represents a political responsibility of the institution, especially the Commission as the main responsible institution for budgetary implementation, there is a link for the power of the purse, which in this case implies the people's right to be acquitted of the budget payments. This is exercised by the Parliaments on the behalf of the people. Therefore in the EU system the biggest portion of payments are done through transfers to the Member States, which system is ineffectively adopted in the final accounts since this payment is not made to the final beneficiaries. Therefore, budgetary discharge in the EU does not confer the full meaning of the political and financial discharge mechanism, because Member States transfer their contributions – in the form of GNI based resources for instance – to the EU, and the EU does same to the Member States through the CAP and Cohesion payments, so that discharge mechanism is underestimated by both parties. Currently, the mechanism has been enforced by the involvement of the Court of Auditors, but it is again not sufficient. Payments proceeded by the Member States should be fully transferred to the EU level to provide full accountability by full involvement of the EP.

In case of decentralized management and co-financing of the funds it proved that it is difficult to present the total accounts used for, even the portion provided from the budget. On the other hand this will stimulate division of responsibilities with regard to implementation between the Member States' Parliament and the European Parliament. In this respect, the Court of Auditors has expressed its concern that "if the Commission no longer had final responsibility for implementing the budget, the Community's financial process,

[612] EC official web: http://ec.europa.eu/budget/other_main/glossary_en.htm

and in particular the discharge procedure, would lose a good deal of its significance. The budgetary authorities' recommendations (Art. 276 (3) of the EC Treaty) would be deprived of all practical effect."[613] Indeed, the European Parliament does not have the authority to question national administrations regarding their management of Community funds. In such a situation, the share of the budgetary implementation that has been 'devolved' to the member states – more than 80% it must be pointed out – is likely, ultimately to escape any genuine exercise of the rendering of accounts.[614]

There is an effectiveness question of the funding because the EU is directly transferring money to the Member States for most of the budgetary programs. This direct transfer system is sometimes called as side payment.[615] This system doesn't control whether the objective is achieved by this portion of money and does not measure whether the infrastructure, the R&D or anything else, are actually delivering expected outcomes as well. The logic of the side-payment is to give a cheque to people or regions or groups ensuring funding effectiveness. The 80% of the CAP and Cohesion Policy are managed by side-payment system in the EU budget which is not constructive since side-payment system does not resonate the EU level of sense on the final receivers. For that reason the EU must establish a mechanism which will deliver the EU level sense on funding, but this mechanism should be balance between the Member States and the EU level, but in the meantime eligible to deliver the EU level sense of belongings. The empowerment of the Parliament on all aspects of the budgetary matters and full control and authority of the budget will provide citizen to EU-level link.

6.6. Consolidated Analysis of Reform Proposals and Conclusion

[613] See European Court of Auditors, "Opinion on the European Regional Development Fund, the European Social Fund and the Cohesion Fund (COM(2004) 492 final of 14 July 2004)", No. 2/2005 of 18 March 2005.

[614] Cipriani, *op.cit.,*, p. 127.

[615] Begg, *et. al., op. cit.,* p.23.

Reforming the EU budget will be the most important issue for the next financial perspective. The budget review and financial perspective negotiations of 2014-2020 must reflect the profound changes in the last three decades that the EU budget in this structure cannot cope with. The problem lies in the EU budget not allocating some funds to some policies and programs because spending more money for some policies and programs does not make sense unless a normative and monetary relation is established at the EU level, in connection with citizens and the other beneficiaries of the budget. The EU budget has many features that can be utilized by appropriate reform options to close outstanding gaps. However, this must be accomplished without developing any political establishment. In this connection, social constructive view provides valuable contribution to the budgetary problems in expenditures and revenues.

On the expenditure side of the budget, competitiveness policy represents Lisbon related appropriations which are mostly European level public goods and need to be supported with an establishment of good measurement and administrative mechanism. Total allocation for this purpose is too low which must be radically increased. Since there remains a big gap between the US and the EU in this area, research and development programs must be accorded the highest priority with some important portion dedicated to infrastructure and education policies.

Some programs are to be especially supported such as environmentally conscious public transportations projects, European level energy security projects, multi-state projects for replacements of old energy infrastructures, green energy projects, multi-state projects for combating climate change, and similar projects.

Cohesion policy does not represent social constructive attribute, therefore it has some minor expenditures which are social constructive, such as expenditures related to the Lisbon goals and EU2020. This is the best way, if the unconstructive expenditures are phased, out to enable the budget to support other expenditures such as the Lisbon and EU2020 related expenditures, cross-border and multi-national expenditures. If the phase-out option is not utilized, the present structure can be rehabilitated by introducing social constructive mechanisms such as a strong involvement from the institutional level thorough local authorities, increasing the EU level administration, implementation, and evaluation mechanisms, establishing reliable data transfer and analysis with efficiency measurements, increasing connection of policies with the Lisbon goals, forming effective regional, national and the EU level coordination, focusing on new member states in the regional policy, reconsidering regions without national borders.

Additionally, three major changes might be introduced. Firstly, duration for the funding with predefined objectives can increase the incentives of the Member States to support some regions for not jeopardizing sustainable funding from the EU budget. Secondly, a reduction in the total allocations by changing the eligibility criteria to support social constructive policies and programs can also provide an opportunity. Thirdly, the proposal of Convergence Aid Fund can be reasonably used for institution building and growth, such as R&D, education and training, infrastructure. Finally, the unestablished link between the EU level and citizens can be constituted by taxation policies.

The CAP seizes the most important aspect in the reform discussion, since it is the biggest and most problematic policy supported from the EU level. There are two possibilities for the future of the policy. First option is phasing out of CAP direct subsidy from the budget. This option is much more desirable but if not realized, a rehabilitation of the system would be an alternative. It is strongly recommended, however, for both cases to continue funding for social constructive multi-state projects such as environment and research related funding, social projects, food and animal security, health, training and educational projects, and sustainable water and land management.

In case the CAP persists, four options might be offered. First one is to decrease its funding from the EU budget gradually, starting from 2014 in the way of decreasing for instance payment for per ha over the time and pay less for old member states, but more for new member states. Second one is separation of direct payment budget from social constructive goods and financing direct payments by co-financing and from the GNI based own resource funds. Third one is to provide a link between the EU level and citizens (farmers) by taxation policies on farmers and fishermen or farming instruments and inputs.

Citizenship, freedom, security and justice and the EU as a global player are policies those funding should be increased and their fund administration should be rehabilitated.

On the revenue side of the budget, agricultural resources (agricultural duties and sugar levies) and custom duties are supposed to be maintained, since they are acquired from the EU’s institutional policies but customs administration is needed more in the European sense of belongings by direct funding so that 25% deduction from the total collections as the administrative cost of the member states can be returned to the EU budget which can, then be channelled by the EU directly, for the purpose of enhancing a sense of belonging at the customs administration.

The VAT based own resource is not constructive since it resembles a contribution from the member states which should be logically abolished for the benefit of a real EU-VAT.

EU-VAT must be in a certain percentage of the national VAT but separately introduced on invoices as of EU-VAT. It can be collected by member states and transferred to the EU. Indeed, this system bears a low cost and represents flexibility that the EU can decide subjects and percentage of the tax rate given by member states. Even though flexibility is offered especially for making the cohesion policy and the CAP more socially constructive, such taxes can additionally be candidates of EU level taxation: energy tax, modified value added tax, excises on tobacco, alcohol and mineral oil; tax on transport and telecommunication services, interest income tax and a tax on the ECB gains from seignorage.

The GNI based own resource shall be kept for three reasons. Firstly, it can finance the budget funding expenditures out of the classification of social constructive goods. Secondly, it can be used for disaster mitigation, external aid and policy supports for pre-accession and neighbourhood. Thirdly, it may be used as a mechanism for increasing the size of the budget when necessary.

The British rebate is interlinked with two policies: one on the expenditure, another on the revenue sides of the budget. Since the rebate is applied as a reduction from the VAT based own resource it would not be possible to remove VAT based own resource from the budget unless removing the rebate at the same time. In other words removing the VAT based own resource from the budget would mean reducing the rebated amount if a new calculation system is not agreed as reference to the deduction. On the other hand the rebate reform proposal is automatically linked with the CAP on the expenditure side of the budget for political reasons.

It is highly recommended to remove rebate and correction mechanism from the budget for social constructive purposes. Nevertheless, if the rebate and correction system would persist, a new rebate mechanism can be offered with a significant reduction either by removing VAT based own resource –and not counting that anymore in the rebate formula –and/or reducing GNI based own resource –as already proposed– and/or reducing 66% correction rate applied for the estimation of the rebate.

Stabilization function for the EU budget is not proposed since, among other objections, it distorts further integration and requires a big financial reserve as well, which entails very large budget revenues and a proper mechanism for that.

It is found that *juste retour* is distorting and to be totally removed from the EU budgetary politics since there is no perfect *juste retour* mechanism, considering also spill-over effects and the EU level normative contributions.

Even though budgetary politics regarding decision-making is out of the subject of the research, the EU entails to strengthen democratic deficit questions at the Parliament in the expenditure and revenues, as well as on the discharge mechanism. The Treaty of Lisbon which removed distinction of compulsory/non-compulsory expenditures which was representing another democratic deficit in the decision-making structure of the Parliament.

One of the important issues is the adjustment of the duration of financial perspective (seven years) to the term limit of the European Parliament (five years) for the sake of power of the purse and to establish democratic responsibility mechanism.

CHAPTER 7

CONCLUSION

The EU budget has emerged as a consequence of path dependent developments in its historical processes. It is very difficult for the EU now to sustain the current structure of the budget which supplements some disadvantages to continue with this structure in the future. This thesis has attempted to pinpoint effective solutions to the existing problems associated with expenditures and revenues of the current budget in line with the major question of “how the EU budget can be made more socially constructive by utilizing expenditures and revenues?”

In the meanwhile, it has endeavoured to find out a proper theoretical ground for the debatable areas for that motivation. Fiscal federalism as the most challenging approach was compared with social constructivism to demonstrate its inefficiencies for the subject at this stage of the European integration. Fiscal federalism has proposed materialistic concept of utility maximization based upon decentralized and centralized governments functioning with dedicated tasks. Allocation, redistribution and stabilization functions of financial policies at these two levels of government resonate advance assumptions for the EU. Social constructivism, on the other hand, has respected as a more relevant approach for European integration from budgetary and financial policy perspectives. It has respected material and immaterial factors altogether without reconciling their comparative weight in theory building. If one of the major problems of the EU integration is attributed to citizen’s underdeveloped sense of belonging to the EU level, it may be deemed that social constructivist policy approach may utilize the budgetary devices for this purpose. These reasons have inspired that the reform proposals for the expenditures and revenues of the budget might be introduced from a social constructivist policy perspective.

First path dependency appeared with the EEC on both sides of the budget. Indeed, it emerged in agriculture and structural funds on the expenditure side as they were projected as a compensation for France and Italy for the price of the single market. It emerged on the revenue side of the budget with the introduction of national contributions instead of generating real own resources from the Community's own activities. The Balanced Budget Rule which has become effective since the establishment of ECSC imposed that the revenue and expenditure shown in the budget shall be in balance every year. This rule was considered a path dependent provision of the budget by some researchers as well. Accordingly, it was criticized by fiscal federalists, for instance, for the reason that a budget must have a debt provision without considering the balance between revenues and expenditures, according to them.

The division of expenditures as compulsory and non-compulsory emerged after the Empty Chair crisis of 1965 on the decision-making authority of the Parliament, dominated from 1971 until 2010. This represented a democratic deficit issue, since it left the EP powerless vis-à-vis the adoption of CE. At the same time 10% retained amount from TOR (which is effective as 25 % since 2001) as collection cost of the member states might be considered a low level path dependency as well, since there is no absolute mechanism which justifies this percentage and no reason to dedicate this percentage as lump sum to the Member States. On the revenue side, another path dependency was observed with the introduction of VAT, based own resources which appeared with the 1975 decision and effective with effect from 1979. It did not commence with the establishment of a direct link between citizens and the EEC/EU, contrarily, its link was established through levies on Member States' VAT bases which were harmonized for this purpose in accordance with Community rules.

Another and the most debatable path dependency appeared when the UK's special position was considered in the first half of 1980s. The UK was a member state which had more goods imports which put it in a situation it to pay more import levies to the Traditional Own Resources of the budget, moreover it would have contributed more to the VAT receipts of the revenues of the budget because of its low level of direct taxation policy. Finally, it was receiving low CAP receipts from the expenditure allocations of the budget due to its small and efficient farming structure. The rebate mechanism, effective from 1985, was extended later on, as a correction mechanism in the logic of *juste retour* (fair return-fair treatment), to some other member states with a sort of different formula.

One more path dependency came into force after the Brussels European Council meeting in 1988, in the form of a GNP/GNI based own resource. This resource overwhelmingly dominated the budget since the date of inception. Indeed this resource has turned the EU into an intergovernmental organization in the way of its funding.

Democratization of the institutions appeared once more with the introduction of multi-year financial perspective. However, the term of financial perspective is expected to be equal with the term of the Parliament for the purpose of the “power of the purse” concept. Nevertheless, since the introduction of the FF, this deficit was not considered, even with the increase of the life of the FF application from 5 to 7 years (this framework was effective for 1993-1997 in the beginning, but amended to 1993-1999 due to the accession of Austria, Finland and Sweden) and this issue has intensified its democratic representation question in the face of the European Parliament.

Because of uneven developments and these path dependencies dominated on the revenue and expenditure sides of the budget, a constructive mechanism is necessitated to enforce a link to be established between the EU and its citizens. In this connection, as demonstrated in this thesis, fiscal federalist approach is exclusively developed in the literature which provides extensive theoretical ground for the EU budget. Indeed, it indicates extreme federative assumptions and projects a top-down governmental structure with centralized and decentralized functional delegations to the governments, which signals a federative constitution. The functions dedicated by fiscal federalism to the budget can be classified as -by borrowing from Henrique and Afonso[616]- allocation (supply of public goods and services), redistribution (and taxation) and macroeconomic stabilization.

Allocation function employs decentralization vs. centralization issue which implies that any policy that can be done more efficiently at EU level should be done at that level, and inversely, anything which can be done more efficiently by the national governments of the Member States should not be an EU responsibility.[617] It further indicates that intervention at the EU level is necessary only in case of inter-border external effects. It is obvious that this view signals a path to a federalist constitution. Moreover, such a federative assumption entails a very large central government that eventually would be able to distribute big central spending such as national defence, internal security, education, justice, public health and so on.

Redistribution function of fiscal federalism as placed on the revenue side, assumes greater taxation authority for the central government and proposes a taxation policy on mobile factors (such as goods, labour and capital) and mandates the use of instruments of fiscal policy, particularly issues associated with taxation and intergovernmental transfers. However, the EU has neither such central authority to impose such taxes, nor any such instrument to use for taxation and intergovernmental transfers.

As the last, macroeconomic stabilization function requires a large budget and internalized admittance of the central authority to cope with macroeconomic shocks. It further needs controlled central barrowings to exercise this function. The EU budget is neither too large to compete with such an adverse macro-economic shock nor designed for that purpose. Indeed, borrowings and lending operations are prohibited by the Treaties and there is no budgetary provision established for deficit mechanism yet. There is no automatic response to shocks that hit some parts of the EU borders more than others, and no centralized income

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[616] Alves and Afonso “Fiscal Federalism in the European Union …”, pp.6-24 in Jesus Ferreiro, Giuseppe Fontana and Felipe Serrano(eds.) *Fiscal Policy in the EU,* Palgrave Macmillan, pp. 6-24, 2008

[617] Figueira, “How to Reform ...”, p.3.

tax that may automatically absorb less from countries that are in recession and more from countries that are booming. Nor is there a centralized unemployment insurance scheme that could provide differential help to those countries with relatively high unemployment.[618]

Even though allocation, redistribution and stabilization functions of fiscal federalism are associated with designing a top-down model of financial management and cannot be implemented for the EU unless designing the Union as a federal state, the fiscal federalist assumption on public goods are considered pretty rationalistic and it can be applicable to the expenditure questions of the budget to provide social construction.

As analyzed in this thesis, social constructivist policy approach can be introduced as an alternative approach, which emphasizes co-constitution of material and social worlds and refers to the significance of norms, rules and values. It exposes the importance of material and normative factors to assist in identifying formation as well. Interests for social constructivist approach are not just 'out there' waiting to be discovered, but constructed through social interactions.

From this perspective, social constructivist policy would refer to strengthening the link between the EU and its citizens and then enhancing the citizen's sense of belongings to the EU level. Finally, it helps in establishing a European level identity inspiration, which process may enhance the European integration.

Social constructivism can be applied to the both sides of the budgetary problems because the budget is a financial instrument which distributes material factors to the community and in the meantime, pools them from community through taxation mechanisms. These two policies can construct the sense of belonging of citizens to the EU level. If the EU budget expenditures are directed to the European common area without national constraints, the budget will be able to produce European level public goods which will be internalized by

[618] For further information see, Sebastian Dullien and Daniela Schwarzer, "Integrating the Macro-Economic Dimension into the EU Budget: Reasons, Instruments and the Question of Democratic Legitimacy", *EU Consent EU-Budget Working Policy Paper*, 4, 2007, pp.11-12

citizens and in the end, this progress establishes necessary links at the EU level. The same mechanism is applicable to the revenue side of the budget in taxation mechanism. In the application of social constructivist mechanisms to revenue side of the EU, an extensive taxation model is needed to link as many citizens as possible to the EU level. A flexible EU VAT can be proposed for this purpose, applicable to the most of the citizens. This system will enforce a democratic representation mechanism in the EU as well, since it will link the Parliament to citizens in a representation mechanism through taxation.

Comparing fiscal federalism with social constructivism, the latter provides coherent and precious approaches to the questions associated with the expenditures and revenues of the budget, which eventually addresses integration of the EU without requiring high level federative constitution. On the expenditure side, public goods can be proposed to be devised for social construction. However, additional supplementary mechanism might be needed to enhance social constructivist influences.

Public goods in present budgetary expenditures are identified in this thesis as such: Research Framework Program, LLL+, TEN-E, TEN-T, Marco Polo, Galileo, Nuclear Decommissioning, the CIP, Customs, Fiscalis, Fight Against Fraud, safer internet, e-Government, Social Agenda, Safety in the ***Competitiveness***, transport, ICT, environment, energy, human capital, education and research in the ***Cohesion***, preservation of sustainable farming and environmental expenses when they target multinational programs in ***the CAP***, almost all of the expenditure programs in the ***Citizenship, Freedom, Security and Justice***, whole headings of ***the EU as a Global Player*** and ***Administration***. Except some small commitments, other expenditures especially programs under the cohesion and the CAP are identified not socially constructive.

On the revenue side of the budget the thesis identified that Traditional Own Resources are derived from the EU’s supranational policies which resonate that they must be sustained in the future. VAT based own resources and GNI based own resources are distorting the integration progress of the EU, and they are not socially constructive. Furthermore, the thesis identified that the EU needs advance recourses to establish prospective links with citizens.

Reform proposals are also grouped under two categories in the light of social constructivist policy approach, expenditures and revenues. It can add one more category, associated with some institutional level problems which are briefly analyzed in the reform proposals as well.

The main constraint in the Competitiveness policy was perceived that it is allocated at very low level. On the other hand, most of the policy expenditures are in the domain of public goods and aims at accomplishing the Lisbon goals. More funding is required on research and development, energy, environment, transportation, climate change and projects in these categories such as replacing old infrastructures. The need of strengthening administration of the fund management and prioritizing multi-national prevalent projects are proposed efficient and effective funding, and to enhance social construction of the citizens.

Since the funding for the cohesion policy does not represent European public goods, unconstructive items can be eliminated from the budgetary funding of this policy. If the administration of programs is redesigned to make them more socially constructive, some programs can be maintained such as social, economic and environmental factors and environmental, energy, public health, transportation, etc. . The size of total funding in this category is large enough and also represents a large unconstructive funding. It can be reduced gradually on behalf of public goods. Regions can be redesigned without considering national borders to enhance European senses over citizens of the regions and increase cross-border co-operation, especially in regions which have neighbour borders with other member states. In case this funding persists in the future, social constructive link can be provided through a taxation mechanism specifically addressing unlinked weak areas. Moreover, the unconstructive part of funding can be compensated from, preferably GNI based own resource since this source also addresses unconstructive relations for the revenue side of the budget.

The CAP can be dedicated for agricultural public goods, which serve for social area of the EU such as environmental, research, ecosystem cross-border projects. Removal of the CAP in its entirety can be taken as the first item in the reform agenda. If removal of direct payment from the CAP is not possible, gradual reduction of funding and co-financing are considered, among others, as constructive proposals to lessen budgetary burdens of unconstructive nature of the policy from the budget. In case, these policies somehow persist in the future, social constructive link can be established through a unique taxation mechanisms for the CAP as proposed for cohesion funding, likewise the unconstructive part of funding can be compensated from GNI based own resource as well.

Expenditure budget can be increased to invest more on CFSP, research and development, infrastructure, education, environment, foreign policy and external actions, citizenship, freedom, security and justice. An additional heading/subheading can be opened as a social chapter for children, family, women, sport, culture, tourism and similar projections.

On the revenue side, traditional own resources are supposed to be kept since they represent resources acquired from the Community policies. Nonetheless, 25% deduction retained as administrative costs of member states can be proposed to be returned to the EU budget in favour of an established fund to direct support of customs and enhance the EU sense in the customs.

VAT based own resource can be opted out because it does not represent a real own resource and does not accommodate desired link between the EU and citizens.

Even though GNI based own resource does not present a direct link, it can be maintained for the purposes of funding unpredictable and unconstructive expenditures at certain levels of the budget, which can be withheld with comparing the proportion of constructive EU level revenues.

The British rebate and correction mechanism as exceptional cases are proposed to be removed or reduced, which is totally destructive and unconstructive.

There is a need of EU level tax, applicable from the EU level with widely applicable taxation mechanisms, which can be used to make the cohesion policy and the CAP more socially constrictive. Among other options, such taxes can be offered together with an extensive EU-VAT: energy tax, modified value added tax, excises on tobacco, alcohol and mineral oil, tax on transport and telecommunication services, interest income tax and a tax on the ECB gains from seignorage. Some of these taxes may not be applied and some cannot yield the expected amount of revenue, such as energy tax and tax on transportation and telecommunications, since taxes can diminish the competitiveness of the EU products. However, it would be sufficient to have a link with the consumers through widely taxed commercials. The aim must be establishing a link with citizens and providing a level of social constructive taxation which is sustainable and dependable.

There are some other concerned subjects that were also analyzed and enlightened in this thesis such as stabilization function and size of the EU budget. Contrary to the proposal of fiscal federalism, it is admitted that this function is out of the capacity of the EU. The size of the budget can be increased through some ways as discussed in the reform chapter. The issue of fair return or *juste retour* is found unconstructive and to be removed from budget discussions. Democratic deficit issues in the Parliament in discharge mechanism and multi-year financial projection are to be adjusted in line with the service term of the Parliament to provide a democratic representation link with citizens.

All in all, it may be said that social constructivism has many features to address the EU's current problems that the expenditures and, revenues of the budget represent crucial apparatus, because social constructivist approach necessitates material and normative factors to co-construct the society with interactions. The Thesis illustrates that budgets can be studied from social a constructive perspective, and adversely, social constructivism can be regarded in the budget studies. The EU cannot maintain sustainable progress without considering social integration. In fact, the integration must be sustained by establishing a sustainable strong link between the EU level and citizens and this link can be provided by enhancing social constructive factors on the expenditure and revenue sides of the EU budget.

ANNEX 1A: Financial Framework 4 (2007-2013)

FINANCIAL FRAMEWORK* 2007-2013 based on the EUROPEAN COUNCIL conclusions of December 2005

Indicative breakdown of expenditure with adjusted financial envelopes

(2004 prices)	2006 (c)	2007	2008	2009	2010	2011	2012	2013	2007-2013 TOTAL	Change 2013/ 2006
SUB-HEADING 1A Competitiveness for growth and employment										
TEN (transport and energy)	548	804	898	952	963	975	1.002	1.109	6.703	102%
Marco Polo II	34	53	55	56	57	58	60	61	400	81%
Spatial infrastructure 'Galileo'	148	94	140	182	223	132	129		900	
Nuclear decommissioning	138	247	247	247	177	177	177	178	1.450	29%
Life Long Learning + Erasmus Mundus	676	732	780	820	860	890	920	950	5.952	40%
7th Research framework programme	5.044	5.170	5.552	6.028	6.644	7.426	8.110	8.851	47.781	75%
Competitiveness and innovation (CIP)	339	356	373	390	413	433	450	469	2.884	38%
Progress (social policy agenda)	95	78	78	79	80	80	81	82	558	-14%
CUSTOMS 2012, FISCALIS & EMCS programmes	56	64	64	65	69	73	77	79	490	42%
Other (other actions in transport & energy safety, other social policy agenda, internal market, statistics, EIF capital increase, fight against fraud, traditional agencies & margin)	*491*	*652*	*673*	*691*	*714*	*706*	*744*	*821*	*5.003*	*67%*
TOTAL SUB-HEADING 1A	**7.570**	**8.250**	**8.860**	**9.510**	**10.200**	**10.950**	**11.750**	**12.600**	**72.120**	66%
SUB-HEADING 1B Cohesion for growth and employment										
Structural funds	31.682	36.129	35.760	35.406	34.757	34.459	34.629	34.962	246.101	10%
Cohesion Fund	5.904	6.711	7.529	8.414	9.044	9.536	10.005	10.279	61.518	74%
TOTAL SUB-HEADING 1B	**37.586**	**42.840**	**43.288**	**43.820**	**43.801**	**43.995**	**44.634**	**45.241**	**307.619**	20%
HEADING 2 Preservation and management of natural resources										
Agriculture: direct aids & market support	**43.735**	**43.120**	**42.697**	**42.279**	**41.864**	**41.453**	**41.047**	**40.645**	**293.105**	-7%
Rural development [a]	10.544	10.710	10.447	10.185	9.955	9.717	9.483	9.253	69.750	-12%
European fisheries fund [a]	630	539	544	551	551	553	554	556	3.849	-12%
Other fisheries programmes/actions	272	321	325	328	329	331	332	333	2.300	23%
Life+	199	220	234	248	259	271	283	296	1.811	49%
Other (traditional agencies & margin)	*31*	*61*	*61*	*61*	*61*	*61*	*61*	*61*	*429*	*96%*
TOTAL HEADING 2	**55.411**	**54.972**	**54.308**	**53.652**	**53.021**	**52.386**	**51.761**	**51.145**	**371.244**	-8%
SUB-HEADING 3A Freedom, security and justice										
Solidarity and the management of migration flows	393	275	343	407	440	531	671	852	3.517	117%
Fundamental Rights and Justice	35	67	69	71	68	68	69	69	482	96%
Security and Safeguarding Liberties	12	55	62	82	95	116	121	123	654	967%
Other (SIS, VIS, Eurodac, European Migration Monitoring Observatory, traditional agencies & margin)	*88*	*204*	*216*	*230*	*307*	*335*	*339*	*346*	*1.977*	*294%*
TOTAL SUB-HEADING 3A	**528**	**600**	**690**	**790**	**910**	**1.050**	**1.200**	**1.390**	**6.630**	163%
SUB-HEADING 3B Citizenship										
Health and consumer protection	78	57	79	80	80	80	80	80	538	2%
European Culture and Citizenship (Culture, Youth, Citizens for Europe)	176	149	177	179	179	179	179	179	1.220	1%
Media	91	77	91	92	92	92	92	92	631	1%
Rapid response and prep. Instrument for major emergencies	17	15	17	17	17	17	17	17	119	1%
Institution building (Bulgaria and Romania)	66	82							82	-100%
Other ('Prince' , Eur. Year intercultural dialogue, pilot projects citizenship, EU visitors,traditional agencies & margin)	*165*	*140*	*156*	*151*	*151*	*151*	*151*	*152*	*1051*	-8%
TOTAL SUB-HEADING 3B	**591**	**520**	**520**	**520**	**520**	**520**	**520**	**520**	**3.640**	-12%
HEADING 4 The EU as a global partner										
Instrument for Pre-Accession (IPA) [b]	1.121	1.193	1.290	1.353	1.452	1.565	1.660	1.700	10.213	52%
Eur. neighborhood & Partnership Instr. (ENPI)	1.274	1.300	1.330	1.397	1.470	1.530	1.640	1.720	10.387	35%
Development Coop & Ec. Coop Instr. (DCEC)	1.862	2.000	2.060	2.116	2.167	2.190	2.246	2.324	15.103	25%
Instrument for Stability	531	232	268	338	363	400	430	500	2.531	-6%
Common foreign and security policy	*99*	*100*	*115*	*130*	*140*	*145*	*150*	*160*	*940*	62%
Provisioning of Loan Guarantee Fund	220	188	185	181	178	174	171	167	1.244	-24%
Emergency aid reserve	*221*	*221*	*221*	*221*	*221*	*221*	*221*	*221*	*1.547*	
Other (humanitarian aid, macro-financial assistance, ad-hoc envelopes, traditional agencies & margin)	*894*	*1.046*	*1.081*	*1.095*	*1.129*	*1.195*	*1.222*	*1.278*	*8.046*	43%
TOTAL HEADING 4 [b]	**6.222**	**6.280**	**6.550**	**6.830**	**7.120**	**7.420**	**7.740**	**8.070**	**50.010**	30%
HEADING 5 Administration	**6.499**	**6.720**	**6.900**	**7.050**	**7.180**	**7.320**	**7.450**	**7.680**	**50.300**	18%
HEADING 6 Compensation	**1.041**	**419**	**191**	**190**					**800**	
TOTAL	**115.448**	**120.600**	**121.307**	**122.363**	**122.752**	**123.641**	**125.054**	**126.646**	**862.363**	10%

NB: All figures have been calculated using a 2% annual deflator between 2004 and 2013.

* The European Development Fund and the EU Solidarity Fund are not included in the financial framework.

(a) The 2006 level excludes the 2001 technical adjustment to the ceilings of structural actions heading whereby € 1026 million were shifted to the year 2006 to take account of the implementation conditions of structural funds. This affects all the transfers from the current structural actions to the new Heading 2.

(b) The 2006 figure does not include appropriations for BG/ROM nor the amount (€ 134 mn) proposed for 2006 by the Commission for the northern part of Cyprus.

(c) The breakdown for the year 2006 is based on the 2006 budget.

Source: European Commission Working Document, Fishe No:94, 14 02.2006

ANNEX 1B: Financial Framework 4 (2007-2013)

Financial Framework 2007-2013

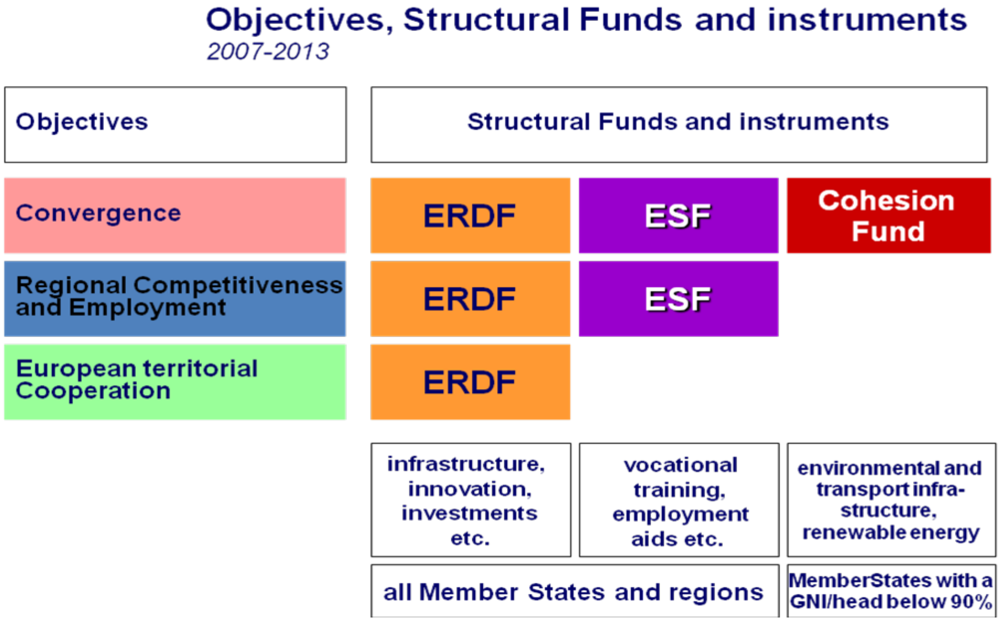
(EUR million — 2004 prices)

Commitment appropriations	2007	2008	2009	2010	2011	2012	2013	Total 2007-2013
1. Sustainable Growth	**51 267**	**52 415**	**53 616**	**54 294**	**55 368**	**56 876**	**58 303**	**382 139**
1a Competitiveness for Growth and Employment	8 404	9 097	9 754	10 434	11 295	12 153	12 961	74 098
1b Cohesion for Growth and Employment	42 863	43 318	43 862	43 860	44 073	44 723	45 342	308 041
2. Preservation and Management of Natural Resources	**54 985**	**54 322**	**53 666**	**53 035**	**52 400**	**51 775**	**51 161**	**371 344**
of which: market related expenditure and direct payments	43 120	42 697	42 279	41 864	41 453	41 047	40 645	293 105
3. Citizenship, freedom, security and justice	**1 199**	**1 258**	**1 380**	**1 503**	**1 645**	**1 797**	**1 988**	**10 770**
3a. Freedom, Security and Justice	600	690	790	910	1 050	1 200	1 390	6 630
3b. Citizenship	599	568	590	593	595	597	598	4 140
4. EU as a global player	**6 199**	**6 469**	**6 739**	**7 009**	**7 339**	**7 679**	**8 029**	**49 463**
5. Administration (1)	**6 633**	**6 818**	**6 973**	**7 111**	**7 255**	**7 400**	**7 610**	**49 800**
6. Compensations	**419**	**191**	**190**					**800**
Total commitment appropriations	**120 702**	**121 473**	**122 564**	**122 952**	**124 007**	**125 527**	**127 091**	**864 316**
as a percentage of GNI	1,10 %	1,08 %	1,07 %	1,04 %	1,03 %	1,02 %	1,01 %	1,048 %
Total payment appropriations	**116 650**	**119 620**	**111 990**	**118 280**	**115 860**	**119 410**	**118 970**	**820 780**
as a percentage of GNI	1,06 %	1,06 %	0,97 %	1,00 %	0,96 %	0,97 %	0,94 %	1,00 %
Margin available	0,18 %	0,18 %	0,27 %	0,24 %	0,28 %	0,27 %	0,30 %	0,24 %
Own Resources Ceiling as a percentage of GNI	1,24 %	1,24 %	1,24 %	1,24 %	1,24 %	1,24 %	1,24 %	1,24 %

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

Source: IIA on "Budgetary Discipline and Sound Financial Management", 2006/ OJ C 139/01, Official Journal of the European Union, 14.6.2006

ANNEX 2A: Structural and Cohesion Funds



Cohesion Policy 2007-2013

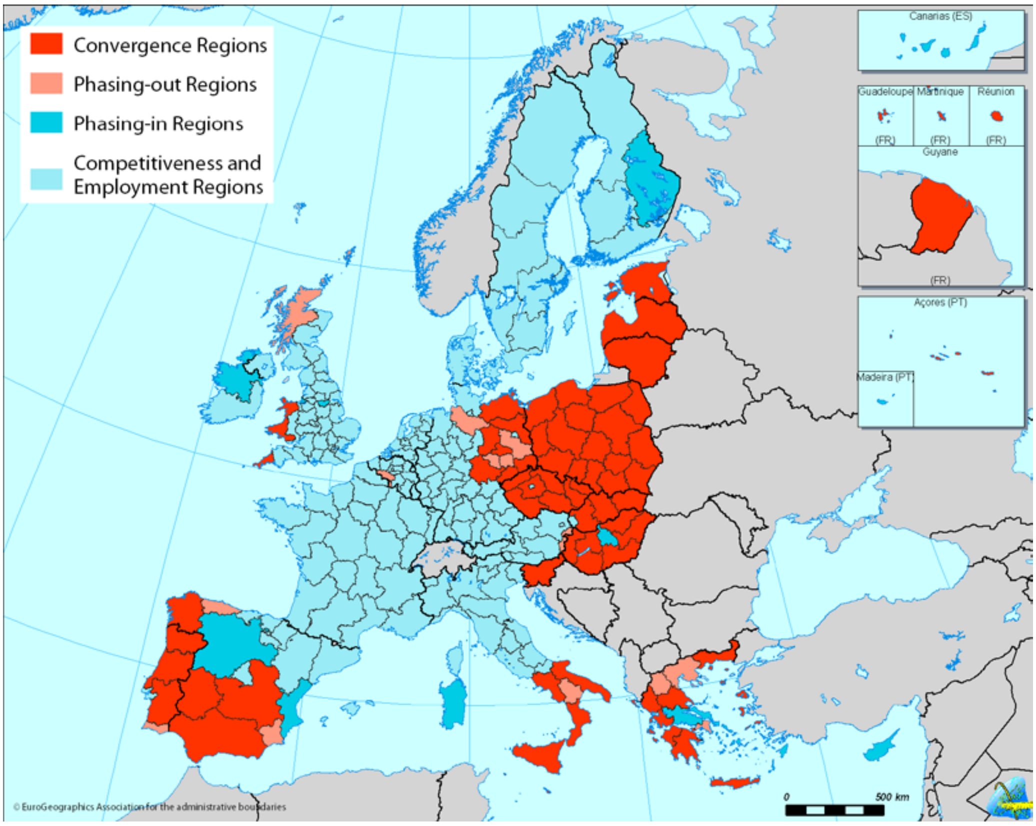
3 Objectives

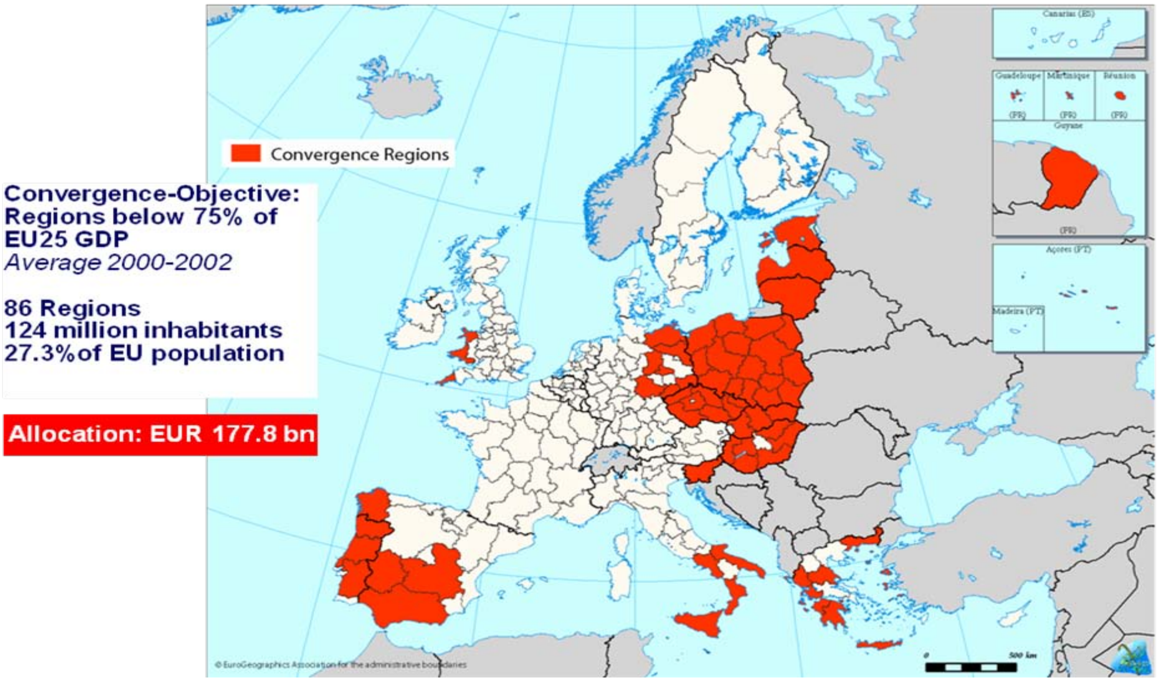
Budget: EUR 307.6 bn (0.37% of EU-GNI)

Programmes and Instruments	Eligibility	Priorities	Allocations
Convergence objective			81.7% (EUR 251.33 bn)
Regional and national programmes ERDF ESF	Regions with a GDP/head <75% of average EU25	•innovation; •environment/ risk prevention; •accessibility; •infrastructure; •human resources; •administrative capacity	*57.6% EUR 177.29 bn*
	Statistical effect: Regions with a GDP/head <75% of EU15 and >75% in EU25		*4.1% EUR 12.52 bn*
Cohesion Fund including phasing-out	Member States GNI/head <90% EU25 average	•transport (TENs); •sustainable transport; •environment; •renewable energy	*20.0% EUR 61.42 bn*
Regional competitiveness and employment objective			15.8% (EUR 48.79 bn.)
Regional programmes (ERDF) and national programmes (ESF)	Member States suggest a list of regions (NUTS I or II)	•Innovation •environment/risk prevention •accessibility •European Employment Strategy	*15.5% EUR 38.4 bn*
	"Phasing-in" Regions covered by objective 1 beween 2000-06 and not covered by the convergence objective		*3.4% EUR 10.38 bn*
Cross-border and transnational programmes and networking (ERDF)	Border regions and greater regions of transnational co-operation	•innovation; •environment/ risk prevention; •accessibility •culture, education	*of which: 77.6% cross-border 18.5% transnational 3.9% interregional + ENPI*

Source: European Commission European Commission - Regional Policy Directorate-General

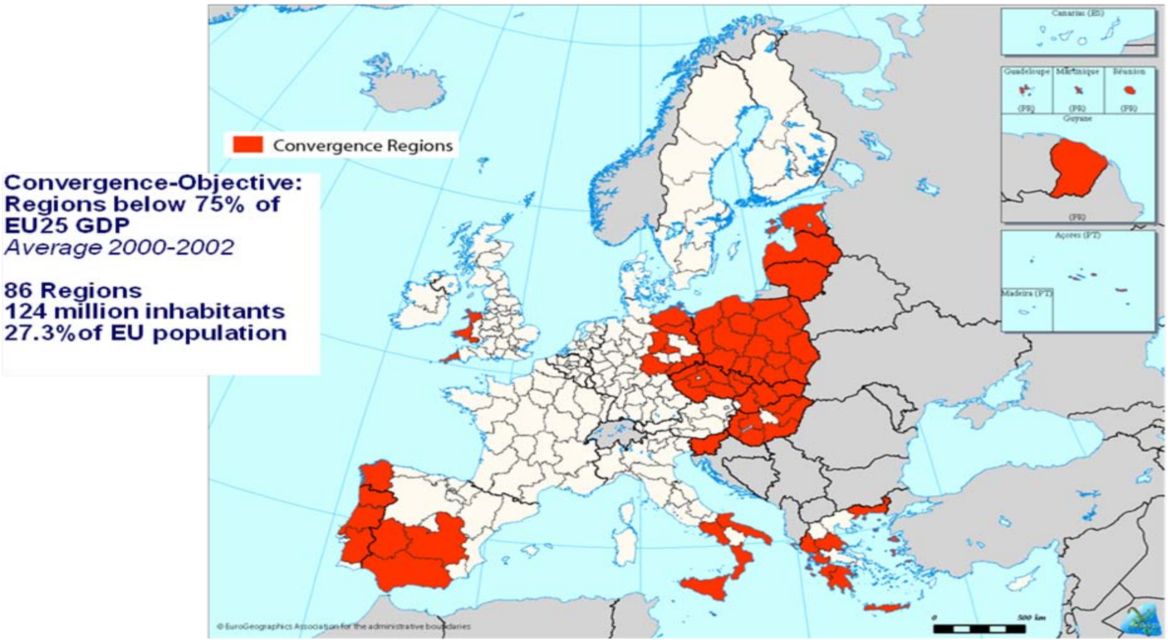
ANNEX 2B: Maps of Structural and Cohesion Funds

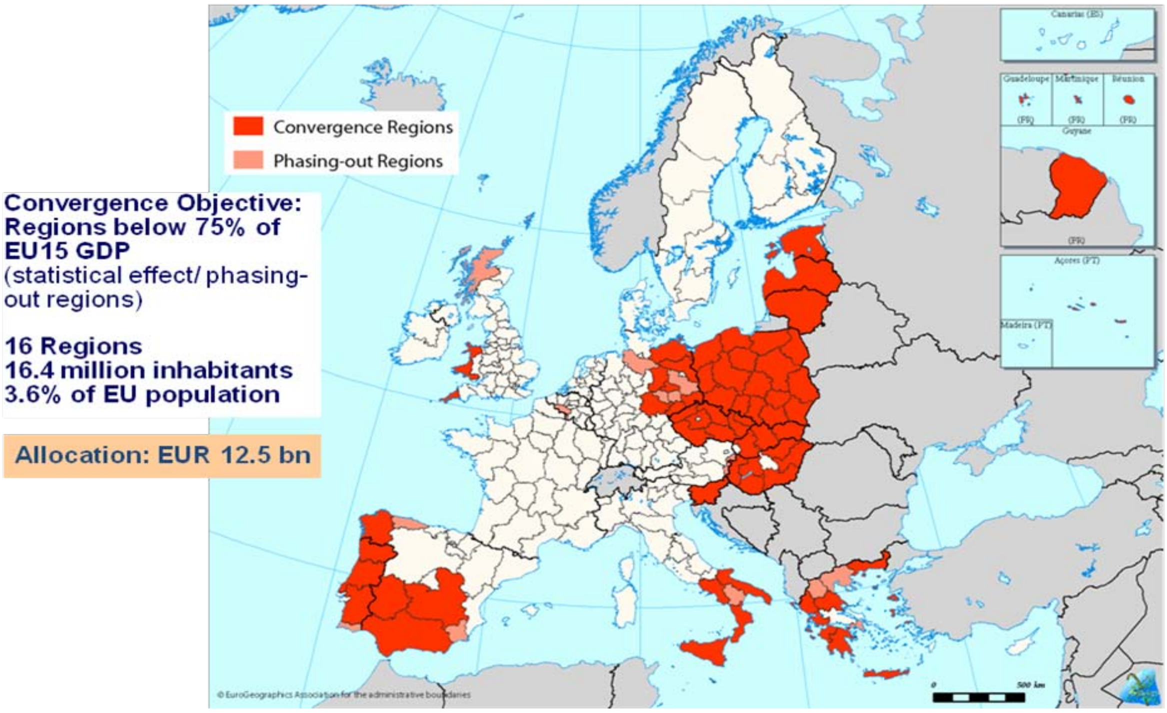




Source: European Commission European Commission - Regional Policy Directorate-General

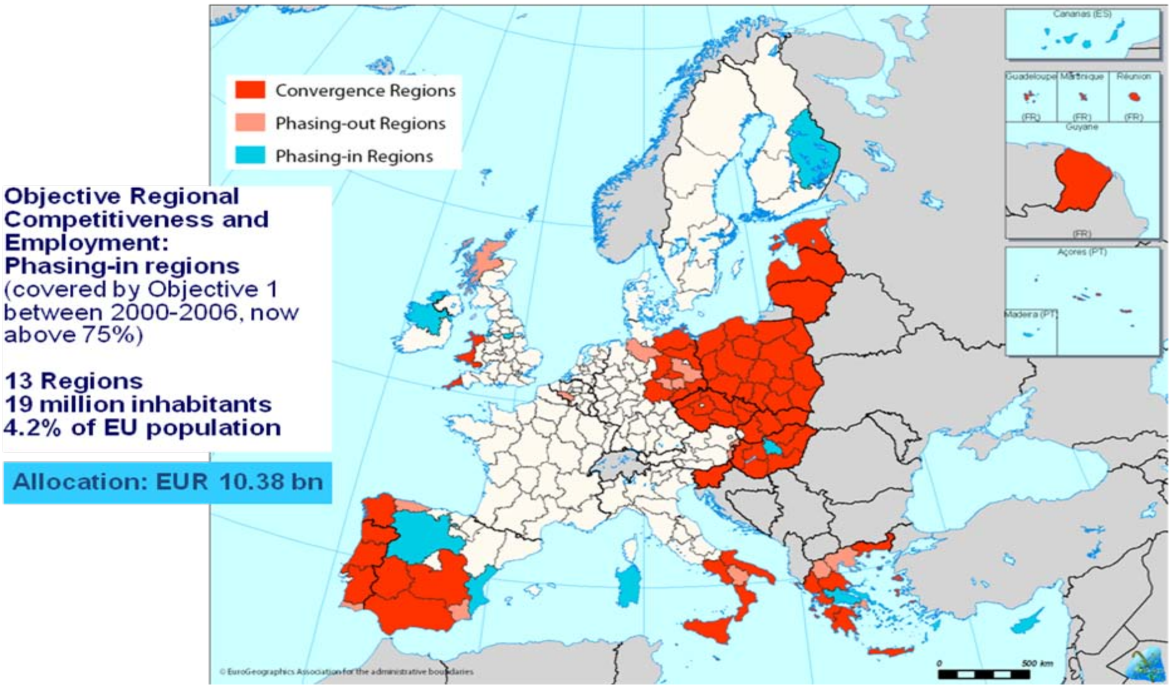
ANNEX 2C: Maps of Structural and Cohesion Funds

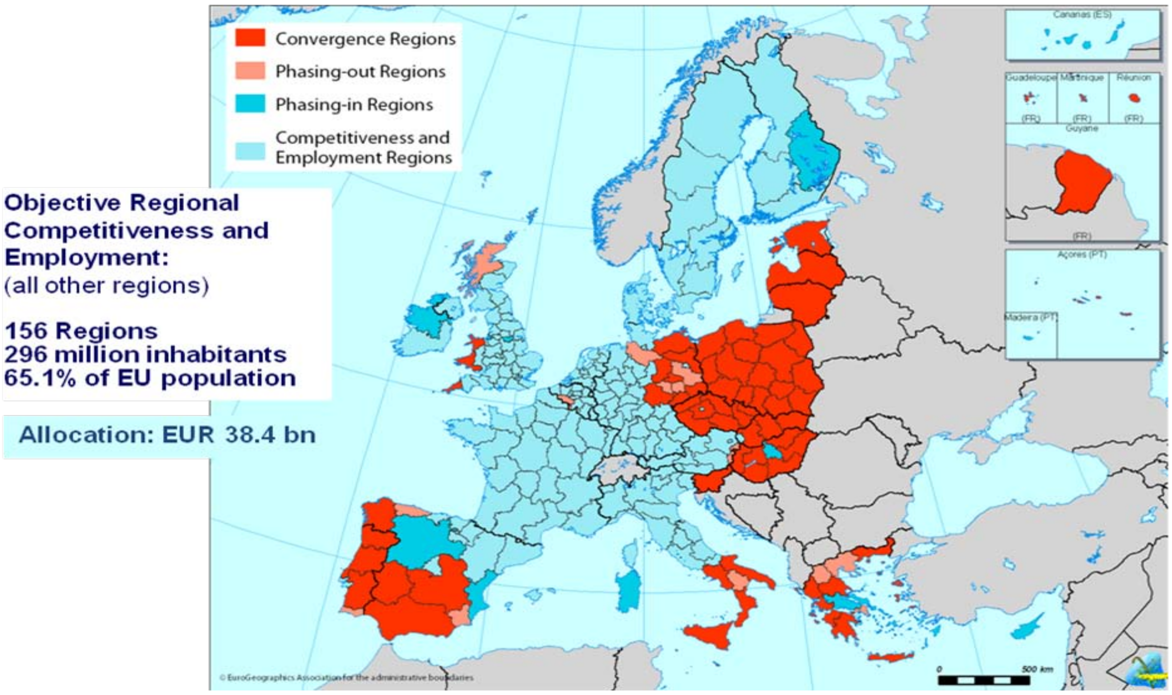




Source: European Commission European Commission - Regional Policy Directorate-General

ANNEX 2D: Maps of Structural and Cohesion Funds





Source: European Commission European Commission - Regional Policy Directorate-General

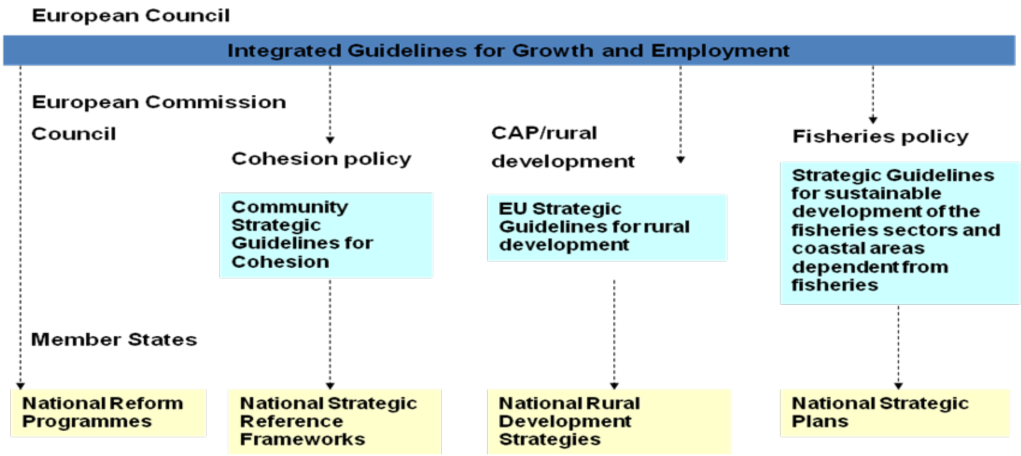
ANNEX 2E: Effects of Enlargement and Lisbon on Structural and Cohesion Funds

Convergence and Competitiveness and Employment Objectives

Regions and population covered in EU25/27 (December 2005 figures)

	EU25			EU27		
	Number of regions	Population		Number of regions	Population	
		million	% of EU		million	% of EU
Convergence Objective						
Convergence Regions	70	124	27.3	84	153.7	31.7
Statistical Effect Regions	16	16.4	3.6	16	16.4	3.4
Total	**86**	**140.4**	**30.9**	**100**	**170.1**	**35.1**
Competitiveness and Employment Objective						
Phasing-in Regions	13	19	4.2	13	19	3.9
Other Regions	155	295.2	64.9	155	295.2	61.0
Total	**168**	**314.3**	**69.1**	**168**	**314.3**	**64.9**

"Lisbon-new" and Cohesion, rural development and fisheries policies



Source: Investing in Europe's Member States and regions
January 2006 European Commission - Regional Policy DG

ANNEX 3: Comparison of Last Four Financial Frameworks (1988-2013)

Table 1. Appropriations for commitments (annual average) in the multi-year financial perspectives (1988-2013)

	DELORS I[a] 1988-92		DELORS II[b] 1993-99		AGENDA 2000[c] 2000-06		NEW MYFP 2007-13	
Appropriations for commitments	Mio ECU	% EU	Mio ECU	% EU	Mio €*	% EU	Mio €	% EU
1. Agriculture	28,440**	58.1	36,503	48.2	42,534	46.1		
CAP	*28,440***	*58.1*			*38,196*	*41.4*	*43,011*	*29.4*
Rural development and other					*4,339*	*4.7*	*14,797*	*10.1*
2. Structural operations	10,628	21.7	25,200	33.3	30,430	33.0		
Cohesion fund			*2,164*	*2.9*	*12,104*	*13.1*	*49,273****	*33.6*
Structural funds			*23,035*	*30.4*	*27,859*	*30.2*		
3. Internal policies	1,862	3.8	4,512	6.0	6,261	6.8	21,609	14.8
Competitiveness for growth and employment							*18,965*	*13.0*
Citizenship, freedom, security and justice							*2,644*	*1.8*
4. External actions	2,498	5.1	5,200	6.9	8,100	8.8	13,656	9.3
External actions	*2,498*	*5.1*	*4,629*	*6.1*	*4,580*	*5.0*		
Emergency aid			*271*	*0.4*	*200*	*0.2*		
Loan guarantees			*300*	*0.4*	*200*	*0.2*		
Pre-accession aid					*3120*	*3.4*		
5. Administration	4,540	9.3	3,640	4.8	4,809	5.2	4,089	2.8
6. Monetary reserves	1,000	2.0	643	0.8	179	0.2		
Total	48,968	100	75,698	100	92,313	100	146,434	100
Appropriations for payments	46,936		72,177		91,643		132,671	
Appropriations for payments (% of GNP)	1.15		1.22		1.07		GNI 1.14	
Own resource ceiling (% of GNP)	1.18		1.23		1.27		GNI 1.24	

[a] Heading 3 included multi-year policies (R&D, IMP); Heading 4 included "other non-compulsory policies".
[b] Heading 3 included R&D, TENs, environment and the functioning of internal market.
[c] Internal policies includes: training, youth culture etc.; energy, nuclear and environment; consumer protection, internal market etc.; research and technological development, other internal policies.

* 1 ecu = 1 euro.
** Allocation for EAGGF, section guarantee only.
*** Cohesion and Solidarity funds included.

Sources: European Commission and authors' own estimates.

Source: Gros, Daniel, How to Achieve a Better Budget for the European Union? CEPS Working Document, 289, April 2008, p.6

ANNEX 4: Budgetary Frameworks of Previous Frameworks:

Annex 4/A- First FF

— Heading 1: 'EAGGF Guarantee Section' covering agricultural guarantee expenditure and half the aid for set-aside

— Heading 2: 'Structural operations', which mainly contains expenditure under the Structural Funds (ERDF, ESF, and the EAGGF Guidance Section) as well as some structural expenditure connected with fisheries and structural programmes for geographical areas such as the specific programme for the development of Portuguese industry, the other half of the set-aside aid and the income aid for farmers

— Heading 3: 'Policies with multiannual allocations', covering research and the integrated Mediterranean programmes

— Heading 4: 'Other policies', covering expenditure on all other operations in fields such as transport, environment, audiovisual media, internal market and all external action

— Heading 5: 'Repayments and administration', consisting of the institutions' administrative expenditure as well as expenditure on certain repayments to the Member States (to Spain and Portugal in the early years of membership or in connection with the depreciation of agricultural stocks)

— Heading 6: 'Monetary reserve', for which the necessary resources would be called in only if required

Annex 4/B-Second FF:

— Heading 1: CAP, which now includes the accompanying measures, all aid for set-aside and income aid for farmers and the Guarantee Fund for fishery products.

— Heading 2: Economic and social cohesion measures, which, in addition to Structural Fund operations and the Financial Instrument for Fisheries Guidance, covers the Cohesion Fund established by the Treaty on European Union.

— Heading 3: Internal policies of a horizontal nature, including research and technological development and the trans-European networks.

— Heading 4: External action — operations in specific geographical areas, expenditure on food aid, humanitarian aid and emergency aid and the external aspects of certain Community policies (fisheries, environment).

— Heading 5: Administrative expenditure of the institutions.

— Heading 6: Reserves

Annex 4/C-

— CAP: the agricultural guideline was increased by 74 % of the relative GNP of the three acceding countries;

— Structural operations: the Structural Fund allocations were increased in line with the Act of Accession. A new Objective 6 was created for the regions with a population density not exceeding eight inhabitants per km^2. The European Union budget will also cover the acceding countries' contribution to the EEA financial mechanism (grant of structural aid by the EFTA countries taking part in the Agreement on the European Economic Area). A new subheading has therefore been entered in the financial perspective for this purpose;

— Internal policies: the ceiling for heading 3 was raised by 7 % in line with the relative size of the acceding countries' GNP;

— External action: the ceiling for this heading was raised by 6,3 % in proportion to the relative population of the acceding countries;

— Administrative expenditure: the ceiling for this heading rises by an average 4.66 % over the period 1995 to 1999; however, there is a provision that expenditure under this heading will be reviewed in 1996 to take account of the financing requirements for the buildings of the European institutions and the staff requirements for the new Member States

Source: European Commission “The Community Budget: The Facts in Figures”, SEC(97)1200, 1997

ANNEX 5 Revenues in 2010-2011

REVENUE

Description	Budget 2011	Budget 2010 (1)	Change (%)
Miscellaneous revenue (Titles 4 to 9)	1 491 847 660	1 432 509 724	+ 4,14
Surplus available from the preceding financial year (Chapter 3 0, Article 3 0 0)	p.m.	2 253 591 199	—
Surplus of own resources resulting from the repayment of the surplus of the Guarantee Fund for external actions (Chapter 3 0, Article 3 0 2)	p.m.	p.m.	—
Balance of own resources accruing from VAT and GNP/GNI-based own resources for earlier years (Chapters 3 1 and 3 2)	p.m.	p.m.	—
Total revenue for Titles 3 to 9	**1 491 847 660**	**3 686 100 923**	**– 59,53**
Net amount of customs duties and sugar levies (Chapters 1 1 and 1 2)	16 777 100 000	14 203 100 000	+ 18,12
VAT-based own resource at the uniform rate (Tables 1 and 2, Chapter 1 3)	13 786 799 525	13 950 917 375	– 1,18
Remainder to be financed by the additional resource (GNI-based own resource, Table 3, Chapter 1 4)	98 091 464 557	91 116 809 790	+ 7,65
Appropriations to be covered by the own resources referred to in Article 2 of Decision 2007/436/EC, Euratom (2)	128 655 364 082	119 270 827 165	+ 7,87
Total revenue (3)	**130 147 211 742**	**122 956 928 088**	**+ 5,85**

(1) The figures in this column correspond to those in the 2010 budget (OJ L 64, 12.3.2010, p. 1) plus Drafts Amending Budgets No 1/2010 to 4/2010.

(2) The own resources for the 2010 budget are determined on the basis of the budget forecasts adopted at the 148th meeting of the Advisory Committee on Own Resources on 18 May 2010.

(3) The third paragraph of Article 310(1) of the Treaty on the Functioning of the European Union (former Article 268 of the Treaty establishing the European Community) reads: 'The revenue and expenditure shown in the budget shall be in balance'.

Source: Eur-Lex http://eur-lex.europa.eu/budget/data/DB_2011/EN/GenRev.pdf

ANNEX 6 Summary of Own Resources by Member States

Summary of financing (¹) of the general budget by type of own resource and by Member State

Member State	Traditional own resources (TOR)				VAT and GNI-based own resources, including adjustments						Total own resources (²)
	Net sugar sector levies (75 %)	Net customs duties (75 %)	Total net traditional own resources (75 %)	Collection costs (25 % of gross TOR) p.m.	VAT-based own resource	GNI-based own resource	Reduction in favour of Netherlands and Sweden	United Kingdom correction	Total 'national contributions'	Share in total 'national contributions' (%)	
	(1)	(2)	(3) = (1) + (2)	(4)	(5)	(6)	(7)	(8)	(9) = (5) + (6) + (7) + (8)	(10)	(11) = (3) + (9)
Belgium	6 600 000	1 512 400 000	1 519 000 000	506 333 333	447 056 400	2 828 864 889	23 934 277	145 448 571	3 445 304 137	3,08	4 964 304 137
Bulgaria	400 000	55 400 000	55 800 000	18 600 000	50 039 700	272 258 881	2 303 510	13 998 429	338 600 520	0,30	394 400 520
Czech Republic	3 400 000	193 300 000	196 700 000	65 566 667	198 357 600	1 093 867 500	9 254 923	56 242 158	1 357 722 181	1,21	1 554 422 181
Denmark	3 400 000	318 500 000	321 900 000	107 300 000	288 014 100	1 914 199 688	16 195 537	98 420 257	2 316 829 582	2,07	2 638 729 582
Germany	26 300 000	3 403 800 000	3 430 100 000	1 143 366 662	1 617 919 650	19 942 757 927	168 730 393	182 159 254	21 911 567 224	19,59	25 341 667 224
Estonia	0	16 800 000	16 800 000	5 600 000	20 176 800	107 625 246	910 589	5 533 646	134 246 281	0,12	151 046 281
Ireland	0	178 200 000	178 200 000	59 400 000	199 435 200	1 039 889 848	8 798 233	53 466 849	1 301 590 130	1,16	1 479 790 130
Greece	1 400 000	155 000 000	156 400 000	52 133 334	320 616 300	1 819 375 501	15 393 254	93 544 788	2 248 929 843	2,01	2 405 329 843
Spain	4 700 000	1 056 600 000	1 061 300 000	353 766 667	1 194 082 200	8 236 496 547	69 686 816	423 486 700	9 923 752 263	8,87	10 985 052 263
France	30 900 000	1 357 500 000	1 388 400 000	462 800 000	2 687 302 500	16 009 028 847	135 448 153	823 118 270	19 654 897 770	17,57	21 043 297 770
Italy	4 700 000	1 795 300 000	1 800 000 000	600 000 000	1 865 228 700	12 359 575 232	104 571 093	635 478 409	14 964 853 434	13,38	16 764 853 434
Cyprus	0	33 200 000	33 200 000	11 066 667	26 082 900	136 000 781	1 150 667	6 992 600	170 226 948	0,15	203 426 948
Latvia	0	21 100 000	21 100 000	7 033 333	20 254 500	133 795 185	1 132 006	6 879 197	162 060 888	0,14	183 160 888
Lithuania	800 000	47 900 000	48 700 000	16 233 334	40 864 500	213 074 616	1 802 768	10 955 418	266 697 302	0,24	315 397 302
Luxembourg	0	12 300 000	12 300 000	4 100 000	43 806 900	228 416 802	1 932 574	11 744 250	285 900 526	0,26	298 200 526
Hungary	2 000 000	112 200 000	114 200 000	38 066 667	130 727 400	773 850 434	6 547 344	39 788 199	950 913 377	0,85	1 065 113 377
Malta	0	10 100 000	10 100 000	3 366 667	8 656 650	45 137 280	381 895	2 320 773	56 496 598	0,05	66 596 598
Netherlands	7 300 000	2 039 100 000	2 046 400 000	682 133 333	297 167 000	4 719 334 871	– 625 110 923	43 106 902	4 434 497 850	3,96	6 480 897 850
Austria	3 200 000	168 100 000	171 300 000	57 100 000	292 646 475	2 254 619 295	19 075 737	20 593 930	2 586 935 437	2,31	2 758 235 437
Poland	12 800 000	379 500 000	392 300 000	130 766 667	552 490 800	2 880 783 202	24 373 544	148 117 997	3 605 765 543	3,22	3 998 065 543
Portugal	200 000	131 300 000	131 500 000	43 833 334	245 006 700	1 277 507 582	10 808 653	65 684 174	1 599 007 109	1,43	1 730 507 109
Romania	1 000 000	142 300 000	143 300 000	47 766 667	145 281 600	1 001 291 925	8 471 666	51 482 303	1 206 527 494	1,08	1 349 827 494
Slovenia	0	78 800 000	78 800 000	26 266 667	53 411 850	278 498 683	2 356 304	14 319 254	348 586 091	0,31	427 386 091
Slovakia	1 400 000	93 400 000	94 800 000	31 600 000	79 764 600	538 187 233	4 553 460	27 671 369	650 176 662	0,58	744 976 662
Finland	800 000	138 000 000	138 800 000	46 266 667	241 236 300	1 432 027 545	12 116 006	73 628 953	1 759 008 804	1,57	1 897 808 804
Sweden	2 600 000	450 300 000	452 900 000	150 966 667	153 822 000	2 741 811 907	– 141 688 197	25 043 999	2 778 989 709	2,48	3 231 889 709
United Kingdom	9 500 000	2 753 300 000	2 762 800 000	920 933 334	2 567 350 200	13 813 187 110	116 869 718	– 3 079 226 649	13 418 180 379	11,99	16 180 980 379
Total	**123 400 000**	**16 653 700 000**	**16 777 100 000**	**5 592 366 667**	**13 786 799 525**	**98 091 464 557**	**0**	**0**	**111 878 264 082**	**100,—**	**128 655 364 082**

(¹) p.m. (own resources + other revenue = total revenue = total expenditure); (128 655 364 082 + 1 491 847 660 = 130 147 211 742 = 130 147 211 742).
(²) Total own resources as percentage of GNI: (128 655 364 082) / (12 541 643 000 000) = 1,03 %; own resources ceiling as percentage of GNI: 1,23 %.

Source: Eur-Lex http://eur-lex.europa.eu/budget/data/DB_2011/EN/GenRev.pdf

ANNEX 7 Compulsory and Non-Compulsory Expenditures

Classification of expenditure

HEADING 1	Sustainable growth	
1A	Competitiveness for growth and employment	Non-compulsory expenditure (NCE)
1B	Cohesion for growth and employment	NCE
HEADING 2	Preservation and management of natural resources	NCE
	Except:	
	— Expenditure of the common agricultural policy concerning market measures and direct aids, including market measures for fisheries and fisheries agreements concluded with third parties	Compulsory expenditure (CE)
HEADING 3	Citizenship, freedom, security and justice	NCE
3A	Freedom, Security and Justice	NCE
3B	Citizenship	NCE
HEADING 4	EU as a global player	NCE
	Except:	
	— Expenditure resulting from international agreements which the European Union concluded with third parties	CE
	— Contributions to international organisations or institutions	CE
	— Contributions provisioning the loan guarantee fund	CE
HEADING 5	Administration	NCE
	Except:	
	— Pensions and severance grants	CE
	— Allowances and miscellaneous contributions on termination of service	CE
	— Legal expenses	CE
	— Damages	CE
HEADING 6	Compensations	CE

Source: IIA on "Budgetary Discipline and Sound Financial Management", 2006/ OJ C 139/01, Official Journal of the European Union, 14.6.2006

ANNEX 8 Proposal of Separation of the Budget

Table 1. A new structure for the EU budget

CHAPTER ONE: TRANSFERS BETWEEN THE MEMBER STATES

Expenditures	Revenues
Structural Funds: • European regional development fund • European social fund • Structural Funds for agriculture • Financial instrument for fisheries guidance Cohesion fund Direct Payments to farmers Other expenditures: e.g. special transfers for emergency assistance	GNI resource Transfers under generalised correction mechanism Balancing item*
TOTAL CHAPTER ONE	TOTAL CHAPTER ONE

CHAPTER TWO: EUROPEAN PUBLIC GOODS

Expenditures	Revenues
Economic policies for growth and integration • R&D Framework programme (including Joint Research Centre and other permanent outfits) • Enforcement & surveillance of Internal Market • Lisbon priorities (including minimum wage) • Market-related expenditures for CAP Internal security and immigration • Border control, including Frontex • Visa, legal and illegal migration, Europol, EU prosecutor, etc. External action • Trade • Common foreign service and Joint actions • Development assistance Common defence • Common procurement Agency Administration • EU Institutions (Parliament, Council, Commission, Court of justice, Court of auditors, ESC, CoR, Ombudsman, etc.) • Internal Market agencies (EMEA, Food Safety, etc …) • Admin. of structural funds and special projects, and interest payments on EC bonds	Vat – EU surcharge Duties and levies (possibly: Energy tax) Balancing item*
TOTAL CHAPTER TWO	TOTAL CHAPTER TWO

P.M.: OVERALL REVENUE CEILING ON COMBINED TOTAL OF CHAPTERS I AND II: 1.27 % OF AGGREGATE GNI.

CHAPTER THREE: CAPITAL OPERATIONS

Expenditures	Revenues
Special common projects: e.g. Galileo (-) loan reimbursement	Proceeding from EU loans (-) redemptions of EU bonds
TOTAL CHAPTER THREE	TOTAL CHAPTER THREE

Source: Iozzo, Alfanso, Stefano Micossi, and Maria Teresa Salvemini (2008) A New Budget for the European Union?, CEPS Policy Brief No. 159, Centre for European Policy Studies, May 2008, Brussels, p.3

ANNEX 9 Public Goods in Agriculture

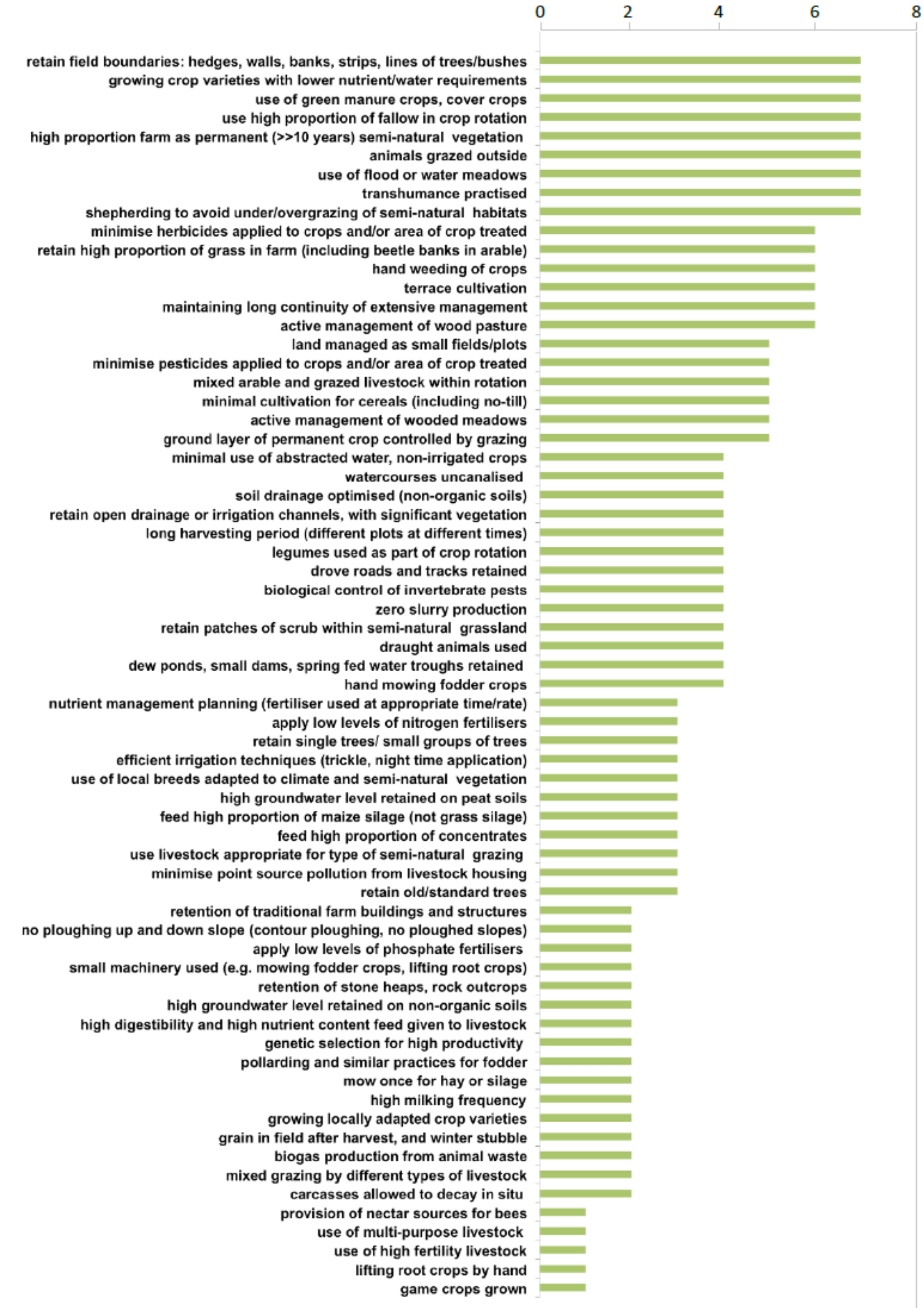


Figure 3.1 **Farming practices ranked by the extent to which each practice provides one or more categories of public goods***

Source: Tamsin Cooper, Kaley Hart, David Baldock Provision of Public Goods through Agriculture in the European Union, IEEP, 2009

ANNEX 10 Effects of Expenditures in Policy Areas

	Extensive	*Shared*	*Limited*
Economic and Social Areas			
Competition		X	
Cultural Policy			X
Regional Policy		X	
Employment and social policy		X	
Enterprise Policy		X	
Equal opportunities		X	
Industrial policy		X	
Public health			X
Solidarity and welfare			X
Consumer policy		X	
Monetary policy	X		
Education, training and youth			X
Environment		X	
Internal market	X		
Research and technology		X	
Trans-European networks and mobility			X
Sectoral policy			
Agriculture	X		
Fisheries	X		
Transportation		X	
Information and telecommunications		X	
Audiovisual policy			X
Energy		X	
External policies			
Common foreign and security policy			X
Development policy		X	
Humanitarian aid		X	
Common trade policy	X		
Justice and home affairs			
Asylum, external borders, immigration		X	
Judicial and police cooperation		X	
Drugs		X	
Trade in human being			

Source: Floriana Cerniglia and Laura Pagani, The European Union and The Member States: Which Level of Government Should Do What? An Empirical Analysis of Europeans' Preferences, Cesifo Working Paper No. 2067 Category 1: Public Finance August 2007, p. 6.

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APPENDICES

APPENDIX A

TURKISH SUMMARY

Ulusların entegrasyonunda maddi ve manevi faktörler zaman zaman biri diğerinin yerine geçerek önemli roller oynamışlardır ve bu yüzden de maddi ve manevi unsurların hep birlikte değerlendirilmeleri yerinde olacaktır. Kamu sektörünün özel sektörden farklı olarak kamu malı üretme ve ekonominin tamamını düzenleme sorumluluğu bulunmaktadır. Devlet bütçesi bu anlamda hiç şüphesiz ki ekonomik, politik, askeri ve sosyal fonksiyonlar üstlenen Devletin önemli bir aracı olarak karşımıza çıkmakta ve bu ilişkiler sırasında yurttaşlarla bir takım özel ilişkiler geliştirmektedir. Devlet bir taraftan ekonomik ilişkileri düzenlerken diğer taraftan halk üzerine koyduğu vergilerle üzerine düşen fonksiyonları yerine getirebilmesi için gerekli kaynakları sağlamakta, diğer taraftan da halka ve kamu alanına yaptığı giderler sayesinde kaynak aktarmaktadır. Bütün bunları yaparken Devletin elindeki en önemli unsur olarak devlet bütçesi karşımıza çıkmaktadır. Gerçekten Adam Smith yurttaşların devletle olan sosyal inşalarının başlangıcında güvenlik, adalet ve yol, köprü, ulaşım kanalları, posta hizmetleri ve para basma gibi kamu malı üretmesinin gerekliliğini ifade etmiştir.

Ancak kimlik faktörü de politik bir kurumu bütünleştirmede önemli bir unsur olarak karşımıza çıkmaktadır. Çünkü kimlik yurttaşları o birimin en üst düzeyine bağlamaktadır. Bu anlamda, ulus devletten de kolektif hislerin başlatılması ve elde tutulması için gerekli rolü üstlenmesi beklenmektedir.

Avrupa Birliği (AB) kimlik oluşumunda bu güne dek vize, pasaport, bayrak, marş ve Euro para sistemi gibi ortak bazı semboller geliştirmiştir, ancak bu gün itibariyle bu gelişimlere ilişkin çabaların daha etkin bazı araçlarla desteklenmesine ihtiyaç duyulmaktadır. Kimlik söz konusu olduğunda Avrupa Birliği kimliğini bireylerin mevcut kimliklerine zarar vermeksizin Avrupa kamusal alanında bireysel sosyalleşmeler sayesinde Avrupa halklarının Avrupa Birliği düzeyine bağlılık hissini sağlamak olarak ele almak yerinde olacaktır.

Bu bağlamda AB bütçesi kaynak tahsisi suretiyle AB ile AB yurttaşları arasındaki bağı güçlendirecek bir araç olabilecek niteliktedir. Ancak, tarihi gelişim içerisinde entegrasyon sürecine önemli katkılarda bulunmasına karşın AB bütçesi son zamanlardaki AB içerisinde ve dünyadaki gelişmelere cevap verecek ilerlemeleri gösterememiş ve bu nedenle de bütçe reformu ihtiyacı kaçınılmaz hale gelmiştir. 2007–2013 çok yıllık bütçe görüşmeleri sırasında bu gereksinime işaret edilmiş ve bütçe reformu konusu tartışmaya açılmıştır.

Gerçekten de AB, başlangıç kuruluşu olan Avrupa Kömür ve Çelik Birliği (AKÇB) yapısından bugün artık oldukça farklı bir yere gelmiştir. Başlangıçta 6 olan üye sayısının bugün itibariyle 27 ye çıkmış, dahası kömür ve çelikle sınırlı olan işbirliği alanlarının ekonomik, politik ve güvenlik gibi diğer alanlara da kaymış bulunmaktadır. Bütün bu gelişmeler birçok ihtiyacın yanı sıra sosyal entegrasyonun gerekliliğine de işaret etmektedir. Ne var ki, tarihi gelişim süreci içerisinde bütçe gelirleri ve bütçe giderleri önceki durumu izleme bağlılığı (path dependency) olarak ifade edilebilecek birtakım gelişmelerin etkisi altında ortaya çıkmıştır. Önceki durumu izleme bağlılığı olarak ortaya çıkan durumlar birlik bütçesini üye ülkeler düzeyinde bırakmış, bu nedenden dolayı da Birlik bütçeleri Avrupa kamu alanını güçlendirecek mekanizmaları gereği gibi ortaya koyamamıştır.

Genel olarak devlet bütçesinin özel olarak ta AB bütçesinin sosyal inşacı rollerinin olabileceği varsayıldığında Avrupa halkları ile AB bütçesi arasında önemli bir ilişkinin varlığı dikkatlerden kaçmayacaktır. Normal şartlarda Devletin bütçe kaynakları harcamalar yoluyla halka dağıtılırken bütçe gelirleri de aynı halktan vergiler yoluyla elde edilmekte, hatta Devletin ekonomik istikrarı sağlama fonksiyonuyla ilgili politikaları da yine halkın ve ait olunan politik birimin korunmasına hizmet etmektedir. Benzeri ilişkilerin AB için de geliştirilmesi entegrasyon sürecine önemli katkılarda bulunacaktır.

Önceki durumu izleme bağlılığı (path dependency) olarak tanımlanabilecek gelişmeler nedeniyle 1990’lardan itibaren genişleyen ve derinleşen Birliğin mevcut bütçe yapısıyla yoluna devam etmesinin bazı dezavantajlarının bulunması dolayısıyla Avrupa Birliğinin şu anki bütçe yapısını sürdürmesi oldukça zordur.

Birçok reform önerisine rağmen, Avrupa Birliğinin bütçe politikasına birlik ile Avrupa yurttaşları arasındaki bağı güçlendirmenin gerekliliği açısından bakabilen bir teori zemini de bulunmamaktadır.

Bu tez bugünkü bütçenin gelir ve giderlerinden kaynaklanan mevcut problemlere “Gelir ve giderleri kullanmak suretiyle Avrupa Birliği bütçesi nasıl daha fazla sosyal inşacı duruma getirilebilir?” temel sorusuna paralel olarak sosyal inşacı politika perspektifinden yaklaşmayı denemektedir.

Çalışmanın üç tane ana hedefi vardır. İlk olarak, tarihi süreç içerisinde önceki durumu izleme bağlılığı (path dependency) şeklinde kalıtımsal olarak yerleşen gelişmeleri keşfetmek için Avrupa Birliği bütçesinin tarihi seyrini ortaya koymaktadır. İkinci olarak, bütçenin gelir ve gider kısımlarını yürürlükteki 2007–2013 yıllarına ait çok yıllı mali çerçevedeki bütçeleri kapsayan kritik bir analiz sunmaktadır. Üçüncü olarak, yaygın bir teorik yaklaşım olan mali federalizmin AB mali sistemine şu anki entegrasyon sürecinde uygulanıp uygulanamayacağı sorusunu test ettikten sonra bütçe reformu tartışmaları çerçevesinde mali federalizme alternatif olarak sosyal inşacı politika yaklaşımını reformist perspektiften ileri sürmektir. Bütün bunlardan sonra sosyal inşacı perspektiften bütçe gider ve gelirlerine ilişkin reform önerilerini tartışmaktadır.

Önceki durumu izleme bağlılığı gelişimi, sonuçları gelişim veya sistemin kendi tarihi gelişmeleri içerisinde ortaya çıkan bir şeydir. Bir zaman önce bir adım atıldığında ya da bir karar alındığında eğer bu adım ya da bu karar bugün daha ileriye doğru yapılabilecek gelişmelere engel oluyorsa bu önceki durumu izleme bağlılığını ifade eder.

Önceki durumu izleme bağlılığı AB bütçe tarihi içerisinde ilk önce bütçenin harcama kısmında tarım politikası ve yapısal fonların AKÇB bütçesine konulması suretiyle kendini göstermiştir. Tarım politikası Fransa tarımını desteklemek, yapısal fonlar ise İtalya’nın geri kalmış bölgelerini desteklemek için sanayisi gelişmiş olan Almanya'nın tek pazardan elde edeceği faydaya karşılık alınmış karşılıklardır.

Bütçe giderlerinin bütçe gelirlerini aşamayacağı kuralı anlamına gelen Denk Bütçe Prensibi, AKÇB'nin kurulmasından itibaren bugüne dek uygulamasına devam edilmiş bir bütçe prensibi olarak AB mali politikasında yerini almıştır. Bu prensip mali federalizmi savunanlar açısından borçlanabilmeye ve dolayısıyla da bütçe açığı verebilmeye imkân tanımaması ve bu nedenden dolayı da bütçenin makroekonomik istikrar fonksiyonu yerine getirememesine yol açması nedenlerinden dolayı eleştirilmektedir. Borçlanma ve bütçe açığına imkân vermeyen ancak devlet bütçelerinde normal olarak karşılaşılabilen makroekonomik istikrar fonksiyonu bu nedenden dolayı yerine getirilemediği için önceki durumu izleme bağlılığı olarak değerlendirilebilir. Ancak, bütçe açığına ve borçlanmaya olanak verilmesi ve bunların bir sonucu olarak da makro ekonomik istikrar fonksiyonunun bütçe fonksiyonu olarak öngörülmesi AB'nin şu andaki yapısı açısından sakıncalıdır. Bu sebepten dolayı denk bütçe prensibi bu çalışmada sosyal inşacı yaklaşım çerçevesinde önceki durumu izleme bağlılığı olarak değerlendirilmemiştir.

Avrupa Ekonomik Topluluğu, genel dış tarifeler ve tarım ithalatı üzerinden alınarak vergi ve benzerleri ile otonom vergilenmeye ilk adımını atmaya çalıştığı esnada, Avrupa Parlamentosu Birliğine, Topluluk bütçesini onaylama yetkilerinin verilmesi tartışmaları gündeme gelmiş, ancak böyle bir yetkinin Fransa tarafından egemenlik devri olarak algılanması sonucunda 1965 yılında başlayan ve Boş Sandalye Krizi olarak nitelenen kriz ortaya çıkmıştır. Fransa'nın Bakanlar Konseyinden çekilmesi şeklinde sonuçlanan bu gelişme sonucunda bütçe gelir ve giderleri Zorunlu Giderler ve Zorunlu Olmayan Giderler diye ikili bir tasnife tabi tutulmuş ve bu ayrım 2010 yılına kadar devam etmiştir. Zorunlu harcamalar Parlamento onayı dışında tutulurken zorunlu olmayan harcamalarda Parlamentoya onaylama yetkisi verilmiş ve bu ayırım sayesinde Fransa Topluluktan ülke tarımı için elde ettiği gelirleri böylece garanti altına almayı başarmıştır. Bu tasnifin Birliğin diğer önemli harcamalarını kapsayacak şekilde genişletilmesi bir başka önceki durumu izleme bağlılığının ortaya çıkmasına neden olmuş, daha da önemlisi demokratik açık olarak ifade edilebilecek ve yurttaşların bütçe hakkının demokratik kurumlarda onaylanmasına imkân verebilecek bir uygulanmaya da engel olunmuştur.

Birliğin klasik bütçe gelirlerinden olan ve Birlik gümrük kapılarında üye ülke gümrük idareleri tarafından toplanan tarım ve gümrük vergilerinden, Topluluğa/Birliğe aktarılması gereken miktarlardan önceleri % 10, sonraları da % 25 oranlarındaki bir kısmının bu vergileri toplayan ülke tarafından yönetim giderleri karşılığı olarak alıkonulmasına izin verilmesi de düşük düzeyli bir önceki durumu izleme bağlılığı olarak ortaya çıkmıştır.

Dolaylı vergilere dayalı bir bütçe gelir şekli olarak 1975'te kararlaştırılmış olan ve 1979'dan itibaren uygulamaya konulan Katma Değer Vergisine (KDV) dayalı özkaynak gelir mekanizması da bütçenin diğer bir önceki durumu izleme bağlılığı olmuştur. Dolaylı vergiler yurttaşların yaptıkları harcamalardan alınmakta olması nedeniyle yaygın (yatay) bir vergi çeşidi olup Topluluk/Birlik düzeyinin yurttaşlarla ilişkisinin kurulabilmesi için bir araç olabilecekken, üye ülkelerin KDV gelirleri toplamına uygulanan bir formüle göre hesaplanması, yani yurttaşlar yerine üye devletlerle ilişkilendirilmesi de bu gelir kaleminin önceki durumu izleme bağlılığı olarak ortaya çıkmasına neden olmuştur.

Bir başka önceki durumu izleme bağlılığı da İngiltere'nin ithalata dayalı ekonomisi ve etkin ve küçük tarım yapısından dolayı Topluluk bütçesi için fazla vergi ödemesi ve diğer taraftan tarım desteklerinden de göreceli olarak az faydalanıyor olması nedenlerinden kaynaklanan özel durumunun dikkate alınmasını istemesi ile başlamıştır. Bu yeni üye ülke Topluluk bütçe yükümlülüklerinin eşit paylaşımını istemesi ve bu nedenle kendisinden indirim yapılmasına ilişkin taleplerde bulunması sonucu uzun süreli tartışmalar ortaya çıkmıştır. İngiliz İndirimi olarak tabir edilen indirim mekanizması 1985 yılında istisnai bir durum olarak İngiltere için uygulanmaya başlamış ancak bu indirime ilişkin kararda ilerde aynı duruma düşebilecek üyelere de indirim uygulanmasının yolu da açılmıştır. Bugün bu mekanizma genelleştirilmiş düzelme mekanizması adıyla dört üye ülkeye daha uygulanmaktadır. Uygulaması ve hesaplaması özel düzenlemelere bağlı olup indirim üst sınırı da tespit edilebilmektedir. İndirim KDV üzerinden alınan özkaynak gelirlerinden indirim yapılan ülkeye indirim miktarı kadar bu gelirlere katılmasının azaltılması ve bu indirim miktarının diğer üye ülkelere oranları nispetinde dağıtılması şeklinde olmaktadır.

1986 yılında yürürlüğe giren Avrupa Tek Senedi, Ortak Pazarın etkinliğini artırmak için Topluluk politikalarını çevre, araştırma, teknoloji ve bölge politikalarını da kapsayacak şekilde genişletmiş ve 1981 yılında Yunanistan'ın ve 1986 yılında da İspanya ve Portekiz'in de üye olmalarıyla mevcut bütçe gelirlerinin yetmediğinin anlaşılması üzerine üye ülkelerin gayrisafi milli hâsılaları (GSMH) üzerinden uygulanacak bir oranla alınması öngörülen yeni bir gelir ihdas etmiştir. Bu gelir türü Topluluğu gelirler açısından hükümetlerarası bir organizasyona benzetmiş ve bu gelir kategorisinin bugün itibariyle toplam gelirlerin yaklaşık dörtte üçüne ulaşması ile başka bir önceki durumu izleme bağlılığı olarak ortaya çıkmıştır.

İlk olarak 1988–1992 yıllarında uygulanan ve toplam 5 yılı kapsayacak şekilde düzenlenmiş olan Topluluk çok yıllı bütçeleme sistemi, 1993–1997 yıllarını kapsayan ve ikinci çok yıllı bütçelemenin uygulanmasını içeren bu dönemde 5 yıldan 7 yıla çıkarılarak bitiş yılı 1997 iken 1999 yılına uzatılmıştır. Bu uzatma iki problemi de beraberinde getirmiştir. Birincisi bütçe yapısının 7 yıl olması bütçenin esnekliğini ortadan kaldırmış ve bu durum Orta ve Doğu Avrupa'daki gelişmeler sırasında iyice hissedilmiştir. İkinci problem de demokratik temsil konusuyla ilgili olarak ortaya çıkmıştır. 7 yıllık bütçe yapısı Parlamentonun görev süresi olan 5 yılın üzeridedir ve bir dönem Avrupa Parlamentosu bütçe hakkını kullanmadan görev süresinin sona ermesi gibi bir durumla karşı karşıya kalabilecektir.

Yukarıda kısaca ifade edilen önceki durumu izleme bağlılığı şeklindeki bütün bu gelişmeler bir şeye işaret etmektedir ki, o da AB düzeyi ile yurttaşlar düzeyi arasında bütçe gelirleri ve giderleri anlamında bugüne kadar çok zayıf bir ilişki kurulabilmiştir. Gerçekten de bütçe gelir ve giderleri ilişkisi çoğunlukla, AB ile üye devletlerarasında şekillenmiş ve bu şekillenmenin bir sonucu olarak ta önceki durumu izleme bağlılığı gelişmiştir. Bu bağlılıklar bugün itibariyle Birliğin entegrasyon sürecine hizmet edici nitelikte değildir. Önceki durumu izleme bağlılıklarının AB bütçe yapısından kaldırılması ya da mümkün olduğunca aşağı çekilmesi suretiyle Birlik düzeyi ile yurttaşlar arasındaki bağın bütçe gelir ve giderleri aracılığıyla güçlendirilmesinin gerekliliğinin reform sürecinde dikkate alınması gerekmektedir.

Bütçe reformu söz konusu olduğunda teorik yaklaşımlar arasında mali federalizmin kapsamlı bir yapı ortaya koyduğu görülmektedir. Mali federalizm, merkezi ve yerel yönetimler olarak yaptığı ayırım ve her iki yönetime atfettiği fonksiyonlar itibariyle federal bir yaklaşım sunmaktadır. Her şeyden önce mali federalizm faydacı kurama dayanan rasyonel bir yaklaşım olup fayda maksimasyonuna dayanır. Mali federal yaklaşıma göre, seçmenler ve memurlar kendi faydalarını maksime etmeye çalışırlar bu nedenden dolayı da yerel hükümetler kendi bölgesinde yaşayanların ihtiyaçlarını daya iyi bilirler ve daha verimli ve etkin hizmet ederler. Bu nedenlerden dolayı da yerelleşme desteklenmiştir.

AB maliye politikalarına bakıldığında mali federalizm ile birçok yönden farklılıkların olduğu görülebilecektir. Öncelikle AB mali sistemi federal kurallara dayanmaz aksine birçok mali konu AB'nin alanı dışında üye ülkelerin kendi sorunluluk ve yetki alanı içerisinde cereyan etmektedir. Mesela, harcamalar anlamında AB federal olarak nitelendirilemez çünkü ulus devletlerin bir araya gelmesi ile oluşmuş bir merkezi otorite ve mali fonksiyonlar ile bazı görev ve sorumlulukların devredilmiş olduğu adem-i merkeziyetçi bir yapı da bulunmamaktadır. Gelirler tarafında merkezi bir vergi idaresi ve genel bir vergi mevut değildir. AB'de mali disiplin para ve istikrar politikaları ile sağlanmaktadır. Buna karşın esas itibariyle para politikasının sınırlar içerisinde tamamen uygulanması da bazı ülkelerin ortak para birimine girmemesi dolayısıyla söz konusu değildir. Mali politikalar bir takım düzenlemelerle sağlanmakta olduğundan dolayı doğrudan merkezden yönetilen bir konuma göre düzenlemelerin etkinliği ve verimliliği de tartışmaya açıktır. İstikrar ve Büyüme Paktı ve Maastricht kriterleri ile vergi uyumlaştırmaları bu politikaları düzenleyen ve yerine getirmeye çalışan AB temel araçlardır.

Rui Alves Henrique ve Oscar Afanso'nun yapmış olduğu tasniften hareketle mali federalizmin bütçeye atfettiği fonksiyonları kaynak tahsisi (mal ve hizmet sunumu), yeniden dağıtım (ve vergi) ve makroekonomik istikrar olarak kısaca üçe ayırmak mümkündür.

Kaynak tahsisi fonksiyonu merkezden yönetim - yerinden yönetim konusuyla ilişkilendirilmiştir. Mali federalizme göre “AB merkezinden verimli olarak yapılan bir politika bu düzeyden yapılmalı, ancak üye devletler düzeyinde verimli olarak yapılan bir politika ise Birlik düzeyinde yapılmamalıdır”. AB düzeyinde sınır içi dışsal fayda varsa ancak o zaman bir müdahale de bulunulmalıdır. Bu durum federalist bir adıma işaret etmektedir çünkü ancak merkezi bir yapı merkezden savunma, eğitim, adalet ve kamu sağlığı gibi böyle büyük harcamaları yapabilecektir. Kaynak tahsisi mali federalizmin üzerinde durduğu ‘kamu malı’ konusuyla da yakından ilgilenmiş ve yerel kamu mallarının yerel yönetimler tarafından genel kamu mallarının ise merkezi yönetim tarafından sağlanması gerektiğine işaret etmiştir.

Kamu malı geniş tanımıyla, o kamu idaresindeki herkesin kullanımına açık olup serbestçe kullanılmasını engelleyen bir durumun da olmadığı mal ve hizmetler olarak ifade edilebilir. Kamu malına literatürde birbirine bağlı üç unsur atfedilmektedir. Birinci olarak önemli bir dışsallık sağlamaları, ikinci olarak rakipsiz olmaları ve üçüncü olarak ta kimsenin kullanabilmekten imtina edilmemesidir. AB düzeyinden kamu malı üretilmesi ancak kamu malı özelliğine sahip belli mal ve hizmetleri halka sunmak, yani bütçeden harcama yapmakla mümkün olabilecektir. Bu tür mal ve hizmetler savunma, adalet, eşitlik, çevre gibi mal ve hizmetlerdir. AB bütçe harcamaları aracılığıyla AB kamu malı üretilmesi AB yurttaşlarının AB düzeyine olan bağlarının güçlenmesine yok açacağı ve Avrupa kamu alanını da güçlendireceği için sosyal inşacı politika yaklaşımı tarafından da desteklenebilecek bir yaklaşımdır.

Kaynakların yeniden dağıtımı ise bütçenin gelir tarafını ifade eder ve merkezi hükümete bağlı geniş bir vergileme gücünü gerektirir. Bu fonksiyon vergiye tabi kaynaklardan mal, işgücü ve sermaye gibi yer değiştirenlerin vergilendirilmesini ve mesela merkezi ve yerel hükümetlerarasında kaynak transferini de öngörmektedir.

Makroekonomik istikrar fonksiyonu ise makroekonomik şoklara karşı koyabilmek için geniş bir bütçe kaynağı ile bu fonksiyonu yerine getirebilecek merkezi bir hükümetin mevcut olmasını gerektiğini ifade etmektedir. Bunlara ilave olarak kontrollü merkezi hükümet borçlanmasına da izin vermektedir.

AB'nin mali yönetim sistemi mali federalizmin bu üç fonksiyonundan sınırlı bir şekilde sadece kaynak tahsisine bir miktar benzemektedir. Kaynakların yeniden dağıtımı için gerekli bir bütçeleme sistemi AB merkezinde dizayn edilmemiştir, dahası verilmiş böyle bir yetki de yoktur. Esas itibariyle bu fonksiyon merkezden yerel yönetimlere yetki verilmesi şeklinde gerçekleşmekte iken AB için yerel yönetimlerden (üye ülkeler) AB merkezine doğru tersine olacaktır. Makroekonomik istikrar fonksiyonu AB bütçe sisteminde hiç bir şekilde düzenlenmiş değildir daha da önemlisi AB'nin bütçe kapasitesi böyle bir fonksiyonu üstlenebilmekten oldukça uzaktır. Birlik Antlaşmaları ile denk bütçe kuralının bir gereği olarak AB bütçesinin bütçe açığı verilebilmesi ve borç alabilme yetkileri de bulunmamaktadır.

AB mali yapısında bu fonksiyonlar Maastricht Kriterleri ve İstikrar ve Büyüme Paktı düzenlemeleri ile kısmi bir şekilde sağlanmaya çalışılmaktadır. Esas itibariyle bu düzenlemelerle yapılmaya çalışılan istikrar ve büyümeye yönelmek ve bu iki unsuru tehlikeye atmamak için de üye ülkelerin bütçeleri üzerinde genel bir düzenleme yapmaktan ibarettir.

Bu tezde analiz edildiği gibi sosyal inşacı model, maddi ve sosyal dünyanın birbiri üzerinde oluşumuna önem vermesi, sosyal normlar, değerler ve kuralların önemine de işaret etmesi suretiyle mali federalizmin bir alternatifi olabilecektedir. Bu bağlamda sosyal inşacı yaklaşım yurttaşlarla AB arasındaki bağın güçlenmesine ve bu suretle yurttaşların AB'ye aidiyet duygusu kazanmalarına ve nihayet AB entegrasyon sürecini güçlendirebilecek bir unsur olarak AB düzeyinde bir kimlik tanımlaması yapabilmelerine olanak vermeye vurgu yapabilecek konumda bulunmaktadır.

Sosyal inşacı yaklaşım bütçenin hem gelir hem de gider kısımlarına uygulanabilir çünkü bütçe hem maddi kaynakları dağıtılması ve hem de gelirlerin vergiler yoluyla elde edilmesinde yurttaşlarla ilişki kurmaktadır. Bu her iki mekanizmada AB'ye aidiyet duygusunun gelişmesinde rol oynayabilirler. Eğer AB bütçe harcamaları üye devletler yerine yurttaşlarla ilişkilendirilebilirse AB düzeyinde kamu malı sunma imkânını bulabilecektir. Eğer geniş tabanlı mümkün olduğunca çok yurttaşı kapsayan bir vergileme sistemi getirilirse, aynı ilişki vergi mekanizması yoluyla da sağlanabilecektir. Esnek tabanlı ve değişken mükellef modeline dayalı bir KDV önerisi bu görevi yerine getirebilecektir. Böyle bir vergi ihdası aynı zamanda Avrupa Parlamentosu ile yurttaşlar arasındaki demokratik temsil bağını seçme seçilmenin ötesine taşıyacağından daha da güçlendireceği düşünülebilecektir.

Yukarıda tartışıldığı gibi mali federalizm fayda maksimizasyonuna dayalı ve sosyal gerçekleri göz ardı edici maddeci bir yaklaşım ortaya koymaktadır. Bunun yanı sıra yerel ve merkezi yönetimin mali fonksiyonlarına odaklanmaktadır. Ancak bu fonksiyonlar ve bu tür ilişkiler sosyal durumları ve gerçekleri göze almadan tam olarak analiz edilemez, çünkü bu tür durumlar insan ilişkileri ile inşa edilmiş hatta tekrar tekrar inşa edilmiş sosyal gerçeklerdir. Bu çerçeveden bakıldığında eğer sosyal inşa, sosyal faaliyetlerin sonucunda oluşuyorsa bazı unsurların bu oluşumu etkilemesi gerekmektedir. Mesela para, vatandaşlık veya gazete toplum olmadan olamayacak şeyler olduğuna göre sosyal olarak inşa edilmişlerdir ve bazı faktörlerin de bu oluşuma etki etmiş olması kaçınılmazdır. Bu bağlamda bütçe gelirleri ve bütçe giderlerinin de sosyal olarak inşa edildiği söylenebilir. Aynı zamanda bütçe gelir ve giderleri sosyal inşanın oluşmasının da bir unsurları olmaktadırlar. Gerçekten de sosyal inşacı yaklaşımın iki ana unsuru dikkati çekmektedir; aktörün eylemde bulunduğu sosyal ve materyal bir çevre ve bu oluşumun aktörde yarattığı ilgi. Böylece maddi ve sosyal hayat sosyal inşacı modelde birlikte oluşmaktadır.

Sosyal inşacı yaklaşımın mali federalizm ile karşılaştırılması halinde, sosyal inşacı yaklaşımın federal bir yapılaşmaya referans vermemesi nedeniyle, AB'nin bugünkü entegrasyon süreci de dikkate alındığında entegrasyonun önemli bir unsuru olan bütçe gelir ve giderleri için uygulaması daha yerinde bir yaklaşım olduğunu söylemek yanlış olmayacaktır. Bununla da sınırlı kalmaksızın AB kurumlarının bütçe üzerindeki yetkileri mali federalizmde tanımlandığı gibi değil, oldukça sınırlıdır. AB bütçesi mali federalimde öngörüldüğü kadar büyük yetkilerle donatılmamıştır tam tersine bu büyüklükteki bir merkezi idareye göre oldukça sınırlı miktar ve fonksiyonda tutulmuştur. Buna ilave olarak mali federalizmin en önemli bütçe fonksiyonlarından birisi olan makroekonomik istikrar fonksiyonu AB bütçesinde öngörülmemiştir. Merkez yerel hükümet ilişkisini mali federalizmdeki gibi açıklığa kavuşturacak norm ve kurallar da AB'de mevcut değildir.

Vergi açısından da AB bütçesi mali federalizmin öngördüğü düzenlemelere sahip değildir çünkü mali federalizm vergileme gücünün çoğunun merkezde bulunması gerektiğini tavsiye eder. Oysa AB'de üye ülkelerinin vergi egemenliğinden vazgeçmek istememeleri nedeniyle AB'nin vergileme yetkisi ve hatta kendine ait doğrudan bir vergisi de yoktur.

Sosyal inşacı yaklaşım mali federalizmin öngördüğü gibi herhangi bir merkezi ya da yerel yapılanma öngörmez ve hatta vergileme yetkisi ile de ilgilenmez. Bunların yerine vatandaşlarla AB arasında bir aidiyet ilişkisi kurarak AB entegrasyonunu artırmayı amaçlar.

Bu bağlamda AB'nin 2007–2013 yıllarına ait çok yıllı bütçesi incelenmiştir. Birinci ana başlıkta iki alt başlık bulunmaktadır bunlar, Büyüme ve İstihdam için Rekabetçilik ve Büyüme ve İstihdam için Uyum olup birinci alt başlık Lizbon hedefleri olarak bilinen AB'yi dinamik ve bilgiye dayalı bir ekonomi haline getirmeyi amaçlayan, büyümeyi sağlayan, ekonomik, sosyal ve çevresel açıdan dengeleri sağlayıcı programlardan oluşmaktadır. İkinci alt başlıktaki programlar ise daha çok bölgeler ve üye ülkeler arasındaki sosyo-ekonomik dengesizlikleri giderici politikalar için kullanılan Avrupa Bölgesel Kalkınma Fonu, Avrupa Sosyal Fonu ve Uyum Fonundan oluşan ve bölgelerin GSMH göre bu üç fondan verilen kaynaklardan oluşmaktadır. İkinci ana başlık Doğal Kaynakları Koruma ve Yönetme olup doğrudan tarım desteği ve piyasaya ilişkin programlardan (kırsal gelişim ve çevre gibi) oluşmaktadır. Bu ana başlık kısaca Genel Tarım Politikası (hayvancılık ile bunlara ait çevresel bazı politikalar dâhil) olarak ta isimlendirilebilir. Üçüncü ana başlık Özgürlük, Güvenlik ve Adalet alt başlığı ile Yurttaşlık alt başlığından oluşmakta olup daha çok iç politikaya yönelik programları kapsamaktadır. Dördüncü ana başlık Bir Küresel Oyuncu Olarak AB ana başlığı olup dış politika ve güvenlik ve savunma işbirliğini alanlarını kapsamaktadır. Beşinci ana başlık ise AB'nin Merkezi Yönetim harcamalarını kapsamaktadır.

Bütçe harcamalarının 2007–2013 çok yıllı mali bütçe çerçevesi ana başlıklar ve alt başlıklar olarak analiz edilmesi sonucunda; Araştırma Çerçeve

Programı, Hayat Boyu Öğrenme Programı, Trans Avrupa Ağı (Enerji ve Ulaşım) Programı, Marko Polo Programı, Galile Programı, Nükleer Faaliyetler Programı, Rekabet ve Yenilik Çerçeve Programı, Gümrük Programı, İç Pazar Vergilendirme Programı, Dolandırıcılık ile Mücadele Programı, Güvenli İnternet Programı, Sosyal Ajanda ve Güvenlik Programı **Rekabetçilik alt Başlığında**, Ulaşım, Enformasyon ve Teknoloji, Çevre, Enerji, İnsan Sermayesi, Eğitim ve Araştırma konuları **Uyum alt başlığında**, sürdürülebilir tarımı koruma ve çevre politikalraı **Genel Tarım Politikası ana başlığında**, **Özgürlük, Güvenlik ve Adalet alt başlığı**, **Yurttaşlık alt başlığı** ve **Yönetim ana başlığının** tamamı kamu malı niteliğinde ve esas itibariyle sosyal inşacı program ve harcamalar olarak tespit edilmiştir. Buna karşılık bazı sınırlı ödenekler dışında Uyum yarı başlığı ile Tarım başlığının hemen hemen tamamı sosyal inşacı olmayan harcama kalemleri olarak sınıflandırılabilmektedir.

AB'nin 2007–2013 yıllarına ait çok yıllı bütçesinin analizinde sekiz gelir kategorinin yer aldığı görülmektedir. Birinci kategorideki gelirler dışındaki yedi kategorideki gelirler (Fazlalıklar, Dengeler ve Düzeltmeler, Çalışanlardan Elde Edilen Gelirler, İdari İşlerden Elde Edilen Gelirler, Anlaşma ve Programlardan Kaynaklanan Bağış ve İadeler, Ceza ve Geç Ödeme Faizleri, Ödünç Alma ve Verme İşlemleri, Diğer Gelirler) istisnai ve arızi nitelikte olup, AB bütçesinde önemli bir yer işgal etmezler. Bu yedi grup bütçede % 1 civarında bir yer kaplamaktadır, bunun oranının çoğunluğu çalışanlardan elde edilen gelirlerdir. Özkaynak gelirleri ise kendi içerisinde dört gruba ayrılmaktadır. Bunlar Şeker Piyasası Genel Düzenlemelerinden Sağlanan Vergi ve Diğer Gelirler, Gümrük Vergi ve Gelirleri, KDV'den Elde Edilen Özkaynaklar, GSMH'ya Dayalı Özkaynaklar olarak sıralanabilir. Bu gelirlerden şeker üzerinden elde edilen gelirler % 0.1, gümrük gelirleri % 11.4, KDV üzerinden elde edilen özkaynaklar % 11.3 ve GSMH üzerinden elde edilen özkaynaklar ise % 76 oranlarında bütçede yer almaktadır.

Gelir kısmında Geleneksel Gelir Kaynakları (şeker dâhil tarım vergileri ile gümrük vergileri) AB'nin kurumsal politikalarından kaynaklanmakta olup bu nedenle korunmaları gerekmektedir. GSMH dayalı gelirler ile KDV'ye dayalı gelirlerin sosyal inşacı olarak entegrasyonel olmadıkları sonucuna ulaşılmıştır.

Bunun yanı sıra AB'nin yurttaşlarıyla kurması beklenen ilişkiyi sağlaması için daha farklı kaynaklara ihtiyacı olduğu da bu tezde ortaya konulmaktadır.

Yukarıda anlatılanların ışığı altında bütçe reformu konusu giderler ve gelirler olarak iki kısımda incelenebilir. Bu iki kısımdaki tartışmalara ek olarak birtakım kurumsal reform ihtiyaçlarının olduğu da göz ardı edilmemelidir.

Reform konusu 2014–2020 çok yıllı mali çerçevesinin temel tartışma konusu olacaktır. Tartışmanın sadece hangi alanlara ne kadar kaynak tahsis edilmesi olmaması beklenmektedir, çünkü bütçe ile normatif ve parasal ilişki kurulamadığı müddetçe bu dağıtımın çok anlamlı olmayacağı muhakkaktır. Mali federalizmin öngörülerinin de reform tartışmalarının konusu olması beklenemez zira yukarıda anlatıldığı gibi diğer eksikliklerinin yanında mali federalizm için gerekli olan merkezi bir hükümet modeli AB için henüz öngörülmemiştir. Bu nedenlerden dolayı sosyal inşacı yaklaşımın oldukça değerli katkılarda bulunabileceği düşünülmektedir.

Bu çalışma esas itibariyle reform olasılıklarını araştırıp sunmaya çalışma gayreti gütmek yerine AB bütçesinin gider ve gelir unsurları üzerinde yapılacak değişikliklerle nasıl sosyal inşacı hale getirilebileceğine dair fikir vermeye çalışmaktadır. Bu nedenden dolayı da tanıtılan reform olasılık ve imkânları sadece bu iki bütçe kısmının sosyal inşacı olabileceğine dair fikirler verilmek için sunulmakta yoksa topyekûn bir olasılık geliştirme gayreti güdülmemektedir.

Bütçenin harcama kısmında, Rekabetçilik konusundaki politikalar Lizbon hedeflerini kapsamakta ve kamu malı niteliği taşımaktadır dahası sosyal inşacı niteliktedirler ve bu tür harcamaların desteklenmesi gerekmektedir. Ancak bu politikadaki bütçe uygulamalarındaki temel sorun, bu politikalara ayrılan kaynakların nicelik ve nitelik olarak yetersiz olmasıdır. Araştırma, geliştirme, enerji, çevre, ulaşım, iklim değişikliği ve bu alanlardaki eski altyapıyı yenileme gibi projeler Avrupa düzeyinde kamu malı niteliğindedir ve desteklenmeleri için daha büyük fonların ayrılmasına ihtiyaç olduğu düşünülmektedir. Bu amaçla fon yönetiminin güçlendirilmesi ve AB üyeleri arasında çok-uluslu yaygın projelerin desteklenmesi gerekmektedir. AB ile Amerika Birleşik Devletleri gibi araştırma geliştirmeye çok kaynak ayıran ülkelerin arasındaki farkın kapanabilmesi için AB bütçesinden daha fazla kaynak ayrılmalıdır. Bu amaçla çevreye duyarlı kamu ulaşımı, enerji güvenliği, enerji alt yapılarının yenilenmesi, yeşil enerji gibi desteklenebilecek çok sayıda proje bulunabilecektir.

Uyum politikası fonları Avrupa kamu malı niteliğini taşımamaktadır ancak çok sınırlı bir grup harcama Lizbon hedefleri ve EU2020 programlarına aktarılmaktadır. Bu alt başlıktaki harcamaların azaltılması sosyal inşacı olamayan harcamaların da bütçeden çıkarılması anlamına gelecektir. Ancak kriterler belirlenirken gerçek ihtiyaç duyulan alanlara kaynak aktarılmasının sağlanması için şu anda olduğu gibi sadece bölge esasına göre değil, o bölgenin bağlı olduğu üye ülkelerin de GSMH oranlarının dikkate alınması suretiyle belirlenmesi ve ona göre kaynak aktarılmasının gerçekleştirilmesi halinde harcamalar belirli bir düzeye indirilebilir. Fon yönetiminin sosyal inşacı hale getirilmesi neticesinde yani yönetim, uygulama, değerlendirme ve güvenilir veri transferinin sağlanması, bölgeler, ülkeler ve AB düzeyinde etkin bir koordinasyon ağı kurulması ve yeni üye ülkelere daha fazla önem verilmesi bu politikayı daha sosyal inşacı hale getirebilecektir. Bunların dışında çevre, enerji, kamu sağlığı, ulaşım gibi alanlarda kaynakların değerlendirilmesi öngörülebilecektir. Uyum bütçesi toplam bütçe içerisinde % 35 ten daha büyük bir yer işgal ederek tarım harcamalarından sonraki ikinci büyük harcama grubunu oluşturmaktadır. Bütçe büyüklüğü bütçenin sosyal yapısalcı olmamasını da beraberinde getirmektedir, bu nedenle yıllar itibariyle kamu malları lehine bu harcama oranının değiştirilmesi düşünülebilir. Ulusal sınırlar baz alınarak belirlenmiş bölge tanımlaması kamu malı üretilmesini üye ülkeler üzerinden gerçekleştireceği için Avrupa düzeyine çekememektedir. Bu nedenden dolayı bölge tanımlaması değiştirilerek üye ülkelerin sınır bölgelerini birbirine entegre edebilecek şekilde ancak bu defa üye devlet sınırlarını dikkate almaksızın yeniden tanımlamak suretiyle daha kolektif bir bölge esasına geçilebilir. Bu yöntemle entegrasyonun artırılmaya çalışılması da düşünülebilecek bir diğer yöntemdir. Eğer Uyum programının sosyal inşacı olmayan yönlerinin ilerde sürdürülmesi durumu devam ettirilirse, bu sosyal inşacı olmayan durum yurttaşları Birlik düzeyiyle ilişkilendirecek başka mekanizmalarla giderilmeye çalışılabilir. Bu amaçla mesela sosyal inşacı olmayan alanlardaki harcamalar üzerine AB düzeyinde özellikle dolaylı vergiler konularak bu zayıflık giderilmeye çalışılabilir. Yada sosyal inşacı olmayan harcama alanları başka bir sosyal inşacı olmayan gelir unsuru olan GSMH'ya dayalı gelirlerle sınırlı olmak üzere finanse edilebilir. Böylece sosyal inşacı olmayan gelirler sosyal inşacı olmayan gelirlerle karşılanmak suretiyle AB bütçesi daha birleştirici hale getirilebilir.

İkinci ana başlıkta yer alan Doğal kaynakları Koruma ve Yönetme (tarım ve hayvancılık) harcamaları bütçe içerisinde yaklaşık % 43'lük payıyla en büyük harcama grubunu oluşturmaktadır. Bu harcamaların çoğu da doğrudan gelir ödemeleri niteliğinde olup onların toplam bütçedeki payları da yaklaşık olarak %34 civarındadır. Dolayısıyla bu grup harcamalar da tıpkı Uyum harcamaları gibi çok sınırlı bir kısım harcamalar hariç sosyal inşacı nitelik taşımamaktadır. Bu gruptaki harcamaların bütçe dışına çıkarılması, yada üye ülkelerle bölüşümlü olarak (co-financing) sübvanse edilmeleri yada AB bütçesi dışında ayrı bir doğrudan gelir desteği bütçesi oluşturulması gibi olasılıklar düşünülebilir. Bunların yanı sıra bu grup için ayrılan fonlar sosyal inşacı kamu malları için kullanılabilir, bunlardan çevre, araştırma, ekosistemle ilgili sınır ötesi programlar kamu alanına hizmet edebilir. Doğrudan destek sisteminin kaldırılması en yerinde çözüm olabilecektir, bunun mümkün olmaması halinde göreceli indirim mekanizması ile bu sistemin bütçedeki ağırlığını azaltılabilir. Bütün bunların yanı sıra sosyal inşacı olmayan bütçe fonlarına karşın bu tür fonların kullanım alanlarına ve kişilerine göre esnek bir satış vergisi ihdas edilerek çiftçilerin AB düzeyiyle bağlantılarının sağlanılması düşünülebilir. Bu harcama grubunun sosyal inşacı olmayan kısmı Uyum alt başlığındaki gibi GSMH'ya dayalı bütçe gelirleriyle finanse edilerek sosyal inşacı bütçe dengesinin sağlanması olasılıklar arasında düşünülebilecektir.

Özgürlük, Güvenlik ve Adalet alt başlığındaki harcamalar kamu malı ve sosyal inşacı özellik taşıyan en önemli harcama gruplarından bir tanesidir. Bu harcama alt başlığının toplam bütçedeki payı % 1'in altındadır. Yurttaşlık alt başlığındaki harcamalar da Özgürlük, Güvenlik ve Adalet alt başlığı gibi AB bütçesinden oldukça düşük düzeyde temsil edilmektedir. Her iki alt başlıkta toplam ödenekler toplam bütçe harcamalarının % 1'inin biraz üzerinde yer almaktadır. Bu grup temel olarak AB'nin iç politika harcamalarını kapsamakta olup artırılmaları AB kamusal alanının genişlemesine ve sosyal entegrasyonun hızlanmasına yardımcı olacak türden harcamalardır. Her iki alt başlıktaki bütçe ödenekleri ve destek alanlarının artması, vatandaşlık, özgürlük, Güvenlik ve adalet harcamalarıyla birlikte mesela çocuk, aile, kadın, spor, kültür ve turizm konularının da desteklenmesi hatta sosyal bir ana başlık (ya da alt başlık) açılarak sosyal hayatın AB düzeyinde entegrasyonu sağlayıcı harcamalara da yer verilmesi düşünülebilecek olasılıklar arasındadır.

Avrupa bir Dünya Oyuncusu başlığı AB'nin dış politika ve Avrupa Güvenlik ve Savunma İşbirliği harcamalarını kapsamakta olup toplam bütçe içerisindeki payı % 5 - % 6 civarındadır. Bu gruptaki harcamalarda dış dünyaya karşın tek AB olmak ve AB güvenlik ve savunmasını sağlamaya yönelik olmaları nedeniyle kamu malı niteliğindedirler ve sosyal inşacı özellikler taşımaktadırlar. Buna karşın Avrupa Güvenlik ve Savunma İşbirliği harcamalarının AB bütçe harcamaları içerisindeki miktarı oldukça düşük bir orana sahiptir. Oysa bu alan henüz geliştirilmemiş olup, yapılaması gereken çok programlar vardır. Mesela araştırma, geliştirme, altyapı, eğitim, çevre, dış politika, dış eylemler, artırması düşünülebilir.

AB Yönetim ve Personel Giderleri bütçesi de çalışanların AB normlarını uyguladıkları sosyal bir alan olup AB düzeyinde kamu malı niteliğindedir ve AB'nin sosyal inşacı harcamalarını oluşturmaktadır. Bu ana başlıktaki toplam harcamalar da toplam bütçe giderlerinin % 5 - % 6'sı civarındadır.

AB gelirleri de sosyal inşacı görüş açısından değerlendirilip reform önerilerinde dikkate alınabilir, zira gelirler açısından da AB düzeyi ile vatandaşlar arasında kurulması öngörülen ilişki AB düzeyi ile üye ülkeler arasında kurularak bu bağlantının önemi göz ardı edilmiştir.

Geleneksel özkaynaklar olarak tanımlanan tarım ve şeker üzerinden elde edilen vergiler ile gümrük birliğinden elde edilen gelirler AB'nin kurumsal uygulamalarından elde edilen gelirler olup normal olarak merkezi hükümet uygulamalarında da görülebilen türden gelirlerdir, bu nedenden dolayı da bütçe uygulamalarında korunmaları normaldir.

Geleneksel gelirlerden % 25 oranında kesilen ve üye ülkeler tarafından bu gelirleri elde ederken yaptıkları yönetim giderine karşılık olarak alıkonulan bu kesintiden AB lehine vazgeçilerek kesinti miktarının daha sosyal inşacı hale getirilmesi düşünülebilir. AB gümrüklerinin etkin ve verimli hale getirilmesi amacıyla kurulacak bir fon ile gümrük idarelerine doğrudan maddi kaynak aktarılması ve bu suretle gümrük yönetiminin daha sosyal inşacı hale getirilmesi olasılıklar dâhilindedir.

KDV'den alınan gelirler hem İngiliz indiriminin hem de genelleştirilmiş düzeltme mekanizmasının bu kaynağa endekslenmesi suretiyle bu gelir grubundan indirilmesi hem de dolaylı vergi üzerinden alınan bir gelir unsuru görüntüsü oluşturmakla birlikte AB yurttaşları ile AB arasında bir ilişki kurmaya yardımcı olamaması nedenleriyle bu gelir unsurunun AB kaynakları arasından çıkartılması en yerinde reform olasılığı olabilecektir. Aksi taktirde bu uygulamaya devam edilmesi halinde KDV'ye uygulanan oranların miktarlarının aşağıya çekilmesi yada maksimum indirim limitlerinin daha düşük seviyelere çekilerek bu kaynağın önemsiz hale getirilmesi düşünülebilecek olasılıklar arasındadır.

KDV'ye dayalı gelir uygulamasının yerine Avrupa düzeyinde bir dolaylı verginin gerekliliği değişik kişi ve kurumlarca ifade edilmeye başlanmış bulunmaktadır. Bunlar arasında mesela, Avrupa Komisyonu 1998 yılında yayınladığı raporunda; enerji, düzeltilmiş KDV, tütün, alkol ve madeni yağlardan alınabilecek KDV, ulaşım ve iletişim vergisi, faiz geliri vergisi, AB Merkez Bankası emisyon kazançlarından alınabilecek bir vergiyi yeni vergiler arasında saymıştır. Ancak Avrupa Parlamentosu 2007 yılında yayınladığı taslak raporda bu vergileri enerji (ekolojik denge) vergisi, ulusal KDV'nin paylaşımına dayalı bir vergi ve kurumlar vergisinin paylaşımına dayalı bir vergi olarak üç gruba indirgemiştir. Ancak her iki yaklaşımda da vergi koymadaki amacın AB'ye daha sürdürülebilir bir gelir kaynağı sağlamak ve adil bir vergileme yapmak olduğu konusu ön plana çıkmıştır. Ne var ki yukarıdaki vergilerin bir kısmının uygulanması bir takım sakıncalar nedeniyle mümkün gözükmemektedir. Örneğin enerji ya da ulaşım ve iletişim üzerinden alınabilecek bir vergi AB firmalarının rekabet gücünü düşürebilir. Aynı şekilde gelir ve kurumlar vergilerinin uygulaması da bir takım problemleri beraberinde getirebilecek gibi gözükmektedir. Daha önemlisi vergi koymada sadece bağımsız ve sürdürülebilir bir gelir kaynağına sahip olma amacı gütmenin ötesinde sosyal inşacı bir yaklaşım sergilemek AB entegrasyonu açısından daha yerinde olabilecektir.

GSMH'ya dayalı kaynak elde edilmesi üye ülkelerin GSMH'nın belli bir oranının AB bütçesine aktarılması şeklinde uygulanmakta olup, AB vatandaşları ile AB arasında herhangi bir ilişki kurulmuş değildir. Daha da önemlisi böyle bir gelir kaynağı AB'yi mesela Birleşmiş Milletler gibi uluslararası kuruluşlara benzetmektedir. Bu gelir kaynağının 2007–2013 çok yıllı bütçesinde yaklaşık %76 gibi çok önemli bir oranda yer alması mali kaynaklar yönünden AB'yi hükümetlerarası bir kuruluşa benzetmektedir. Bu gelir kaynağı sosyal inşacı olmayan gider programları ile birlikte doğal felaketler ve acil ihtiyaçlar ile genişleme, komşuluk politikası, dış yardım, üyelik öncesi yardım gibi harcamaların oranlarını geçmeyecek seviyede tutulması suretiyle bütçenin sosyal yapısalcı olması için engel teşkil etmemesi sağlanabilecektir.

İngiliz indirimi ve genel düzeltme mekanizması normal şartlar altında bütçenin ne gelir ne de gider kısımlarıyla ilgilidir, ancak indirim gelirler (KDV ye dayalı özkaynaklar) üzerinden yapılmakta olduğundan dolayı sosyal inşacı değildir. Bu mekanizmanın tamamen kaldırılması en önemli çözüm olacaktır. Buna alternatif olarak indirime uygulanan oranların düşürülmesi ile indirimin sembolik bir değere getirilmesi de kabul edilebilir olasılıklar arasındadır.

Bütçe gelir ve giderlerinin yanında bütçenin büyüklüğü ve AB için istikrar fonksiyonuna sahip bir bütçenin gerekip gerekmediği konuları da bu çalışmada ayrı bölümler halinde irdelenmiştir. Adil geri dönüm (*juste retour)* konusu son çok yıllık bütçe tartışmalarının ana teması olmuş ancak bu yaklaşımın sosyal inşacı olmaması nedeniyle bu konunun bütçe tartışmaları merkezinden çekilmesinin entegrasyon için son derece yararlı olacağı öngörülmektedir. Avrupa Parlamentosunun görev süresi olan 5 yıllık süre ile çok yıllık bütçe döneminin 7 yıla çıkarılması bütçe ile Parlamento arasında kurulması gereken ilişkide bir dengesizlik unsuru oluşturmaktadır. Bu uyumsuzluk AB yurttaşları tarafından seçilen Avrupa Parlamentosunun bir döneminin bütçeyi onaylamadan görev süresinin sona ermesi gibi bir demokratik eksiklikle karşı karşıya gelmesine yol açacaktır. Bu uyumsuzluğun giderilmesi için çok yıllı mali çerçevenin bir gereği olarak 7 yıl olarak düzenlenen bütçe uygulamasından vazgeçilmesinin yerinde olacağı ortadadır. Bütçe öngörülerinin 7 yıl olarak belirlenmesi aynı zamanda AB bütçesinin ortaya çıkan yeni durumlara çabuk reaksiyon verme esnekliğini de ortadan kaldırmaktadır. Nitekim bu durum Orta ve Doğu Avrupa'da ortaya çıkan ani değişiklikler sırasında açıkça gözlenmiştir.

Sonuç olarak AB bütçesinin gelir ve giderlerine mali federalist yaklaşıma bir alternatif olarak sosyal inşacı politika yaklaşımı ile bakmak çok daha geniş ve çok daha zengin sonuçlar ortaya koyabilecektir. Sosyal inşacı yaklaşımın AB bütçesi reform sürecine yansıtılması AB entegrasyonunu daha anlamlı ve daha sürdürülebilir hale getirmeye çalışacaktır. Gerçekten de sosyal inşacı yaklaşım maddi ve manevi değerleri hep birlikte dikkate alarak ortak bir sosyal alan yaratılmasına ve aidiyet duygusunun gelişmesine hizmet edebileceği için yurttaşlar ile AB düzeyindeki yetersiz ilişkiyi kuvvetlendirmek suretiyle AB entegrasyonunu hızlandırabilecektir.

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BS	Ankara University, Turkey	1989
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WORK EXPERIENCE

Year	Employee	Title
2010-Present	Organization of Islamic Conference	Director General
2009	Organization of Islamic Conference	Dep. Director General
2003-2008	European Union (Mission in Kosovo)	Chief Finance Manager (and Coordinator)
1998-2003	Ministry of Finance	Senior Finance Auditor
1995-1997	Ministry of Finance	Deputy Managing Director
1990-1994	Ministry of Finance	Finance Auditor

FOREIGN LANGUAGES

English

ACADEMIC/TEACHING EXPERIENCE

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2007-2008	Pristina International University	Part-time Instructor
2000-2001	Bilkent University	Part-time Instructor
2001	Ministry of Finance	Seminar
1999	Carnegie Mellon University	Teaching Assistant
1995-1996	Ministry of Finance	Seminars

PUBLICATIONS

1. Döner Sermaye Muhasebesi, Mukder yayinlari, No:4, Ankara, 2002
   (Revolving Funds Accounting Applications, Mukder, Nu: 4, Ankara, 2002)

2. A number of articles published in Mali Klavuz Dergisi (Journal of Financial Guide), Sayıstay Dergisi (Journal of the Court of Accounts) and Maliye Dergisi (Journal of Finance) in accounting, finance, economics, management and politics.