

PROSPECTS OF REFORMING THE BUDGETARY PROCESS, IN THE CONTEXT OF TRANSFORMATIONS AT EUROPEAN LEVEL

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Abstract: Budget represents an important tool for implementing the political objectives set and achieving the proposed changes, and the timing of a review of the budgetary process is ideal for a comprehensive assessment of policies being implemented, both in terms of past actions and to cope with future success. Outside the restrictive conditions in the treaties of the European Union, Member States have a responsibility and an opportunity at the same time, to develop their own fiscal policies and systems in the field of management of budgetary resources. The need to reform the European budgetary policies consists of the events that have overtaken the unprepared European block, the most relevant being the sovereign debt crisis and Brexit. Knowledge of the development of the most important reforms of the European Union's own resources and the identification of concerns of new revenue sources at European level provides the premises of the fair of domestic policy decisions in order to maximise the benefits of membership in the European Union. In this context, opens the prospect of an analysis of the desirability of reforming the budgetary system in Romania.

Keywords: European Union, the European budget, budgetary principles, budgetary revenue;

JEL Classification: H61, H, H68.

1. Introduction

For the financing of Community actions and programmes, the EU builds a budget through which implements the political decisions taken, the conception and the stage of integration of the Member States. Budgeted revenue volume is directly proportional to the availability of sovereign States that are members of the EU to waive a portion of its own sovereignty and to transfer some of their powers in the field of taxation. At the same time, the architecture of European Union expenditure reflects, through the share of the various categories financed from the Community budget, a specific direction of the EU intervention done on the economies and policies the Member States. Similar to national policies, the construction of Community budget follows the budgetary principles defining budgetary transparency and clarity both in decision-making and in monitoring and control of budget execution: budgetary unity, the universality of the budget, specialization of the budget, the annuality of the budget and balance the budget.[1]

The recent sovereign debt crisis has highlighted the need to reform the budgetary policies, to strengthen the principle of sound government finances, expressed in article 119 of the Treaty on the functioning of the European Union.

In this context, it is obvious the concern to anchor the revision of national budgetary policies to the transformations that are taking place at european level, in order to realistically reflect the objectives and policies of the State.

2. Evolution of the most important reforms of the European Union's own resources

The budget of the European Union has always caused dispute among Member States both on own resources and the destination of the expenditure, the effect was a long string of adjustments and reforms.

A first milestone is the year 1951, in which tax was instituted on the production of coal and steel to Member States of the European Coal And Steel Community (ECSC) through the Treaty of Paris. In the year 1957, following the signing of the two treaties of Rome which established the European Economic Community (EEC) and European Atomic Energy Community (EURATOM) bodies, the direct contributions to Member States European communities was set; each Member State contributing resources from the national budget to the EEC with the following report: Belgium 7.9; West Germany 28.0; France 28.0; Italy 28.0; Luxembourg 0.2; Netherlands 7.9. Therefore, in accordance with article 200 of the Treaty, national States have financed at first European economic community through a system of national contributions, which was removed gradually thereafter, to permit the accession of Great Britain.

A significant change at the level of European Economic Community occurred in the year of 1971, when decided to create its own resources, of the need for permanent financing of agriculture. Member States agreed on the extension of the EEC with United Kingdom and empowering the European Parliament in budgetary matters. The caution displayed by the members of the EEC in relation to the expansion of the budget was regulated by limiting the resources attracted by the percentage of 1% of gross national product, and this requirement had a boomerang effect because it allowed blocking future initiatives to increase the budget by the United Kingdom. Since 1971, in the structure of the EEC income entered rates, taxes and VAT. If initially, every Member State had the right to retain 10% of the value of external tariffs collected, this amount varied later to 25% in the year 2000 or 20% in the year 2014.

The Treaty of Brussels in 1975, established the European Court of Auditors and extended the powers of the European Parliament in the field of annual budget. However, some proposals that would have significantly changed the modalities of setting up the European budgetary revenues, have been rejected by the European Council. In the same year, the population of the United Kingdom decided by referendum to remain within the EEC, although there were some complaints about it. The Agreement of 1970 created a powerful incentive for members of the post-1973 EEC to challenge the distributive and institutional status quo.[2]

In the year 1984, following the famous Fontainebleau Agreement, British Prime Minister Margaret Thatcher obtained a reduction in its own contribution to the Community budget as a compensation for the structural inequalities of the EU budgetary system, which meant that United Kingdom benefited less from the common agricultural policy in exchange for its agreement on the extension of EU with Spain and Portugal, which United Kingdom could have blocked.

In the year 1984 was negotiated among Member States a new package of measures relating to the income of their own countries, including the establishment of the internal market progressively over a period expiring on 31 December 1992 (Single European Act from 1987). Additional spending pressure on the budget of the Union could be mitigated by the implementation of the project of a single market and the development of the European Regional Development Fund. However, a budget

expanded by the reintroduction of national contributions, in addition to discounts, consolidated net balance approach by the Member States. [3] Were needed additional own resources of the EU budget that better reflects the prosperity of Member States, and in order to achieve this goal proposals have been made for the transfer of national excise duties and a collection as a percentage of GNP through the rate of call of VAT. This additional allocation decision was necessary because the rate of VAT, which grew to 1.4% in 1984, was insufficient and considered incorrect by the less prosperous Member States, where consumer spending represents a bigger part of the economy.[4]

In the year 1992, the Treaty of Maastricht, settled the principles of elaboration and execution of the budget, the system of the resources and the expenditure, as well as ways of strengthening budgetary discipline.

European budgetary principles were established by the European Council Regulation no. 1605/2002 of 25 June 2002, as following:

- the principle of *unity*, which provides that the overall revenue and expenditure must be reflected in a single document, in order to ensure effective control of the use of community resources;
- the principle of the *universality of the budget*, which lays down that the EU practice, has two basic rules: not affecting budgetary revenues, i.e. these revenues are used to fund all expenditure and revenue and the nonshrinkage of expenditure and revenue;
- the principle of *annuality of the budget*, means that the budgetary operations relate to a financial year, namely, in the case of the EU 1 January-31 December, in order to facilitate the control over the fulfillment of the objectives and the activity of EU institutions with executive powers ;
- the principle of *equilibrium*, states the normal situation for implementation of the budget as: revenues are in surplus towards expenditure, which will be retrieved in next year's budget. Any unforeseen additional expenditure will only be assured through the adjustment of the budget;
- the budgetary principle of *specialisation*, regulates the inclusion of income after origin and expenditure after destination, according to a budgetary clasificatii, consisting of sections, subsections, titles, chapters, articles and paragraphs. Thus, the confusion in the process for budgetary decision and its execution are eliminated;
- the principle of *sound financial management*, states that when loans are used, the rule of 3E should be respected: economy, efficiency and effectiveness;
- the principle of *budgetary transparency* lays down the obligation to publish in the "Official Journal of the European Community", the Community budget and the budgets of the European institutions;
- the principle of *unity of account* in which the general budget of the community was expressed in a unit of account, namely ECU during the period 1981-1999, and EURO from 1999.

3. New funding sources identified at EU level

The EU budget supports economic growth and job creation. On the basis of the **cohesion policy**, it finances investments designed to mitigate major economic differences between countries and regions of the EU. Also contributing to the development of rural areas in Europe. [5] The main budgetary revenue of the EU are own resources, are these are made up of: traditional resources (customs duties applied to imports outside the European Union), the VAT own resource (a standard percentage established over the harmonised VAT base, limited to 50% of the GNI of each EU country), own resources based on gross national income, and other income. To compensate imbalances between national contributions to the EU budget, have adopted a number of measures such as the "British

rebate ” or the ”UK correction” (United Kingdom is repaid with 66% of the difference between its contribution and what it receives back from the budget), payments flat rate for Denmark, Netherlands, Sweden and Austria, or reduced rates of VAT for the Netherlands, Sweden and Germany.

The current geopolitical context has become increasingly complex due to a host of factors:

- ✓ the external threats to the safety of the EU States;
- ✓ the economic difficulties experienced by certain European countries, following the sovereign debt crisis;
- ✓ amplification of the manifestation of nationalist currents and opinions among politicians and the population of some countries, which had the effect of decreasing confidence in the European institutions and European values;
- ✓ Britain's decision to leave the European Union, which will have the effect of lowering the budget by 10% and can generate some similar initiatives in other States unsatisfied by the EU policies;
- ✓ heated debates over the future of the European Union.

A series of reports compiled at EU level have formulated proposals for improving the system of Community revenue. From the analysis of these proposals, the foreseeable two directions of action: simplification of the present system of revenue by reducing some revenues balanced by the growth of the contributions of the Member States, or the introduction of new own revenue sources at the same time reducing Member States' contributions.

Proposals for simplification aim at renouncing traditional own revenues left to the Member States, either in the Member State where the goods first come from non-Union countries or in the final consumer of the imported goods. This line of action takes into account the low weight of this type of revenue in the EU's total revenue, cumbersome collection; the tendency of the Member States to receive them as revenue ceded to the EU.

Proposals to increase the role of own revenues by identifying new sources of income and reducing Member States' GNP quotas include carbon dioxide emissions taxes in energy production, taxes in communications or excise duties. Any new tax that is being analyzed to become the EU's own income is required to meet the competency requirements at Member State or EU level, according to the theory of fiscal federalism. Thus, an income can be transferred to EU competence if it meets at least one of the following conditions:

- ✓ has external effects crossing national borders;
- ✓ national arbitration is possible regarding the matter of the base of taxation that is mobile, with a lower tax rate;
- ✓ the tax is effective in achieving an EU policy objective.

Another proposal to increase EU own revenues is to transform VAT into a modular income. The bills will include two VAT rates, one decided by the national authorities, which is the revenue of the national budget, and another set at EU level, which is an EU income.

Following the debate on the approval of the Monetary Financial Framework (MFF) for 2014-2020, the European Parliament called for a group of specialists to propose new sources of funding for the EU budget. This group was called the High Level Group for Own Resources (HLGOR) or the Monti Group and its main objective was to analyze how the revenue side of the EU budget can be made simpler, more transparent, fairer and more responsible from the democratic point of view.

The HLGOR's priority was to explore the possibilities of reaching an agreement and addressing the issue of net balances so as to convince Member States to approve a new type of budget whose revenues and expenditures would be set up and used at European level and not nationally, and which would have been more applied to events similar to those that triggered crisis at EU level in the previous decade. The High Level Group on Own Resources has made 9 recommendations in the report drawn up

and published on http://ec.europa.eu/budget/mff/hlgor/final-report/index_en.cfm , the summary of which is as follows:

- a) reform of revenue would need to be carried out simultaneously with expenditure;
- b) the following principles should be based on the reform of the EU's budget revenues:
 - ✓ European added value for economies of scale and increasing efficiency;
 - ✓ subsidiarity, and policy management at the best possible level;
 - ✓ neutrality of the budget, respectively maintaining the volume of global expenditures;
 - ✓ minimizing tax burden;
 - ✓ synergies between national and EU policies and spending to maximize earnings;
 - ✓ Unity of the budget, ie the construction of a single budget, unless otherwise justified;
 - ✓ transparency for citizens, so that benefits and not just costs are visible;
 - ✓ own resources should support the main EU internal market policies, environmental protection, climate action, energy union and reduction of tax competition in the internal market;
- c) keeping the following elements of the current budget system:
 - ✓ balance of incomes and expenses without deficit;
 - ✓ traditional own resources, which are real own resources and are gathered satisfactorily;
 - ✓ a GNI-based own resource as a residual;
- d) the most suitable option for new own resources would be:
 - ✓ Single Market and Tax Coordination: EU VAT, corporate tax, financial transaction taxes, other taxes on financial activities and to avoid tax competition and avoidance that distorts competition;
 - ✓ Energy Union, Environment, Climate Change, Transport: CO2 tax, Green Certificates Fees, Electricity or Fuel, Import Tax on imported goods based on their CO2 consumption in their production;
- e) analyze other revenues, such as fines, auction revenues, or from new policies (Single Digital Market, Environment or Energy Efficiency);
- f) redefining costs, benefits and "net balances";
- g) discontinue or eliminate corrections and rebates, such as the UK correction mechanism. If a Member State is excessively affected by a new own resource, the compensation granted shall be limited and granted in the form of a lump sum;
- h) vertical consistency of EU budgets and national budgets;
- i) limited differentiation, for euro area development, additional types of expenditure, financial transaction taxes, banking sector and seniority income. [6]

4. Effects and Influences of the Reform of the European Budgetary Income on Romania

The problem of Romania's low budget revenues is structural and is mainly due to the following two factors:

- ✓ low taxation compared to other states in the region, in order to stimulate the attraction of foreign investments;
- ✓ the reduced capacity to collect budget revenues, due to the fact that the emphasis was on indirect taxes (VAT) without taking measures to severely reduce tax evasion.

Under these circumstances, in order to achieve sustainable economic development, it is imperative to reform budgetary policies and improve the absorption of European funds.

The European common budget represents 2% of the budget expenditures, compared to the 20% of the federal budget of USA. Currently, given the often divergent interests of the EU Member States,

there are different views on the reform of the European budget. Developed countries, which are net contributor to the EU budget, support the channeling of budgetary resources to the new challenges of technology, research or climate change, and wish to maintain the rebate system that benefits them. At the same time, Romania and other countries with a lower level of development require increased spending on regional development or the common agricultural policy.

In order to meet the objectives of both groups of states, a proposed solution could be to increase the EU budget by identifying new resources. At the same time, to narrow the development gaps between states on opposite poles of the EU ranking, additional resources are needed to be invested in the less developed countries.

The reform of European budgetary resources, whose lines of action have been outlined in the High Level Group on Own Resources (HLGOR) recommendations, needs to be understood internally in order to adopt the most favorable internal policy decisions to maximize Romania's benefits of belonging to European Union.

4. Conclusions

Starting from the fact that the European common budget is reduced considering the economic activity carried out at EU level, we understand that it reflects objectively the degree of political integration of the Member States, the degree of mutual trust between them, the difficulties of negotiating unitary and convergent policies, being rather a result of the reasonable compromise between the interests of the national states that make up the community bloc. This observation has been valid since the start of the process of building the EEC and is still relevant today.

Reconstruction of the architecture of budgetary principles and policies at European level is necessary, and it must aim to eliminate the major discrepancies currently existing between Member States as a final goal.

Regarding Romania, the net benefit of joining the European Union is indisputable. Beyond this, the implementation of budgetary principles and policies in legislation and in practice, the openness and transparency of the institutions according to the model of the advanced states in the community block, the harmonization of the national and community actions and policies are prerequisites for a healthy development of the Romanian economy. Romania's position in the negotiations and the actions of its political decision-makers must harmonize its economic interests with that of the members of the Union.

Also, the current substantial allocations of European funds through the Multiannual Financial Framework (MFF) represent, due to the non-reimbursable nature of these funds, an important resource for enhancing the performance of the national economy, as well as an important pillar for achieving budgetary equilibrium and sustainability. In this regard, it is necessary to step up government efforts to increase the absorption of European funds in line with the provisions of the 2014-2020 Partnership Agreement signed with the European Union.

The adaptation of the existing national government strategies and programs in the field of budgetary revenues to the recommendations made by HLGOR will create the premises of a competent support of Romania's interests in the future negotiations on the budget with the partners in the European Union.

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