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**ARTÍCULO ORIGINAL**

# Winners and Losers in the development of the European Union budget: New-Institutional Economics analysis

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**Abstract**
This paper is a comparative study on Political Economy, Economic History and International Economics, under the New-Institutional Economics and applied to the European Union's Budget development. There are few key-ideas which explain the complex financial resource among the long-term periods in the European Union. Also, it is offered a evaluation of winners and losers in the development of the EU budget.

*Keywords:* European Union; budget development; Political Economy; Finance; New-Institutional Economics.

## 1. Introduction

The current European integration process started in the 1950s (Bru, 2005; Sánchez-Bayón et al, 2018), but the Economic and Monetary Union began in 1990, with the implementation of 3 main stages over a period of 9 years. The first stage involved the free movement of capital inside the European Union (EU), a growing Structural Fund to reduce the inequalities between member States, and the beginning of economic convergence. The second stage began in 1994 with the setting up of the European Monetary Institute (EMI) in Frankfurt and the introduction of rules to curb national budget deficits, among other implementations. The third and final stage was the birth of the Euro in 1999. Eleven countries adopted the new currency: Austria, Germany, Belgium, Finland, France, Greece, Ireland, Italy, Luxembourg, the Netherlands, Portugal and Spain. The European Central Bank offices took over those of the EMI and took responsibility over monetary policy. Other countries have since joined the monetary union. Slovenia joined the euro area in 2007, followed by Cyprus and Malta in 2008, Slovakia in 2009, Estonia in 2011, Latvia in 2014 and Lithuania in 2015; making a total of 19 EU countries.

The Maastricht Treaty summed up convergence criteria for joining the European Monetary Union (EMU). This meant that countries have to comply with specific economic conditions to ensure economic convergence (also, there was a renewal in economic thought and paradigm switch (Sánchez-Bayón, 2020a-b y 2021a-b). The five Maastricht convergence criteria concerns price stability (Consumer Price Index (CPI) not higher than 1.5% above the three best performing Member States), sound public finances (Government deficit not higher than 3% of Gross Domestic Product (GDP), sustainable public finances (Government debt not higher than 60% of GDP), durability of convergence (long term

interest rates not higher than 2% above the average of three Member States with the lowest inflation rates), and exchange rate stability (must remain within the authorised margin of fluctuation for 2 years).

The introduction of the Euro affected prices in 2002. Overall inflation rate in 2002 was at 2.3%. Inflation was directly linked to the introduction of the euro bank notes and coins. However, some argue that this only affected inflation by a 0.3%. What spurge inflation mainly in this period was the fact that petrol and oil prices rose, along with high increases in fruit and vegetable price. However, the negative expectations, some retailers taking advantage, and the price level in national currency "frozen in time" were mainly the real reasons of inflation in his period of time. The financial integration in the EU had a good impact. Economies of scale resulted due to the large variety of financial products at lower cost. It enhanced the transmission of monetary policy impulses and contributed to safeguarding of financial stability and to smooth the operation of the payment system. Overall, by 2010 GDP was higher in EU than in USA, and so were exports, gross savings and the level of gross fixed capital formation.

Although there were winners and losers from the introduction of the Euro and of the European Union as a whole, this paper will focus on the winner and losers from the EU budget alone. In the early years of the EU's existence, the aim was to convince European elites of the necessity and advantages of the new order (Newman, 2001) and the Commission's timid attempts to reach out to citizens through social policies, which began in the 1960s, met with opposition from the governments of the Member States.

## 2. Key-ideas on EU and its Finance

### *2.1 Social dimension*

Different social groups are prone to be affected by EU integration. It is likely that, unless corrective action is taken, social groups that have been excluded from the benefits of transition and globalisation will also be excluded from the benefits of transition and globalisation. Corrective measures have to be taken or otherwise social groups that have been excluded from the benefits of transition and globalisation will also be excluded from the benefits of integration.

### *2.2 Political dimension*

The stabilisation of democracy and democratic institutions can be seen as one of the main political advantages of EU accession. In more general terms, the stabilisation of human rights and the stabilisation of the rule of law (Chinchón & Sánchez-Bayón, 2005). For Bulgaria and Rumania, in particular, the political benefits of accession have been cited as key, reflecting the slow progress in achieving democratic stability in these two countries.

### *2.3 Democratic Legitimacy of the European Union*

Recent world events in Europe have been a clear example of the fact that European states do not share the same vision of Europe's role in the global society in which we live (Sánchez-Bayón, 2012, 2014a-b & 2015). Moments such as these make us aware that the process of European integration is a task that is as difficult as it is necessary, especially when the process of globalization that we are experiencing appears more or less defined in its economic dimension. Nonetheless the same is not true of its legal dimension today, since the concept of the state as a legal phenomenon presupposes the existence of a territory in which the human community is politically organized.

The European Union has created a legal system whose origins are in international law. However, once this phase is over, the Union moves on to another stage, which is more like domestic law models than to international law models. The European Union is not, therefore, an international organization, but neither is it a state. As Europeans, we are in the process of forming a new political-legal structure. In order to legitimize the actions of the EU institutions, the proposal to bring them closer to parliamentary

or semi-parliamentary democracies, i.e. to strengthen the powers of the European Parliament and to have the president of the Commission elected directly by the ballot box or indirectly through the European Parliament, has been used time and again to solve the EU's notorious democratic deficit.

### *2.4 The uniqueness of the European Union*

The European financial area comprises all the financial markets, institutions and instruments in the different countries that make it up and is part of the globalisation of financial markets. As a result, the intended single European market is diluted in the global financial markets and takeovers of banks and companies by European operators occur equally within and outside the EU.

The European Union arose from a desire to put a stop to the frequent and violent clashes between neighbours that had culminated in World War II. The European Coal and Steel Community (ECSC) was founded in the 1950s as the first step toward a European economic and political union to ensure long-term peace. Belgium, France, Germany, Italy, Luxembourg, and the Netherlands are the six original members. The Cold War between East and West dominated this time period. The Treaty of Rome, which established the European Economic Community (EEC), or "common market", is signed in 1957.

In the past, the financial systems of the euro area countries were organised from a purely national perspective, around their own currency. However, today, following the creation of the single market and the introduction of the euro, the European financial system is increasingly interlinked and the importance of national borders is diminishing. The Economic and Monetary Union was undoubtedly the most important challenge in the process of European financial integration. Indeed, the replacement of national currencies by the euro was the culmination of the project to create a single financial market.

The budget of the European Union is the expression of the Union's policies and the basis for its political activities. It defines the financial possibilities for action and gives an idea of the real will to pursue and achieve the objectives of the European Union.

Even more trade liberalization, which should improve competitiveness and boost exports; increased foreign investment inflows. This could provide needed capital, technology, and skills; and access to EU funds, which could help upgrade infrastructure and boost regional development, are some of the main benefits. All these benefits, in turn, should boost growth, raise living standards, and reduce regional disparities. EU accession will also bring higher environmental standards (Arnedo et al, 2021; García Vaquero et al, 2021; Sánchez-Bayón et al, 2020 & 2021; Trincado et al, 2021).

The budget must respect a number of principles [1] (see table).

**Table 1. Main principles for EU budget**

| Principle |
|---|
| **Unity** |
| It must be a single document covering all the European Union's revenue and expenditure. |
| **Universality** |
| It is not possible to earmark revenue for specific expenditure (non-allocation rule) and on the other hand, the amount of revenue and expenditure must appear in detail (non-compensation rule). |
| **Annuity** |
| The budget is voted for one year. The fiscal year begins in January 1 and concludes on December 31. Specificity of expenditure: Amounts are set aside for a certain purpose and may not be used for any other purpose. The budget has been fixed in euros since 1999. |

Source: own elaboration.

The European Union does not levy any taxes of its own and is financed by a system of own resources (Section 201 EEC Treaty). A distinction is made between four own resources (revenue

1. Delegated Regulation (EU) 2019/715 on the framework financial regulation for the bodies set up under the TFEU and Euratom Treaty and referred to in Article 70 of Regulation (EU, Euratom) 2018/1046.

collected under Community policies and which does not come from the Member States). State sovereignty is not absolute either internally or externally, since in both cases it is limited by law (internal or international). However, all international legal instruments that can bind states have a common characteristic: each sovereign state is free to assume compliance with a specific regulation: a treaty, a convention, a resolution, etc. This is precisely the major difference between the European Union and any international organisation, since the Union is capable of creating binding law for its member states.

The distance between the EU institutions and the peoples of the states that form part of the Union has been inherent to the integration process itself. The first, and not unimportant reason, may be that if the integration process had been democratic it would most likely not have begun. The recent referendum experiences, fifty years later, serve as a point of reference to prove that public opinion in the states is divided 50/50 in favour and against the integration process. In other words, even if the process of how the Union came into being is disregarded and believing that its formation process is no different from other structures (the organisation is first created and then works from it to get citizens to join it) what seems clear is that this has not been done, at least not sufficiently, in the European Union. In the first years of the EU's existence, the objective was to convince European elites of the need for and advantages of the new order and the Commission's attempts to reach out to citizens through social policies, which began in the 1960s, met with opposition from the governments of the Member States.

### *2.5 Role of international organisations*

Relations between the EU and international organisations can be systematically articulated through the following three channels. The simplest and most primitive is based on relations of an administrative nature between the EU (formerly the European Community or European Economic Community) and international organisations, with basic obligations to exchange information, based, at first, on mere exchanges of letters, which have gradually evolved towards more complex conventional formulas. An "ius ad tractatum" with a complex and variable impact, depending on the case, which has achieved a spectacular development taking into account that the Union is not a state subject. Another means of relations between the EU and international organisations is the sending of representatives of the European Union –currently with diplomatic status, as well as the reception of representatives with this rank from third states and other international organisations. The EU's "ius legationis" has been progressively strengthened, giving it greater visibility in the international organisations to which it is accredited –and from which the United Kingdom has benefited until its withdrawal from the Union.

Some factors to examine in order to gain a full understanding of the evolution and challenges of EU participation in international organisations can be summarised as follows:

The EU seeks to acquire membership in an international organisation not only because it has an interest in the field developed in the body in question, but also because it possesses competences in it, generally on a shared basis with its member states. The EU's membership in an international organisation is not only a question of having an interest in the field developed in the body in question, but also because it possesses competences in it, generally on a shared basis with its member states.

The EU decides and influences the legal developments of numerous organizations in accordance with its postulates and rules, with greater consistency in cases where it adopts common positions agreed with its member states – if participation in the international organization is mixed or even if they participate only with the EU as an observer, with greater or lesser intensity depending on the Union's competences [2] . This is irrespective of the fact that in most cases the acts adopted in the organizations do not have binding legal force. The lack of binding force does not prevent the soft law emanating from the Intergovernmental Organizations (IGOs) from having an impact on the EU legal order, as well as on the international legal order. The normative interaction between the EU and international

2. EU action also has an impact on the activities of the UN General Assembly (third committee) or the Human Rights Council (Wouters and Meuwissen, 2013; Pérez Bernárdez, 2016).

organizations occurs in both directions [3].

### *2.6 Commission's management*

**Table 2. Perspectives of the Commission and the European Court of Auditors**

| | Commission | European Court of Auditors |
|---|---|---|
| Roles | 1.Provide annual management assurance.<br>2.Identify weaknesses and take action on a multiannual basis<br>3.Protect the EU budget. | 1.Provide annual management assurance.<br>2.Identify weaknesses and take action on a multiannual basis<br>3.Protect the EU budget. |
| Level of granularity | 1.Error rate for the EU budget as a whole and individual error rates for each department and policy area under Headings 1 to 5, plus for revenue.<br>2.Error rates calculated per policy area, programme and/or relevant (sub)segments.<br>3.Expenditure and revenue of the year (or 2 years for research) with a multiannual perspective. | 1.Error rate for EU budget as a whole and individual error rates for Headings 1a, 1b, 2 and 5, plus for revenue.<br>2.Expenditure and revenues of the year. |
| Multiannuality | Two error rates: risk at payment and risk at closure.<br>Multiannuality3 prospectively taken into account for the risk at closure through estimated future corrections for all programmes. | One error rate (most likely error):<br>Multiannuality retroactively taken into account, only through financial corrections implemented for closed programmes. |

Source: own elaboration.

More than 700 indicators measure success against more than 60 general objectives and more than 220 specific objectives in the performance framework for the 2014–2020 spending programs.

The most important indicators from the program statements are presented in the program performance overview. It is important to remember that the indicators only provide a snapshot of each program's overall performance and accomplishments. Only by taking into account the exact implementation circumstances will you be able to make an informed decision, which includes both qualitative and quantitative factors, can completely supported statements about the eventual performance of programs be made. This is something the Commission performs on a regular basis as part of its spending program reviews.

The following criteria guided the selection of indicators for the program performance overview, with the goal of presenting a balanced or representative image of program performance:

- Data availability: quantifiable target, outcomes accessible for 2019 or 2018, and results for at least three years of the 2014–2019 period.
- Professional judgment, taking into account the indicator's relevance, with the goal of presenting a balanced or representative picture of program performance in relation to the program's specific objectives, as well as the extent to which the indicator reflects the results of EU budget intervention.

### *2.7 Cut-off date of performance information*

The most recent available performance data is used. This largely covers reported achievements measured at the end of 2019 for the Commission's directly managed programs. The figures recorded and

3. For the spending related to the common agricultural policy, the term "final amount at risk" is used, as the measures under the European Agricultural Guarantee Fund are not "closed"

reported by Member States of the situation at the end of 2018 are shown in the programs under shared management. The indirect management programs provide a mixed picture: some have reported successes up to 2019, while others rely on data sources provided by the international organizations that implement the measures (e.g. the United Nations family) and may be delayed as a result.

## 3. Economic and financial systems into the EU

### *3.1 Preliminary considerations*

The starting point of the so-called new European architecture for financial regulation and supervision stems from the Communication of 27 May 2009 on "European Financial Supervision", where the Commission envisaged a series of reforms of the current arrangements, aimed at preserving financial stability at the EU level.

The debate on the appropriate model of supervision in the EU had already begun in 2000 in the Report on Financial Stability, which advocated the need for greater co-operation between supervisors and for the fundamental lines of financial regulation and supervisory practices to begin a process of convergence. These extremes were spelled out in the so-called "Lamfalussy report", which was initially intended for securities markets but was later extended to banking and insurance and is at the core of the current supervisory system in the EU. A supervisory mechanism was thus established, with decentralised national responsibilities and fifty or so supervisory authorities where coordination between national supervisors was voluntary, through three sectoral committees (Committee of European Banking Supervisors (CEBS) for banking, Committee of European Insurance and Occupational Pensions Supervisors (CEIOPS) for insurance and Committee of European Securities Regulators (CESR) for securities).

In the context of monetary policy, it should be recalled that the European System of Central Banks has advisory functions by issuing opinions and sanctioning powers and that it must contribute "to the smooth conduct of policies pursued by the competent authorities relating to the prudential supervision of credit institutions and the stability of the financial system" (Art. 127.5 Treaty on the Functioning of the European Union (TFEU)). It is composed of the European Central Bank (ECB) and the national central banks (Art. 282.1 TFEU), including - with certain particularities - those of the Member States that are not initially part of EMU (United Kingdom, Denmark, Greece and Sweden). It is governed by the European Central Bank's decision-making bodies.

The transformation of the European model of nationally based financial market supervision to an EU supervisory model is based on a set of institutions, mechanisms and authorities which, as of 1 January 2011, are responsible for: a) the oversight and control of the European Union's financial system, b) the treatment of so-called systemic risks and, as a reflection of these risks, c) potential financial and economic crises.

### *3.2 The Monetary Committee*

Although both the ECB and the national central banks can issue banknotes in the euro area, only the ECB can actually authorise their issuance. Member States may issue coins, which require the approval of the ECB as to the volume of the issue (Section 128 TFEU). "The ECB takes the decisions necessary for the performance of the tasks entrusted to the ESCB under the Statute or the Treaty" (Section 132 TFEU). The ECB, assisted by the national central banks, collects the necessary statistical information either from the competent national authorities or directly from economic agents (Article 5 of the Statute). It is responsible for the smooth functioning of the Trans-European Automated Real-time Gross Settlement Express Transfer system, which is a euro payment system linking national payment systems and the ECB payment mechanism. In addition, the ECB makes the necessary arrangements for the integration of the European System of Central Banks (ESCB), the central banks of the euro area's members.

The ECB may carry out specific tasks concerning policies relating to the prudential supervision of credit institutions and other financial institutions (Section 127(6) and 25.2 TFEU). Under the Single

Supervisory Mechanism (SSM), the ECB has been assigned additional tasks in relation to the direct supervision of "significant" banks in the euro area and other participating Member States. National authorities in the Member States continue to supervise "less significant" banks, in cooperation with the ECB; cross-border cooperation of supervisory authorities within the Union has been entrusted to the three European Supervisory Authorities (ESAs): the European Banking Authority (EBA), the European Securities and Markets Authority (ESMA) and the European Insurance and Occupational Pensions Authority (EIOPA). The new macro-prudential watchdog, the European Systemic Risk Board (ESRB), completes the supervisory system.

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Member States were entitled to replace irregular expenditure with new expenditure throughout the programming periods 2000-2006 and 2007-2013 if they took the requisite corrective actions and applied the corresponding financial corrections. The financial correction resulted in a net correction if the Member State had no such additional expenditure to declare (a loss of funding). A Commission financial correction judgment, on the other hand, always had a direct and net impact on the Member State: the Member State was required to repay the money and its financial allocation was decreased (i.e. the Member State could spend less money throughout the programming period).

Due to the legal framework and kind of budget management used during the 2007-2013 period, net corrections were more of an exception (reinforced preventive mechanism). The regulatory guidelines for the 2014-2020 period enhance the Commission's approach on protecting the EU budget from irregular expenditure. This is mostly due to the implementation of the new annual assurance approach, which significantly minimizes the probability of a substantial degree of error. Indeed, the new legal framework places greater responsibility on program controlling authorities, who must conduct competent management verifications in time for the annual filing of program accounts. The Commission keeps 10% of each interim payment until the entire national control cycle is completed. Because the Commission makes net financial corrections where Member States have not appropriately addressed any deficiencies before submitting, it is in the best interests of the Member States to ensure the timely identification of serious deficiencies in the functioning of the management and control system and the reporting of reliable error rates.

## 4. Analysis of EU Budget

The EU's budget is about €150 billion per financial year. It is a large figure in absolute terms, but it only represents around 1% of the total EU GDP, and less than 3% of total public expenditure in the EU. It therefore has a very limited capacity.

The European Parliament and the Council must agree on the EU budget jointly. Annual budgets must be framed within the parameters of the Multiannual Financial Framework (MFF). The main arguments over budgetary matters occur parallel to the making of the MFF. In these discussions, the governments of the member states are key political actors, all seeking to protect and benefit their national priorities.

EU financing for local and social improvement is a significant hotspot for key speculation projects. The EU budget is primarily used for investment.

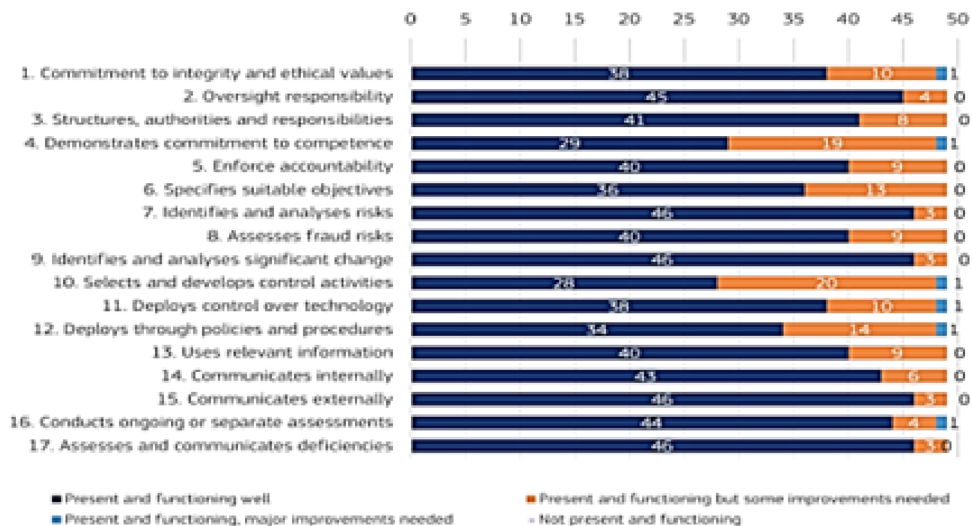
In some EU nations that have in any case restricted methods, European subsidizing accounts up to 80% of public speculation. Notwithstanding, EU provincial spending does not simply help more unfortunate areas. It puts resources into each EU country, improving the EU's economy in general. It is assessed that the profit from speculation by 2023 will be €2.74 for each €1 contributed somewhere

in the range of 2007 and 2013 — a 274

The EU has battled with low levels of investment since the 2008 financial crisis. The EU established the Investment Plan for Europe in 2014, with the goal of getting Europe to invest again by mobilizing private and public funds. The investment plan will run until 2020 and aims to mobilize €500 billion. Without the EU budget, this boost to jobs, growth, and investment would not be feasible.

### 4.1 *Annual Management & Performance Report for EU Budget (before COVID)*

**Figure 1. Assessment of the functioning of the 17 internal control principles.**




Source: European Commission annual activity reports (2019).

### 4.2 *Expenditure*

Based on the 2014-2020 MFF this paper will explain the EU budget in detail. As it can be seen from the diagram below (Figure 2), the EU finances a wide range of projects that span from regional and urban development to employment and social inclusion, agriculture, rural development, research and innovation, and human aid.

The main two areas are the Common Agricultural Policy (CAP), which concentrates around 40% of the EU expenditure, and Structural Funds, concentrating expenditures on regional and social development and represents around 35% of the EU expenditure.

Other expenditures include grants, development aid, and loans. The EU provides funding for small businesses as well as aid to non-governmental and civil society organisations. It counts with two main types of funding for young people. These are education and training programmes, such as the Erasmus+, and co-funding for projects that promote volunteer work and encourage civil involvement. Researchers also have a share in the EU budget. The EU provided €80 billion for research and innovation mainly through the Horizon 2020 programme. Climate goals are supported by 20% of EU budget expenditure.

The watertight nature of the headings means that each budget line is financed within a given heading. Each heading must therefore be sufficiently endowed to allow for a possible redistribution of expenditure between the various actions under the same heading according to needs or to allow for the financing of unforeseen expenditure.

The margin for unforeseen expenditure between the own resources ceiling and the ceiling on appropriations for payments is intended to:

- allow for the revision of the financial framework if necessary, to cover unforeseen expenditure when the financial perspective is adopted.
- help absorb the consequences of lower-than-expected economic growth; in these circumstances, with actual Gross National Income (GNI) lower than expected, the ceiling on appropriations for payments, which is an absolute amount, can be financed within the own resources ceiling (expressed as a percentage of Gross National Product (GNP)) by using the margin.

**Figure 2.** Areas financed by the EU budget.

Source: European Commission (2018).

### *4.3 Detection and correction of errors affecting EU expenditure*

Where preventive mechanisms have not been effective, it is important that errors affecting EU expenditure are detected a posteriori, through controls on amounts the Commission has accepted and paid out (ex post controls).

The Commission corrects these errors through financial adjustments or replacement of ineligible expenditure in shared management, as well as recovery from ultimate receivers in direct and indirect management, throughout the same or succeeding years. The confirmed corrective measures in 2019 totalled EUR 1.5 billion (25% higher than in 2018). These are mostly payments from earlier years that have been tainted by errors.

Parallel to this, control system flaws discovered through risk-based system audits are addressed and systems rectified to prevent repeating the same errors in the future. This is done first and foremost by the implementing Member States and partners in the context of shared and indirect management.

The extent of exchanges examined by the Court of Auditors will be used to measure the Commission's "pertinent consumption" from the EU budgetary plan. In this methodology, pre-financing

and maintenances are possibly considered when the last beneficiary of EU reserves has given proof of their utilization and the Commission (or another organization or body overseeing EU reserves) has acknowledged the last utilization of the assets (by clearing the pre-financing or delivering the sum held), on the grounds that this is the place where blunders of legitimateness or routineness may happen. Consequently, the dangers at instalment and at conclusion are resolved against this sum.

### *4.4 Income*

The EU is not able to borrow so it needs to ensure it keeps a balanced budget. The EU's income comes from four main areas: Gross National Income (GNI), traditional own resources like tariffs and levies, Value Added Tax (VAT) and other sources.

The GNI based contributions are used to balance the EU budget. Each member state has to pay equal amounts to the EU fund. This income represented 70% of the EU revenues in 2017.

The EU, being a customs union, has a common external tariff regardless of where imports arrive to. The tariffs collected are seen as a natural source of EU income. A small proportion (around 1%) of revenues from this category come from sugar levies. In section 3 this is further analysed. Tariffs and levies together made, in 2017, around 13% of the EU income.

Regarding the VAT contributions, member states contribute to the EU budget by redirecting 0.3% of their VAT incomes to the EU funds. However, not all states have the same VAT. Due to this divergence, the VAT is adjusted, or harmonized, by the EU and it is this rate to which the rate is applied to. Income from VAT contributed to 12.2% of the EU revenues in 2017.

Remaining revenues come from other sources including taxes on EU staff salaries, fines, or late payments.

### *4.5 Controversies*

During the past 2007-2013 MFF some key points of discussion, which are still present today, included the total size of the budget, the size of the CAP and the UK rebate. The explanation of these issues is discussed below.

Comparing the expenditure on CAP from 1985 to present day, a sharp fall from 70% to 37% in 2018 is seen. Over the past years new countries have joined the EU, most of them with an important primary sector. However, the CAP's budget continues to fall year by year. In fact, for the 2021-2027 MFF expenditure on this sector is expected to fall to less than 30%, while protection of EU's agricultural products is being softened. It is justified since it is the only policy entirely financed by the common budget. This means that EU expenditure has been replacing national expenditure by a large extent over the past years. As it will be seen, however, the agricultural sector reform has become the centre for political debate.

Regarding the case of the United Kingdom, the UK's rebate was worth between £3.1 billion and £5.6 billion to the UK between 2011 and 2017. This rebate was introduced in 1985 backed by the argument that the country was making relatively larger net contributions compared to other member countries and was receiving in exchange very little from the budget. The reasoning behind the rebate was that the majority of the budget was destined to finance the CAP but the UK, not having a large agricultural sector at the time, was not gaining any benefit. However, these figures only account for the net contributions to the EU budget, without taking into account the benefits obtained from being part of the single market and customs union. The formula used in the rebate means that the UK's net contribution is reduced by around 60%, and it has remained present since then.

So, who pays for the rebate? The answer is the other member states. When adjusting the EU expenses to the GNI contribution to obtain a balanced budget, the cost of the rebate is included. However, Austria, Germany, the Netherlands and Sweden only pay one quarter of their amount due. The cost of these reductions is also met by the other Member States. In 2018, the UK was the second largest contributor to the EU Budget, followed by France and Italy, and falling just behind Germany

as the main contributor. Considering contributions per head of population, the Netherlands made the largest net contribution, followed by Denmark, Germany, Sweden, Austria and the UK.

Here a second case of winners and losers is faced. Considering net contributions, France and Italy should only pay one quarter of their amount due. Considering contribution per head, Denmark should also benefit from the reduction. However, not only do these three countries contribute more proportionally, but also have to compensate for Austria, Germany, the Netherlands and Sweden and the UK's reductions.

Albeit a few nations commitments are greater than others, each Member State appreciates the advantages of the EU financial plan.

As well as living in a landmass where individuals can move unreservedly through 27 nations, organizations little and huge have free admittance to a market of 500 million purchasers.

Better streets in Spain mean a French transporter can convey its items to purchasers in a quicker and more secure manner. European examination programs unite the best personalities in the landmass to deal with answers for major cultural issues.

In the midst of catastrophic events, Member States are there for one another. Set forth plainly, by having this "aggregate cash pot" the EU is in a situation to take on difficulties which singular nations alone could always be unable to.

### *4.6 EU funds and programmes to address structural difficulties and promote growth*

Agricultural and fisheries funds and other EU programmes also contribute to meeting investment needs. The European Agricultural Fund for Rural Development (EAFRD) and the European Maritime and Fisheries Fund (EMFF) provide support worth €12.3 billion and €1.6 billion respectively. Spain is also a beneficiary of other EU programmes, such as the Connecting Europe Facility, which allocated €1 billion to projects on strategic transport networks, Horizon 2020, which allocated EU funding worth €4.2 billion (including to 1,800 Small and Medium-sized Enterprises (SMEs)), and Competitiveness of Enterprises and Small and Medium-sized Enterprises (COSME) which unlocked €4.1 billion in loans to 98,913 SMEs.

EU money aids in the mobilization of substantial private investment. By the end of 2018, programs sponsored by the European Structural and Investment Funds (ESI Funds) had mobilized an extra EUR 2,3 billion in loans, guarantees, and equity, accounting for 7% of the total agreed allocations.

EU funding have already invested a significant amount of money in measures that support the Sustainable Development Goals (SDGs). The European Structural and Investment Funds support 13 of the 17 SDGs in Spain, with up to 96% of investment going toward achieving these goals.

### *4.7 Innovation*

The European Union lags behind other advanced industrial economies in basic measures of entrepreneurship and innovation.

As early as 2003, the European Commission published a Green Paper in response to the low rates of enterprise creation and growth relative to other economies. This already highlighted the low commitment to entrepreneurship training by European companies, a much greater problem when focusing on economies such as Spain. The Spanish business training system offers the possibility of accessing subsidised courses through the FUNDAE entity, a possibility that is not used by the majority of companies, especially small companies, entrepreneurs and start-ups.

Entrepreneurship remains an area where old Europe is at a clear disadvantage, with, for example, a higher proportion of US, Canadian and Australian working-age adults engaged in entrepreneurial activity than their European peers. In this respect, there is a notable exception in countries such as Estonia and Latvia, where the above trend is broken.

In areas such as education, access to capital, regulatory frameworks, legal and commercial cultures, these countries have a distinguishing and favourable framework for entrepreneurship.

In recent years, the European Commission has increased its efforts in this field, culminating in the formation of the Entrepreneurship 2020 Action Plan in 2012.

The plan focused on three priorities:

- Improving entrepreneurship education and training.
- Removing administrative obstacles.
- Fostering the culture of entrepreneurship.

In this sense Entrepreneurship 2020 has been successful in that it has raised the overall importance of the issue of entrepreneurship education. The initiative deserves praise for the renewed interest from political circles, although the administrative obstacles to entrepreneurship are still very significant on the part of the administrations of the member countries. More radical proposals such as compulsory financial education are resisted, while teachers lack the resources and training to teach current economic issues.

Public or formal education contrasts with private training initiatives, which are correctly addressing the training needs of a global economy, and in particular those related to entrepreneurship.

### *4.8 The cost of controls remains proportionate to the associated risks*

By and large, the assessed expenses of control are sensible considering the idea of the projects as well as the control conditions. Moreover, they stay stable because of the unaltered control conditions and systems set up for the current projects.

Direct examination between programs is regularly impractical as a result of their various highlights and cost drivers, instances of which are given in the case underneath.

### *4.9 Cost drivers*

The complexity of the programs that are controlled, The number of transactions to be processed and their value: processing a large number of low-value transactions takes more time than processing a small number of high-value transactions. The risk profiles of the programs administered, such as those in external relations where monies are spent mostly in non-EU countries.

There are possible economies of scale for certain smaller programs in terms of funding, as well as programs that are being phased out, funds managed by smaller entrusted entities, or Commission departments managing smaller amounts of funds; as there is always an irreducible number of controls to be carried out regardless of the amounts of funding involved.

For the interest of completeness and transparency, the departments dealing with shared and/or indirect management have reported on the cost of controls in Member States and entrusted entities independently from the Commission's own cost of controls in their annual activity reports. The costs of delivery indicated by Member States for the common agriculture policy, for example, accounted for 3.5% of the total expenditure for 2019.

Some of the challenges that the EU has faced:

- Adapting care services to the paradigm of social investment and the care crisis.
- Advancing in the mutualisation and socialisation of risks: a new balance between (new) social risk and family problem.
- In this context, guarantee the economic sustainability of long-term care.
- Welfare State financing reforms
- Reorienting the role of volunteering and the community
- Keeping the cost of services under control, guaranteeing adequate working conditions for all agents and the creation of quality employment. Search for efficiency.
- Improve the evaluation of interventions and information systems.
- Improve social and health care coordination and inter-institutional governance of the system.

## 5. Data Analysis and Results

Looking at data from the European Commission (Figure 3), in general, poorer states are net recipients, they receive more than what they pay. In total, in 2018, there were 18 recipients and 10 net payers:

**Figure 3. Winners and Losers, net balance.**

| Country | Contribution to EU Budget | Received from EU | Balance | |
|---|---|---|---|---|
| Poland | 3983,2 | 16349,9 | -12366,7 | 'Winners' |
| Hungary | 1075,8 | 6298,1 | -5222,3 | |
| Belgium | 3839,8 | 8513,6 | -4673,8 | |
| Greece | 1487,7 | 4870,1 | -3382,4 | |
| Portugal | 1699,4 | 5010,8 | -3311,4 | |
| Romania | 1654,7 | 4865,1 | -3210,4 | |
| Check Rep, | 1720,1 | 4123,2 | -2403,1 | |
| Spain | 10313,9 | 12270,4 | -1956,5 | |
| Lithuania | 355,8 | 2070,6 | -1714,8 | |
| Slovakia | 763,6 | 2457,2 | -1693,6 | |
| Bulgaria | 487,1 | 2168,6 | -1681,5 | |
| Luxembourg | 356,9 | 2008,3 | -1651,4 | |
| Latvia | 234 | 1211,8 | -977,8 | |
| Croatia | 450,8 | 1120,3 | -669,5 | |
| Estonia | 210,2 | 759,4 | -549,2 | |
| Slovenia | 385,7 | 926,8 | -541,1 | |
| Cyprus | 180,3 | 263,9 | -83,6 | |
| Malta | 102,6 | 156 | -53,4 | |
| Ireland | 2320,2 | 2063,7 | 256,5 | 'Losers' |
| Finland | 2018,3 | 1477,7 | 540,6 | |
| Denmark | 2541,2 | 1411,2 | 1130 | |
| Austria | 3277,1 | 1952,6 | 1324,5 | |
| Sweden | 3303,5 | 1814,2 | 1489,3 | |
| Netherlands | 4844,7 | 2470,4 | 2374,3 | |
| Italy | 15215,1 | 10337 | 4878,1 | |
| France | 20573,5 | 14778,3 | 5795,2 | |
| United Kingdom | 13461,9 | 6633,1 | 6828,8 | |
| Germany | 25266,7 | 12053,9 | 13212,8 | |

Source: Own elaboration (based on EU Budget, 2018).

Overall, winners are concentrated in the East and South of Europe, while losers tend to be geographically located in the west of Europe. Belgium and Luxembourg appear to be the only exceptions. This occurs as a result of the fact that the primary EU headquarters and offices are located in these two countries.

Looking at the official European Commission's page, following statement regarding why some countries pay more than they receive can be found: "In addition to living in a continent where people can move freely through 27 countries, companies small and large have free access to a market of 500 million consumers. Better roads in Spain mean a French truck driver can deliver its products to consumers in a faster and safer way. In times of natural disasters, Member States are there for each other. By having this "collective money pot" the EU is in a position to take on challenges which individual countries alone would never be able to." (European Commission, 2020)

According to some, simply the constant flow of wealth from the West to the East highlights the inequality at the heart of how the EU budget is distributed. According to official figures from the European Commission, between 2010 and 2014 Britain, France and German taxpayers contributed €127.5billion to the EU's project. During this same period, Eastern European members took out €134.5 billion through funding and subsidies. These figures mean that, for instance, German citizens fund neighbouring Poland. It appears, then, that Germany, UK, France and Italy are the big losers, and Eastern countries the major winners. Southern countries like Greece and Italy that seek a deeper support for claims, such as the specific migration challenges they face or climate change, demand support just like poorer Eastern states receive budget subsidies.

The effect of the revision component fluctuates relying upon the sort of spending execution, the sectorial administration and the monetary guidelines of the arrangement region. Altogether cases, the amendment systems intend to shield the EU financial plan from consumption caused that is in break of law. Ex post checks on a sample of claims, conducted at the recipients' facilities after costs have been

expended and declared, are a major source of assurance. Over the course of the program's lifespan, a huge number of such in-depth checks are performed. Any amounts paid in excess of what is owed are refunded, and systematic errors are applied to all of the beneficiary's ongoing EU-funded initiatives.

Figure 4 below shows a breakdown by Member State of the payments received by each country in 2019 as an example.

**Figure 4. Breakdown by Member State, financial corrections in 2019 compared to EU payments received**

| Member State | Payments received from the EU budget in 2019 (million EUR) | Financial corrections confirmed in 2019 (million EUR) | Financial corrections confirmed in 2019 as % of payments received from the EU budget in 2019 | Financial corrections implemented in 2019 (million EUR) | Financial corrections implemented in 2019 as % of payments received from the EU budget in 2019 |
|---|---|---|---|---|---|
| Belgium | 1 245 | 15 | 1.2% | 17 | 1.3% |
| Bulgaria | 2 238 | 20 | 0.9% | 19 | 0.9% |
| Czechia | 5 017 | 1 | 0.0% | 92 | 1.8% |
| Denmark | 1 063 | 0 | 0.0% | 0 | 0.0% |
| Germany | 9 233 | 1 | 0.0% | 1 | 0.0% |
| Estonia | 1 018 | 7 | 0.7% | 7 | 0.7% |
| Ireland | 1 758 | 5 | 0.3% | 5 | 0.3% |
| Greece | 4 740 | (46) | (1.0%) | 415 | 8.8% |
| Spain | 10 947 | (8) | (0.1%) | 180 | 1.6% |
| France | 12 159 | 68 | 0.6% | 120 | 1.0% |
| Croatia | 1 997 | 2 | 0.1% | 2 | 0.1% |
| Italy | 10 711 | 567 | 5.3% | 632 | 5.9% |
| Cyprus | 201 | 0 | 0.0% | 0 | 0.0% |
| Latvia | 1 343 | 0 | 0.0% | 0 | 0.0% |
| Lithuania | 1 428 | 1 | 0.1% | 2 | 0.2% |
| Luxembourg | 86 | 0 | 0.5% | 0 | 0.5% |
| Hungary | 5 973 | 138 | 2.3% | 134 | 2.2% |
| Malta | 198 | 0 | 0.2% | 0 | 0.2% |
| Netherlands | 986 | 12 | 1.2% | 12 | 1.2% |
| Austria | 1 545 | 10 | 0.6% | 19 | 1.2% |
| Poland | 16 989 | 65 | 0.4% | 129 | 0.8% |
| Portugal | 4 520 | 20 | 0.5% | 27 | 0.6% |
| Romania | 5 530 | 151 | 2.7% | 166 | 3.0% |
| Slovenia | 846 | 0 | 0.0% | 0 | 0.0% |
| Slovakia | 2 294 | 9 | 0.4% | 35 | 1.5% |
| Finland | 1 127 | 0 | 0.0% | 0 | 0.0% |
| Sweden | 1 288 | 17 | 1.3% | 19 | 1.5% |
| United Kingdom | 6 034 | 17 | 0.3% | 25 | 0.4% |
| European territorial cooperation | 178 | 1 | 0.8% | 1 | 0.8% |
| **Total** | **112 693** | **1 074** | **1.0%** | **2 062** | **1.8%** |

Source: European Commission (2019).

### 5.1 *Expenditures*

Concerning expenditures, this paper has already discussed the main winners from the EU budget that appear at first sight. Breaking down these expenditures and find out where they go to and for what ends, it can be better understood why and who benefit the most from the EU budget.

### 5.2 *Smart and Inclusive Growth*

Nearly half of the funds of the EU budget alone, in 2018, went to making the economy stronger, universities more competitive, and companies better equipped to compete in the global marketplace. Under this section, the authors find that the main beneficiary, by a great extent, is Poland, followed by Spain, Germany, Italy and France. The section smart and inclusive growth concentrates expenditures on the Erasmus programme, cohesion and project Horizon 2020 among other.

Germany and France take the lead for "competitiveness for growth and jobs". For "large infrastructure projects", France is the main beneficiary. For "Horizon 2020" projects Germany and France again take most of the pie. For "Thermonuclear Experimentation" France keeps most of the funds. Under "Energy" and "Transport", Germany is the number one recipient, followed by far by Cyprus in the case of energy, and by Italy in the case of transport.

Regarding economic, social and territorial cohesion it is when it can be seen that Poland is the main receiver under this section of the EU budget. Most of the money it receives (over €11billion) goes to rural areas and less developed regions. Hungary, Spain, and Italy fall behind. Under "investment for growth and jobs", Poland again is the number one receiver. For "the most deprived" and "transition regions" Spain takes the lead. For "competitiveness" Germany again receives the highest amount.

The previously mentioned countries and sections are just some examples found. However, in this case, judging who is the real winner or loser is a subjective matter. It could be said that investment under these sections has a multiplier effect in the economy. Subsidies and other grants, as seen below, are yearly aids to farmers. Investments in innovation, energy, transport and infrastructure are longer term investments that help bust the economy and make these countries more competitive.

Although the EU budget is not significant enough compared to public expenditures in the EU countries, it serves as a complement for key sectors in each country. For example, it is not a simple coincidence that nuclear power is the largest source of energy in France. Nor is the fact that Germany is Europe's largest consumer of energy. Taking a look at the transport industry, among the top 5 biggest trucking companies with largest fleet worldwide two German companies are found.

### 5.3 *Income*

The national contributions of each country have already been discussed. Breaking down the sources of revenue and analyse which countries contribute the most to each source, an assessment of the impact on each country of this contribution to the EU fund can be made.

### 5.4 *GNI*

As expected, when looking at the GNI-based contribution figures, the order of highest to lowest contributor is linked to the size of the economy. Germany, being the largest economy in the EU pays the highest contribution. In this case, large economies are losers, whereas the small and poorer economies are benefitted.

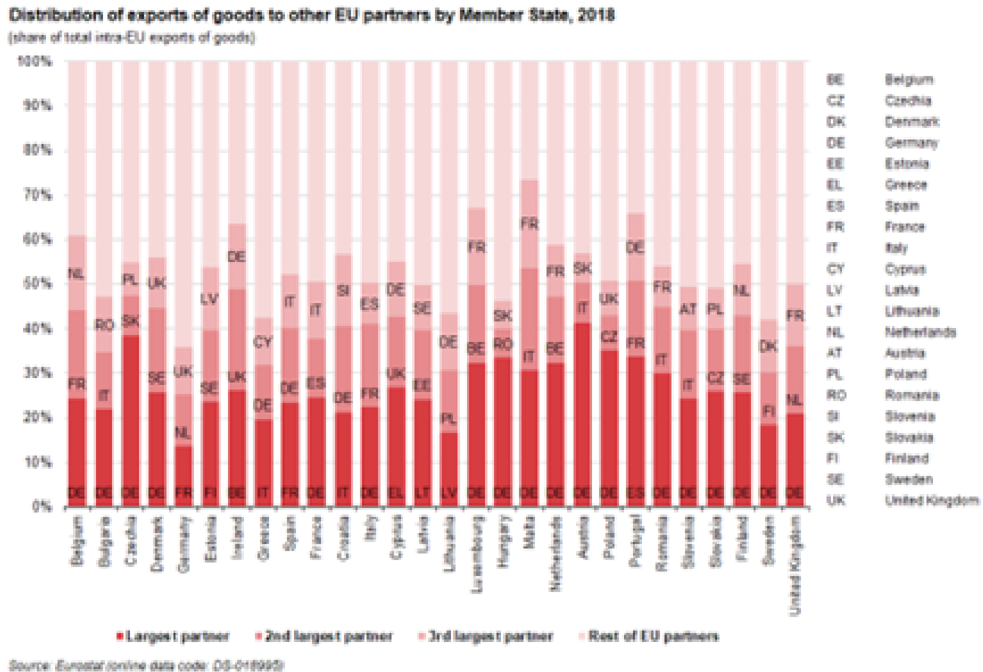
### 5.5 *Custom Duties*

Regarding custom duties it does not surprise to see that Germany is the number one payer. UK, the Netherlands, Belgium and Italy follow.

In 2019, around 40% of the EU imports came from Asia, other European countries accounted for 31% and North America for 17%. The main destination for EU exports were other European countries with over 33%, followed by Asia (28%) and North America (25%).

Data retrieved from the OEC (Observatory of Economic Complexity) shows that Germany was the number two exporter in the world (data from 2017), and number three importer. Its top export destinations are United States, France, China, the UK and the Netherlands. The top import origins are China, the Netherlands, France, USA and Italy. The graph below (Figure 5) shows trade between countries:

**Figure 5. Distribution of exports of goods to other EU partners by Member States.**




Source: Eurostat (2018).

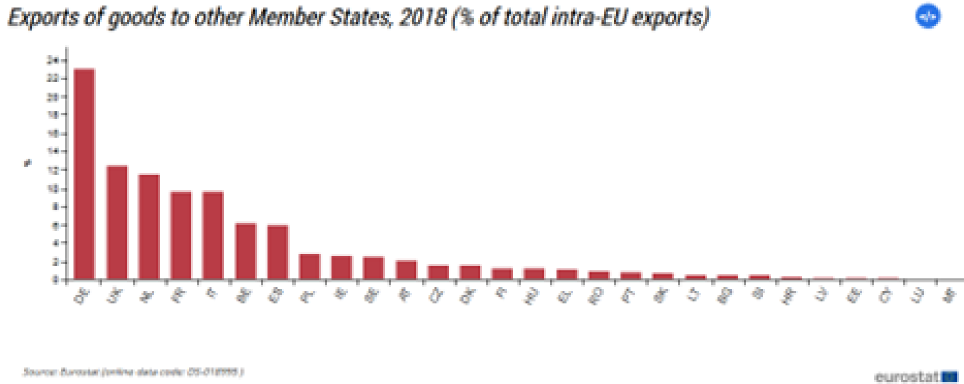
A common factor is that all EU countries, except Estonia and Latvia, have Germany among their first, second or third trade partner. So, although at first sight Germany may the main loser due to trade barriers, it is a major winner inside the union. Most of its gains from trade come from other member states. Germany is the number one beneficiary of the customs union as a market the size of Europe has access to their goods without being taxed a tariff, which makes German goods more competitive compared to those coming from USA, China or other large economies outside the union. This is seen in the graphs below (Figures 6 and 7):

Following on to see which countries buy proportionally more from intra-EU and extra-EU (Figure 8), it is observed that the UK, Cyprus and possibly Ireland are the main losers. These countries have more or equal trade with external EU countries than with member states. There might be a chance that different trade agreements could benefit their trade. This is also a key point to explain Brexit.

### *5.6 VAT*

The "VAT resource", which currently accounts for 14% of total resources, is also on a downward trend. It was created by the Own Resources Decision of 21 April 1970 and is derived through the use of a reference rate to the harmonised national bases; it is a contribution from the Member States corresponding to the proceeds of VAT levied at a rate of 1% on a harmonised base (this rate was raised

**Figure 6.** **Distribution of exports of goods to other EU partners by Member States.**




Source: Eurostat (2018).

to 0.75% in 2002 and to 0.50% in 2004); the VAT base of each Member State is "capped" at 50% of Gross National Income. This means that if the VAT base of a given Member State exceeds 50% of its GNI, 50% of GNI will be used as the basis for calculating the VAT resource. This change has made it possible to reduce the regressivity of the revenue system, since the VAT base is higher in relative terms in the less prosperous Member States.

Looking at the data of the contributions from VAT, the UK followed by France pay the highest contributions. Italy, Germany and Spain are next in line.

If the harmonized VAT base for a country is still large relatively compared to their national income, their burden is capped. If the harmonized base is over 50% of their GNI, the contribution is capped to 0.15% of their GNI. For the MFF 2014–2020 the uniform call rate was of 0.30% except Germany, the Netherlands and Sweden that have been benefited from a reduced call rate of 0.15%. In addition, due to the 50% limit, the VAT contributions of eight countries (Croatia, Cyprus, Estonia, Luxembourg, Malta, Poland, Portugal, and Slovenia) were capped.

### 5.7 *Sugar Levies*

When looking at data from EU revenues one may ask why sugar is being levied. Although it represents a small proportion of EU income (less than 1%), this sugar quota was last implemented in the marketing year 2016/2017. This means that member states paid this tax to the EU for the last time in March 2017 and June 2018. Since then, there have been no more payments made from sugar levies.

This levy was charged on sugar producers in the EU. The aim of the levy was to recover part of the subsidy to EU sugar exporters. A reason for the existence of this levy is the fact that the EU is the world's leading producer of beet sugar. Most of it is being produced in northern Europe, the most competitive countries being France, Germany, the Netherlands, Belgium and Poland. The EU also has an important sugar refining industry.

Looking at the data from the EU, Germany, France, Italy and the Netherlands are the countries that appear to be most negatively affected. However, although being a sugar producer in the EU until 2018 meant that a levy had to be paid to the EU, it goes hand in hand with being a competitive producer receiving EU subsidies to grow sugar.

### 5.8 *Sustainable Growth: Natural Resources*

Inside this heading most of the CAP's funds are found. The main winner under this section is France, closely followed by Spain, Germany and Italy. France and Germany are among the top four exporters

**Figure 7.** Comparison of exports of goods to other Member States–2002, 2010, 2018.

**Exports of goods to other Member States, 2002, 2010 and 2018**
(EUR billion)

| | 2002 | 2010 | 2018 | Annual average growth rate |
|---|---|---|---|---|
| Belgium | 114 | 175 | 244 | 4.9% |
| Bulgaria | 6 | 14 | 21 | 8.5% |
| Czechia | 18 | 40 | 64 | 9.0% |
| Denmark | 32 | 44 | 62 | 4.5% |
| Germany | 417 | 672 | 911 | 5.4% |
| Estonia | 2 | 5 | 9 | 9.1% |
| Ireland | 50 | 54 | 103 | 4.9% |
| Greece | 19 | 32 | 42 | 5.3% |
| Spain | 89 | 163 | 238 | 6.8% |
| France | 233 | 302 | 380 | 3.3% |
| Croatia | 5 | 10 | 10 | 4.8% |
| Italy | 202 | 309 | 379 | 4.3% |
| Cyprus | 2 | 2 | 7 | 9.1% |
| Latvia | 2 | 5 | 9 | 12.4% |
| Lithuania | 5 | 14 | 22 | 9.8% |
| Luxembourg | 4 | 6 | 5 | 2.0% |
| Hungary | 19 | 37 | 46 | 5.8% |
| Malta | 2 | 3 | 3 | 1.7% |
| Netherlands | 156 | 307 | 457 | 7.4% |
| Austria | 36 | 59 | 82 | 5.7% |
| Poland | 26 | 65 | 114 | 10.2% |
| Portugal | 14 | 23 | 33 | 5.8% |
| Romania | 10 | 23 | 37 | 9.0% |
| Slovenia | 5 | 11 | 21 | 10.4% |
| Slovakia | 6 | 21 | 27 | 10.2% |
| Finland | 30 | 43 | 47 | 3.0% |
| Sweden | 57 | 89 | 101 | 3.9% |
| United Kingdom | 280 | 377 | 490 | 3.8% |

*Source: Eurostat (online data code: DS-018995)*

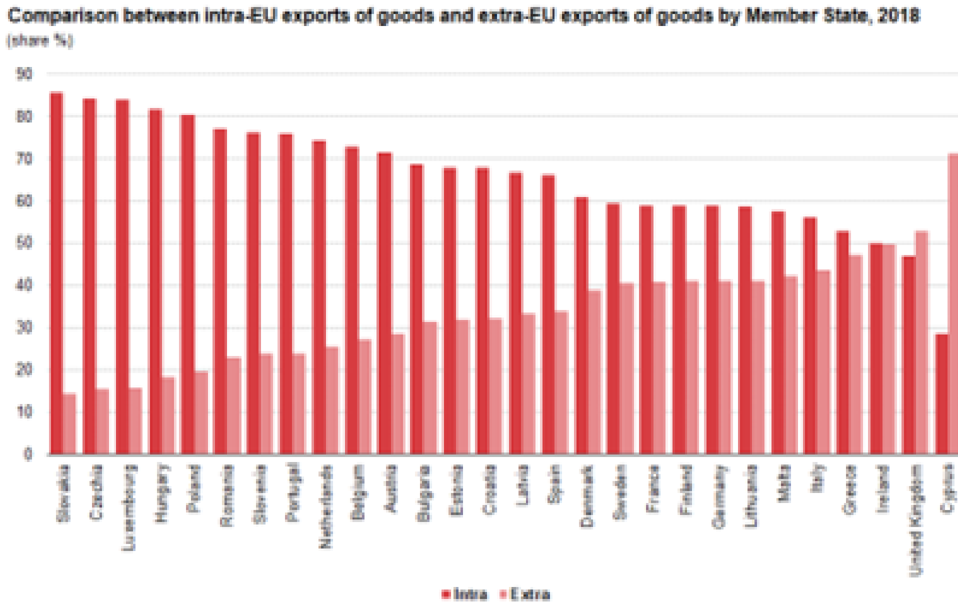
Source: Eurostat (2018).

of agricultural output worldwide. As previously seen, the EU budget is one major driving force of member countries' agricultural sector, even replacing national expenditure.

The objective of the CAP is to maximize production. This has led to oversaturation of the market. Exported surplus products that cannot be sold in the EU are exported to developing countries. Losers, in this case, are not those countries who receive less subsidies or have other sectors more developed, like the UK in 1985 becoming their excuse for obtaining the rebate. The CAP has brought many winners and benefitted EU farmers by a great extent, but these practices have also destroyed local farming, benefitting large producers mainly. From the reduction in the CAP's budget for the upcoming MFF, the argument that price dumping should be stopped seems to be gaining support. New losers may appear, and this conflict has already originated protests in several European countries in which the agricultural sector is relatively large. Farmers, in countries such as Spain or Italy, are the main losers of this new decision.

For "Asylum and Migration" Germany and Spain are the main beneficiaries. This seems logical and justified as Germany has been involved in many projects concerning refugee crisis from the Syria and

**Figure 8.** Comparison between intra-EU exports of goods and extra-EU exports of goods by Member State, 2018.




Source: Eurostat (2018).

Palestine conflicts. Likewise, Spain receives rising number of refugees and migrants reaching it by sea.

### 5.9 *Deficiencies in Member States' management and control and measures undertaken*

The main root causes of errors leading to corrections have been:

- Errors of non-compliance
- Eligibility conditions not being met
- Breaches of procurement rules

### 5.10 *Special Instruments*

More than 700 indicators measure success against more than 60 general and 220 specialized objectives in the present expenditure program performance framework. Not all of them take a direct look at the EU budget's performance. Some provide high-level contextual information (for example, "the Europe R&D aim of 3% GDP" or "the share of researchers in the EU active population"), while others process related data (e.g. "quality of project applications", "number of participants").

### 5.11 *European Globalisation Adjustment Fund*

The European Globalisation Adjustment Fund (EGF) demonstrates Union solidarity by assisting workers who have been laid off as a result of large structural changes in world trade patterns as a result of globalisation or as a result of the global economic and financial crisis. The EGF is a disaster relief fund that helps unemployed workers by co-financing active labour market policies. In regions of high youth unemployment, the EGF provides also support for young people not in employment, education

or training (NEETs). Up to 60% of the cost of the measures recommended by the Member States is covered by the EGF. The EGF is not part of the Multiannual Financial Framework, and it does not have an annual budget that must be absorbed because of its uniqueness.

The EGF is implemented with the help of the Member States. As a result, it is the Member States' obligation to plan and execute active labour market initiatives that are most suited to reintegrating targeted beneficiaries into long-term employment, either within or outside their initial sector of activity. The EGF is only activated if a Member State seeks EGF financing. It is a special instrument (not an operational program) that is used in unanticipated occurrences. The quantity of EGF applications has historically been highly cyclical, fluctuating in accordance with economic fluctuations. In 2019, the Commission received only one application, which could be explained by fewer mass layoffs (involving more than 500 redundancies) as a result of globalisation and an overall improvement in the Member States' economic situation, which makes it easier for workers to reintegrate into the labor market. The EGF's objectives have been realized, and the EU's additional value has been demonstrated to the general public. According to the final reports obtained between 2017 and 2019, on average, 61% of the supported workers found new jobs as a result of the EGF intervention. However, when looking at individual cases, this ranged from 40% to 92%. Taking into account that the beneficiaries of EGF co-funded measures are typically among those who are having the most difficulty finding work, these results are very encouraging.

The EGF is only activated as a special tool for unanticipated circumstances when a Member State requests EGF funds. The Member State must show that job losses are directly related to either globalization or a financial and economic catastrophe. Following economic changes, the number of EGF applications has always been highly cyclical. Between 2017 and 2019, 14 applications (10 in 2017, 3 in 2018 and 1 in 2019) were submitted by 10 Member States (Belgium, Finland, France, Germany, Greece, Italy, Netherlands, Portugal, Spain and Sweden) out of which 13 resulted in the mobilisation of EUR 41 million from the EGF funding to the benefit of 12 896 targeted workers and 1 155 NEETs. The vote on one application presented by Belgium in 2019 did not reach qualified majority in the Council due to certain differing opinions on the link between the qualifying requirements and the redundancies, as justified in this case, and so the EGF support could not be mobilized.

### *5.12 European Union Solidarity Fund*

The European Union Solidarity Fund (EUSF), established in 2002, can be activated in the event of significant and regional disasters upon request from the country's national authority; the Commission cannot activate it on its own initiative. Financial assistance from the EUSF is awarded from appropriations raised by the budgetary authority (Council and European Parliament) over and above the normal EU budget. This ensures that in each case EUSF aid comes as an expression of solidarity with the full backing of Member States and the Parliament, not just as an administrative act of the Commission. It is one of the most concrete demonstrations of solidarity between Member States in acute times of need caused by the occurrence of a severe natural disaster by providing financial assistance to Member States and to countries negotiating their accession to the EU.

In 2019, the Commission received four applications. The first application came from Austria and related to extreme weather conditions of 2018. Austria received the payment of the EUSF financial contribution amounting to EUR 8 154 899 in October 2019. The second application came from Greece and related to the storm in Crete early 2019. Greece received the advance payment of the EUSF financial contribution amounting to EUR 455 252 in August 2019 and the balance payment amounting to EUR 4 097 265 in February 2020. The third application was submitted by Portugal and related to hurricane Lorenzo in the Azores in 2019. Portugal got an early payment of EUR 821 270 of the EUSF financial commitment in late December 2019 following a preliminary review. When the findings are validated and the Fund is mobilized by the budget authority, the balance payment of EUR 7 391 427 will be made. Finally, at the end of 2019, Spain submitted the fourth application of the year, which was related to extreme weather. According to preliminary estimates, EUSF's financial

contribution will most likely total EUR 56 743 358. EUR 5 674 336 represents a 10% advance on the projected financial commitment from the Fund.

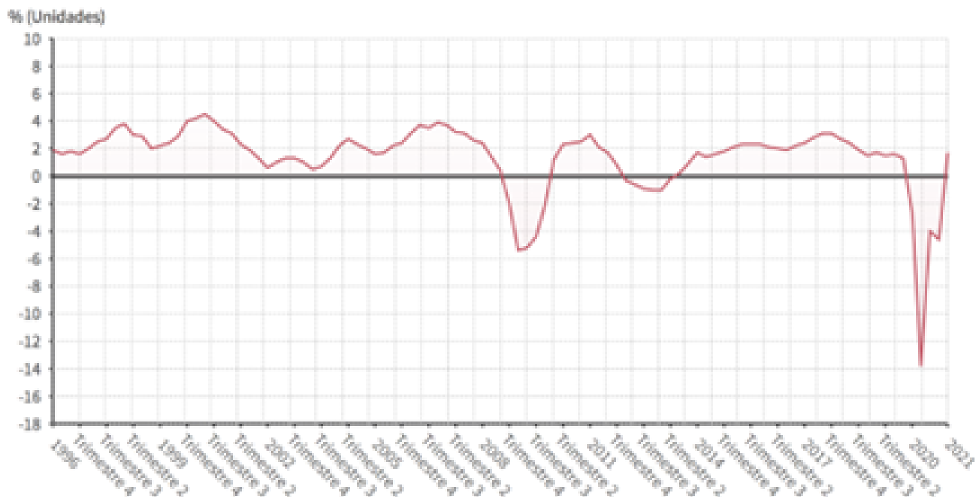
When submitting their EUSF application, Member States have the option of requesting an advance payment of 10% of the projected aid amount, up to a maximum of EUR 30 million. As a result, Greece, Portugal, and Spain each received a 10% advance payment for applications received in 2019. Austria did not request the payment of a deposit. After the budgetary authority has approved the mobilization decision and before making the payment, the Commission makes an implementation decision addressed to the beneficiary State, stating the criteria for the use of the money (with indicative amounts per measure). The EUSF Regulation limits spending to the four types of qualified emergency and recovery operations. The beneficiary State has six months after the conclusion of the 18-month implementation period to provide a report on the implementation of the Fund's financial contribution, together with a statement justifying the expenditures spent. In essence, the Fund is confined to non-insurable damages and does not compensate for private losses.

## 6. A note on GDP and the Issue of Convergence

Convergence in per capita income levels is called real convergence. While nominal convergence between countries refers to the approximation of those economic magnitudes that measure the degree of macroeconomic stability of a country, nominal convergence refers to the approximation of those economic magnitudes that measure the degree of macroeconomic stability of a country.

Figure 9 shows percentage changes in GDP (per term) in the EU over the last 2 decades.

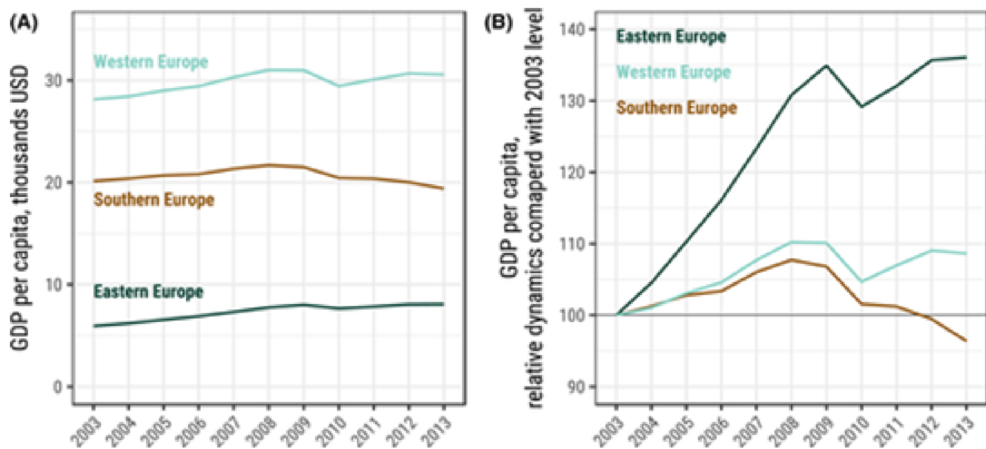
**Figure 9. EU's GDP between 1996 and 2021.**




Source: European Commission (2021).

It is possible that a way of understanding winners and losers could be comparing economic convergence in Europe. In an article from the Journal of Economic and Social Geography on "Economic Convergence in Ageing Europe" we find Figure 10. The evolution of the main three European regions can be observed. It allows for analysis on whether the GDPs per capita has tended to converge or not over time. The graph concludes that winners are Eastern European countries, while Southern countries are main losers.

**Figure 10.** Comparison of GDP per capita in the three European regions- East, South and West- from 2003 to 2013.




Source: "Economic Convergence in Ageing Europe", "Journal of Economic and Social Geography" (2020).

## 7. Conclusions

In this paper, it has been proved that reality is far from the one seen when judging at a first glance the apparent losers and winners. Although looking at the data from the EU budget gives the impression that Germany and France are main losers, the authors in this paper find that Poland is the number one winner by far. However, recalling the "Weimar Triangle", a group formed by France, Germany, and Poland to promote cooperation, a more competitive Poland favours the triangle. In the same line, with around 69% of German exports going to European countries and 58.2% going to EU member states, EU integration has considerably boosted intra-European commerce. It can be then agreed that Germany is in fact a clear winner.

It is possible that a way of understanding winners and losers could be comparing economic convergence in Europe. Studies on economic convergence conclude that winners are Eastern European countries, while Southern countries are main losers. The data on the results of economic convergence in Europe are not always in line with the expectations. The net recipients should be the countries where this convergence has not yet been achieved. The reality is that there has been given the case of countries like Italy that are net payers and that are also moving away from this pursued economic convergence.

EU member states should attempt to constitute a single EU constituency on the World Bank's Board of Executive Directors, as part of a larger reform of the World Bank's governance and the formation of new nation groups. The EU seat on the Executive Board could be filled by member states on a rotating basis, with the European Commission perhaps acting as an alternate. In addition, the EU should become a preferred permanent observer on the World Bank's Board of Executive Directors. Similarly, the EU should group its representation in the main multilateral development banks (Inter-American Development Bank (IDB), Asian Development Bank (ADB), African Development Bank (AfDB)).

Looking towards the future, the MFF for 2021-2027 is supposed to be "a budget for Europe's priorities: simplification, transparency and flexibility" (Irene Athanassoudis, 2020) according to published data from the European Commission. Now the question is whether any improvements will be seen.

The picture is therefore complex, and both financial regulation and the configuration of its architecture are up in the air. There is consensus on the broad points of the Financial Stability Board but not on the details. Also at stake is the role of central banks in preserving the stability of the financial system. Substantive regulatory reform cannot be limited to essentially cosmetic changes. If this was the case, the crisis would have been a missed opportunity to build a more robust financial system and one could only expect new episodes in which Europe would again approach the abyss.

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