

## UNRAVELING MYTHS AND FACTS ABOUT PUZZLING EU EXPENSES

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### **Abstract**

The EU is at a crossroads. It seems that unless relevant information is delivered in an appropriate manner, the destiny of at least one phase of the European integration may be sealed. The assessment of the current EU often evaluates the efficiency and effectiveness of the largest spending blocks, namely how the EU funds the regional and rural development and its own administration. An investigation was conducted and the collected data was assessed via critical, comparative meta-analysis to unravel the puzzling framework and main line of EU key spending channels. It emerges that more likely a miscommunication than any evil intent is involved, and a platform is prepared for further study of the (alleged) rightfulness of EU expenses.

### **Keywords**

EU Budget, Information Deficit, Regional Development, Rural Development

**JEL:** G280, Q140, R11,

## 1 Introduction

Undoubtedly, our current post-modern global society is heavily dependent on the appropriate quantity, quality and relevancy of the shared information, and that economic and other crises are *omnipresent* and that European Union (“EU”) integration is seriously questioned (MacGregor, 2013b). This challenging situation has a myriad of long and short term causes and more or less discussed consequences. The blame shifting, searching for a scapegoat and automatic jumping to conclusions are omnipresent within the academic and laic press. A target par excellence is the EU (Burley, 1993), its nature including underlying concepts and its alleged lack of legitimacy, wasted spending (Bootle, 2012) and hypocritical bureaucracy which is paralyzing the good and healthy functioning of member states (Gilbert, 2011) and the professional as well as private life of Europeans. These doubts, criticisms and objections are aggravated by issues at a national level (Börzel, 2007) and the vicious circle is tightening. Undeniably, the EU is a heterogeneous legal entity *sui generis* which belongs to one of the wealthiest parts of the world (Poledníková, 2014) and which is known for its agricultural (Pechrová, 2014) and cohesion policies (Poledníková, 2013) and their discussable efficient and effective implementation (Viturka, 2009). Particularly the admission of new members in 2004, 2007 and 2013, the signature and ratification of the Treaty of Lisbon in 2007 and 2009, and the recent Eurozone crisis (MacGregor, 2013a.) have become integral parts of often agitated discussions about the EU support for regional (Copus, 2008) and rural policies (Peter, 2014) and the legitimacy and reasonableness of EU spending in this respect as well as the general administrative costs of the EU.

The current Commission President, Jean-Claude Juncker, officially explicitly stated that he is *an enthusiastic supporter of the social market economy* and that *prosperity for all must be the maxim followed in both economic and social policies alike* (Juncker, 2014). Thus is described the European social model (Scharpf, 2002) in a virtually self-explanatory manner. In addition, Jean-Claude Juncker incorporates it in its proclaimed top mission, namely *to rebuild bridges in Europe after the crisis*, to boost competitiveness and the employment of modern technologies and to *strengthen democratic legitimacy* (Juncker, 2014). The message conveyed by his statements can be summarized as a more transparent, effective, efficient, non-bureaucratic, lean EU. Naturally, the ultimate addressees of this message, EU citizens, are the final judges of the correctness of the selected economic and social mode (Scharpf, 2002) and its implementation into their everyday life. And what is this *vox populi*? Already a cursory overview of their communications through social media and *ad hoc* questionnaire feedback, along with the frequency of topics presented in the press, render it, beyond any reasonable doubt, clear that questions posted directly by European citizens *vis-à-vis* the EU institutions and answered by them relatively truthfully mirror the current hottest topics. These topics are labelled “*myths and facts*” and heavily focus on the extent of the EU budget, the biggest EU spending, agricultural direct subsidies, funding for regional and rural development, and, naturally, the costs of EU administration (European Commission, 2014). The European Commission attempts to address these concerns in a self-confident and visual manner . but these answers are often rather confusing and unconvincing. Does the EU budget make sense, or at least can it be explained as legitimate and going along with EU principles (Horspool, 2010) as set by the Treaty on EU (“TEU”) and the Treaty on the Functioning of EU (“TFEU”)? A brief comparative and narrative analysis and summary of the fundamental parameters and categories of the “spending part” of the EU budget framework for 2007-2013 and 2014-2020 is presented. Next follows a confrontation of statements and facts, along with suggestions about how to reconcile

them and/or an explanation of the underlying causes of the given complexity. The conclusion underlies the unforgivable information gap and the deplorable confusion which is moving the EU rather more distant than closer to the interests of Europeans. If the EU is serious about its focus on democratic co-operation and wants to get an active endorsement by EU member states and Europeans, then the EU budget and its principal spending categories must be well explained and obtain at least a moderate approval by EU member states and Europeans. Otherwise, the EU should not be surprised that the avalanche effect causes EU member states to be less transparent and Europeans to be either distant or not genuinely in compliance with EU law. If the European Commission and the European Court of Justice want to get support and clear information from EU member states and Europeans, then first they must give support and clear information to them. This is a key pre-requirement for an acceptable enforcement of EU policies and measures (Andersen, 2013).

## 2 Sources and Methods

The aim of this article is to enhance awareness about the selected spending categories in the EU budget, present conflicting points of view and statements about them, assess such information and, via meta-analysis and both quantitative and qualitative methods, discover and describe the key parameters and underlying concepts and issues. The primary goal is to address a trio of hypotheses suggested by various representatives of the European public-at-large, which were officially presented to the European Commission and were selected and branded by the European Commission as mere myths. Is the EU budget growing? Is the EU spending in an unclear manner unreasonable amounts on agricultural subsidies and rural and regional development under the cover of the cohesion solidarity? Is the EU administration swallowing unreasonable amounts from the EU budget? Once this trio is addressed, a secondary goal enters into the picture. Is this information gap inevitable and sustainable, and how should it be at least partially moderated? A logical pathway from the general to the particular, from universal and easy to special and complex is followed without forcing premature final conclusions and rather focusing on the process of assessing, rather than delivering final judgments. The key challenge is a lack of relevant information and thus absolutely critical is the selection of the most appropriate data to be collected, as well as an objective and scientific operation with them, including the exploitation of quantitative as well as qualitative aspects. The complexity of goals and the heterogeneity of sources underline the instrumentality of the employment of meta-analysis in this setting (Glass, 1976). The data was intentionally selected from *prima facie* sources of a dramatically diverse nature and level of formality in order to create a dynamic interaction and facilitate a multi-disciplinary open-minded analysis (Schmidt, 2014) offsetting the currently mono-natural and close-minded statements by those who are incapable of carrying on an objective exchange of thoughts, concerns, and data. Naturally, the majority of the employed data will be primarily yielded up by third parties who used appropriate methods, such as Data Envelopment Analysis (“DEA”) (Pechrová, 2014) and Multi-criteria Decision-making methods (“MCDM”) along with Analytic Hierarchy Process (“AHP”) and Technique for order Preferences by Similarity to an Ideal Solution (“TOPSIS”) (Poledníková, 2014). First analysis, then policy (Copus, 2008), hence first must always go the identification and extremely challenging selection of data, followed by their meta-analysis embracing quantitative as well as qualitative aspects and two alluring pitfalls must be avoided – the inclination to a fast and

close-minded conclusion and the knowing-better approach, which can at the very end be the last straw.

### **3 General perception of EU, CAP, rural development, regional development and budget - images to be adjusted**

The idea of peaceful co-operation, a common market to become a single internal market and the agrarian and rural sustainable development have been at the very heart of European integration and belongs to EU priorities. The famous Common Agricultural Policy (“CAP”), created already at the very beginning of European integration, serves currently many purposes going far beyond the simple generating and providing of food, and the price for it has been paid. Financially, even up to 70% of the EC budget went for agriculture (European Commission, 2014); politically, the *empty chair crisis*, as well as the famous *no no no* by Margaret Thatcher entered into history, etc. With the enlargement of the EU and the reinforcement of the focus on democracy processes, more and more tension has emerged against the so called *French gardening*. The EU skeptical image of the EU is a picture of a bureaucratic, centralized and inflexible machinery pumping money from hard working Europeans and based on non-transparently and discretionally set EU annual budgets throwing them in two black holes, agricultural and bureaucratically administrative. Well, it would be foolish to perceive the EU as such, this would be an absolute myth. The list of arguments can start e.g. with the project of key EU institutions, Agenda 2000: for a stronger and wider Union, COM (97) 2000, which was a policy and legislative package entailing a number of measures and leading to the reform of the CAP, structural policies and other frameworks. Accordingly, the CAP was divided into two pillars – production support and rural development. Hence the rural development policy was set under a single regulation to apply across the whole of the EU, and the leading principles were decentralization and flexibility. The Rural Development Police and its Rural Development Programmes (“RDP”) became funded by an impressive amount of EUR 200 billion and this money can be used for approximately 100 different rural development projects and programs and approximately one half of the funding available is offered through the European Agricultural Fund for Rural Development („EAFRD“). Manifestly, the EU policies for both pillars, strictly agricultural-producing and rural development, need the active participation of all directly or indirectly involved, i.e. all stakeholders, which goes even beyond the principle of shared management (PETERS, 2014). A close relationship between the rural and regional development has been reconfirmed and in 2010 there was launched a new EU strategy for one decade, called Europe 2020, which addresses the overcoming of the (hopefully past) economic crisis and improves the entire integration model while focusing on a smart, sustainable and inclusive growth (European Commission, 2010). Clearly, Europe 2020 builds on lessons learned from its predecessor, the Lisbon Strategy, and thus follows the same correctly set goals and at the same time attempts to improve the previous poor implementation efficiency.

Similarly, it must be underlined that the EU budget has a solid legal foundation consisting of EU treaties, EU legislation represented by regulations and decisions, and agreements between the EU institutions, and a multi-annual pre-agreed framework is followed, overlapping the term of function of one European Commission. The financial framework for 2007-2013 is now substituted by the financial framework for 2014-2020 of slightly over EUR 960 billion, divided into six categories of expenses, i.e. headings including 1. Smart and inclusive growth, 2. Sustainable

growth: natural resources, 3. Security and citizenship, 4. Global Europe, 5. Administration and 6. Compensations. These six headings match with six areas of EU focus. Considering the topic of this article, a particular importance has heading 1b. “Smart and Inclusive Growth - Economic, social and territorial cohesion”, which covers regional development, the heading 2 “Sustainable Growth: Natural Resources,” which includes CAP, and heading 5. “Administration,” which deals with the administrative expenditure of all the European institutions, pensions and European Schools. Does this mean that, from the darkest black picture, we are moving to a snow white image? Well, such a superficial *prima facie* conclusion would be an insult to the set methods and even to common sense ... Thus, the list of “budgetary” myths made by the European Commission and Europeans deserves our attention.

## 4 Myths and facts about the EU budget, funding for rural and regional development, support of CAP and administration spending – conflicting images to be reconciled

### 4.1 The size of the EU budget and the extent of funding for rural and regional development

Europeans stated that the “*EU budget is enormous!*” and the European Commission replied clearly *no*, and added that “*The EU budget was about €144 bn in 2013 - very small compared to the sum of the 28 EU countries' national budgets (over € 6,400 bn).*” (European Commission, 2014). Speaking about billions of EUR is overwhelming, perhaps paralyzing. However, the quantitative aspect cannot blind one to the scenery. The correct approach is not whether this is more or less in comparison to state budgets, because the EU and spends money on different things than EU member states. An annual budget of EUR 144 bn is more than what is needed to “operate” Austria and less than what is needed to “operate” Germany. An annual budget of EUR 144 bn for lavish salaries and mountains of butter and lakes of milk is not acceptable, but EUR 144 bn to completely meet all priorities, goals, and objectives of Europe 2020, well, this could be a deal of the century, perhaps of the millennium.

**Tab. 1** Financial Framework 2014-2020 (in 2011 prices)

Year	Annual budget in bn EUR	Of which for 2. “Sustainable Growth: Natural Resources” in bn EUR	Of which for 1b. “Smart and Inclusive Growth - Economic, social and territorial cohesion” in bn EUR
2014	134	56	45
2016	136	54	46
2018	138	52	47
2020	140	51	48

Source: Author’s, based on data available at the official Website (European Commission, 2014)

The data in Tab.1 indicates that the annual EU budget during 2014-2020 is rather stable and consistent and includes a trend of a slow decline of financing of “Sustainable growth: Natural resources” and matching a slow increase of cohesion funding. Generally speaking, this can be interpreted as “less for CAP and more for solidarity” . The EU member states participated in the setting of the Financial Framework 2014-2020 and have shaped how the money is allocated in funds. However, it seems that neither they nor EU institutions spend sufficient efforts to explain these trends and processes to Europeans. A short sentence such as that the EU budget is less than the budget of certain EU member states is definitely insufficient, per se.

## 4.2 The extent of financial support of the EU for CAP

Europeans stated that “*Most of the EU budget goes to farmers!*” and the European Commission replied clearly no, and at the same time admitted that in „*In 1985, around 70% of the EU budget went to agriculture ... In 2013, direct aid to farmers and market-related expenditure amounted to just 30% of the budget, and rural development spending to 9%.....Agriculture's relatively large share of the EU budget is entirely justified; it is the only policy funded almost entirely from the budget.*“ (European Commission, 2014). Clearly, the situation has dramatically evolved in the last three decades. The CAP has now two pillars, production support by direct aids with market related expenditures and the rural development policy with three axis. Since the interventionism and quota systems have been vanishing, the funding for the 1<sup>st</sup> pillar, namely direct payments to farmers and financing of measures to regulate agricultural markets, such as the remaining intervention and export refunds, is provided by the EAGF, and the funding for the 2<sup>nd</sup> pillar, the rural development, is provided by the EAFRD set by the Council Regulation 1290/2005.

**Tab. 2** Financial Framework 2014-2020 (in 2011 prices)

Year	2. “Sustainable Growth: Natural Resources” in bn EUR	EAGF	EAFRD	European Maritime ..., Life, Agencies, Margin ...
2014	56	42	13	1
2016	54	40	12	2
2018	52	39	12	1
2020	51	38	11	2

Source: Author’s, based on data available at the official Website (European Commission, 2014)

The data in Tab.2 confirms the conservation of the status quo. Even in 2020, the number 2. heading will take EUR 51 bn from the entire 140, i.e. 36%, and the EUR 38 bn for EAGF will be 27% and the EUR 11 bn for EAFRD will be 8%. In other words, farmers and the development of their domain will take over 1/3 of the EU budget even in 2020. The true question is about the efficiency of this spending in the light of the set and approved priorities of the EU and the fairness of the distribution of this money between EU member states, namely farmers from different EU member states. In this context, it would be remiss to skip the mentioning of the European Network for Rural Development (“ENRD”) composed of National Rural Networks (“NRNs”) and using a compatible information system with a dramatically different level of customer friendliness (MacGregor, 2014).

### 4.3 The cost of EU administration

Europeans stated that “The bulk of EU expenditure goes on administration” and the European Commission replied that *“This is absolutely wrong. Over 94% of the EU budget goes to citizens, regions, cities, farmers and businesses. The EU’s administrative expenses account for under 6% of the total EU budget, with salaries accounting for around half of that 6%... The Commission has conducted a zero growth policy as regards staff numbers. .... Most recently, the standard working hours of EU staff went up to 40 a week, and various items of administrative expenditure were cut further. Together, these reforms will save an extra €1 bn by 2020 - and a further €1 bn a year in the long term”* (European Commission, 2014).

**Tab. 3** Financial Framework 2014-2020 (in 2011 prices)

Year	Annual budget in bn EUR	5. “Administration” in bn EUR
2014	134	8
2016	136	8
2018	138	9
2020	140	9

Source: Author’s, based on data available at the official Website (European Commission, 2014)

Firstly, heading 5. “Administration” is stable and the European Commission does not offer more information about its sub-composition. Hence the alleged savings are not really persuasively presented and it is highly questionable if this approach addressed many highly critical statements, especially from the UK, the Netherlands, etc. (MacGregor, 2013a). The proud announcement by the European Commission that the EU staff went up to 40 working hours per week, long the par for most of Europe, is contra-productive and irritating, especially in the light of the recent crisis and the proclaimed desire to rebuild bridges (Juncker, 2014).

## Conclusion

The EU is definitely at a crossroads. The head of the most pro-European institution, Jean-Claude Juncker, is fully aware about it. The EU needs to be more competitive, up to speed with modern IS/IT and more democratic, i.e. close to its citizens. Considering the recent crisis and its dramatic impacts, the necessity of the EU and the legitimacy of its policies and spending for them are undergoing a close scrutiny, dominated often by subjective and emotional attitudes. However, if three of the most discussed issues are selected, studied and analyzed, the rather puzzling and confused picture starts to have clearer lines and features. The truth is that the EU budget does not change and evolve dramatically and the spending on CAP per se, as well as individually on its pillars, and on cohesion, popularly labeled solidarity, remain during the entire financial framework 2014-2020 the same. Therefore, there is no revolution in the size of the EU budget and even not regarding farming, rural and regional development spending and internal administrative costs. Since massive changes are mentioned by various authorities in this respect, then these changes must have rather a qualitative than a quantitative nature, and should target effectiveness, efficiency

and legitimacy. If the EU is serious about having a new start and providing prosperity for all (Juncker, 2014), then it has to cumulatively satisfy two budget spending tasks – firstly, spend rightfully, reasonably, and correctly, and secondly, inform the public about it clearly, honestly, and understandably. Unfortunately, the current status is deplorable, and, if nothing else, a definitely better use of IS/IT and a more open-minded, humble and honest approach should be employed by EU institutions, as well as by EU member states, so as to reach an active support and endorsement with Europeans following the bottom-up approach.

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