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# Notebook on the EU Fiscal Union

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# The European Union Budget

**Angeliki Roussou**

## Introduction

The EU budget is an important tool contributing to the attainment of the objectives of the European Union declared through multiannual priorities laid down, which is reflected in the structure of the budget in the costs.[1]

In several key respects the central budget of the European Union is quite different from member state governments' national budgets, notably that it is much smaller than national budgets and that it must be in balance each year. There are also different types of expenditure, differentiated by which European institution has ultimate control over their determination.[2]

Up to 80% of the EU budget expenditure is managed by Member States under so-called shared management in areas such as agriculture, growth and employment aid to EU regions (European Structural and Investment Funds). [3]

The budget is subject to limits established by the multiannual financial framework. This sets the maximum annual amounts which the EU can spend in various policy areas over a given period (usually 7 years).[4]

## What is the EU budget?

### Definition

The European Union budget is an annual financial plan drawn up according to budgetary principles, which provides forecasts and authorizes an estimate of future costs and revenue and expenditures, with detailed descriptions and justifications.[5]

## The general principles governing the Union's budget[6]

### The principle of unity

The principle of unity of the Union budget stems from Article 310(1) TFEU which lays down that:

[1] Ţuncu, G. and Măndescu, I. 'The expenditure and revenue fo the budget of the European Union. Budgetary consequences for challenges with sectoral policies" Anale. Seria Ştiinţe Economice. Timişoara, (XVIII/2/2012), p.372.
[2] Ackrill, R. (2000). The European Union Budget, the Balanced Budget Rule and the Development of Common European Policies. Journal of Public Policy, 20(1), pp.1-19.
[3] Ec.europa.eu. (2016). The EU budget explained - Who manages the money? - Budget. [online] Available at: http://ec.europa.eu/budget/explained/management/managt_who/who_en.cfm
[4] European Union - European Commission. (2017). Budget - European Union - European Commission. [online] Available at: https://europa.eu/european-union/topics/budget_en
[5] Ec.europa.eu. (2017). EU budget explained - Glossary - Budget. [online] Available at: http://ec.europa.eu/budget/explained/glossary/glossary_en.cfm [Accessed 1 Jun. 2017].
[6] European Union public finance. (2014). 1st ed. Luxembourg: Publications Office, pp.148-174.

‘All items of revenue and expenditure of the Union shall be included in estimates to be drawn up for each financial year and shall be shown in the budget.
The unity of the budget means that it is clear what expenditure and revenue are authorized: only the revenue and expenditure included in the budget are authorized. The principle of unity makes the budget the vehicle of all expenditure and all revenue. All Union revenue and expenditure should be incorporated in a single budget document. The principle is confirmed in Article 2 (c) of the Financial Regulation (FR) which defines the budget as ‘the instrument which, for each financial year, forecasts and authorizes all revenue and expenditure considered necessary for the Union’.

**The principle of accuracy**

The principle of accuracy means that the Union will not spend more than it is necessary.
This principle is defined in different ways in Article 8 FR:

— ‘no revenue shall be collected and no expenditure effected unless booked to a line in the budget;

— no expenditure may be committed or authorized in excess of the authorized appropriations;

— an appropriation may be entered in the budget only if it is for an item of expenditure considered necessary’.

**The principle of universality**

The principle of universality is a corollary of the principle of unity. It does not stem directly from the Treaties, but from Article 20 FR, which states that:

'Total revenue shall cover total payment appropriations … All revenue and expenditure shall be entered in full [in the budget and in the accounts] without any adjustment against each other.'

This principle supplements the unity principle by ensuring that budgetary authorization for a given item of expenditure does not depend on the amount of a given item of revenue, which would restrict the scope of such authorization and split the budget into watertight segments.

**The principle of annuality**

The principle of annuality requires budget operations to relate to a specific financial year. This makes it easier to monitor the activities of the Union executive. The financial year (twelve-month period) coincides with the calendar year as specifically provided for in Article 313 TFEU and Article 9 FR.

Annuality is thus intended to guarantee the order and discipline necessary at the forecasting and authorization stage (involving both the Commission, which is responsible for presenting the draft budget, and the European Parliament and the Council, which are responsible for its adoption) and at the execution stage; it is incumbent on each institution in respect of its section of the budget.

All those involved in the execution of the budget must therefore comply with the principle.

**The principle of equilibrium**

The principle of equilibrium means that budget revenue must equal budget expenditure. This rule is enshrined in the first paragraph of Article 310 TFEU which states that 'the revenue and expenditure shown in the budget shall be in balance'.

The Union, unlike its Member States, is not allowed to borrow to cover its expenditure and cannot raise loans within the framework of the budget. The only exception to this rule are the building acquisition projects which may be financed through loans in accordance with Article 203(8) FR. This possibility to raise loans is without prejudice to the principle of equilibrium.

**The principle of specification**

The principle of specification of expenditure is enshrined in Article 316 TFEU. It means that each appropriation must have a given purpose and be assigned to a specific objective in order to prevent any confusion between appropriations, at both the authorization and execution stages, and thus to ensure that:
— the budget established is completely unambiguous;
— it is executed in accordance with the wishes of the European Parliament and the Council.

The principle of specification also applies to revenue and requires the various sources of revenue paid into the budget to be clearly identified. Articles 44 and 49 FR, which deal with the structure and presentation of the budget, describe very precisely how this principle is to be implemented.

**The principle of the unit of account**

The principle of adopting a unit of account distinct from the national currencies was established in the earliest days of ECSC in Decision No 3/52 of 23 December 1952 and, in the case of the EEC and Euratom, by the Treaties themselves (Article 279 of the EC Treaty and Article 181 of the Euratom Treaty).

With the exceptions of 1958, 1959 and 1960, when preparations were being made for applying Article 279 of the EC Treaty and Article 181 of the Euratom Treaty and the European Economic Community and Euratom budgets were drawn up in Belgian francs, the Community budget has always been expressed in units of account.

Finally, with economic and monetary union and the launch of the euro on 1 January 1999, the Community budget adopted the new single currency as its unit of account. This principle is enshrined in Article 19 FR. Subject to two specific exceptions — in the case of imprest accounts or for the needs of administrative management of the Commission and the European External Action Service — the budget must be drawn up and implemented in euros and the accounts must be presented in euros.

**The principle of transparency**

Articles 34 and 35 FR enshrine the principle of transparency. Transparency applies to the entire budget cycle, but is particularly visible in the requirements concerning publication. Under Article 34, the budget must be established and implemented and the accounts presented in compliance with the principle of transparency.

The President of the European Parliament shall have the budget and any amending budget, as definitively adopted, published in the Official Journal of the European Union.

The budgets shall be published within three months of the date on which they are declared definitively adopted. The consolidated annual accounts and the report on budgetary and financial management drawn up by each institution shall be published in the Official Journal of the European Union.

**The principle of sound financial management**

The principle of sound financial management is based on Article 317 of the TFEU, which provides that 'the Commission shall implement the budget … on its own responsibility and within the limits of the appropriations, having regard to the principles of sound financial management'.

Article 30 FR links this principle to the principles of economy, efficiency and effectiveness.

The principle of economy requires that the resources used by the institution to engage in its activities are available in due time, in appropriate quantity and quality and at the best price.

The principle of efficiency is concerned with the best relationship between resources employed and results achieved.

The principle of effectiveness is concerned with attaining the specific objectives set and achieving the intended results. In practice, sound financial management is based on setting verifiable objectives which can be monitored by measurable indicators, in order to switch from means-based management to results-oriented management.

## The budgetary procedure[7]

Article 314 of the TFEU sets out the stages and time-limits which must be respected during the budgetary procedure. However, the institutions agree on a ‘pragmatic’ calendar each year in due time before the start of the budgetary procedure based on the present practice.

**Stage one**: establishment of the draft budget by the Commission, Parliament and the Council lay down guidelines on the priorities for the budget. The Commission draws up the draft budget and forwards it to the Council and Parliament. The Commission may modify

[7] Europarl.europa.eu. (2017). The budgetary procedure | EU fact sheets | European Parliament. [online] Available at: http://www.europarl.europa.eu/atyourservice/en/displayFtu.html?ftuId=FTU_1.4.3.html

the draft budget at a later stage to take account of new developments, but not later than the point at which the Conciliation Committee is convened.

**Stage two:** establishment of the Council's position on the draft budget The Council adopts its position on the draft budget and forwards it to Parliament. The Council must inform Parliament in full of the reasons which have led it to adopt its position.

**Stage three:** Parliament's reading

Parliament has 42 days in which to react. Within that period, it may either approve the Council's position or decline to take a decision, in which case the budget is deemed finally adopted, or else Parliament can adopt amendments by a majority of its component members, in which case the amended draft is referred back to the Council and to the Commission.

The President of Parliament, in agreement with the President of the Council, must then immediately convene a meeting of the Conciliation Committee.

**Stage four:** meeting of the Conciliation Committee and adoption of the budget
From the day on which it is convened, the Conciliation Committee (composed of the representatives of the members of the Council and an equal number of representatives of Parliament) has 21 days to agree on a joint text. To do so, it must take its decision by a qualified majority of the members of the Council or their representatives and by a majority of the representatives of Parliament. The Commission takes part in the Conciliation Committee's proceedings and takes all the necessary initiatives to seek to reconcile the positions of Parliament and the Council.

Should the Conciliation Committee fail to find an agreement on a joint text within the 21 days mentioned above, a new draft budget must be submitted by the Commission.

If the Conciliation Committee does agree on a joint text within the deadline, then Parliament and the Council have 14 days from the date of that agreement in which to approve the joint text.

If the procedure is successfully completed, the President of Parliament declares that the budget has been definitively adopted. In the event that no agreement has been reached by the beginning of a financial year, a system of provisional twelfths is put in place until an agreement can be reached. In this case, a sum equivalent to no more than one twelfth of the budget appropriations for the preceding financial year may be spent each month in respect of any chapter of the budget. That sum must not, however, exceed one twelfth of the appropriations provided for in the same chapter of the draft budget. However, under Article 315 of the TFEU, the Council may, on a proposal from the Commission, authorize expenditure in excess of one twelfth (in accordance with Article 16 of the Financial Rules) unless Parliament decides within 30 days to reduce the expenditure authorized by the Council.

**Supplementary and amending budgets**

In the event of unavoidable, exceptional or unforeseen circumstances (in accordance with Article 41 of the Financial Rules), the Commission may propose draft amending budgets amending the adopted budget for the current year. These amending budgets are subject to the same rules as the general budget.

**Structure of the Union's annual budget**

**Revenues[8]**

The revenue of the general budget of the European Union can be divided into two main categories: own resources and other revenue. This is laid down in Article 311 of the Treaty on the Functioning of the European Union, which states that 'without prejudice to other revenue, the budget shall be financed wholly from own resources'.

There are now three main categories of own resources: traditional own resources, the VAT-based resource and the GNI-based resource. These are supplemented by correction mechanisms.

1) Traditional own resources

Revenue deriving from traditional own resources are: 'levies, premiums, additional or compensatory amounts, additional amounts or factors, Common Customs Tariff duties and other duties established or to be established by the institutions of the Communities in respect of trade with non-member countries … as well as contributions and other duties provided for within the framework of the common organization of the markets in sugar'

2) The VAT-based own resource

VAT-based payments derive from the application of a call rate to Member States' VAT bases set according to harmonised rules. However, VAT bases are capped at 50 % of GNI. The capping of the VAT base reflects the intention to remedy the regressive aspects of the VAT-based resource, which could be seen as penalizing the less wealthy Member States with higher shares of consumption.

In order to minimise distortions due to diverging VAT rates and structures in the Member States, the VAT base is notionally harmonised for the purpose of own resource calculations. This harmonised VAT base is calculated by each Member State using what is known as the 'revenue method'. It consists of dividing the total annual net VAT revenue collected by the Member State in question by the weighted average rate of VAT, i.e. an estimate of the average rate applicable to the various categories of taxable goods and services, to obtain the intermediate VAT base. The intermediate base is subsequently adjusted with negative or positive compensations in order to obtain a harmonised VAT base.

3) The GNI-based resource

[8] European Union public finance. (2014). 1st ed. Luxembourg: Publications Office, pp.190-197

Since 1988, GNP/GNI-based payments also constitute own resources. These payments result from the application of a call rate — set so that total revenue balances total expenditure — to Member States' GNP/GNI bases.
The GNI call rate is determined by the additional revenue needed to finance the budgeted expenditure not covered by the other resources (VAT-based payments, traditional own resources and other revenue). As in the case of VAT, a uniform call rate is applied to the GNI of each of the Member States. To mitigate perceived imbalances of net contributions, corrections by means of lump sum reductions have been introduced. The cost of these lump sums is borne by all Member States in proportion to their GNI.

**Other revenue**

Other revenue is covered by Titles 4 to 9 of the general statement of revenue of the EU budget.

Title 4 covers revenue accruing from persons working with the institutions and other EU bodies (taxes on salaries and pensions, and staff contributions to the pension scheme).

Title 5 covers revenue accruing from the administrative operation of the institutions, such as proceeds from the sale of property, from letting and hiring, from the supply of services and from bank interest.

Title 6 covers contributions and refunds in connection with Union agreements and programs (contributions to Union programs, repayment of miscellaneous expenditure, revenue from services rendered against payment, contributions under specific agreements, financial corrections, and revenue relating to the European Agricultural Guarantee Fund and the European Agricultural Fund for Rural Development).

Title 7 covers interest on late payments and fines (e.g. interest on late payment of own resources by Member States or fines on companies for infringing EU competition rules).

Title 8 covers revenue from EU borrowing and lending operations.

Title 9 covers miscellaneous revenue. Other revenue is the result of the European Union's normal activities; this revenue bears witness to the EU's status as a legal entity and its power of independent action.

**Other revenue represents only a very minor part of total financing.**

**Expenditure**

The MFF: the EU long-term spending plan[9]

Approximately 94% of the EU budget funds programs and projects both within member states and outside the EU. Approximately 6% of the budget isused for administrative costs, and less than 3% is spent on EU civil servants' salaries.[10]

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[9] Ec.europa.eu. (2014). Multiannual Financial Framework-European Commission. [online] Available at: http://ec.europa.eu/budget/mff/introduction/index_en.cfm [Accessed 1 Jun. 2017].

The multiannual financial framework (MFF) lays down the maximum annual amounts ('ceilings') which the EU may spend in different political fields ('headings') over a period of at least 5 years. The upcoming MFF covers seven years: from 2014 to 2020.

The MFF is not the budget of the EU for seven years. It provides a framework for financial programming and budgetary discipline by ensuring that EU spending is predictable and stays within the agreed limits. It also allows the EU to carry out common policies over a period that is long enough to make them effective. This long term vision is important for potential beneficiaries of EU funds, co-financing authorities as well as national treasuries.

Proposed by the European Commission, the regulation laying down the MFF must be adopted by the Council by unanimity after obtaining the consent of the European Parliament. By defining in which areas the EU should invest more or less over the seven years, the MFF is an expression of political priorities as much as a budgetary planning tool. The annual budget is adopted within this framework and usually remains below the MFF expenditure ceilings in order to retain some flexibility to cope with unforeseen needs.

**MFF Structure and Content Headings – The EU policy areas**

For the period 2014-2020, the MFF sets a maximum amount of EUR 963.5 billion for commitment appropriations and EUR 910 billion for payment appropriations. The MFF 2014-20 is divided into six categories of expense ('headings') corresponding to different areas of EU activities:

ii..1) Smart and Inclusive Growt

Competitiveness for growth and jobs: includes research and innovation; education and training; trans-European networks in energy, transport and telecommunications; social policy; development of enterprises etc. Economic, social and territorial cohesion: covers regional policy which aims at helping the least developed EU countries and regions to catch up with the rest, strengthening all regions' competitiveness and developing inter-regional cooperation.

ii..2) Sustainable Growth: Natural Resources: includes the common agricultural policy, common fisheries policy, rural development and environmental measures.

ii..3) Security and citizenship: Includes justice and home affairs, border protection, immigration and asylum policy, public health, consumer protection, culture, youth, information and dialogue with citizens.

ii..4) Global Europe: Covers all external action ('foreign policy') by the EU such as development assistance or humanitarian aid with the exception of the European Development Fund (EDF) which provides aid for development cooperation with African, Caribbean and Pacific countries, as well as overseas countries and territories. As it is not funded from the EU budget but from direct contributions from EU Member States, the EDF does not fall under the MFF.

[10] Ec.europa.eu. (2015). The budget explained - Frequently asked questions - Budget. [online] Available at: http://ec.europa.eu/budget/explained/faq/faq_en.cfm [Accessed 1 Jun. 2017].

ii..5) Administration: Covers the administrative expenditure of all the European institutions, pensions and European Schools.

ii..6) Compensations: Temporary payments designed to ensure that Croatia, who joined the EU in July 2013, does not contribute more to the EU budget than it benefits from it in the first year following its accession.

**Ceilings – The maximum annual amounts**

The MFF lays down the maximum annual amounts ('ceilings') which the EU may spend in these six policy areas and overall over the 2014-20 period.

There are two types of expenditure ceilings:
An annual ceiling for each heading, expressed in commitment appropriations (legally binding promises to spend money which will not necessarily be paid out in the same year but may be disbursed over several financial years);
An overall annual ceiling:
-for commitment appropriations corresponding to the sum of each heading ceilings;
-for payment appropriations: the actual amounts authorized for disbursement in a given year. As a rule, budgeted amounts correspond to the sum of payments scheduled for each category. The annual payment appropriations must be covered entirely by total annual revenue.
The overall ceiling is also expressed as a percentage of the EU's estimated GNI. This percentage is updated every year on the basis of the latest available GNI forecasts in order to check that the EU's total estimated level of payments is compatible with the maximum amount of own resources which the EU may raise during a year (1.20 % of the EU's GNI).
The difference ('margin') between budgeted payment appropriations and the annual payment ceiling and the margin between the budgeted commitment appropriations and the expenditure ceiling per heading provide room for manoeuvre in case of unforeseen needs and emergencies.

**Flexibility and Special instruments**
Flexibility mechanisms enable the EU to mobilise the necessary funds to react to unforeseen events such as crisis and emergency situations. Their scope, financial allocation and operating modalities are provided for in the MFF regulation and the Interinstitutional Agreement. In the current context of reduced expenditure, they also ensure that budgetary resources can respond to evolving priorities, so that every euro is used where it is most needed. Most of the flexibility mechanisms are therefore kept outside the MFF and the funding can be mobilised above the expenditure ceilings.

Taking into account past experience, the scope for intervention for some special instruments, such as the Emergency Aid Reserve has been broadened, the maximum allocation increased and the carrying over of unused amounts to the following year(s) has been allowed.

**Emergency Aid Reserve – maximum €280 million per year**
The Emergency Aid Reserve is designed to finance humanitarian, civilian crisis management and protection operations in non-EU countries in order to quickly respond to

unforeseen events. For example, the Emergency Aid Reserve was mobilised in 2012 following the outbreak of conflict in Syria, the conflicts in Mali and the drought in the Sahel.

**Solidarity Fund - maximum €500 million per year**

The EU Solidarity Fund aims to release emergency financial aid following a major disaster in a Member State or candidate country, such as the 2009 earthquake in the Italian Abruzzo region or the 2012 floods in Germany. Aid is managed by the recipient country, and should be used to rebuild basic infrastructure, fund emergency services, temporary accommodation or clean-up operations, or counter immediate health risks.

Flexibility instrument - maximum €471 million per year
The Flexibility instrument provides funding for clearly identified expenses which cannot be covered by the EU budget without exceeding the maximum annual amount for expenditure set out in the MFF For example, the Flexibility instrument was used in 2009 to contribute to the financing of energy projects in the context of the European Economic Recovery Plan and to the decommissioning of a nuclear power plant in Bulgaria.

**European Globalization Adjustment Fund - maximum €150 million per year**
The European Globalization Fund aims to help workers reintegrate into the labor market after they have been made redundant as a result of major structural changes in world trade patterns (e.g: as a consequence of the global financial and economic crisis). For example, it supported Belgian workers after the General Motors Antwerp plant closed-down.
In addition to these existing instruments, new flexibility measures have been introduced in the MFF 2014-20:
Flexibility for payments: under certain conditions and within the overall ceilings set in the MFF, unused payment appropriations and margins can be carried over from one financial year to the next. The payment ceiling of the years in which the unused margins arise must be cut accordingly in order to leave the overall ceiling unchanged.

Flexibility for commitments in growth and employment: commitment appropriations left unused in 2014-17 will form a reserve for additional expenditure in 2016-20 in the area of growth and employment (in particular for youth employment).

Special flexibility for youth employment and research:
in order to concentrate a maximum of funds where they are the most needed as early as possible, up to €2.1 billion can be brought forward to 2014- 15 for the Youth Employment Initiative and up to €400 million for research, Erasmus and SMEs.

Flexibility for aid to the most deprived:

on a voluntary basis, Member States can increase their allocation for the aid to the most deprived by €1 billion.

Contingency Margin:

this is a last resort instrument to react to unforeseen circumstances and amounts to 0.03 of the EU's gross national income (GNI).

The Role of the European Union Budget in View of EU Enlargement by defining in which areas the EU should invest more or less over the seven years, the MFF is an expression of political priorities as much as a budgetary planning tool. The annual budget is adopted within this framework and usually remains below the MFF expenditure ceilings in order to retain some flexibility to cope with unforeseen needs.[11]

The analysis of the European Union budget helps us understand the political and economic philosophy as well as the practical achievements of the European construction.[12]

For member countries, the enthusiasm for the foreseeable advantages of enlargement weakens when the debate boils down to the issue concerning the budgetary cost involved. The devil is in the details regarding the availability of financial resources to carry on current major EU programs after enlargement, who pays and who benefits then.

The economic impact of enlargement is difficult to assess because of the multitude of variables involved and the gradual implementation of the process. However, substantial literature indicates that the overall effect appears to be positive in the long run due to an enlarged market, an improved division of labor, and increased competition.
It is recognized, however, that some regions, sectors, and enterprises of the EU will experience strain, especially during the initial phase of integrating new members into the EU. As a result, transitional arrangements will be in force in various sectors besides the current initiatives already in progress. To fill the current gap in economic development, the EU has been undertaking a vast program composed of a combination of a number of measures such as association agreements, financial aid for certain priorities, and participation in EU programs and agencies. The association agreements (''Europe Agreements'') are trade agreements between candidate countries and the EU directed to achieve a gradual liberalization of trade before accession.
European economic integration proceeds well ahead of the political integration under the assumption that economic integration will create the conditions for political integration. A number of attempts to start with political integration has failed in the past. Along this line of thought, the integration process was planned to begin with less politically sensitive issues and cautiously progress to more sensitive areas.

**Political implications**

The crucial aspect of budgeting is whose preferences are to prevail in disputes about which activities are to be carried on and to what degree, in the light of limited resources. The problem is not only "how shall budgetary benefits be maximized?" as if it made no difference who received them, but also "who shall receive budgetary benefits and how much?" One may purport to solve the problem of budgeting.[13]

Political hurdles to ceding some national sovereignty over budgets are considerable, and they would require extensive public debate. Many steps may necessitate legal changes. In

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[11] Ec.europa.eu. (2014). Multiannual Financial Framework-European Commission. [online] Available at: http://ec.europa.eu/budget/mff/introduction/index_en.cfm [Accessed 1 Jun. 2017].
[12] SEGUITI, M. (2003). The Role of the European Union Budget in View of EU Enlargement. Public Budgeting & Finance, pp.96 -117.
[13] Wildavsky, A. (1961). Political Implications of Budgetary Reform. Public Administration Review, 21(4), p.184.

some cases, where existing EU treaties provide only a limited legal basis for euro area-specific reforms, strengthening the legal framework over time would help clarify the role of euro area versus EU members – but it would require approval by all EU countries. Alternatively, intergovernmental treaties outside the EU framework could be considered, where feasible, as was done with the Fiscal Compact and the Single Resolution Fund.[14]
The willingness to compromise and to fundamentally reform the European budgetary system is very limited among Member States for many reasons, particularly because of domestic politics.[15]
In principle, the objective should be for the EU to extend the scope for decision and policy-making in its budgetary policy and to become less dependent on the goodwill of its Member States.

**Budgetary reform proposals**
The recent crises have revealed a lack of flexibility in European budgetary policy and the EU budget and thus the inability of Brussels to respond to political challenges with adequate resources and with new spending priorities. MFF headings and their financial resources are largely set irrespective of developments in the political environment. Currently, around 80 percent of the EU budget is already fixed for seven years at the beginning of the MFF period and this means that it is very difficult for the EU to respond to unforeseen challenges.[16]

**European Court of Auditors Proposals[17]**

Proposal 1: Reconsider the timetable for developing the next MFF 54. Reconsidering the timetable for developing the next MFF and accompanying spending programs to allow sufficient time to first debate future funding needs and priorities, review spending in the current period and improve funding arrangements.

Proposal 2: Conduct a comprehensive EU spending review Carrying out a spending review before a new MFF and set of spending programs are proposed. The spending review should assess the extent to which: - the allocation of resources in the EU budget reflects the EU's strategic priorities and opportunities to add value; - EU programmers and schemes contribute to the achievement of strategic priorities, provide value-for-money, and control the risk of irregularity.

Proposal 3: Develop clearer, simpler and more coherent funding arrangements.Inviting the Commission to propose measures to make EU funding arrangements clearer, simpler and more coherent and better equipped to ensure sufficient transparency, accountability and public understanding of how EU policies are funded and the benefits they bring.

Proposal 4: Make EU budget priorities the subject of a high-level debate. That the EU's political authorities launch as soon as possible a reflection on the extent to which the different EU policies should be financed from the EU budget, taking account of possible developments in the policies and membership of the EU.

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[14] Cottarelli, C. and Guerguil, M. (n.d.). Designing a European fiscal union. 1st ed.
[15] Becker, P (2017). The Right Moment to Reform the EU Budget. SWP Comments, 8, p.5-7.
[16] Becker, P (2017). The Right Moment to Reform the EU Budget. SWP Comments, 8, p.4
[17] EU budget: time to reform? A briefing paper on the mid-term review of the Multiannual Financial Framework 2014-2020. (2016). European Court of Auditors, p.18.

It will first be necessary to consensually agree on an assessment of the shortcomings of the current system. Without agreement on a joint analysis of flaws and weaknesses, it will be impossible to agree on starting points for change.[18]

**USA budget as an EU budget reform model.**

For years budget reforms have been sought in the name of economy, efficiency, and good government. A great amount of literature on budgeting is concerned with reform and views this reform as neutral and benefiting everyone. Few, if any, reformers realize that any effective change in the budgetary process inevitably results in changes in the "who gets what" of government decisions.[19]

If the present budgetary process is rightly or wrongly deemed unsatisfactory, then one must alter in some respect the political system of which the budget is but an expression.

Some proposals may be designed to alter the budget process, for example attempting to improve transparency or oversight, perhaps by requiring additional information when weighing the merits of a measure. Other proposals may seek to alter the budget process in an effort to produce specific budgetary outcomes, for example by creating enforceable limits on spending or revenue levels.[20]

Federations typically have sizeable federal budgets and exercise important functions at the federal level. In the US, federal spending accounts for 68 percent of total government spending. Typically, central governments in federations control more than 50 percent of the total expenditure size.[21]

The European Union is different of course. It has a small budget relative to the size of the EU economy, and creditor countries are unwilling to increase it. The EU is not a federation, but it does have common fiscal rules that have arisen because of monetary union, and there have been calls for a more integrated budgetary framework to facilitate the absorption of country specific shocks by providing for some absorption at the central level.

## Conclusion

By examining the EU budget, it is possible to understand the development of EU policies and the progress of EU integration. The EU budget is a fundamental European institution, which expresses the political and economic philosophy and practical achievements of the European construction. The EU budget is also the vehicle for advancing political integration.

The EU budget belongs to all its member states, including those that are not part of the euro area. This opens the question of whether a stronger central budget should refer to all EU countries or only to euro area countries. Over the long run, there is a chance that all EU countries will be members of the euro area.[22]

Of course, the creation of a meaningful EU central budget will take time and, probably, will also require a larger degree of political integration than the current one and than what it appears now possible.

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[18] Becker, P (2017). The Right Moment to Reform the EU Budget. SWP Comments, 8, p.7.

[19] Wildavsky, A. (1961). Political Implications of Budgetary Reform. Public Administration Review, 21(4), p.183.

[20] Congressional Research Service (2012). Budget Process Reform: Proposals and Legislative Actions in 2012. p.4.

[21] Wolff, Guntram B. (2012) : A budget for Europe's monetary union, Bruegel Policy Contribution, No. 2012/22

[22] Cottarelli, C. and Guerguil, M. (n.d.). Designing a European fiscal union. 1st ed. p.Chapter 3.

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