

## **Safeguarding the European Public Interest, The Role of EU Financing,**

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The purpose of our theme paper, about safeguarding the European public interests and the part played by the EU finances, is to feed an informed debate. In the present public debate the EU budget is often misunderstood. Although large in absolute terms (over 100 billion Euro per year), it is only 1 % of the EU Gross National Income (GNI).

Furthermore, whereas national budgets reflect national policies and values, this is not the case with the EU budget. The EU budget reflects a mix of added value and political bargain between member states. Finally, EU governance is primarily about regulation and coordinating national policies. In that respect, the EU finances are often called *a soft power*.

The EU budget is funded by custom duties and levies, value added tax (VAT) and GNI-based own resources. Three-quarters of EU funding nowadays come from GNI, and as such it is part of the national budgets and thus subject to annual debate in national parliaments. (So perhaps there is an argument or reason for a EU-own resource system).

On the spending side Competitiveness and Cohesion is the largest budget issue, which receives 44 % of the EU budget. Preservation of the natural resources receives 43 %. This budget issue includes the Common Agricultural Policy (CAP), rural development, nature and fisheries. About 70 % of expenditure under this heading consists of agricultural direct payments, which strictly speaking cannot be categorized as preservation of natural resources. 6 % of the total budget is spent on Europe as a Global player, and just 1 % is spent on Citizenship, Freedom, Security and Justice.

At national level, the central government of a Member State has the financial responsibility for safeguarding national public interests. These responsibilities are grounded in the national constitutions. Again, this is not the case at the EU level. For the justification of EU policy in areas other than those of exclusive competence, any spending, regulation, intervention or coordinating policy must pass the added value test. The core criteria for determining added value are subsidiarity and proportionality. Vital to the discussions about added value is the question of which European public interests should be financed from the EU budget. The slogan 'public value for public money' is frequently used in this respect. Public values and interests that cannot be safeguarded at the national level need to be defined as European ones. The present added value test, however, is a rather formal one and not free from political motives. As yet it does not sufficiently safeguard public interest, including sustainable development. Citizens' views and the views of their representatives depend on the level and quality of information they receive, therefore maximising objective information gathering and transparency would appear to be crucial, in particular with respect to spending.

A long-term perspective on the EU budget requires a balance between a top-down and bottom-up approach that takes sufficient account of safeguarding public interests. Top-down means that a level of the total expenditure is defined first (i.e. 1% of the EU GNI),

followed by discussions of what to finance from the available funds. Bottom up means that the total size of the budget is determined after the discussion about policy priorities and their budgetary implications are complete. At present however, such a balance has yet to be found. An interesting proposal from Heinemann is to divide the EU budget expenditure into two groups. The first group would include expenditure recognized as European public goods and interests. These would be excluded from net financial position calculations. The second group would consist of expenditure with a clear redistribution function, for which net financial positions would be calculated. The bottom-up approach, combined with Heinemann's proposal, may provide a solid financial solution for safeguarding European public interests.

For this approach to work, there has to be some consensus about the future development of the EU. Are we aiming for a financial minimalist EU, in which the EU budget is a necessary evil that must be reduced as much as possible? Or do we want a strengthened Europe that is based on a broad understanding of common EU policies, public goods and interests, and the global challenges confronting EU?

To go beyond short term political interests we need a well-informed public debate about financing the EU for a long way ahead.