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The future of the European Union's budget and Hungary's room for action

To prepare a budget is one of the key tasks at any time and on any level – starting from individual households through large corporations up to the level of countries. It is not only on the general objectives that a consensus is to be reached but also, on the amount of the available funds and the desired distribution thereof. Both the definition of the objectives and the nature of the process that leads up to a consensus reach far beyond direct economic issues and well reflect the interdisciplinary thinking of a community, as well as its ability to compromise.

GENERAL REMARKS: OBJECTIVES AND TOOLS

The above conclusions are especially true for the budget of the European Union, as, in principle, an agreement on supranational objectives should be reached between the individual nations. It is public knowledge that the national budgets belong to the most sensitive "independent" decision-making authority of the member states, in spite of the significant progress made in many respects of the European integration. Thus, to develop an EU-level budget is one of the most complex tasks of integration. This, however, is not a new phenomenon, since without a common agricultural policy, which, in simple terms, can be traced back to the French–German agreement reached in the sixties, and which rendered the expenses incurred in the process the biggest item of the community budget, the European integration would hardly function these days. It is another issue that, in the course of the decades, mainly in the changed global and European conditions of the past few years, this is the very area that came to hinder the transformation of the community budget to the greatest extent.

The preparation and acceptance of the EU-level budget face a number of obstacles.

First of all, the income side has to be provided from the contributions of member states in an ever increasing proportion, which could otherwise make the national budgets of the member states "richer". The share of independent own income items has become a marginal contribution from the once dominant item of the starting phase of integration, as the duties and levies imposed on trading with third countries currently hardly make up ten percent of the total income. The contributions calculated on the basis of the added value and the gross national income, which at the moment represent the highest amount, are ultimately composed of the income produced and the taxes collected in the individual member states, which means that they can be used at home in principle.

Secondly, the number of, and partly the funds needed by those areas which the individual member states would like to transfer to (or would like to keep within) the budgetary framework of the Union has significantly increased. This can, obviously, partly be put down to the fact that the number of EU member states grew from 15 to 25 in a decade, which automatically brought along the appearance of new interests (primarily with regard to the structural and cohesion funds, since the average income of the new entrants did not reach the average of that of the EU-15, and in most cases not even 75 percent of the latter). However, some global challenges also emerged, which drew attention to the key importance of future-oriented tasks. Similarly, those common policies whose outlines have just become more clearly visible also require new funding.

Thirdly, some well-definable conflicts have emerged in the objectives in two respects. On the one hand, there is a conflict between the funds required for the desirable objectives and the income side of the EU budget, on the other hand, exactly because of the scarce amounts of income, between the individual community objectives.

Finally and in the fourth place, the community budget should be approved unequivocally. This means that each member state has a veto right, which practically means that the community budget must satisfy the unique needs of each of the states, at least to the lower limit of their willingness to compromise. This structure comes from the fact that, though the budget is developed and proposed by the Commission, which is independent from the member states, the decisions are made by the Council and the Parliament. From among these two, the weight of the Council is dominant, as unequivocal approval is required here. The Parliament, as the ultimate entity with a right of approval, may propose minor changes but its influence is limited, unless it wishes to torpedo the financial programs for several years. The final version is accepted by the Parliament by simple majority when the "package" has already stood the test of member state contributions. (This is a fundamental difference as compared to the mechanism of approving the national budgets, since in the latter case the approval of the budgets cannot be prevented by a simple veto.)

The community budget of 2000–2006, and even more, the one for 2007–2013 are characterized by two new features.

On the one hand, a fundamental "philosophical" change has taken place between the objectives to be financed and the funds available for funding. While earlier the income side had been defined on the basis of the finances required for the goals to be achieved, in the last two budgets, it was the restraints of the income side that defined what and to what extent can be supported by the funds of the Union (see in detail in Caesar, 2006). This "pattern of thinking and behavior", which appears not only on the highest level but also in the micro-level cooperation between the companies and the banks that provide potential funding, is typically European and is fundamentally different from the American way. The latter always starts out from that the promising (profitable) enterprises should have no financial barriers, as the rightfully expected revenues will provide adequate coverage for the loans. However, the dominant European attitude is characterized by uncertainty, the running away from assuming risks, and the preference of the status quo, which is believed to be stable for a long period of time (if only nothing would happen!). It is clearly this way of thinking that survives in the limitation of income by the European budget and in the subordination of the otherwise very important objectives aimed at building the future of Europe to the budgetary restraints.

On the other hand, the EU broke with its earlier practice also in that it did not take into account the positive correlation between the size of the budget and the expansion of the integration. All the earlier expansions of the Union entailed a significant increase of the community budget, as the expanded integration involved the occurrence of new goals, which needed to be financed. This could already be seen in the accession of the English, Danish and Irish member states in 1973, however, it became full-fledged as a consequence of the Mediterranean expansion, when the support budgets of the less developed countries were established on the one hand, and the earlier budgets were significantly increased on the other hand. Even the expansion of 1995, which rendered the three developed countries, namely Austria, Finland and Sweden member states of the integration, had an increasing effect on the expenses of the community budget (of course, along with its revenues). However, the first (and last) "mass" expansion in the history of the EU took place in the spirit of narrowing the budget from the very beginning. Redistribution within the limits agreed upon as a result of the Berlin Compromise became necessary as early as in the 2000–2006 budget, since, differently from the original plans, it was not six but ten countries that had the chance to accede the Union in 2004 (true, two years later than the originally assumed year of accession, which was 2002). Furthermore, funds had to be established for the direct agricultural subsidies granted in the framework of the common agricultural policy, even if in a significantly lower amount than those provided to the EU-15 (25 percent starting base). The budget of 2007–2013 has proven to be even more tightfisted, as it was not only the cap of the Union's willingness to finance that became familiar at an early stage but also the aspiration that in the decreasing budget, increased attention should be paid to supporting the future-oriented and genuinely community tasks. In other words, it should be made possible for the Union to curb, among others, the structural and cohesion funds that were meant to finance convergence. In spite of all this, there is no doubt that the new member states came out relatively well from the bargaining process that trailed on for several years, and they can count on yet unprecedented external support in their endeavors to modernize (but not as compared to those less developed member states which joined the EU earlier).

Apart from all this, the fundamental dilemma of the future budget of the Union has not changed a bit. The key question is whether it is possible to create and finance a competitive Europe (a European integration) from 1 percent of the gross national income of the member states in the 21st century. In this respect, several comparisons can be quoted. One of these is the budget of the federal states, within which a considerable portion, sometimes as much as 10 percent of the national income is destined to be used for covering the expenses for expressly community purposes, primarily including those meant to be used for the direct budgetary compensation between the regions on varying levels of development. However, it cannot be disregarded that in these cases we are talking about a political union (the USA, Australia, Canada but also, Germany, Austria, Belgium or Spain). The other possible benchmark is the comparison to the national budgets of the EU member states. While 30–50 percent of the gross national incomes of the member states is centralized in their respective national budgets, then redistributed for various purposes, the EU has a mere 1 percent of this income, which is equivalent to 2–3 percent of the national budget. This proportion could only be changed if the member states were able to reassess the national and the community priorities (which also contribute to the realization of the nations' own objectives), giving priority to the community objectives on the basis of the perspectives of future and sustainable development. The collection and evaluation of all those scientific treatises and expert documents which had argued for several decades for a much higher budget than today's could become the third measure for comparison. These usually defined the desirable volume of the Union's budget in 3–7 percent of the national income of the states integrated in the European Union. It goes without saying that all of them started out from the shared values and objectives of the integration, rather than the actually available funds. In other words, their basic approach was that it is the required community tasks rather than the willingness of the member states to contribute based on which the size and structure of the income side of the budget should be defined.

THE FUNDAMENTAL OBJECTIVES OF THE COMMUNITY BUDGET

At the request of the European Council in June 2004, the Commission has defined three fundamental criteria for the community budget:

◗ *effectiveness*, which means that the achievement of the objectives in question can only be expected from community funding in certain cases,

◗ *efficiency*, i.e. that the community expenses will bring about better results and the creation of higher values than those that could be achieved by stronger reliance on the national budgets,

◗ *synergy*, which means that the projects financed from Union funds will create reverberating effects, and will improve the frame conditions of the implementation of the national programs either by encouraging such programs, or by supplementing national programs (European Commission, 2004).

It is pointed out in the basic documents of the integration that the community budget should actually finance such community goals which either refer to the fundamental values shared and represented by the member states as a whole, or in the case of which a common policy has been implemented. However, it is also recorded in these documents that the community budget is not meant to serve (fundamentally) redistribution purposes. Based on the Union competences that have developed by now, three areas are entitled to accept community funds without reservation, according to the above interpretation:

- ensuring the fundamental rights of freedom, including the “European values”,
- competition policy,
- as well as external economic policy.

Based on the “European values”, the second biggest item of the current budget can, however, be listed here, which is the moderation of the difference between the countries of different levels of development, the support to be provided to the less developed ones in their convergence-modernization aspirations, which the structural and cohesion funds are meant for. The community support to be provided to the agricultural policy is much less in tune with the original objectives, in spite of the fact that we are talking about a genuine community policy here as well. However, in the majority of the cases, this does not mean development but expressly redistribution.

BREAKING OUT FROM THE “TRAP OF REDISTRIBUTION”

The contradiction between the original objectives and the actual structure of the Union's budget on the one hand, and the subordination of this budget to the member states' willingness to contribute payments has created a no-way-out situation by now. While qualitative changes are taking place in several aspects of the development of the community areas of the European integration, and newer and newer challenges appear as consequence of globalization, the Union's budget is becoming less and less suitable for appropriately handling these. This is why the original objectives should be returned to after 2013. This, however, is currently not indicated by anything at all. We can rather count on the survival, and sometimes even the strengthening of petty political bargaining, which has become customary in the past decade. One of the fundamental conditions of a breakthrough is undoubtedly the availability of the long-term financing of the budget, which requires the substantial transformation of the income side. In this, equality, efficiency and solidarity should all be reflected, even if the principles can sometimes be put into practice to the detriment of the one another.

Today it is still wishful thinking but we still have to discuss the other factor of a potential breakthrough, which may be put into the center of attention by the developments on the global, European or member state scales in the coming decade. Such a breakthrough has taken place in the philosophy of some countries in the past few years, which basically means the Scandinavian countries within the EU. The point of such a change is that the classical, traditional redistribution-related functions of the state tend to weaken, while the state by far does not withdraw from the economy but takes an active part in the development and implementation of the long-term goals of the latter. This is how the model of the "state as a developer" is created. Is it inconceivable that such a change takes place in the EU budget, i.e. that the budget of the integration becomes future-oriented and geared towards development objectives rather than fulfilling the classical redistribution functions? It is obvious that the structural changes that are vital for this breakthrough (first of all, the drastic reduction of agricultural expenses but also, the allocation of structural and cohesion funds to clearly defined goals) would give way to significant resistance from the side of the member states. It is also undoubted that the budget of the "integration as a developer" should have much more considerable resources of income than those of today. Although neither of the two conditions is given today, the factors that may coerce a move towards "a budget as a developer" are strengthening on several levels already.

On the member state level, it is first of all those endeavors that we are talking about which have been defined by the net payer states not primarily for the freezing of their contributions to the budget but rather, for the fundamental transformation of the expense structure. In line with the Lisbon Objectives, it would be necessary to strengthen the innovative environment on the level of the integration, to improve the quality of education and training, as well as to provide increasing amounts of the community budget to support research and development. It should be added that the implementation of these objectives should not only be supported by the net payers but by all those member states whose fundamental interest is to strengthen European competitiveness. The dynamic convergence of the less developed countries appears as a further rightful need, as this is just as important an element of sustainable competitiveness and stability as the ones listed above. However, there is no doubt about that the convergence funds should basically be attached a development label rather than one of redistribution, that is, they should ensure an accelerated approach to the very objectives that are defined by the Lisbon Program. The innovative resources available in the less developed new member states should be mobilized and joined into the bloodstream of the integration not only in order to converge but also, to achieve overall European competitiveness. As a third – so far mostly speculative – element, the reform of the national budgets (public finance systems) of the individual member states, more precisely, the financing of these, of course temporarily, partly from community funds, can be mentioned. At first sight, this contradicts the basic goal of "integration as a developer", as it seems like redistribution. At the same time, however, in certain cases this is the very thing that may push the budgets of the member states from the traditional redistribution function and may accelerate the transition to the "member state as a developer". It is public knowledge that the large-scale reforms such as those of the pension system, education, health care and state administration usually do not bring any extra income in the first phase of their implementation, and what is more, they do not even necessarily reduce costs. On the contrary, sometimes an increase in government expenses can be anticipated, which is partly due to the statutory payments, so they are to be executed as a result of the changes (severance payment, etc.), and partly to that the resistance of certain parts of society to reform can only be put down by temporarily assuming certain extra burdens (if this does not happen, it is highly probable that the reform will come to a standstill, or will fail for good). It is undoubted that there are several member states in the EU whose public finance system requires comprehensive, fast and radical reforms. If these reforms are missed or are implemented in a lopsided form and very slowly, the factors that hinder the expansion of "integration as a developer" will continue to exert their influence.

On the level of European integration, there is a high number of future-oriented tasks in the implementation of which the role of the community budget is desirable or expressly indispensable. These can be identified in two main areas.

One of these is related to the integration (community) policies in progress, as long as ever newer *acquis communautaire* are added to them in the course of their development, or if they require that the related areas become more "community"-type in nature. In this process, partly in the resolution of contradictions and conflicts, partly in the acceleration of the process as a whole, furthermore, in the assumption of potential and temporary extra expenses, the community resources may be assigned a critical role. On the one hand, such is the development of a single internal market, the extension of liberalization to those areas which are still treated as national "sacred cows" – such as energy, transportation or certain aspects of financial services. On the other hand, and first of all, substantial changes are required in the environment of the monetary union. On the one hand, the duality by which the financial aspect of the European integration is characterized by these days is hardly to be maintained in the long term, namely, that the monetary union operates with the participation of 13 member states, while the fiscal policies remain the sovereignities of the nation states. The sustainability of the single currency increasingly requires the coordination of the fiscal policies, such a converegence of economic policies whose fundamental elements extend far beyond the nominal convergence field of the Maastricht (accession) Criteria. However, the greatest challenge for the community budget may be a situation in which no real convergence takes place between the countries that take part in the monetary union, i.e. if the difference in the competitiveness between the individual member states reaches a critical level where integration faces a contstraint to choose from the options below:

- It will either establish a kind of compensation mechanism in order to prevent the breakup of the monetary union, or to prevent the exit of one or a few countries (of a more considerable economic weight) from it,
- or undertakes the risk of breaking up, which may have unforeseeable consequences on the future of European integration, as well as Europe's role in the global economy. [The 20 percent difference (according to some calculations) that

has developed between the German and Italian per unit production costs in the past few years has become a warning sign that this critical level may appear within the foreseeable future.]

Since all monetary unions comprise countries of various levels of development and competitiveness, the exclusive application of market mechanisms is not always suitable for handling these differences. This is why compensations may become necessary, which is also supported by the budgetary practices applied by federal states. What is more, the latter represent a political union as well, into which the monetary union is embedded. On the other hand, however, it is true that it is the very political union and the consequent community budget that make it easier to apply the compensation transfers. In summary, we can indicate that the future of the monetary union may be one of the "timebombs" which may coerce a substantial reconsideration of the EU's budget.

The other area where there is an increasing need for support from the community budget is the strengthening of common policies. This, of course, involves the projected costs of the further enlargement(s) as well. More important and of course, more realistic (with respect to time) questions may arise in relation to such issues as the environment, the common energy policy, the strengthening of cooperation in the areas of interior policy and justice, joint border control, the appreciation of the neighborhood policy, the extension of the content of a common external and security policy, perhaps even the development of the first steps of a common defence policy, let alone the issues of research and development, education, or training, which have been brought up earlier by several member states and which partly appear in the financial plan for 2007–2013, or the fast development of the trans-European transport network, which has been treated as a "step project" on many subsequent occasions.

In the discussions and opinions on the future of the community budget, the increasing role of global challenges should not be disregarded. The European answers that will entail budgetary consequences will probably appear on two levels. On the one hand, in the form of passive adaptation, which means the management of certain negative phenomena or crisis situations, be they economic crises or a joint action against international migration. The "solidarity fund", which is already included in the 2007–2013 budget, is one of these passive steps, which is meant to finance the fast transformation of those companies, up to a limit of an annual 500 million euros, which would clearly become the main losers of globalization. Those active steps which can increasingly be expected from the integration, are nonetheless important – as integration, in spite of its weak increase, is one of the key pillars of the global economy, a key factor of international trading, the flow of capital and aid policies. If the EU wishes to maintain its position in the global economy in the future, this aspiration should necessarily be reflected in the community budget as well. This means that the financing of those community tasks which promise the preservation, and even the strengthening of its status as a *global player* should be strengthened to a great extent. This is where *soft* security policy, which is regarded as a special European value, belongs, along with the reassessment of international aid policy, the environmental and neighborhood policies mentioned above, which naturally have global aspects as well. Besides, the financing of the tasks related to the global extension of the "European values" can be listed here, just as the requirement to develop a unique "European image".

In summary: a number of member state-level, community and global factors which may contribute to the breakthrough of the community budget into the direction of "integration as a developer" can be determined. However, by being aware of the structures that insist on the preservation of the old system, as well as the partial ("national") interests that tie down the income side of the community budget, we cannot forecast whether this breakthrough will take place at all, and if so, when and to what extent it will happen. Anyway, the acceleration and success of this process would be in the fundamental interests of Europe, and Hungary as well.

THREATS TO HUNGARY (AND THE NET BENEFICIARIES)

It is either the *muddling through* scenario, which seems to be more probable at the moment, that we stick to, or we picture the future of the community budget in the scenario of integration as a developer, which may conceal a positive surprise, Hungary (and the other net beneficiary countries) will have to face a number of threats and provide adequate responses to these in order to be able to maintain its current position at least in the mid term. In relation to this, certain real processes and the consequences thereof should be responded to in pretty much the same way as the conclusions and recommendations of numerous countries and experts (which we regard as mistaken), and sometimes even to the beliefs, or in some cases fixed "elements of belief" of the societies or public opinions of the countries regarded as net payers.

▪ The first question that needs to be clarified is how efficient, if efficient at all, the community financing established for the convergence of the developed countries is. Several experts, who either come from the EU, or even more, from other international organizations (for example, from the World Bank) assume that the current redistribution of resources is of expressly poor efficiency, it does not help convergence, it rather develops a subvention mentality and behavior on a wide scale. According to the experience of several decades, the differences in the development of the regions defined as the targets of utilizing the resources have hardly changed in spite of the significant transfers, what is more, the earlier conditions have become fixed in many cases (between Extremadura and Catalonia, between Northern-Italy and the Mezzogiorno, let alone the unique position of East-Germany). This means that regional transfers are to be terminated, the programs need to be renationalized instead. This is why, according to the position represented by those who demand radical transformation, each member state should be responsible for its own development policy within the framework allowed by the national budget and the level of development at any time. According to the other, much more balanced view, it is the country that most needs them that should receive, and use as it wants, the regional monies (or a reduced portion thereof) without the fulfillment of any conditions whatsoever. The original idea of renationalization derives from the experience of the agricultural budget but it has by now undoubtedly extended to the other areas of the community budget related to redistribution as well. A further argument for the radical transformation of the regional expenses is the extraordinarily weak absorption capacity of the East-German regions, as they have been practically receiving such a high amount of German-German transfer in the past one and a half decades on an annual basis as the total annual budget of the EU (of course they also get their share from the latter on a supplementary basis), while they hardly show any signs of convergence from a structural and competitiveness aspect.

Hungary's fundamental task is to prove that the regional and cohesion funds can be used efficiently. In relation to this, the following arguments should be pointed out:

- Certain countries and regions could significantly profit from the Union's resources

(Ireland, Burgenland, Catalonia, Lisbon and its environs, etc.);

- While the differences between the regions of a certain country have in fact not decreased in some cases, the gap in the development of the individual member states (at least measured in per capita income) has tangible decreased, i.e. the income (and probably the social) cohesion of the Union has strengthened;
- The ability of certain countries and regions to utilize the resources should not be treated on the same level, as there may be substantial differences between them for various reasons;
- It is to be proven that Hungary (and some of its regions) has a much larger and more efficient capacity to absorb resources than other countries and regions. In this respect, it should be specifically emphasized that any comparison to the East-German regions is mistaken from the start.

■ Second, it should be proven by specific data that the net beneficiary new member states have been able to absorb the EU resources already to date than the less developed countries that had acceeded the Union earlier. In this argumentation, it should be discussed which factors have allowed a more efficient utilization of funds (and also, which ones have decreased this efficiency). It is worth examining the nature and speed of the economic opening separately, as well as the speed of transformation, the tolerance of society, the extraordinary efficiency of foreign capital (this by far exceeded 4 percent of the GDP in some years, in which the upper limit of community transfers was defined by the EU, explaining this by that the individual countries would not be able to efficiently absorb any amounts exceeding this cap). It is the joint responsibility of all the net beneficiary states to use the funds as efficiently as possible, from the operation of the system of institutions through the level of the corporate sector's preparation, to the possibly fastest and widest enforcement of the multiplicator effects of the programs. If any of the countries failed this "exam", it would exert negative consequences on the others as well. We should have no illusions: the previous large beneficiaries that count as relative losers as a consequence of the increased transfers to the net payer countries and the new member states, cannot wait to find examples for supporting their arguments for the reduction of the regional and cohesion funds of the budget.

■ Third, in the dispute on the efficiency of distribution, it should be emphasized all through that the two are not necessarily and not in each case the opposites of each other. On the contrary, many times we are talking about two requirements that are prerequisites of each other. To go on, efficiency is a relative category, its outcome always depends on the attainability of which other goals we measure it against. It can be measured most simply and squarely in the form of direct corporate returns, which may, however, basically differ from macroeconomic, let alone non-economic efficiency. The other mode of measurement is the social efficiency of the transfers, which points beyond the economy as such. If the developments involve a considerable increase in incomes, and as a result of this, rising consumption, this will not only strengthen social cohesion and sustainable development but will also create an extra market for the companies of the net payer countries (among others). This may contribute to increasing the welfare of the integration as a whole. The impacts of financial transfers on political stability and security are even harder to quantify. It is undoubted that the individual transfers may easily create such a subvention mentality which may become a serious social-mental obstacle to long-term development, according to the experience gained within the EU. At the same time, the lack of the minimum political-social stability would require much higher amounts to be spent on crisis management, in fact without any realistic opportunity for development (see the history and experiences of the West-Balkans to date). Last but not least, the transfers are to be analyzed in the context of global challenges as well. All such transfers which filter out the negative impacts and at the same time mean efficient preparation for global competition are to be supported, independent from whether these are used by a more or less developed EU member state.

■ Fourth, an adequate response should be found for the argument according to which it is true that the budget of the community is modest but its annual growth rate still exceeds that of the national budgets of several member states, i.e. the growth rate should be moderated, by which measure the extent of national contributions can be reduced. In relation to this, it should be highlighted on the one hand that a community budget and a national budget, if only because of the differing amounts, and even more as a result of the GDP proportions, are two uncomparable categories. If a low amount of the community budget is increased faster, the EU budget will grow to a much lower extent in absolute figures than the national one. On the other hand, a reference can be made to the already described new community objectives, as well as the importance of the EU's internal cohesion amid the conditions of global competition.

■ Fifth, on each occasion the various target groups should be made conscious of that the narrow interpretation of net payers' (and beneficiaries') positions basically derives from a mistaken approach. On the one hand, multichannel income redistribution processes are taking place within the integration, of which the presentation of net budgetary positions is only one form, true, it is a very visible one and it can best be communicated to the public, in various tones and with various messages (interestingly enough, this is extensively used by the politicians of both the net payer and the net beneficiary countries, although with different purposes on mind). However, we should not forget about the other, far more important channels such as trade, foreign capital expenditure, other private transfers (mainly in the countries where there is significant immigration) but even the utilization of EU funds not distributed under national labels. One more remark on trading: the transfer commitment to be disbursed by Hungary in the course of 7 years is 22.6 billion euros, which is one third of Hungary's annual imports and half of the annual imports from the EU! On the one hand, specific calculations are needed in order to see the transfer positions of the individual countries, including Hungary, which analysis should extend to each key fund flow that takes place. On the other hand, it should be stressed all through that European integration is a *win-win-game,* in which each party is a winner and if a country wished to miss this game, they would very probably be compelled to book significant macroeconomic (and other) losses.

■ Sixth, the income side of the community budget, and as consequence, its room for action have been considerably reduced by referring to the observance of the Maastricht Criteria in the past few years. Interestingly enough, however, the six net payer countries that signed the letter of December 2003 were interested in this in varying degrees. This is why the common legal grounds that they referred to are strongly doubtful. It is true that France and Germany struggled to adhere to the Maastricht budgetary criterion (more precisely, they failed to observe it to a great extent) but Austria and the Netherlands had no such problem, Great Britain and Sweden were not part of the monetary union from the start, while they continuousy complied with all the Maastricht Criteria. It should be taken care of that neither of the EU member states should merge such facts or trends between which there is no specific relationship/interaction, or the occurrence of such a situation is the consequence of the wrong common policies from the start.

■ Seventh, in all possible cases, it is to be avoided that the net beneficiary members use the union's funds for expressly social redistribution rather than development purposes. It should be stressed in each case that the community resources do not only contribute to the narrowing of the development gap (the thing is that this can be achieved by simple redistribution on a statistical basis, see the "glorious-not so glorious" example of the ex-GDR) but they trigger off such processes of modernization which on the one hand ensure the maintenance of long-term development, on the other hand, and not independently from the latter, they contribute to increasing the global competitiveness of the overall European integration. This is (partly) why it is important to directly or indirectly tie most of the transfers to the Lisbon Objectives and to communicate this "philosophy" on a regular basis to the net payer states, as well as the corporate sector and business communities with a stake in strengthening the EU's international competitiveness.

■ Eighth, it is only by submitting documents and packages of proposals that contain specific, long-term and clear concepts (as well as various but definitely clear scenarios) that it can be avoided that the budget discussion to start from 2014 becomes hostage to the "grocery shop bargains" of the previous two periods. It should be made clear to all the member states as early as now that such unglorious political games will not strengthen the position of any of the country (even if the politicians in place at any time come back from some negotiations with reports on "victory"), while the international creditability of the EU as a whole, as well as confidence in the integration, which is wide today, and in some cases even getting stronger, may be undermined by such an action.

■ Ninth, one of the most complex tasks of the new members states, including Hungary, is to avoid becoming a prisoner of the traditional beneficiary structure of the community budget, not even if they have been able to benefit largely from this structure for a few years. This basically refers to the common agricultural policy, more precisely, the direct subsisdies, the impact of which will mostly be felt by the farmers towards the end of the current budgetary period – with delay in time but to an ever increasing extent. This means the time when the official budget negotiations commence after 2014. It is not to be doubted that the most movable (mobile) element of this is the maintenance of the direct subsidies, for which there seems to be a very slight chance in the period following 2013, even in lack of a radical budgetary reform. It would be a fundamentally mistaken step if Hungary as a net beneficiary would like to preserve its equivalent position, which will automatically become full-fledged by 2013, in this very area, rather than focusing on other and more important items of the community budget, including, of course, the maintenance of its status as a significant net beneficiary (but not from the side of the payment of agricultural subsidies).

POSSIBLE SCENARIOS FOR THE ROOM FOR ACTION AND THE STRUCTURE OF THE BUDGET AFTER 2014

In the EU's current budgetary period, a so-called review period is coming up (in 2008–2009), however, this, according to our current knowledge, will hardly change the structures and limits valid until the end of 2013. The findings of this review may affect the new budgetary period starting from 2014 to a much higher degree. This is why it would make sense to primarily discuss these ideas, objectives and possible tools that point beyond 2013 already at these review negotiations. This means that we have to begin our preparation as early as now.

The following assumptions and proposals may serve as a framework for this preparation.

❶ We start out from the fact that the currently valid budget is not changed by the accession of a new country or several new countries. Based on the accession talks and the extension plans, it is only the joining of Croatia that seems to be realistic before 2013, the financial coverage of which is available in pretty much the same way as it was in the case of the Bulgarian–Romanian accession of 2007, even if the latter is not distributed among the individual nations for the period following 2009 either.

❷ In spite of the ever stronger criticism, we do not expect a genuine change in the current system of the common agricultural policy valid until 2013, which was agreed upon as a result of a German–French compromise, within the current budgetary period. However, the comprehensive renationalization of any kind of the agricultural policy would be as beneficial for Hungary as early it takes place. This would mean that the old member states would lose the direct susbsidies when Hungary has not yet reached the EU-compliant limit thereof (70 percent, plus the maximum 30 percent national co-funding). It is highly probable that our relative (although strongly decreasing in the past few years) competitive edge in the agricultural sector could be best utilized in such a situation, at least in the short term. This, however, is hardly a realistic assumption, so we have to count on that the complete or partial renationalization of the agricultural sector, assessed from the budgetary side will only take place after 2013 (however, we have to get prepared for its consequences as early as now).

❸ Today it seems like the budget after 2014 requires to be clarified in two fundamental respects, which determine the EU's long-term strategy:

- whether it is the distribution of the available funds that the objectives are defined by, or the future system of contributions to the budget should be allocated to the implementation of the partially new objectives,
- what should be financed by the community budget, and what should be left to, or returned to the national budgetary limits.

❹ What time horizon should the budget for after 2014 span over: should it stick to the seven-year schedule of the past two decades, or should it switch to shorter, five-year periods?

❺ On the basis of what conditions should the rules of receiving funds “automatically” be re-edited? Can the currently valid 75 and 90 percent eligibility threshold remain intact (for using the regional and cohesion funds, respectively), or do the criteria require changes, among others, depending on the evolution of incomes, the definition of the new community objectives, and the less developed country or region that represents an ever higher weight in the Union? This partly depends on what bases will the income side of the community budget be built upon, i.e. whether it will be possible to provide an appropriate and stable (sustainable) framework for the income items that can be planned for a long time. In spite of all the justified criticism (and none the less justified resistance on the basis of principles), I think that it is an open option that, in certain cases, the EU's budget should become a net borrower, as long as these loans are granted by the “home bank” of the integration, which is the EIB.

❻ The net beneficiary countries should develop twofold strategies. On the one hand, they can of course not relinquish the continued reception of the ever increasing subsidies. However, they should also consider, partly depending on the experience to be gained after 2007, what “efficiency function” there exists between the subsidies to be used in principle and the conditions of this use. The situation is that it is very possible that the improvement of the conditions of receiving funds may promise more benefits than the availability of a higher amount of funds, which has been reached as a result of bargaining, with stricter conditions of calldown.

7 Those claims whose enforcement was not successful (not even attempted) during the talks on the 2007–2013 budget should be rendered a key aspect of the utilization of funds (redistribution) already in the earliest phase of the talks on the budget from 2014. The situation is that the countries that joined the Union in 2004 and later are not only less developed than the EU-15 but also, that they do not make up the geographical periphery of the European integration (as all the other countries that acceded the Union earlier and were less developed at least at the time of the accession) but we are talking about a group of countries that has a continuous, multifold common continental border. This is why convergence cannot be limited to "national pockets" but a regional, cross-border development fund which supports expressly these large-scale infrastructural and partly environmental developments needs to be established in the EU's new budget. As long as the development of the trans-European transportation corridors remains on the periphery of the EU's budget, there is a serious threat that these reductions, which will become necessary, will have an adverse effect on these undistributed funds in the first place. This could, among others, be prevented by the establishment of such a regional development fund, and the organic incorporation thereof into the EU's budget (i.e. by the creation of a new, independent budgetary item). This fund may reduce the amount of money in the national pockets but it would at the same time generate supplementary profits from several aspects. On the one hand, it would increase the efficiency of infrastructural developments that were earlier supported from the national budgets, which would create a more favorable framework for the commercial and capital flows within the EU. On the other hand, it would strengthen cohesion between the new member states, which would exert undoubtedly favorable effects on the all-European level, from the economic multiplicator effects to the consolidation of social-political stability. Thirdly, it would be difficult to question for other member states, as we are talking about such a geographical-hitorical-economic situation here which is unprecedented in the EU's past and unrepeatable in its present. Fourth, regional infrastructural development, if only for geographical and strategic considerations, would involve those West-Balkanese countries to which Brussels has made a promise of acceptance but the time of whose becoming full-fledged members is at least questionable. It is through this very network that not only the hopes of accession could be kept alive but the specific conditions thereof (for instance, trading, developments) could be tangibly improved. Europe as a whole could profit from this project, it could benefit by far not only those countries which are directly involved in the developments, as – and this is what the unique significance of the project lies in – we are talking about such countries with continental borders which fundamentally fulfill a transit role within the European integration, as well as in the commercial and capital relationships between the EU and its neighboring countries (mostly towards Eastern Europe but also to the Middle East).

8 One of the most important areas of analysis in the preparation phase may be the assessment of the advantages and disadvantages of a potential switch to the system of direct transfers. Today it is impossible to take a clear stance on the proposal in which the transformation of the current regional budgetary system into a structure of direct subsidies was brought up. We do not even know what support this proposal would receive at all from the

member states. It would still be worth examining this idea in the form of setting up a balance of benefits and drawbacks.

❾ Finally, Hungary should also develop its ideas on the income side of the budget. It would make sense to analyze the proposals presented at the European forums to date on how the Union's budget could be made as independent as possible from the national budgets (more precisely, from the two currently used forms of payment relevant for the latter, i.e. VAT- and GNI-based contributions).

POTENTIAL ALLIANCES – IN A NUTSHELL

It is obvious that in the 27-member EU, none of the countries has such a room for action which would allow for them to get their ideas accepted, let alone such by which they would be able to force them on the others. However, as there is a national veto system in force for the time being with regard to the approval of the budget, either of the countries has the right to prevent the approval of drafts that are sometimes developed and agreed upon by the other 26 countries. Apart from some large countries (whether we are talking about the net contributor Germany and Great Britain, or the net beneficiaries Spain and Poland as exceptions), such a scenario is hardly probable. Based on experience to date and the culture of compromise that has evolved in the EU, we can anticipate the appearance of various alliances as early as in the initial phase of developing the upcoming budget. These can basically be identified by a few key features.

❶ The alliances organized on the basis of net budgetary positions, i.e. groups of developed and emerging countries continue to appear. It is not sure, however, that these will be homogeneous. On the one hand, the thing is that there are considerable differences even between the net positions with equivalent prefixes, as certain countries are net payers to a much higher extent than others, and there is a similar situation on the side of the net beneficiaries as well. Let alone the fact that the net position of neither of these countries is meant to be maintained for ever, what is more, it is highly probable that the period starting in 2014 will bring about certain changes (primarily in the scope of the current net beneficiary countries). On the other hand, the changes to take place in the structure of the Union's budget will significantly modify the organizations developed on the basis of the net positions.

❷ In the expanded EU, the alliances built up on the basis of the regional fund may fulfill a much more significant role than before. On the level of the Union's politics, regional viewpoints appeared after the Mediterranean expansion (see the EU's Mediterranean politics, or the Barcelona Process). The second regional round came to be seen after the accession of Finland and Sweden (Northern cooperation). The two waves of the “Eastern expansion” has led to the establishment of new regional forms of cooperation. This includes the Visegrád Cooperation but also, the much looser cooperation intention of the countries of the Danube Basin. A widely interpreted Central-European initiative spans several countries. The next few years, partly as a result of global, partly as consequence of European development, will see the formation of such other, permanent or tactical, alliances that will be organized on a regional basis (for example, the strengthening of the Atlantic Dimension, or the crystallization of the stakes related to the West Balkans).

❸ The stakes of member states in line with the various community objectives may generate the formation of further alliances. The most well-known element of this, which largely determines the structure of the budget after 2014 is the fight between the groups that have a stake in maintaining or terminating the agricultural policy. However, this issue will generate alliances much less in itself than in relation to some objectives that can be tied to other budgetary priorities, primarily to the Lisbon Program (first of all to its competitiveness package). As the community policies are developing, and as the *acquis communautaire* of certain policy areas is "getting richer", either as a result of the self-evolution of the integration, or as consequence of global, external effects, we can anticipate the appearance of ever newer lobbies and alliances. According to our current knowledge, it is primarily in the following areas that this may take place:

- the common energy policy,
- the management of the increasingly stronger migration (mainly to the South),
- the cooperation between the countries affected by the Schengen borders,
- environmental protection,
- last but above all, all the priorities related to the Lisbon strategy (from research and development, through education, to social issues and labor market reforms).

Based on all this, one can hardly identify such alliances whose membership composition is relatively permanent. Alliances of very different compositions may be formed in the individual areas, which, mainly in the initial phase of planning the budget, may make it difficult to see clearly. However, it is this very diverse structure that makes it possible, even compulsory to reach sensible compromises. This statement is of course based on that each of the countries can accurately assess their short- and long-term interests and is also familiar with their partners' similar or differing interests.

In the course of developing the tactical and strategic alliances, the activities of the Commission should be remembered, which entity is interested in the comprehensive reform of the budget, more precisely, in the stabilization of the revenues (in making these as independent as possible from the national budgets), as well as in the priority of future-oriented and solidarity (cohesion) objectives. It is also in the fundamental interests of Hungary to rely on the Commission's support in protecting and realizing its goals as extensively as possible.

TASKS TO BE PERFORMED BY HUNGARY

With regard to the community budget, Hungary has two fundamental tasks, which are only partially separated in time. One of these is related to the budget of 2007–2013 and means the most efficient use of the financial resources available in the framework of this budget. The other one refers to the development of the budget after 2013, in which Hungary should take initiative (play an active role). This is important not only because it is our fundamental interest to maintain our net beneficiary position but also because the first concrete versions of the new financial plan starting in 2014 may appear exactly at the time of the Hungarian presidency in 2011.

The key tasks can be summed up as follows.

❶ It is not only for the success of the social-economic convergence of Hungary and that of modernization that the calldown of the Union's resources to as high an extent as possible, and the most efficient utilization thereof is fundamentally important. This may weaken the views according to which the structural and cohesion funds are "unnecessary" and may strengthen the arguments for sustaining such subsidies. In this context, all the net beneficiary countries are in the same boat, the success of either of them may have a positive effect on the future of the structural funds, while the failure thereof may exert on adverse effect on the same funds. Hungary should prove that the Union's funds are not simply to be absorbed but that comprehensive developments are implemented by relying on them, which have a clear and positive effect on the development of some other areas of the society, which may not be directly affected by the Union's resources. Besides, it should be stressed all through that the successful utilization of funds by Hungary also contributes to the realization of regional and European objectives (for instance, it reduces the difference between the levels of development of the various countries as well, improves the EU's competitiveness, etc.). This is why in the assessment of the projects, those should be given priority which will probably be able to generate spill-over impacts within a relatively short time. The spending of the money may not serve as a measurement for successful utilization in itself. Neither can such projects fulfill this role which meet the predefined objective but are only viable if the umbilical cord of community financing is maintained. Finally, in the coordinate system described above, those projects cannot be regarded as successful either which become automatic and self-sustaining after receiving the community susbsidies in the first period but which exist as an isolated island in the surrounding economic-social environment, that is, are unable to generate spill-over effects. In this respect, it would definitely be useful and expedient to analyze the Spanish, Portuguese, Irish and East-German examples, with special regard to those which have been able to generate spill-over effects. The social-economic-legal-institutional environment that has enabled (or has made it impossible for) these business enterprises, which were also supported from the community budget, to achieve this should also be examined. It is nonetheless important to analyze the time factor, i.e. how much time was required in the individual countries (on the level of the individual projects) for the appearance of the positive multiplicator effects.

❷ Besides the “national packages” received as predefined amounts, there are some budgetary limits of the Union for which any of the member states can apply and which will not count towards the national limit. Although the “national packages” contain the key amount, and it is for the utilization of this amount that each country had to develop their respective national development plans, it would be incorrect to exclusively focus our attention on this aspect. Hungary should play an active role in all the common policies (not only with the intention to receive a share of the public funds but of course this is what we highlight in a study on the budget).

❸ It is similarly important to be familiar with the “national packages” and development plans of the other countries as well, since community tenders have to be invited for the majority of the projects to be implemented. As a significant part of the funds in the “Hungarian package” “migrates” to the companies of other members of the Union, in the form of various orders (it is not right to judge the net positions only on the basis of the budget for this very reason alone!), so can the Hungarian companies get their share of the community subsidies of other countries. This should first of all strengthen the Hungarian aspirations in the direction of the new member states (which seems to be supported by the intensive trading relationships, and more recently, the capital relationships as well).

❹ In the framework of the New Hungary Development Plan, those developments should represent a significant weight which have crossborder and regional implications. As the EU's current budget does not extend to the comprehensive development of the infrastructure between the new member states, this task, at least partially, should be undertaken in the national development plans and by the regular and multilateral coordination thereof. This assumes that the similar plans of the neighboring countries will be coordinated more intensively on the basis of the regional development interests.

❺ Last but not least, we have to start preparing for the budgetary period after 2013 as early as now. It is true that the first concrete ideas, whether on the member state or on the Commission level, are only expected to be disclosed by 2011 but this does not mean that the individual countries will start analyzing their interests only then, or shortly before 2011. Hungary should also start its analyzing-exploring-information gathering work related to the development of the strategy in early 2008 the latest, as well as its assessment activities not long after. This activity affects three major areas:

- the definition of the Hungarian interests in relation to the future of the community budget by assuming various scenarios, and by taking the "exchangeability" of the individual interests into account,
- the examination of the interests of all the relevant (for us and the budget) member states in a similar structure and with a similar content,
- based on the findings of these two examinations, the identification of the potential alliances and conflicts of interests, including the viewpoint of analysis of how stable the individual types of alliances are, and in the case of what compromises these can be dissembled, or recreated in order to protect and enforce the key Hungarian interests.

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