**REDISTRIBUTIVE INTERNAL POLICIES – HANDOUT**

**Theories of public expenditure and redistribution**

- compared to the national political systems, the capacity of EU to redistribute resources betw een individuals and states through taxation and public spending is rather limited. (EU budget constitutes less than 2% from the EU GDP)

- the goals of public expenditure:

- allocation (promote public interest)

- redistribution

- stabilization (to achieve macro-economic goals)

**The Budget of EU:**

- in 1988, the Council has adopted the EU budget through multi-annual packages which fix the overall ceiling of the budget relative to the GNP of the EU members states, the structure of revenues, and the relative size of the various expenditure categories

a. the EU budget is funded through **“own resources”** of the EU (99%):

1. Customs duties on imports from outside EU and levies (25%)
2. VAT (a standard % is levied on the harmonized VAT base of each EU country – no more than 50% from the GNI)
3. GNI-based own resource (to cover the difference between planned expenditure and the amount from the other 3 resources) – no more than 1,23%

b. “**Other revenues”** (1%):

1. taxes on EU staff salaries
2. contribution for non-EU countries to certain programs
3. different fines

**Expenditure:**

-the expenditure of the EU budget has grown – as the policy competences of the EU have expanded (from 1988 to 1999 with 30%)

- the composition of EU expenditure between different categories also changed considerably in 80’s and 90’s. (the 2 main expenditure categories are CAP and Cohesion Policy – in 1999 expenditure on agriculture and cohesion policies consumed 81% of the EU budget, still the expenditure on CAP decreased in time in favor of Cohesion Policy)

**The Multiannual Financial Framework:**

* Ensures that EU spending is predictable and stays within the agreed limits
* The functioning of the MFF 2014-2020 will be reviewed by the Commission in 2016 taking into account the economic situation

**COMMON AGRICULTURAL POLICY (CAP)**

- 77% from EU land is rural (including forests)

- 12 million farmers

- agriculture produces 6% of the EU GDP

- the family farms are the most frequent ones in EU (12 million farmers with around 15 ha/farmer, 2 million farmers with around 180 ha/farmer)

- is the largest EU expenditure and was the first supranational policy of the EU

- is one of the most controversial EU policies

- it initially sought to increase agricultural productivity in the EU and ensure food supplies during the Cold War

- was established in the EEC, by the six member states which were recovering from severe post-war food shortages and were worried about the sustainability of food production =remained intact until the late 80s

- The Treaty of Rome established CAP as a central policy of the ECC (to increase agricultural productivity, ensure fair standard of living for the agricultural production and the optimum utilization of the factors of production, to stabilize the markets, to ensure the availability of supply and at reasonable prices)

=> the first objectives:

- a single market (single agricultural prices within the community)

- community preferences (common market products protected against low-price imports)

- financial solidarity (collective responsibility of member states for the financial consequences of the CAP)

=> the first measures:

- protection against low internal prices (buy surplus goods from farmers when the prices fall below an agreed guarantee price)

- protection against low import prices (import quotas and levies on imported goods when the world price falls below an agreed price)

- subsidies to achieve a low export price (a system of refunds for the export of agricultural products)

* This is a system of indirect income support for farmers, paid by EU taxpayers
* Still it is an unfair way to protect EU agriculture from overseas competition when farming contributes relatively little to EU GDP

**How does it work**

-CAP is a form of protectionism designed to defend European producers from cheaper products outside the EU

- import tariffs and in the same time subsidize farmers through SFPs

- is surplus food is produced, EU intervenes in the market either by subsidizing exports of the product at below cost price; by storing it and selling it later; or destroying it.

**Problems of CAP**

The CAP price-support mechanism created some problems:

- guaranteed prices – encouraged overproduction

- the surpluses had to be stored at additional costs to the CAP budget

- over-intensive land-use + overproduction => environmental destruction

- the bulk of revenues went to larger farmers

- import quotas and levies created numerous trade disputes

- export subsidies depressed world prices and distorted agriculture markets in the Third World

**Reforms**

=> By the end of 80’s the CAP was no longer sustainable and needed to be reformed

- in 1992 - reform – MacSharry:

- price cuts in certain sectors (cereals and beef closer to the world price)

- direct income support for farmers – direct payments to farmers

- set-aside scheme – farmers from certain sectors are paid to leave their land fallow (set-aside)

- accompanying measures – new aid programs to promote rural development , environment-friendly agriculture, early retirement of farmers

- in 1997 – Franz Fischler – furthered the 1992 reform (introduced new price cuts for milk, olive oil and wine)

Making agriculture policy – the iron triangle: agriculture ministers, agriculture officials in the Commission and European-level farming interests.

- 2003 CAP reform:

- direct aids to farmers will be paid via **single payment scheme** (payment per year and are decoupled from production)

- obligation for farmers to manage their farms in sustainable ways – cross-compliance links direct payments to farmers

- CAP 2008 Health Check:

- abolish arable set-aside, increases milk quotas gradually leading to their abolition in 2015. Direct payments to farmers are reduced and the money transferred to the Rural Development Fund.

- additional funding allocated to the new members states (EU-12)

- The 2020 CAP Strategy:

- the budgetary framework ends in 2013

- reducing the SPFs to large farms and increase the amount of funds transferred to the Rural Development budget.

- subsidies for farmers that grow crops for biofuels and abolish the set-aside scheme

- all recipients of SPFs are made public

- speculations talk about the shift in spending from CAP towards innovation, climate and energy

**How it works today**

* First Pillar (Direct Payments) – 70% from the CAP budget – from 2013 – 30% of these payments are coupled with the respect of durable agricultural policies, favoring the quality of soil, biodiversity, crop rotation, or introducing some organic production); they are decoupled from production and is a fixed rate/ha
* Market measures – tariffs or in exceptional cases a maximum of 10% help)
* Second Pillar (Rural development) – one example of such policies is related to facilitating young farmers (below 35) investments in agriculture and farming (from 2013 they have a 25% bonus to the direct payments in their 5 years of activity) – in EU we have 6% young farmers and 30% over 65

**COHESION POLICY (STRUCTURAL FUNDS) – HANDOUT**

- one of the central aims of EU is to promote economic and social cohesion – the reduction of disparities between different regions and social groups in the EU.

- Were set up to give financial support to under-developed and economic weak EU regions.

- types of structural funds:

- European Regional Development Fund

- European Social Fund

- Cohesion Fund

- European Agricultural Guidance and Guarantee Fund

- Financial Instrument for Fisheries Guidance

- Instrument for Pre-Accession Assistance

- while many welcome their economic goals, the way in which they share out money had frequently been a source for argument – esp. for new much poorer Eastern European countries.

**History**

- was first developed in early 70’s

- The European Social Fund was introduced in 1958, followed by ERDF IN 1975 and recently they became more and more popular.

- with the accession of poorer countries (Greece, Italy, Portugal) the regional funding became a hey means of bringing these countries’ wealth up to European average

- in 1994 – The Cohesion Fund – to encourage economic convergence between member states in the EMU

- in 1999 – a model for distributing these funds was developed – to prepare the accessions in 2004 and 2007. In the beginning these countries didn’t have much access to the funds but later negotiated for the 2007-2013 scheme.

**How do they work?**

- to qualify for the structural funds, regions must have one of 3 objectives set by the EU:

- to help underdeveloped regions (with a GDP less than 75% on the EU average)

- adapting to major economic changes (declining rural areas)

- helping those special educational and employment needs.

- there is a maximum limit of 0,45% of GDP allocated for structural funds for each country (even though the poorer countries asked for more)

- it also restricts the transfer of EU funds to a maximum of 4% from GNP

- the EU also provides help for the rural areas through the Instrument for Pre-Accession Assistance

- the EU sets its own priorities for how the money should be spent - with an emphasis placed on programs that can help more than one region and forge direct links between local authorities and the Commission

- For 2007-2013 the EU objectives (priorities) are:

- convergence objective – growth-enhancing conditions and factors leading to real convergence to the least developed member-states: 84 regions from 17 member state countries GDP under 75% of the community average + 16 regions in the phasing-out stage – 81,5% of the total budget

- regional competitiveness and Employment objective – the EU27 – all 168 regions – 16% of the total budget

- European territorial cooperation – 2,44%

**ARGUMENTS**

**FOR:**

- help less off regions deal with changing economic conditions

- Solidarity is good for economic growth across The EU

- instead of just giving money to the national governments, the structural funds focus on needy areas directly

**AGAINST:**

- are a bad way of allocating resources because they ignore the poverty that exists within wealthier regions

- the direct relationship between the Commission and the regions cuts out the legitimate role of national governments

- in an enlarged EU with more poor regions, the distribution of funds will be unsustainable and will mean that poor regions in older members states will lose out

**Problems :**

- especially for newly entered countries – very low absorption rate

- even though there were substantial EU efforts for new member state countries to be net receivers – a lot of them are rather net contributors

**The Funds**

**European Regional Development Fund**

The ERDF aims to strengthen economic and social cohesion in the European Union by correcting imbalances between its regions.

**European Social Fund**

The ESF invests in people, with a focus on improving employment and education opportunities across the European Union. It also aims to improve the situation of the most vulnerable people at risk of poverty.

The ESF investments cover all EU regions. More than € 80 billion is earmarked for human capital investment in Member States between 2014 and 2020, with an extra of at least € 3.2 billion allocated to the Youth Employment Initiative.

**Cohesion Fund**

The Cohesion Fund is aimed at Member States whose Gross National Income (GNI) per inhabitant is less than 90 % of the EU average. It aims to reduce economic and social disparities and to promote sustainable development.

It is now subject to the same rules of programming, management and monitoring as the ERDF and ESF though the Common Provisions Regulation.

For the 2007-2013 period, the Cohesion Fund concerns Bulgaria, Croatia, Cyprus, the Czech Republic, Estonia, Greece, Hungary, Latvia, Lithuania, Malta, Poland, Portugal, Romania, Slovakia and Slovenia.