THE USE OF EUROPEAN UNION FUNDS TO REDUCE INTRA-COMMUNITY ECONOMIC GAPS

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Abstract

The European Union aims to ensure an improvement in the production of the Member States of the European Union, so that an increase in economic activity can be ensured. Of course, in this article, the authors aim to highlight the fact that there are large economic disparities between the Member States of the European Union and, therefore, the question arises that the programs established by the European Union ensure a possibility of balancing the level of development of the Member States of the European Union.

Within the framework of The European Union's policy, the question arises of having aid between member countries but, above all, of initiating projects that can lead to results for the benefit of all member countries.

In this context, we have used materials published by the European Union, combined with some data published by Eurostat and even by the National Institute of Statistics. We have used these indicators that we have interpreted in order to understand how these funds, which are, in the European Union's view, important, must also be used in order to eliminate the great disparities that exist between the Member States.

We also used some data processing using statistical-econometric methods that led us to the conclusions that we have set out in the article to which we refer.

Keywords: *Member States, cooperation, proportions, correlations, crises, developments, resources*.

JEL classification: *E20, E30*

Introduction

In this article we started from the analysis of the aspects regarding the problems and limitations associated with the vision based on net positions. The benefits that each country derives from the Budget of the European Union are mainly focused on the individual net positions, the net operating balances, that is, the net balance between the contribution of nations and the funds received from the European budget.

The countries that have an accelerated pace of development use these funds, becoming countries that are beneficiaries of the position of member country. In the case of countries with a lower level of development, with their own impossibility of financial resources, as a rule, Community funds are not used in their entirety. In this respect, without giving examples, there are countries where the contribution to the Community budget is sometimes greater than the effect of using blocked Community funds, in most cases being balanced, that is to say, balanced, and developed countries make full use of these funds on the basis of quotas.

Of course, these aspects must be taken into account in this analysis because net positions are an obstacle to a future-oriented European Union budget, as they divert the attention of Member States from the long-term challenges facing the European Union such as climate change, migration, digital transformations and others, and because of this, less anchored and developed countries are suffering.

The way of thinking based on net positions requires contributing countries is to require rebates to limit their net negative positions. This means that a smaller contribution must be ensured than the capitalisation it must have in terms of the funds allocated.

The coordinated and financed European Union policies replace or complement the actions of individual Member States, creating additional added value that is not illustrated in the net headings. In many cases, this additional value is not achieved. The emphasis on net positions totally excludes the indirect benefits of the European Union budget that member states could enjoy.

Studies show that not only direct beneficiaries, but also the European Union as a whole, benefit from cohesion policy. Thus, it can be shown that under some cohesion funds granted to countries under the B4 system (The Czech Republic, Bulgaria, Poland, Slovakia) it has reached about 80% of the total contribution of the European Union to their financing and implementation. In other states, the situation is totally different.

Next, we referred to the fact that another limitation of net positions is that they do not include the benefits of funds transferred to the countries of the European Union, development aid or accession assistance that could also bring some indirect benefits.

Of course, we have paid attention to establishing that the benefits achieved by the Member States through membership of the European Union are far superior and, above all, they are encouraging for long-term analyses.

Direct investment in the European Union is also important. That is why a number of countries, Germany, France, Belgium, Austria, Denmark, Sweden and even Ireland, derive additional benefits from the intra-Community investments in which they participate and contribute.

Other countries, including Romania, Poland, Spain, Italy, Portugal, the Czech Republic, have negative records in the sense that they do not fully benefit from the results offered by the intra-EU investment approach. In real terms, we also mention that these countries even participate with more symbolic sums in intra-Community investments. Thus, the balance of income from foreign direct investments in the European Union in the EU 28 (27) cumulated system showed that some countries, again Germany, France, Luxembourg, Italy, had advantages, and other countries, including Romania, along with Poland, Ireland, the Czech Republic, Hungary even, obtained somewhat unsatisfactory incomes.

The revenues related to the total intra-EU foreign direct investments abroad, show that the related direct investments have brought advantages to many countries but, first of all, to those who managed to allocate at least 1 billion euros to these intra-COMMUNITY investments.

Another aspect that needs to be regularised, in order to reduce disparities between Member States, is that which results as a benefit from intra-EU trade (international trade). In this sense, a number of states, and again, the most developed ones, are reaping high benefits at the moment and are able to participate in investments, which will ensure revenue growth in the coming periods.

In the article we also referred to some approaches to overcome the vision based on net positions. Increasing the added value of the European Union through expenditure from the Community budget could help to mitigate the member states' way of thinking based on net positions. That is why the reform of the European Union's system of own resources is an opportunity to ensure joint investments, which in turn will ensure an increase in the income of all Member States. We also referred to options for tax-based own resources and for possible tax revenues, as exists in the structure of the multi-annual budget created in the European Union.

At the same time, in this article, we also referred to other ways that need to be considered, so as to ensure a much better correlation in terms of the contribution to the Community budget and the amount of Community funds allocated to each state. This is where the amendment comes in, that Member States must take care to capitalise on, use on the basis of projects according to European directives, the reimbursable and non-reimbursable amounts allocated.

Romania still has a lot to assimilate from this point of view and we hope that it should find its own ways of understanding, but also of understanding through some discussions that can be held at European Union level, so as to capitalize on the funds allocated as much as possible, if possible, in full.

Literature review

Many studies by some researchers have considered using European Union funds for the economic growth of each Member State and consequently maintaining macro-stability as a whole. Thus, Becker P. (2021) is concerned about the European Union's budget for the Multiannual Financial Framework 2021-2027. A similar theme is presented in the work of Begg I. (2017). Corti, F and others (2021) are concerned about comparing and evaluating recovery and resilience plans. D'Alfonso A. and Sapala M. (2015) are concerned about the payments that are made from the budgets adopted by the European Union. Darvas Z. (2020) is concerned about the ability of the Member States of the European Union to absorb and spend funding well on recovery and resilience. Hallak I. et al. (2021) are concerned about the results of the trade and cooperation agreement between the European Union and the United Kingdom of Great Britain and Northern Ireland. Margaras V. (2020) is concerned about the specific flexibility measures regarding the ESI Funds in response to the coronavirus outbreak. Sapala M. (2020) examines the flexibility of the European Union budget in the multiannual financial framework.

Methodology, data, results and discussions

The European Parliament has had the problem, as early as 2019, to establish on the basis of an appropriate study how European funds can be used to combat economic disparities in the European Union. This study aimed to provide data and analysis on the operational budget balance, its shortcomings and limitations and to provide evidence of the results that Member States achieve as a result of membership of the European Union, regardless of the budgetary operational balance.

When assessing the benefits that are obtained from the Budget of the European Union, Member States usually focus on individual net positions, which are the net balance between their national contributions and the funds received from the European budget.

The use of net operating balances presents several problems and limitations because it neglects the indirect benefits associated with and membership of the European Union's expenditure, in addition to the actual financial flows from the Community budget. Consequently, we can say that in addition to the net concrete results of the amounts received from the European budget, the Member States also have other advantages determined by the position that each has in relations with other states as a result of belonging to the European Union. In this respect, a number of issues such as climate change, migration, digital transformations or persistent inequalities between regions in terms of income distribution, are an interesting phenomenon that anyone who looks at the benefits that a Member State has in this capacity in the European Union should bear in mind.

The positioning on the net budget, or the European budget that is allocated to each state, may be quite unprincipled and consist, in certain circumstances, of ideas that are not in line with this position.

Focusing on net positions leads to the start of a European Union budget that has neither a structure nor an adequate volume to meet the challenges that each individual state has. The structure of expenditure on agriculture and cohesion, for example, has dominated the financial framework, and this trend will continue in the coming period.

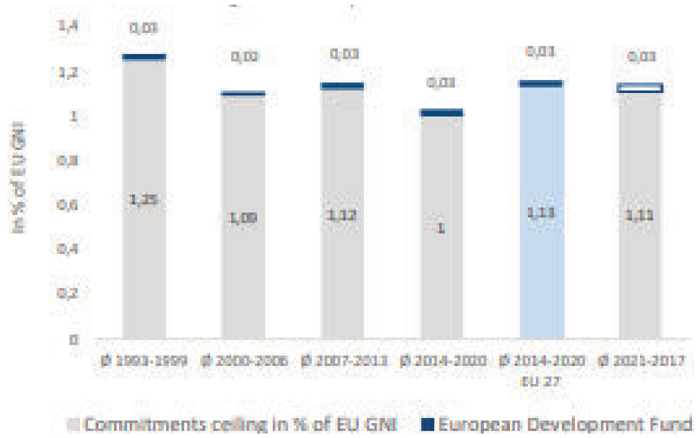
The volume, in comparison with the European Union's gross national income, in each multiannual financial framework leads to the availability that the European Union may take into account when distributing the revenue accumulated in the Community budget.

The way of thinking and interpreting based on net positions assumes that we see net contributor countries requesting rebates to limit their net negative positions. In this context, we can mention Romania, which fails to capitalize on the amounts from the Community budget allocated to it.

These rebates make the financing system used by the European Union complex and often non-transparent. Rebates are not systematically correlated with the size of the net positions of states but, rather, with the logic of the net positions that are encountered in the European Union.

Size of European budgets as a percentage of gross national income

Figure 1



There are a number of benefits for Member States that come from this quality. In addition, they depend on the financial flows themselves that are completely neglected in the logic of net positions.

The policies of the European Union replace or complement the actions of individual Member States by achieving additional gross value added that is not represented in net positions. Thus, on the basis of a study carried out in 2013, it was shown that the replacement of member states' diplomatic missions in third countries by a European embassy could create economies between many millions and perhaps even EUR 1.3 billion per year.

The integration of European ground forces would also create savings of between 3 and 9 billion.

A number of areas are also identified, such as external economic relations, climate change mitigation, digital sovereignty, development cooperation and financial assistance to third countries, or migration and refugee protection policy, which can lead to the development of European public goods.

In the analysis carried out, another limitation was identified, namely that the net positions do not capture anything about the structure of transfers received from each Member State, from the Budget of the European Union, nor about their effectiveness and results.

For example, a 2019 study highlights that the results in terms of productivity and employment, of financing industrial firms from cohesion funds vary between regions and Member States, which is not captured in net positions.

Replacing current own resources with alternative revenue resources that would contribute to important European Union strategies, such as green own resources, can create benefits for the Member States and for the European Union as a whole, which is not reflected in net positions. From this point of view, net positions are also considered to ignore some aspects of the quality of income.

The analysis based on net positions totally excludes the indirect benefits of the European Union budget that the Member States could enjoy.

There is a view that not only direct beneficiaries but also the European Union as a whole benefit from cohesion policy. For example, it has been established that Poland estimates the benefits offered to Member States from transfers made under the cohesion funds to the B4 countries (Czech Republic, Hungary, Poland, Slovakia) at EUR 96.6 billion and reach around 80% of the Total European Union funding contribution going to these countries.

Most of the benefits are in the form of indirect export benefits, most of which are obtained by the main trading partners of Visegrad 4, i.e. Austria, Germany and Italy, the Netherlands and France. There are direct benefits for businesses in these countries. The main beneficiaries are the countries directly involved such as Germany, Spain, Austria, France and Italy.

The European Regional Development Fund is provided for investments made on their completion in cohesion countries.

There are a number of positive externalities for the Member States of the European Union. These externalities result from supporting innovation entrepreneurship, transport infrastructure, universities and environmental protection through cohesion policy in countries B4. There are some examples, such as the Volkswagen case, extended in these countries, which brings additional benefits to the states involved.

Speaking of the limitations of net positions, we must also refer to the fact that they do not also include the benefits of funds transferred to countries outside the European Union, such as aid for development and accession assistance, which may bring indirect benefits for some Member States.

The benefits achieved by the Member States by belonging to the European Union go far beyond the way of budgetary analysis on the basis of net positions. Membership of the European Union brings many benefits for Member States, such as intra-Community direct investment, intra-Community trade and existing network effects in the European Union.

One advantage is the benefits of direct investment within the European Union. Although foreign direct investment, FDI, from the outside is an important component of competitiveness and a factor of economic growth for a beneficiary country. Foreign direct investment from abroad also has some benefits at a time when internationalization has become a guideline of corporate growth strategies.

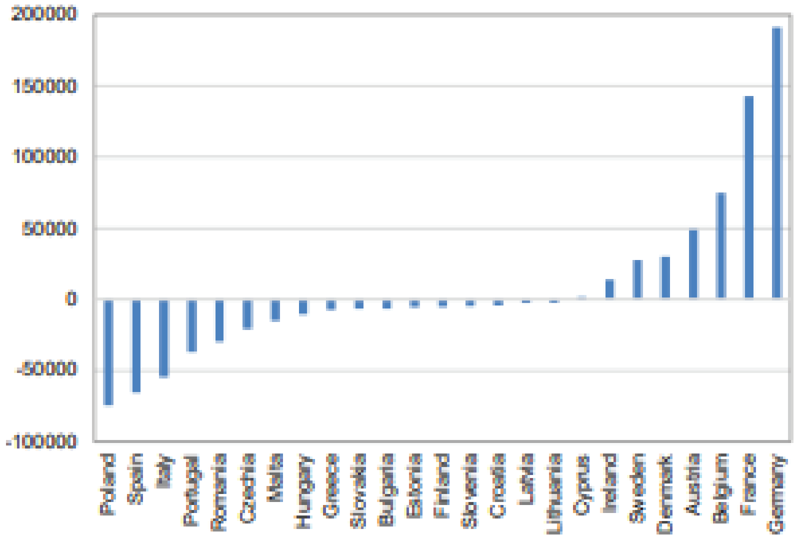
Very many important intra-Community direct flows are channeled from economically advanced net contributing countries to poorer economies, allowing them to benefit from cheaper resources. Poorer beneficiary countries can benefit from capital transfers and technology to ensure increased labour productivity.

A state's ability to invest abroad suggests that a country possesses technology, capital power or superior knowledge in relation to its competitors.

Through outside investments, multinational firms can gain a competitive advantage over competing countries, thereby exploiting the existing advantage as a Member State of the European Union.

Cumulative net foreign direct investment flows (assets minus liabilities) established in 2009-2011 (euro million)

Graph 2



In general, less developed countries import more capital than they export, and that is why, through these imports and lower exports, the *net export* indicator of poorer countries always indicates a deficit.

The figure shown above shows that in the EU advanced Member States, which are in a position of net payer to the Community budget, register more foreign direct investment outside than from outside within those countries and benefit from market access to cheap resources.

The less advanced countries are in the position of net beneficiary from the European budget, but also some more advanced, but less competitive states, also have access to and benefit from investments from the best positioned co untries.

The efficiency gains of value chains across the European Union have increased the competitiveness of businesses in the European Union, which in turn makes them extend beyond the EU with the surpluses they achieve.

The study shows that in the European Union the main investors are the most developed countries, namely Germany and France, as well as those hosting holding companies, financial centers which transmit funds to third countries, such as the Netherlands and Luxembourg.

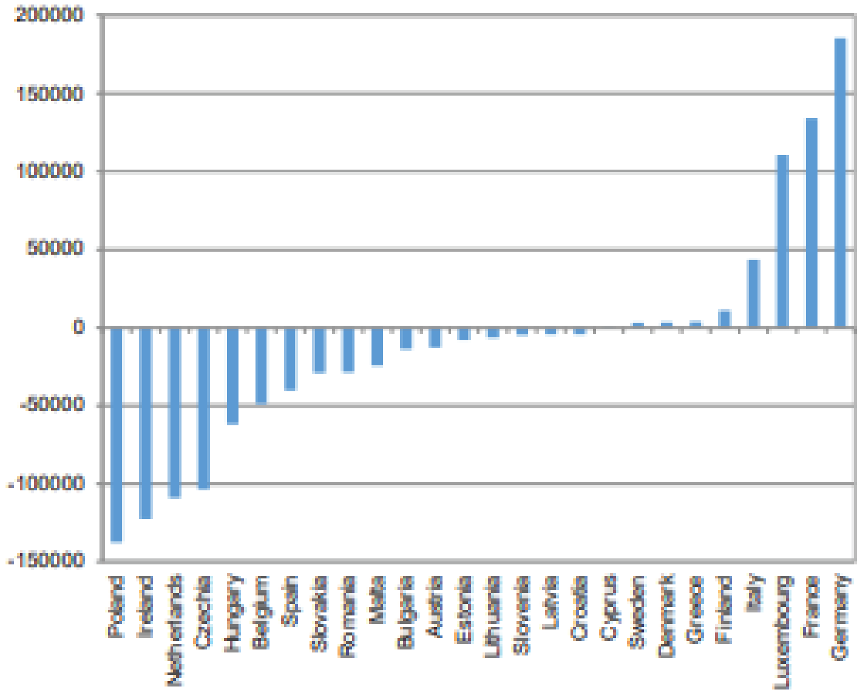
The income of foreign direct investors is always in the attention of those who study as investors expect a positive return on invested capital. There is no difference between foreign and national investors, at least as provided for in the European Union directives.

The rate of return on investment in an economy is the important factor in the attractiveness of direct foreign direct investment management. Of course, the Member States of Central and Eastern Europe offer high rates of return for foreign investors in developed countries, which leads them to join and use these investment investments more often.

Speaking of the balance of foreign direct investment income, it follows that it is a position in the balance of income from the current account and contains all the income obtained abroad by an economic entity, minus the income attributed to a foreign entity in this case.

Balance of income from foreign direct investments intra-EU, EU-28, cumulated values 2009-2018, in million EUR

Chart 3

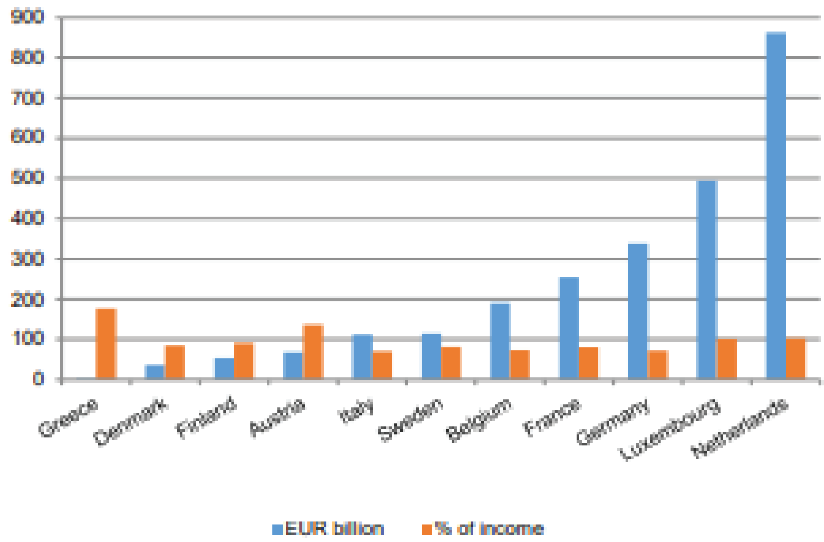


Taking into account only the revenues from FDI abroad, a more practical picture of the beneficiary countries results in the European Union (EU 27).

The financial centers and large holding companies found in the Netherlands and Luxembourg have practically the highest revenues. After these two centers, with financially high incomes, the centers in Germany, France and Italy follow.

Revenues apportioned from total intra-EU foreign direct investments abroad, in percentage of foreign direct investment income, related to direct investments existing between 2009 and 2018, aggregated data

Chart 4



The Member States of the European Union also have some advantages and benefits in intra-Eu trade. Since joining the European Union, member countries have intensified their bi- and multilateral trade within the EU. It is very clear that this intra-EU trade is influenced by a wide range of factors (such as the collapse of communism and the subsequent reorientation of trade; the specialization of industry and integration into value chains; geographical location, etc.).

A closer analysis shows that a more significant increase in imports and exports to the European Union took place between 1999 and 2008, when there was a growth rate of 7%. In addition, the net contributing countries, as well as the beneficiary countries, have seen an increase in trade, and these have been more pronounced in the net beneficiary countries.

We can discuss the commercial integration into the European Union measured as the share of exports and imports within the European Union from the gross domestic product of each country.

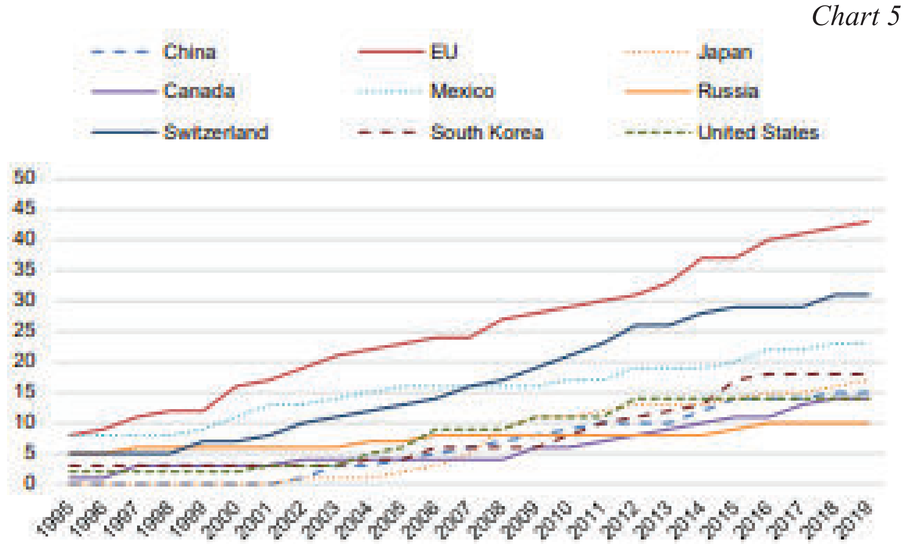
The analyzed study shows that there were increases between 5 and 50%, these changes being made especially through high and medium technology intermediation, exports of technology, the application of modern methods and so on.

The effects of a member country of the European Union also start from the network created by the European Union for investment and trade. The European Union is the most active participant in trade agreements.

The following figure shows that free trade agreements are in force for all countries of the European Union. With 43 free trade agreements, the European Union is a leader in this area. On the next places, curiously, Switzerland is stored with 31 free trade agreements, Mexico with 23 such agreements in force.

Number of free trade agreements entering into force

Chart 5



It follows that the European Union has expanded not only in terms of its Member States, but has considerably increased the number of free trade agreements with countries outside the European Union, with a positive effect also on trade with them.

From the gravitational model used in this study, it follows that there are major and significant effects of the enlargement of the European Union on bilateral trade and investment flows, and that a huge trade network has been created that produces additional beneficial effects for all countries.

Of course, the European Union's policy is aimed at, and must always be, focused on helping countries that are far behind, by placing intra-Community investments in these countries, attracting them to intra-Community joint investment, intensifying exchanges through imports from these countries and exports of technology to these countries, as well as directing investment funds to these states.

Not unimportant is also the support that can be provided through these Community funds and facilities for access to the banking system, which should be favourable to countries lagging behind in terms of economic development, thus ensuring that they can reduce lagging behind, at least in some areas.

We can conclude in the following that there are a number of approaches aimed at overcoming the vision based on net positions. From the net positions result a number of indicators, but they are not entirely favorable to the presentation of the advantages that the member countries have.

Integration into the European Union is a necessity and this leads to the creation of additional value through the international division of labour, of a larger market for all Member States.

We are currently discussing the European Union's option to expand its membership, by accepting Moldova, Ukraine, Georgia as well as the Balkan countries, so that the increase of this number is from 30 to 36 states.

Of course, the growth of the European Union market will be an advantage for most states because the provisions of the directive on the free movement of goods, products as well as people will apply, which ensures the absorption of unemployment in some countries, leads to possibilities for improving intra-Community trade to benefit, through imports and exports, most Member States.

Unlike net contributions to the European Union budget, integration can create additional value through the international division of labour in a larger market, for all Member States. Also, increasing the added value of the European Union through expenditures from the community budget will help to mitigate the retentions of states that make membership of the European Union only through net positions.

Reforming the European Union's system of own resources is another way that can increase results in countries that are lagging behind and, in this way, reduce the gaps that exist at the moment.

The following table shows several options for innovative resources.

Options for tax-based own resources and possible tax revenues

Table 1

Posibile resurse proprii bazate taxe	Anul de referință	Statele membre implicate	Detalii	Venituri potențiale, în miliarde EUR	Venituri potențiale, % din bugetul UE 2021
Taxă pe biletul de avion asociată emisiilor de carbon	2014	UE-28	Prețul carbonului, între 25-35 EUR pe tona de emisii de CO_2	între 4-5	între 2-3
Ajustare la frontieră a emisiilor de dioxid de carbon pentru EU ETS	2021	UE-28	Prețul carbonului, 54 EUR pe tona de emisii de carbon încorporate în importuri	între 9-65	între 5-39
Suprataxă la accizele naționale pe carburant	2014	UE-28	între 0,03-0,20 EUR pe litrul de combustibil	între 13-86	între 8-51
Taxă pe averea netă a populației	2014	UE-20 (statele membre pentru care sunt disponibile date HFCS)	1 % pe averea netă a gospodăriei de peste 1 milion EUR 1,5 % pe averea netă a gospodăriei de peste 1,5 milioane EUR	156	93
Taxă pe tranzacțiile financiare	2016	UE10 („Coaliția voluntară")	0,1 % pe capital propriu; 0,01 % pe instrumente derivate	între 4-33	între 2-20
Resurse proprii bazate pe CCCTB	2014	UE-28	1 % din CCCTB	8	5

Thus, in the years 2014 - 2021, the possible own resources based on taxes, the details of the price, etc., the potential revenues in billions of euros and the potential revenues expressed as a percentage of the European Union budget are presented.

The less revenues are attributed to individual Member States due to cross-border aspects, the greater the share of national contributions it would replace and the less relevant the net operating balances will be.

Many of these issues, in particular the implementation of the European Green Deal as environmentally friendly own resources, will provide for a carbon-associated airfare tax, i.e. a carbon border adjustment mechanism for the EU Emissions Trading System, or an over-tax on national excise duties on fuel.

As a supranational fiscal paradigm, innovative own resources could replace national contributions, which could create an additional fiscal margin for Member States, which is much needed in the context of the current crisis promoted by the COVID 19 pandemic and amplified by the crises facing the global economy today.

Focusing attention on net positions requires contributing Member States to require rebates in order to limit their net negative positions. That is why it is necessary to reform the rebate system, which could therefore contribute to abandoning the way of thinking focused on net positions and suggest that there are other possibilities, other ways in which Member States can gain particular advantages due to their position as a Member State of the European Union.

There are other possibilities for using Community funds which will be such as to ensure that disparities between Member States are reduced. Of course, the financial lever is the most important and in second place is the possibility of intra-Community cooperation which will ensure that all Member States have the opportunity to obtain additional revenue. In this context, we believe that European Union funds may be such as to reduce economic disparities in the European Union, but only on condition that they are used correctly for all Member States, especially for states that have a very large gap with the most developed countries.

Conclusions

From this article a number of useful conclusions can be drawn for improving the national strategy of participation in the major objectives of the European Union as a member country. It is obvious that there is a large gap between the Member States of the European Union. Romania is part of the EU, being among the last to join the European Union 15 years ago, from the category of states that have a fairly large gap with the Member States with a sufficiently long history in the European Union.

A first conclusion is that we need to reinvigorate some branches of industry, of the economy as a whole, and have the resources with which to participate in the objectives that will be launched and the future strategies of the European Union. Of course, the European Union is showing a high degree of leniency in some circumstances, when it comes to giving funds to countries that are lagging behind in terms of economic development.

A state of crisis such as the current one, pandemic, economic and financial, energy, agro-food products, water, etc., must also offer benefits and possibilities, advantages to countries that are experiencing great difficulties. Thus, for example, Romania will have to actively militate and determine the European Union to grant advantages through the allocated funds, through the National Recovery and Resilience Program so that it can recover, in some areas, from the gaps that separate us from the developed countries.

No one will stand still, and that is why we need to improve the funding for research and development and the resulting projects to then be sponsored in production, which is the way in which we can, by our own forces, make some progress in bridging the gaps.

The European Union must show great attention in providing funds for the improvement of the infrastructure, the hospital complex and other objectives in Romania, a country that has limits in using the resources that these objectives require, and the European Union has an interest in bringing Romania close to the better developed countries.

Romania must actively enroll in the programs initiated and which will still be initiated by the European Union regarding major objectives, which will result in additional revenues and the improvement of the economy of the respective countries.

As a final conclusion, we must refer to the fact that we need to think more complexly about the demands that we have to place at European Union level, and even think about projects that can also benefit other countries with resources perhaps greater than our own, so that we can meet the needs involved in the return to macro-stability of the European economy. Of course, other states are also facing difficulties, but it is important for Romania to find the way in which these possibilities are correlated with those of other states because, by increasing the financing power, the level of objectives that can be initiated will also increase.

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