Politicization of the EU Budget: A Longstanding Tradition

By Réka Máthé Zsuzsánna

Mathias Corvinus Collegium – Centre for European Studies
December 2024

Executive Summary

This paper examines if ideological influences can be observed when allocating funds within the European Union budget. First, it presents the legal basis of budget sources, followed by an examination of the major trends that affect the allocation of EU budgets.

- **Research shows that greater ideological distance between Commissioners and heads of government leads to reduced funding for specific regions. This suggests that the Commission doesn't act impartially and favors politically aligned entities.**
- **Members of the European Parliament significantly influence funding allocation through formal and informal channels, often advocating for projects beneficial to their constituents and/or interest groups they align with. This creates a system of interest intermediation between advocacy groups and policy.**
- **Regional parties' stances on European integration are influenced by EU funding. Regions receiving more funds tend to have parties more supportive of integration.**

Where Does the Budget of the European Union Come From?

The European Union (EU) was founded on a vision of lasting peace between European countries, achieved through economic interdependence and mutual self-interest. What began as a free trade agreement area evolved into a political and economic bloc, encompassing hundreds of policy issues that require joint action. Accordingly, the European Union has maintained a common budget for decades to pursue shared objectives. In fact, from the time they were established, the European Coal and Steel Community (ECSC), the European Economic Community (EEC), and the European Atomic Energy Community (Euratom) each had their own budgets – the latter began as an operating, and research and investment budget, which later turned into a general budget. Over time, these were merged into a general budget, which remains the EU's sole budget following the expiration of the ECSC Treaty.

Today, the Treaty on the Functioning of the European Union (TFEU) regulates the EU budget, specifically in Articles 310 through 324. Additionally, the Treaty on European Union (TEU) addresses specific aspects of budgetary funding for the EU's common foreign and security policy. The TFEU legislation outlines the principles of sound financial management, budgetary procedures, and the requirement to fund EU programs primarily through its own resources.
The 2021-2027 Multiannual Financial Framework (MFF) identifies three primary sources of EU revenue:

1. Gross National Income (GNI)-Based Contributions: GNI-based contributions from Member States have become the EU's main source of revenue, accounting for over 70% of the budget. Depending on the financial needs of the European Union and the

total annual revenues needed to cover the expenses; a uniform rate is calculated for the GNI of each Member State. The sum of all Member State's GNI – the EU GNI – is used as a reference for the annual payments. Currently, no Member States' contribution exceeds 1.4% of the EU GNI.

2. Value Added Tax (VAT)-Based Contributions: Member States contribute based on the VAT they collect, calculated under a simplified and harmonized framework. Accordingly, the VAT base, adjusted for territorial scope and weighted against the 2016 average VAT rate, is capped at 50% of each country's GNI base. A uniform rate of 0.3% is then applied to this adjusted VAT base.

3. Traditional Own Resources (Customs Duties): Customs duties levied on imports from non-EU countries constitute the third major revenue stream for the EU. Member States collect these duties, retaining 25% to cover administrative costs and transferring the remaining 75% to the European Commission monthly (two months after the entitlement is established). The Commission ensures that customs duties are collected in compliance with current legislation and financial rules. Member States are held accountable for any losses or errors that harm the EU's financial interests.

Additional resources for the EU include contributions for non-recycled plastic packaging waste and debt issuance under the NextGenerationEU program. Member States are required to pay €0.80 per kilogram of non-recycled plastic packaging waste, based on data reported by Eurostat. To address the economic challenges brought about by the COVID-19 pandemic, and to rebuild the European economy, the EU introduced the NextGenerationEU program, which involves common debt issuance and borrowing from capital markets. This approach created an even stronger co-dependence among Member States.

These mechanisms enable the EU to ensure the 2021-2027 long-term budget revenues from Member States, totaling to €1.211 trillion, with an additional €806.9 billion secured through NextGenerationEU. In summary, the EU budget relies predominantly on contributions from Member States, as established by the TFEU and the TEU. Member States are obliged to generate revenue through GNI contributions, VAT transfers, the majority of their customs duties, and payments for non-recycled plastics. While the collection process operates under strict legislative frameworks, requiring equal financial obligations from all Member States, the distribution of funds collected is not nearly as neutral.

Managing the Budget of the European Union

Budget management in the EU is categorized into three types: shared, direct, and indirect management. Shared management refers to the division of tasks and responsibilities between Member States, the European Commission, and other entities, such as international organizations, national agencies, or non-EU countries. In shared management, national authorities of the Member States and the European Commission jointly oversee the implementation of a particular program. Around 70% of EU programs are managed this way. Examples of such programs include those under the Common Agricultural Policy, rural development, social and territorial cohesion, or the EU Programme for Employment and Social Innovation.

The European Commission, along with its agencies and delegations, directly manages approximately 20% of the EU budget directly. Additionally, the Commission oversees 90 percent of the funds allocated through the NextGenerationEU program. Directly managed programs include, among others, the Asylum, Migration and Integration Fund, Digital Europe Program, European Social Fund+, European Defense Fund, Erasmus+, Horizon Europe, Internal Security Fund, and the Just Transition Mechanism.[1] Between 2020 and 2021, it even included a special fund for the European Parliament's communication purposes.[2] When funds are directly managed by the European Commission, no third parties are involved in program implementation. The Commission is responsible for launching calls for proposals, evaluating them, signing grant agreements, monitoring project implementation, assessing results, and making payments.

The third management type is indirect management, which accounts for roughly 10 percent of the EU budget. The majority of these funds are allocated to humanitarian aid and international development. In this framework, international organizations, such as the United Nations, World Bank, and International Monetary Fund, as well as decentralized agencies like the European Border and Coast Guard Agency (Frontex), the European Investment Bank, and the European Investment Fund, or third countries, are involved in fund management.[3]

The 2021–2027 long-term budget introduces new priorities compared to previous years' allocations. In the 1980s, the primary focus was the Common Agricultural Policy, and in the 1990s, cohesion. However, half of the latest budget, along with funds from NextGenerationEU, is directed toward new priorities, including research and innovation, climate fairness, and digital transitions, as well as preparedness, recovery, and resilience. The new priorities – Horizon Europe, the Just Transition Fund, the Digital Europe Program, and the Recovery and Resilience Facility mechanisms – will play a major role in implementing the budget.[4]

[1] "Single Funding and Tenders Portal," *European Commission*. https://ec.europa.eu/info/funding-tenders/opportunities/portal/screen/home

[2] "European Parliament. Single Funding and Tenders Portal," *European Commission* https://ec.europa.eu/info/funding-tenders/opportunities/portal/screen/programmes/ep

[3] "Funding by management monde," *European Commission*, https://commission.europa.eu/funding-tenders/find-funding/funding-management-mode_en

[4] European Commission, Directorate-General for Budget, The EU's 2021-2027 long-term budget and NextGenerationEU – Facts and figures, Publications Office of the European Union, 2021, https://data.europa.eu/doi/10.2761/808559

In other words, the amount of funding directly managed by the European Commission has increased significantly compared to the previous budget priorities, raising several concerns.

Concerns Related to Budget Management

The Commission's role in managing the European funds should not raise any questions. After all, the Commission is regarded as the "honest broker" and the independent institution tasked with safeguarding the treaties and ensuring the safe and effective implementation of the Union's objectives. However, after a closer examination of several Commission decisions, it seems there are doubts regarding its objectivity and fairness.

The Commission plays a critical role not only in managing the EU budget but also in planning, preparing, and proposing new legislation, making its actions of utmost importance. Its decisions should prioritize the interests of the European Union and its citizens. However, public policies cannot be created in such a manner that every social category would be able to benefit from it equally. Some groups tend to gain more from one particular decision, while other groups perhaps are not even affected by it. Producing policy on the EU level that would benefit all citizens and groups at the same level is nearly impossible. Nevertheless, a balanced allocation of funds is a realistic expectation. Therefore, it is reasonable to question how equitable the Commission is when determining the main beneficiaries of its legislative acts and the EU budget.

Broberg (2022) examined whether the political alignment of the European Commissioners influenced the distributions of funds and, if so, identified the key circumstances that played an important role.[5] His study covered the period from 1979 to 2006, focusing on the most significant components of the EU budget during that time: agriculture and regional policy. In 2006, the Common Agricultural Policy accounted for approximately 45% of the total budget, while allocations from the European Social Fund (ESF) and the European Regional Development Fund (ERDF) represented around 30%. Broberg specifically investigated the existence of statistically significant relationships, examining how the ideological positions of the Commissioner for Agriculture, the Commissioner for Regional Policy, and the heads of government influenced the distribution of funds.

The author utilized ParlGov, a database containing information on party positions measured along a left-right [0-10] scale based on economic and cultural perspectives, enabling comparisons across time and countries. Using this resource, Broberg retrieved data on the ideological alignment of the various Commissioners and the heads of governments. He controlled for several factors, including the size of the economy, economic conditions, the importance of agriculture, the political situation of Member States (e.g., elections and recent

[5] Broberg, Nikolaj, Transcending Borders: Political Dynamics or Bureaucratic Independence in EU Budget Allocation (March 1, 2022). Available at SSRN: https://ssrn.com/abstract=4046936 or http://dx.doi.org/10.2139/ssrn.4046936

EU accession), and institutional factors such as holding the European Commission or EU Council Presidency.

The statistical analysis revealed that in the case of the Commissioner for Agriculture, a one-unit increase in political distance between the Commissioner and the head of government corresponded to a 0.35 percentage-point reduction in the share of funds received, with results that were statistically significant. When Broberg repeated the analysis for the Commissioner for Regional Policy, he observed similar findings. To illustrate, he provided the example of a hypothetical country of average size: under these conditions, a 10% reduction in agricultural receipts would translate to approximately €180 million in losses from the 2006 agricultural budget. In other words, **greater ideological divergence between the Commissioners and the heads of government results in more substantial reductions in allocated funds during the examined period.**

Several factors could explain these outcomes. One possibility is that Commissioners simply doubt whether EU funds will be effectively utilized by governments with significant ideological differences. However, the data indicates that Commissioners are more likely to allocate increased funds to potential political allies across the EU, particularly before elections. By securing additional funds, these allies enhance their chances of reelection – an outcome that could later benefit the Commissioners after their term ends. This tendency is even more pronounced when Commissioners align with their national heads of government. Notably, this mechanism is most effective under single-party governments, where the responsibility for securing funds is more clearly attributable, as opposed to coalition governments, where such attribution is more diffuse.

The research is methodologically robust, employing empirical data on ideological alignment and the distribution of EU funds. These findings suggest that the Commission has not consistently functioned as a politically neutral executive body serving the interests of the European Union and its citizens. Instead, the EU budget appears, at times, to be leveraged to advance the personal and political agendas of Commission members.

This dynamic is not limited to the Commission: Members of the European Parliament (MEPs) have employed similar strategies since the first direct elections were held in 1979. Edward Scholl examined how MEPs have utilized both formal and informal channels to influence the selection and allocation of Regional Development Fund (RDF) grants.[6] Accordingly, MEPs attempt to impact project selection at different stages of the policy cycle, including at the local authority, national ministry, and Commission levels. In the context of the RDF, their lobbying efforts are the most effective at the local authority level. MEPs often propose eligible projects to local authorities, offer grant advice to both authorities and businesses, and assist in

[6] Scholl, Edward L., Pork Barrel Politics in The European Parliament: MEPs and the European Regional Development Fund, PhD Thesis, Emory University, United States -- Georgia, 1985.

completing funding applications. According to Scholl, over 56% of MEPs regularly meet with local and regional authorities. Many have also used informal contacts at the Commission to inquire about project eligibility for RDF grants and provide local constituencies with specific project details and funding information. Additionally, they helped ensure the proper completion of grant applications and facilitated meetings with Commission officials. All this support accelerated the application process and increased the likelihood of securing a grant.

Of course, these actions could be viewed as a standard part of interest representation. However, they raise the issue of MEPs potentially acting on behalf of various interest groups due to their advocacy efforts. More precisely, it could be argued that MEPs' activities may contribute to the formation of a European system of interest intermediation, linking advocacy groups with their policy interests. Wessel (1999) examined the relationships and connections between MEPs and various interest groups organized at both national and European levels. His results indicate that strong alliances are built are formed between liberal, Christian, and conservative parties, groups, and business interests; a labor alliance between communist and socialist party groups and unions; and what he describes as the "alliance of the weak," involving Greens, Radicals and environmental and consumer interest groups, active at both the national and European levels.[7]

The findings of the research implies that **MEPs' actions are not solely driven by national constituencies; instead, they facilitate interest group alliances formed based on ideological similarities**. As Wessels highlights, MEPs can represent the interests of these alliances in several ways, such as challenging the Commission and Council or preparing policies through consultations with these bodies, as Scholl (1985) previously outlined. According to the study, this positions MEPs as central brokers in inter-organizational exchanges, a role that is highly valuable for interest groups. As Wessel notes: **"You don't lobby the EP – you lobby the Commission and the Council via Parliament**."[8]

While the European Parliament does not have the power to initiate legislation, propose or decide on funding proposals, or monitor the implementation of EU funding, it plays a crucial role in shaping and spending the EU budget:

Firstly, MEPs are responsible for approving the European Union's budget, and during this bargaining process, they can make recommendations on how the budget should be structured, prioritized, and spent. For instance, the European Parliament did not consent to the 2014-2020 MFF package without the creation of a High-Level Group on Own Resources, tasked with examining how the revenue side of the EU budget could be simplified, made more transparent, fair, and democratically accountable. Chaired by Mario Monti, the group was established in

[7] Wessels, Bernhard. "European Parliament and interest groups." The European Parliament, the national parliaments, and European integration (1999): 105-128.

[8] Wessels, 1999, p. 125.

April 2014 and included nine members representing the European Parliament, the Council, and the Commission, with its final report delivered in December 2016.[9] In essence, the European Parliament wielded extreme lobbying power and influenced how Member States contributed to the European Budget.

Secondly, since their direct elections, MEPs have become key liaisons between citizens, interest groups, and European Union policies. Through both formal and informal channels, they contribute to the allocation of grants and the formulation of legislation, representing the interest groups they support. **The more pro-European an interest group alliance becomes, the more funds could be directed towards their initiatives**. In turn, these interest groups, benefiting from access to funds and favorable policies facilitated by MEPs, are motivated to ensure their re-election, thus reinforcing a cycle where the EU budget and its programs are leveraged to advance personal carrier paths in exchange for votes.

These findings suggest that, in many cases, the actions of the European Commission and the European Parliament are influenced by their ideological alignment and by alliances with interest groups based on shared ideologies. In other words, governments that fulfill their legal obligations by contributing their share to the EU budget often receive fewer funds in return if their ideologies do not align with those favored by the institutions.

The Transfer of EU Funds and the Subnational Actors

The strategic positioning towards European issues is not only limited to interest groups. Gross and Debus's study (2020) examines the EU funding allocated to European regions during the 2007─2013 and 2014─2020 programming periods, exploring the relationship between subnational parties' support for European integration and EU funding.[10] Since the Maastricht Treaty, regional political actors have been directly involved in the political bargaining process. They are particularly vocal in matters regarding the funding objectives of the EU budget for programs concerning regional development.

Gross and Debus (2020) analyzed subnational parties' positions on European integration and EU Cohesion policy in Germany, the Netherlands, Spain, and the UK. Their study covered 47 regions and 113 parties covering the period between 2007 and 2016. The selection of these countries was determined by several factors:

- They limited their case selection to countries with a three-tier political system, ensuring that regional authorities had a role in implementing Cohesion Funds.

[9] Vitrey, Anne. "How and Why Did the European Parliament Influence the Reform of the Own Resources System?" EU Migration Policy: Will More Money Solve Old Conflicts? Trauner, Florian (2020): 71.

[10] Gross, Martin – Debus, Marc: "Does EU regional policy increase parties' support for European integration?" In: *Democratic Representation in Multi-level Systems*, pp. 54-74. Routledge, 2020.

- They included countries with significant variation in regional autonomy, both across different countries and within individual nations.
- They selected countries exhibiting high variation in the allocation of European Structural and Investment Funds to regions, in order to assess how EU regional transfer funds might influence subnational political actors' positions on European integration.
- They ensured that the regions selected exhibited varied levels of citizen support for the EU, ranging from positive attitudes (Netherlands) to neutral regions (Germany and Spain) to negative attitudes (United Kingdom).
- They considered whether the countries were net contributors to the EU budget or beneficiaries.

The results of the study are not surprising: subnational parties' positions on European integration are influenced by the amount of EU funding allocated per capita to their region. **The more regional transfers a region receives per capita, the more pro-European positions subnational parties adopt in their manifestos.** Moreover, regions that are more dependent on EU funds tend to adopt increasingly positive stances on European integration.

The study indicates that subnational parties take EU budget transfers into account when positioning themselves on European integration. The way regional parties frame European integration and communicate these positions to their voters plays a central role in both European and national politics. By framing European integration in a way that supports stronger cooperation, regional parties aim to secure more transfers for their regions, thus enhancing their chances of re-election. This dynamic mirrors the behavior of Commissioners and national government leaders, as seen earlier. However, regional actors, being closest to the citizens, are viewed as directly representing their interests in representative democracies. This connection contributes to the success of pro-European parties and strengthens their bargaining power at the national level.

In other words, questions about European integration are often framed and approached in ways that ensure the acquisition of funds, the securing of political seats, and the advancement of political careers. As more and more funds are directed towards groups with strong pro-European messages, the emergence of a federal Europe seems increasingly inevitable, driven by a "need for more Europe." Today, support for a federal Europe has evolved into an ideology in its own right, encompassing all the necessary components: a vision of the existing order, a European worldview, and the propagation of a desired future. In this future, all issues of the European Union would be resolved once the European federal state is established.

Conclusions

What began as a free trade agreement designed to maintain peace among European nations has evolved into a landscape where pork barrel politics dominate, with the European budget being used as a tool to secure political positions at national and subnational levels.

As demonstrated, EU budget allocations are heavily influenced by the ideological alignment of Commissioners and national government leaders. Ideological differences between these actors lead to reduced funding, resulting in losses amounting to hundreds of millions of euros. In contrast, political allies are rewarded with substantial transfers to secure future support, particularly during election years.

The distribution of EU funds also impacts the positioning of subnational parties. Regions that are more dependent on EU funding tend to adopt pro-European stances, advocating for further European integration in order to secure much-needed grants.

Similarly, the so-called "coalition of the weak" seeks to position itself as pro-European and pro-integration, utilizing Members of the European Parliament (MEPs) to advance their interests. The European Parliament has evolved into a “kingmaker,” influencing the composition and distribution of European funds through both formal and informal channels in the Commission and the Council. As a result, the policy preferences of groups such as the Greens, radicals, and environmentalists are frequently translated into legislation.

The pork barrel politics distribution of the EU budget is the manifestation of an ideological preference and broader goal – the creation of a federal Europe. Groups that are ideologically distant from this vision are less likely to be favored in the allocation of EU funds, regardless of whether the European Commission or the European Parliament makes the decision. Although Member States have very clear rules and regulations governing their contributions to the EU budget, the actual distribution of funds is often influenced by ideological preferences.