

## EUROPEAN INTEGRATION EFFECTS: COSTS AND BENEFITS

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*„It will come a day when the European nations will join in a single organization and will set up European brotherhood, without losing their definite state characteristics or their glorious individuality. It will come a day when there will be no battlefields only markets opened to forwarded ideas. It will come a day when bullets and bombs will be replaced by votes.” These words were written by Victor Hugo in 1849, after several revolutions that had affected the European society. More than a century has passed for his predictions - seen as utopias at that time - to come true.*

*In a pragmatic approach of integration quality, this process is liable to an assessment in terms of cost and benefits, based on the analysis of the actual obtained results and not only on checking the level of achievement of some formal criteria. The post-adherence development can no longer be ruled by monitoring instead of conceiving and applying strategies and programs in a view that is the result of individual priorities together with the ones established on community level.*

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*JEL classification: F36, H61, P43.*

### **1. Introduction**

As far as 1<sup>st</sup> August 1996, Romania has taken advantage of financial assistance by means of community programs. Thus, on this date it came into force the Additional Protocol to the Joining Agreement of our country, a document that mentions the means of our country's participation to community programs.

Joining an integration group determines a series of changes, of smaller or higher value, for the joining states. These changes' importance varies according to the level of integration reached by the regional group and they can take the form of institutional re-definitions and/or of regional policy making. Taking into account the high level of integration within the European Union (economic and monetary union), changes in adopting economic policies are obvious on the level of member states. Adopting some economic policies where the European factor becomes dominant means, mainly, reducing the freedom levels, justified by pursuing the common European interest in formulating and implementing economic policies. Thus, joining the European Union involves accepting external conditions in founding economic policies.

Romania's adherence, as well as that of other candidate states, is conditioned by meeting the conditional elements imposed by means of the four adherence criteria: political criterion – guaranteeing the state, economic criterion – a functional market economy that allows the candidate state to face the competition pressures and the market forces within the EU, juridical criterion – appropriating the community *acquis* in force at the adherence time, administrative criterion – assuring institutions stability and the capacity of taking up obligations involved by the quality of member of the European Union.

The European conditions determine institutional changes with a view to economic policies content of member states to the extent when there are certain incongruities among norms, the adopting framework and the policies content on national and European level. These adjustments

involves some costs for the candidate countries while the benefits resulted from EU joining can be underlined and maximized only if there is a high level of compatibility/convergence among policies and the institutional framework of adopting such policies on national level, on the one hand and the policies and the European institutional model of adopting such policies, on the other hand.

University professor PhD Florian Bonciu identified three classes of costs involved by Romania's adherence to the European Union, concerning the payees:

1. Public costs, covered by the state budget;
2. Private costs, covered by commercial societies
3. Individual costs, covered by citizens for pensions' system reform, professional reconversion reform, for another living standard.

For the first two types of costs some estimation of their value can be done, even a general one. For the third category such an appreciation is impossible to be done.

Precisely, the main categories of costs directly related to adherence can be grouped as follows:

1. costs of adopting European norms and policies (community acquis): costs generated by creating or changing the institutional framework of applying them, human resources costs, costs related to assuming economic policy community objectives, etc.

2. costs related to abidance and implementation of the standards defined by the norms and European policies – in this category they include costs in specific fields such as : infrastructure modernizing, labor and social protection standards, consumers' protection, quality standards, environment standards, as well as the costs determined by processes of goods, services, people and capital free movement. Most part of such costs can be emphasized on micro-economic level and they have the capacity of affecting the Romanian companies' competitiveness.

3. costs related to assuming the statute of European Union member. Such costs include contributions to the community budget, participation to community institutions, etc.

4. Costs related to Romanian economy modernization process. The costs included in this category are directly related to modernizing productive capacities, of increasing Romanian products and services competitiveness for facing the European Union completion pressures.

Special attention should be granted to every kind of expenses since most of these costs, known as the integration costs, are in fact costs involved by modernization, which must be done anyway even without community support, but for our integration. We can say we invest in highways for being accepted, or would it be better to say we want to have better roads that would contribute to economy development and, consequently to creating new vacant jobs? Could we say that investments done for reducing pollution or for improving the drinking water quality are done for the European Union? I think it would be proper to say that we are interested in having better water and a cleaner environment for each of us. Similarly, I believe each of us wants that all hygienic conditions to be respected by dairy laboratories and factories for guarantying food safety. Thus, most part of adherence costs are related to our life improvement. Things that should have been done anyway are now supported with community funds. Certainly the population could not have supported 100% Romanian costs.

In spite of the mentioned costs, the benefits of Romania joining the EU have already started to be seen in the national economy:

1. Romania has acceded economic stability and development on long-term. Although the EU is characterized by lower economic increases than those of China, USA and Japan, it still remains a region with undisputable potential and competitiveness resources;

2. The foreign capital is growing in Romania as a consequence of a better trust of foreign investitures in a country which applies the functional rules of the Single European Area, familiar and predictable rules.

3. Romanian producers have free access on the Single European Market with real changes of success if we have in view the competitive costs of many Romanian producers;

4. Romanian people free movement in Europe has been largely done after the adherence, despite the fact that full freedom is obtained in 7 years' time from adherence;

5. Access to education, information and economic opportunities has become obvious for most Romanian people;

6. Accelerating reforms and supporting transition by supplying the main elements for defining national economic policies. There hasn't been before registered such a passing to the market economy and in such situations, all transition period up to adherence has offered Romania a model of conceiving its economic policies. These benefits are difficult to be estimated and they can influence the transition period. The technical assistance provided by the EU in different fields represents an example of benefits in this category.

Some authors<sup>199</sup> state that Romania's and Bulgaria's European accession in 2007 as countries having a lower growth level than that of other member states has had many effects upon the community budget; additionally, one should also take account of the "great" Lisbon Agenda launched in 2000 which aims at creating "the most competitive economy" by 2010.

Approaching the capitalization of Romania's accession into the European Union in terms of costs and benefits as value terms, the contribution to the EU budget during three years (2007- 2009) is shown in the following table:

**Table 1: Romania's contribution to community budget (2007- 2009)**

	2007*	2008**	2009	2008/ 2007 variation (%)	2009/ 2008 variation (%)
	-Euros-	-Euros-	-Euros-		
EU budget	113 845 815 415	120 662 885 029	114 972 328 243	+ 5.71	-4.72
Romania	1 060 225 579	1 350 381 019	1 387 921 912	+27.36	+2.78

Source: Made by the author according to the data taken from [www.eur-lex.europa.eu](http://www.eur-lex.europa.eu)

Notes: \*- the figures correspond to the budget in 2007 and rectifying budgets 1-7/ 2007;

\*\* - the figures correspond to the budget in 2008 and rectifying budgets 1-4/ 2008.

Romania's contribution in the European budget has four basic constituents : own traditional revenues (customs duties, agricultural customs duties, sugar supplies), VAT, the discount granted to the Great Britain (in order to make up for the difference between the amounts granted by the Great Britain to the budget and the expenditures the EU has had on the former's territory) and resources coming from Gross National Revenue. Romania's contribution in the EU budget during the years to come shall be about 1% of yearly GDP; more than half of the contribution shall ensue from Gross National Revenue yearly, whereas other significant amounts are to be ensured by customs duties and value added tax.

199 Ondřej [Schneider](#) - "The EU Budget Dispute – A Blessing in Disguise?", Czech journal of economics and finance, VOL. 57, year 2007, p. 304-323

## 2. Romania's contribution in the community budget in 2007

Since European rules stipulate the yearly adjustment of the budget (Article 268 in the European Community's Set-Up Treaty states: "Budget revenues and expenditures must be balanced"<sup>200</sup>), the surplus during 2007 has been given back to the member states, thus generating a decrease in their contribution the respective year. The following table shows the amounts that each country has been given back, their value being calculated according to their gross domestic product.

**Table 2: Distribution of the budget surplus in 2007 by member states**

Member state	Budget surplus in 2007 - Million Euros -
Austria	33
Belgium	42
Bulgaria	4
Czech Republic	15
Cyprus	2
Denmark	29
Estonia	2
Finland	22
France	234
Germany	300
Greece	26
Ireland	21
Italy	191
Latvia	3
Lithuania	3
Luxembourg	4
Malta	1
Great Britain	258
Netherlands	70
Poland	38
Portugal	19
Romania	16
Slovakia	7
Slovenia	4
Spain	131
Sweden	42
Hungary	21

Source: [www.ec.europa.eu](http://www.ec.europa.eu)

EU returned to Romania 16 million Euros of the 1.1 billion-Euro contribution in the community budget meant for the year 2007, and the total amount that remained unspent by the EU and shared among the 27 member states was 1.53 billion Euros. The highest amounts were returned to Germany - 300 million Euros, Great Britain - 258 million Euros, France - 234 million Euros, Italy - 191 million Euros and Spain - 131 million Euros. The EU budget, mostly financed by the community governments, reached a total amount of 113.9 billion Euros in 2007 of which 1.53 billion Euros was not spent. The European Commission has announced the Union's more efficient management has allowed unspent funds to decrease over the last years: "The amount member states had to pay to the European Budget in 2007 was very close to the one that was

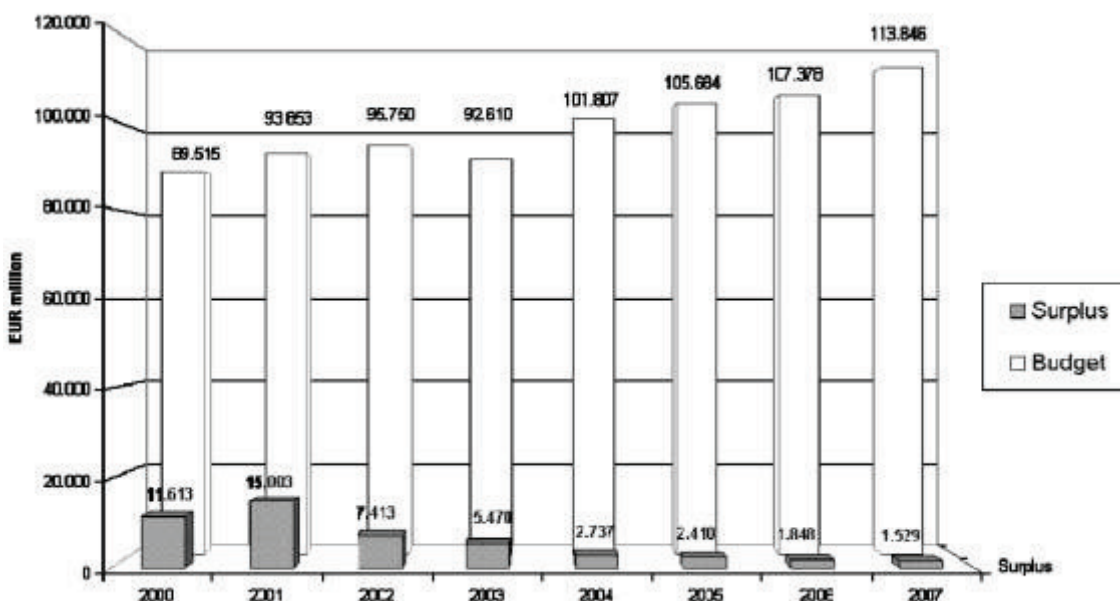
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200 Set-Up Treaty of European Community, Article 268, Indentation 3.

actually spent. This is good news”, stated Dalia Grybauskaitė, the European Commissioner for Financial Planning and Budget. Efficient Planning, the decrease in excessive bureaucracy and good budget management led to the fast development of some new programmes in 2007, thus helping member states to direct European money towards where it was needed”<sup>201</sup>, the Commissioner added.

The graph below showing the progress of the European Union’s budget surplus includes its decreasing trend which confirms the success of reforms in the financial management field over the last years.

**Graph 1: Progress of budget surplus in the European Union**



Source: [www.ec.europa.eu](http://www.ec.europa.eu)

### 3. Romania’s contribution in the community budget in 2008

An analysis comparing costs and prices in 2008 emphasizes surplus in Romania with over one billion Euros as to the European Union. Eugen Teodorovici, in charge of European funds at the Ministry of Finance explained in late 2008 that Romania subscribed 1.3 billion Euros to the European budget and the payments received from Brussels totalled 2.2 billion Euros by the 21st of November<sup>202</sup> the same year.

The spokesman of European commissioner for financial planning and budget, Dalia Grybauskaite, assured Romania and Bulgaria that they should not worry they might be “*net contributors to the European Union’s budget*”, meaning they shall not pay the Union more than it gives them. Robert Soltyk explained there is a favourable ratio between what they pay and what they receive from the EU: “*None of the countries accessing in May 2004 has been a net*

<sup>201</sup> [www.ec.europa.eu](http://www.ec.europa.eu)

<sup>202</sup> Carla Dinu – “Romania has been given more money by the EU than it has given”, HotNews.ro, 23 December 2008

<sup>203</sup> EU’s “net contributors” are frequently mentioned in public debates, often as dispute reasons. On one hand, the calculation of net contribution takes account of what every member state transfers and, on the other, what it receives from the EU by means of various European funds. Starting from this calculation, they often state that certain member states contribute in the European budget more than others do in terms of net and per capita value. Hence, the conclusion that the so-called “net contributors” take less advantage of the EU and its policies than others do. The states generally mentioned are Germany, France, Lowland Countries, Italy, Great Britain and Sweden.

contributor to the EU budget all these years. In conclusion, there is no reason why one could state that Romania and Bulgaria might be net contributors to the EU budget.”<sup>204</sup> In 2008, almost 20% of the Union’s revenues came from Germany, then 16.5% from France, 13.35% from Italy, 11.4% from Great Britain and 9.58 from Spain.

#### **4. Romania’s contribution in the community budget in 2009**

The European Union has allocated Romania as member state the amount of 19.668 billion Euros for the financial period between 2007 and 2013. 23.8% of structural and cohesion funds are allocated in operational programmes for transport infrastructure, 23.5% for environment infrastructure, 19.4% for regional growth, 18.1% for human resource development, 13.3% for economic competitiveness, 1.1% for administrative competence and 0.9% for technical assistance, according to the data of the Public Finance Ministry. This amount is supplemented by funds for the agricultural sector and rural economy reaching 11.1 billion Euros.<sup>205</sup>

The financial allocation granted to Romania by structural instruments this year ia almost 2.5 billion (2.458.387.439) shared among the following fields (Operational Programmes):<sup>206</sup>

- Regional growth..... 441.135.485 Euros
- Human resources..... 452.584.803 Euros
- Economic competitiveness..... 364.964.902 Euros
- Environment..... 578.507.217 Euros
- Administrative competence development..... 6.862.966 Euros
- Transport ..... 614.332.066 Euros

#### **5. Conclusions**

European funds must be perceived as the inflow to Romania of which its contribution to the EU budget is deducted. Romania currently receives more than it gives. European funds’ absorption occurs when account settlements are made, namely European money reaches beneficiaries’ accounts by means of the Ministry of Finance.

In Romania, the hierarchical tradition typical of industrial society and augmented by order economy system has also manifested its natural effects during the transition to market economy and the period of preparations for the European accession ; thus, there has been limitation in the ability to promote new projects and to accomplish financed ones absorbing European allocated funds.

In this respect, there can be two principle explanations : on one hand, it seems typical to a hierarchical organization to tend to continue its existence, whereas a project is developed in a “countdown” order, with a clear deadline when it ceases to exist; on the other hand, project-based activities suppose ensuring resources whereas current activities in hierarchical organizations usually have limited access to centrally administered common resource portfolios.

The scanty absorption level of community funds is paradoxically compared to the considerable financing needs encountered by Romanian organizations in their efforts to prepare for the European accession; but, the explanation of this fact essentially lies in their little ability to promote valid projects within community programmes. There is even a continuous cycle of self-limiting the access to the European Commission’s multi-annual budgets, which increases domestic costs and unfavourably influences accession rhythm and quality.

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204 [www.EurActiv.ro](http://www.EurActiv.ro)

205 [www.europarl.europa.eu](http://www.europarl.europa.eu)

206 [www.fonduri-structurale.ro](http://www.fonduri-structurale.ro)

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