Quantitative Economics for the Evaluation of the European Policy

Dipartimento di Economia e Management



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- The reform in 1970 replaced national contributions by a system of own resources comprising:
 - agricultural levies,
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 - a budget-balancing resource calculated by applying a maximum rate of 1% to the VAT base.
- However, because of delays in introducing VAT and harmonising the base the VAT, resource was not generally applied until 1980.

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- the Fontainebleau European Council 1985 introduced a correction mechanism for budgetary imbalances in favour of the United Kingdom (the so-called **UK correction**) equivalent to 66% of its budgetary imbalance;
 - ⇒ the cost of financing the UK correction was shared between the other Member States according to their shares of VAT payments (except for Germany whose share was reduced by a third).

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- The maximum VAT call-in rate was instead gradually reduced and the VAT base to be taken into account for own resources purposes was reduced in stages.

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- The overall amount of own resources needed to finance the budget is determined by total expenditure less other revenue and EU spending is limited by the Treaties.

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 - sugar levies are paid by sugar producers to finance the export refunds for sugar

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 - The same percentage (0.3%), determined in a uniform manner for Member States according to Community rules, is levied on the harmonised base of each Member State.
 - This rule is intended to avoid that the less prosperous Member States
 pay out of proportion to their contributive capacity, since consumption
 and hence VAT tend to account for a higher percentage of a country's
 national income at relatively lower levels of prosperity.
 - \Rightarrow Over the period 1994-1999 this percentage was set up equal to 1.32% in 1995, 1.24% in 1996, 1.16% in 1997, 1.08% in 1998 and 1.00% in 1999 (Council Decision 94/728/EC Euratom).

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 - \Rightarrow For the period 1994-1999 according to this additional rule the assessment base could, from 1995, not exceed 50% of GNP in the case of Member States whose per capita GNP in 1991 was less than 90% of the Community average, while for the other Member States it could not exceed 54% of their GNP in 1995, 53% in 1996, 52% in 1997, 51% in 1998 and 50% in 1999 (Council Decision 94/728/EC Euratom).

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 - The **same percentage rate** is levied on each Member States' GNP, which is established in accordance with Community rules.
 - \Rightarrow In 2000 TOR accounted for around 16% of total EU revenue, the VAT-based resource accounted for around 38%, while the GNP-based resource accounted for around 40%

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- Revenue flows into the budget in a way which is roughly proportionate to the wealth of the Member States even if some countries (like the United Kingdom and Germany) benefit from some adjustments when calculating their contributions.
- On the other hand, EU funds **flow out** to the recipients within the Member States and in third countries **in accordance with the priorities** that the Union has identified. Less prosperous Member States receive proportionately more than the richer ones and most countries receive more than they pay in to the budget.

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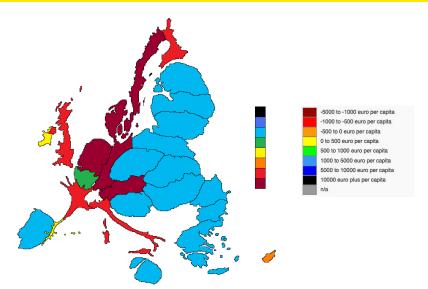
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- lump-sum payments: the Netherlands and Sweden benefit from gross reductions in their annual GNI contribution of EUR 605 million and EUR 150 million respectively.
- reduced VAT call rates for Austria (0.225%), Germany (0.15%), the Netherlands and Sweden (0.1%).

http://ec.europa.eu/budget/figures/index_en.cfm

EU net budget 2007-2013 per capita



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- The principles and priorities of cohesion policy are distilled through a process of consultation between the Commission and the EU countries. Each Member State produces a draft Partnership Agreement, which outlines the country's strategy and proposes a list of programmes. In addition to this Member States also present draft operational programmes (OP) which cover entire Member States and or regions. There will also be cooperation programmes involving more than one country.

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- The Commission **negotiates** with the national authorities on the final content of the Partnership Agreement, as well as **each programme**

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- The Commission monitors each programme, alongside the country concerned.
- Both the Commission and the member countries submit reports throughout the programming period.

The relative notion of "Region"

Vanhove and Klaassen, 1980

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Moreover, in EU many regions are determined not only by political and economic characteristics, but also by *historical* and *cultural* features.

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- The NUTS was established by Eurostat to provide comparable regional breakdowns of the Member States of the EU. It is a hierarchical classification with three regional levels:
 - each Member State is partitioned into an integral number of NUTS 1 regions;
 - each NUTS 1 region is in turn partitioned into an integral number of NUTS 2 regions;
 - each NUTS 2 region is in turn partitioned into an integral number of NUTS 3 regions.

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- To get 3 NUTS levels for each Member State, an additional regional level was introduced (corresponding to a less important or even non-existent administrative structure), and its classification level varies within the first 3 levels of the NUTS, depending entirely on the Member State: NUTS 1 for France, Italy, Greece, and Spain, NUTS 2 for Germany, NUTS 3 for Belgium, etc.

The NUTS regulation lays down the following minimum and maximum thresholds for the average size of the NUTS regions:

- NUTS 1: minimum 3 million, maximum 7 million;
- NUTS 2: minimum 800 000, maximum 3 million;
- NUTS 3: minimum 150 000, maximum 800 000.

http://ec.europa.eu/eurostat/web/nuts/overview

NUTS definition has undergone many reforms as in 2003, 2008 and 2013.

http://ec.europa.eu/eurostat/web/nuts/history

• NUTS 2 regions correspond to national administrative units in Austria (Bundesländer), Belgium (Provinces), Finland (Suuralueet), Germany (Regierungsbezirke), Greece (Development Regions), Italy (Regioni), Netherlands (Provincies), Portugal (Comissaoes de Coordenação Regional), and Sweden (Riksområden).

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- NUTS 2 regions also correspond to national administrative units, but with exceptions, in France (Régions, plus the four Departements d'Outre Mer), and Spain (Comunidades Autónomas, plus Ceuta y Melilla).

In 1999 NUTS 2 regions held comparable:

- cities and metropolitan ares (e.g., Hamburg, Bremen, Ile-de-France, Greater London);
- countries (Luxemburg and Denmark);
- agglomeration of small islands (e.g., Voreio Aigaio, Ionia Nisia);
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One problem with this data is that some areas, including Greater London, are subject to a large number of *commuters* coming into the area, thereby artificially inflating the figures. It has the effect of raising GDP but not altering the number of people living in the area, inflating the GDP per capita figure.

http://hypercarte.espon.eu/HyperCarte/resources/ESPON_HyperCarte

In order to obtain comparable data we decided to reallocate all funds at NUTS 2 level:

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- 3 if the fund was allocated to a national level but it was referred to an objective (for example Cohesion Fund) for which it was not possible to know exactly the eligible regions, then we reassigned it to all the NUTS 2 regions of the country (13% of total funds).

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In the reallocation processes 1.-3. we used as weights the inverse of the regional per capita GDP in the initial year of the programming period to which the fund refers.

| Objective | Period I (1989-1993) | Period II (1994-1999) | Period III (2000-2006) |
|-------------|----------------------|-----------------------|------------------------|
| 1 | 67.7 | 64.6 | 64.4 |
| 2 | 8.74 | 5.11 | 13.5 |
| 3 | - | 6.87 | - |
| 4 | - | 1.25 | - |
| 3 & 4 | 10.55 | - | - |
| 5 | 5.60 | 2.96 | - |
| 5a Agr. | - | 5.37 | 2.88 |
| 5a Fish. | - | 0.88 | 0.40 |
| 5b | - | 3.30 | 3.57 |
| 6 | - | 0.40 | - |
| NL | 0 | - | |
| PIM | 0.41 | - | |
| 2 Init. | - | 3.12 | 0.41 |
| Other Init. | - | 1.87 | 2.57 |
| Cohesion | 2.62 | 9.85 | 19.17 |
| Total | 100 | 100 | 100 |

Tabella: Percentage of commitments of funds according to Objectives. "NL": New Länder in Germany in Period I; "PIM": regional program in Period I for regions outside Objective 1; "2 Init.": regional initiatives similar to Objective 2 for period III "Other Init."

| | Period I (1989-1993) | Period II (1994-1999) | Period III (2000-2006) |
|---------------|----------------------|-----------------------|------------------------|
| All.Obj | 35.67 | 43.35 | 45.48 |
| Ob. 1 | 49.90 | 57.15 | 55.66 |
| Ob. 2 | 0 | 0 | 1.52 |
| Ob. 3 & 4 & 5 | 3.26 | 1.62 | - |
| Ob. 6 & Other | 0 | 23.06 | 40.95 |
| Cohesion | 55.86 | 81.21 | 60.74 |
| | | | |

Tabella: Percentage of total funds given to regions with GDP per worker below 75% of sample mean