Management Dynamics in the Knowledge Economy
Vol.3 (2015) no.3, pp.463-481; www.managementdynamics.ro
ISSN 2392-8042 (online)

The Role of European Union Funds in Economic Development

Cristian PĂUN
Bucharest University of Economic Studies
6 Piaţa Romană, sector 1, 010374, Bucharest, Romania
cristian.paun@rei.ase.ro

Abstract. *The European Union project initially started as a peaceful solution for war reconstruction in Europe. European countries decided to cooperate rather than compete in an aggressive way. At the beginning, this project supposed (involved) market liberalization, trade barriers removals, market access improvement (initially for coal, steel, energy and, later, for all goods, services, workforce and capital). Unfortunately, in the last decades, all these Single Market facilities have been backed by redistributive schemes, protectionist mechanisms, social engineering, subsidies and facilities packed in so-called "EU policies". New "European" institutions have been created, more and more funds have been involved to financially support this very complex redistributive intervention. The political dimension of the European Union project enhanced the economic dimension and constantly suffocated private markets and the economy. The "incomes" of the European Union that fuel its financial support are coming from taxes and/or inflation (better administered after the introduction of a Single Currency – the Euro). This paper will discuss the relevance of European Funds for economic development, especially for new members in this project.*

Keywords*: European Union, European Funds, economic integration, single market, euro.*

Introduction

The European Union integration process is very complex and unique. This process started as a common market for heavy industries (coal and steel) on May 9, 1950. The project was presented to the public as a solution for cooperation among the Western European Countries involved in a very destructive war and [as] a peaceful project of economic development. This process had different stages: firstly it started as a free trade area consisting in the removal of trade barriers between the founding countries for a specific number of heavy sectors (coal, steel and later energy) in 1951; the process evolved to a generalized free trade area for all goods and services called "common market" and then to "single market" in 1992 involving the four fundamental free movements of goods, services, people and capital (Wallace, Pollack & Young, 2010). Common institutions with specific roles emerged: the European Parliament (legislative), the European Council (legislative), the

European Commission (executive), the European Courts (control and judicial aspects) and, later, the European Central Bank (monetary).

The next step in the integration process was the creation of a single currency area as a support for a single market. A political union represents now the last challenge for the European Countries. Common policies have been implemented: common agricultural policy, environmental policy, monetary policy, competition policy or common security and foreign policy (Cini & Solorzano-Borragan, 2013) and competition policy (Stamate, 2011). All EU members have been "forced" to participate in the budget of the European Union administrated by the European Commission. A significant part of local taxes have been transferred to this higher level. Taxation significantly increased after the `90s in all EU countries, in order to be able to support this project (Joumard, 2002, p.93). After financing all operating expenditure for all EU institutions (including the EU Parliament), the EU budget allocates important funds for financial support of common policies: the European Agricultural Guarantee Fund providing direct payments to farmers and the European Agricultural Fund for Rural Development providing funds for rural development or LIFE Program for environment and climate action are relevant examples of such funds.

Redistribution was significantly reinforced by introducing more socially sophisticated financing instruments such as the European Social Fund with an allocation of 80 billion Euros only for [the] 2014 – 2020 period and an extra 3.2 billion Euros for Youth Employment Initiative for the same period, the European Regional Development Fund, the European Cohesion Fund that allocated 63,4 billion Euros mainly for transport infrastructure and environmental projects and, recently the European Union Solidarity Fund that has provided 3.6 billion Euros for 23 countries so far. Additional funds have been created to support sensitive sectors like SMEs or city areas are giving them a humanized name: JEREMIE - Joint European Resources for Micro to Medium Enterprises focused on providing financial support for all kind of (guarantees, co-guarantees and counter-guarantees or equity guarantees), (micro) loans for small business ideas, export-credit insurance policies, securitization operations, venture capital funding, business angels funding and technology transfer financial support; JESSICA - Joint European Support for Sustainable Investment in City Areas ensuring financial support for developing urban infrastructure, improving cultural sites, commercial infrastructure for SMEs, IT or R&D sector, university buildings and JASPERS - Joint Assistance to Support Projects in European Regions providing funds for new comers in European Union for strengthening their capacity to submit financing project proposals (European Commission, 2014). In order to overcome the crisis, the European officials created more sophisticated funds

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such as the European Financial Stability Facility (EFSF) created in 2010 with a total capital of 701.9 billion Euro from which paid-in capital is 80.2 billion Euro empowered to lend money to governments, to recapitalize banks that encountered problems or to directly purchase debt from primary or secondary debt market (European Stability Mechanism, 2014). More and more institutions and public servants are continually added to the whole EU mechanism (for instance, for the administration of EFSF the ESM was created – European Stability Mechanism with 130 public servants at present). The idea of this paper is to analyse, from a theoretical perspective, the current European Union project and its relevance for economic development.

The economic growth concept and its determinants

Economic growth is a holistic concept and could be interpreted in various ways. Commonly it is associated to ”the process by which a nation's wealth increases over time” (Merriam – Webster Dictionary definition). The way of measuring this economic growth consists in using a specific macroeconomic indicator called GDP – Gross Domestic Product adjusted for inflation rate the result being real GDP growth rate. Business cycles are defined based on the same indicator: ”a period of temporary economic decline during which trade and industrial activity are reduced, generally identified with a fall in GDP in two successive quarters” (Oxford Dictionary definition). Additional indicators are proposed to measure economic growth: GDP per capita, national income per capita, national consumption per capita etc.

First of all, we should notice the severe inconsistence of the concept of economic growth: the nation’s health is difficult to be measured being composed of individual wealth. How we can objectively estimate this individual wealth considering that it is composed by various assets: lands, buildings, financial assets (equities, debt instruments) that should be up-to-date evaluated at the market price? The approximation of nation’s wealth in terms of this GDP is far from reality. The GDP includes the market value of the final goods and services produced by an economy within a specific period of time (usually a semester or a year). So, no intermediary goods and services are included in this GDP. But intermediary goods are part of nation’s wealth. Lands, buildings or other kind of resources (raw materials) are part of a nation’s wealth. Any change in their market value from a year to another should be included in the concept of economic growth.

On the other hand, the GDP is very problematic being aggregated in three different ways (all of them being an approximation of nation’s wealth):

[1]. Production method consists in adding the total sales of goods and services provided by all the companies in various sectors for a defined period of time (1 year) minus the intermediate consumption of these companies (this difference is called GDP at factor cost) and adjusted with the difference between indirect tax (VAT or sales tax for instance) and all kind of subsidies (GPD at producer prices). The problem with this method consists in the fact that it is inappropriate to approximate nation's wealth only in terms of net profit of private business excluding public sector activities (public institutions such as universities are not selling anything) or by excluding the balance sheet of all kind of operators (the market value of their assets and liabilities is also a significant component of a nation's wealth). Ignoring the value of buildings or lands that could increase or decrease over time is significantly altering the measure of nation's wealth and its change through GDP at producer prices. Moreover, money production (including credit expansion) is also part of this wealth. Barter economy and subsistence economy is not included in such sales. Underground economy (unofficial economy that is never registered) is also not included in such estimation.

[2]. Income method is based on the classification of incomes into a few categories (wages, corporate profit, financial incomes including interest rate and dividends, income from agricultural business and income and other incomes from unincorporated business). The sum of these incomes adjusted for the difference between indirect taxes and subsidies and with the depreciation of fixed assets (that is added in this case) will generate GDP at factor income. Again, the income from the difference between market value of fixed assets (a land or a building have a changing value over time) is not taken into consideration. Unofficial sector and barter economy are also excluded from such estimation. Rentals are not included in this GDP at factor income. Therefore, an alternative method of computing the GDP at factor income is adding the compensation of employees (all kinds of compensation) to the gross profit of private business, to the gross result of unincorporated business and to the difference between taxes and subsidies. Another one is adding rentals to wages, profits and interests and statistically adjusted incomes (corporate income taxes, undistributed corporate profits and dividends). All these methods are an approximation of a nation's wealth. This income method is very sensitive to money production and to credit expansion based on easy and cheap money policy. If the central bank issues money and distributes this fresh money as profit or income, the GDP will significantly increase for a while even in real terms (until the inflationary effect is present in the economy).

[3]. The expenditure method is the commonly used method and consists in adding investments (I) to private (households) consumption (C), to

government spending (G) and net exports (the difference between exports – X and imports M). Again, this method has a lot of problems: it is difficult to establish when an acquisition is an investment or a type of consumption; investments are excluding the real estate investments or financial investments or savings; consumption is excluding the acquisition of a house or a land for personal consumption. Government expenditures are including those made by using a credit from a commercial bank that bought a treasury bill or bond and that discounted it to the central bank for fresh money. So, using this method, a government could increase the GDP by increasing public deficit and public debt. All these expenditures (C, G and I) include only final goods and services and not intermediary goods used to produce final goods. In the wealth of a nation, these intermediary goods count a lot too.

Looking at all these different methods of computing a nation's wealth we can see that it is very difficult to measure such a thing and to estimate its change over time with accuracy. Economic growth of a nation based on GDP is useless. Secondly, economic growth should be measured in real terms. Inflation rate is used to correct nominal GDP. Inflation rate is also a problematic indicator. Inflation is defined as a generalized increase of prices in an economy, for a defined period of time. Therefore, when we measure inflation, we should take into consideration all goods and services traded in an economy within that period of time. This is an impossible task so the officials proposed a harmonized price index (consumers or production prices) at the level of EU countries. This is an index based on a weighted average of the most important prices from those economised (not all of them). But this index is excluding some important prices such as financial assets prices, real estate prices, rentals, interest rate (the price of capital), exchange rate (the price of other currencies) etc. Moreover, this inflation refers to none) of us because it is based on a basket of goods (a weight of the price for an automatic washing machine and the price for a manual washing machine, none of us will by both of them at the same time). No consumer's behaviour could be associated to such an index. Additionally, [the] monetary impact (the increase or the decrease of prices due to the increasing or decreasing volume of existing money or existing credit in the economy) could not be separated from the natural impact (the increase of prices due to a higher demand or a lower supply on the market).

Who is influencing the economic growth? The determinants of economic growth are considered to be (Barro, 1998; Perotti, 1996; Solow, 1956): the volume of savings; the investments in capital goods; volume of exports; the human capital resources or technological progress that is influencing the productivity level. The public sector could influence this economic development in various ways (not necessarily positive ones): a higher taxation will increase the underground economy and will transfer money from private economy in order to pay for public expenditure, the result being a lower economic growth rate; a lot of public investments financed from credit expansion or money production are in fact expenditures or public consumption of resources without an important impact on economic growth (the allocation of these resources is merely arbitrary and politically reasoned rather than economically justified); investments made by the public sector have lower efficiency than those made by the private sector due to the existing moral hazard or the inexistence of bankruptcy (no one will assume the failure of political allocation of such resources).

The implication in the European Union (a very complex system of treaties and agreements) complicated the situation of economic growth even more by increasing the risk of crisis contagion or spillover among the members of such a union. The existing treaties force the members of EU to act in the same way and to enter the same business cycle almost simultaneously (it is problematic when this cycle means crisis or economic recession). A mistake or a problem recorded at the level of one country (or a few of them) could push the entire economic union into a crisis (the case of Greece, Ireland or Cyprus are relevant for this statement).

In conclusion, the economic growth is not a clear concept that could be measured with accuracy. The real growth rate of GDP is inconsistent and any attempt to capture the impact of more integrated countries or the impact of EU funds on economic growth will be biased, due to the significant imperfection of this indicator to express the changes in the wealth of nations over time. Moreover, the economic growth of a single country in the European Union is significantly affected by the situation of the other countries due not only to the economic channels that spread the crisis (foreign trade with the other EU members or foreign investments made in a member country by the others) but also to the political channels (the treaties that force the countries to act as a whole not individually).

European Union's financial support and economic growth of the member states

Public intervention is merely viewed as something good and always generating a positive impact in the economic field. But the state intervention means ”the intrusion of aggressive physical force into society; it means the substitution of coercion for voluntary actions” and the State is ”is the only organization in society legally equipped to use violence and since it is the only agency that legally derives its revenue from a compulsory levy” (Rothbard, 2009, p.877). In the same way, Mises defined state intervention as ”an isolated order by the authority in command of the social power apparatus; it forces the entrepreneur and the owner of the means of production to use these means in a way different from what they would do under the pressure of the market. The order may be by command or interdiction” (Mises, 1998, p.10). According to the same author, the State intervention could be divided into two different systems: (i). a pure socialist / communist system (formerly applied in Eastern Europe) where any means of production is owned by the state, there is no market cooperation, the prices and the allocation of resources, the production volume and structure is fully controlled and determined by the government and (ii) the corporatist socialist system (formerly applied in Germany) where the means of production are owned by private companies, the exchanges are privately made within the markets, but the government is establishing what should be produced, what should be bought or sold on the market, the level of prices and so on. The interventionism is seen as a third viable system placed between socialism (where all the means of productions are publicly owned) and capitalism (where all the means of production are privately owned). In the interventionist system the means of production are privately owned but the state is regulating the market conditions, the prices, the competition level, the consumers’ behaviour and so on. In fact, this system is much closed to the corporatist socialist system.

The way in which the State is hampering the private exchanges and production could be classified in various ways. The most relevant could be the classification proposed by Rothbard (2009, pp.1058-1059): 1. Autistic intervention that is ”*command an individual subject to do or not to do certain things when these actions directly involve the individual’s person or property alone*”. In this case the coercer is not claiming something from the coerced subject. For instance, the State could force a company to apply specific environmental standards or to sell the production in a certain way to the customers, by creating additional ”rights” to them (the ”right” to return a product within a specific return period after purchasing it if the customer is not ”satisfied” with it). 2. Binary intervention consisting in ”*a coerced exchange between the individual subject and himself, or a coerced “gift” to himself from the subject*”. In this category we can include all direct and indirect taxes (income taxes, VAT, sales taxes). Compared with the autistic intervention, binary intervention is claiming something from the coerced subject in exchange for a service provided by intervener (a tax for providing controlling services on the market or a tax for simply authorizing the access on the market or the production of a certain good). 3. Triangular intervention that is the situation when ”*the intervener compels or prohibits exchanges between sets of two other individuals, like are price control and licensing*”. In fact, in the case of triangular intervention, the state is intervening in the exchange of goods and services between market participants hampering the mutual voluntarily agreed contract between them. Often, the private contract is containing clauses or conditions that are arbitrarily and aggressively established by a third party (the State) that has nothing to do with the parties involved in such contracts: sellers or buyers, employer and employee, saver and banker, investor and investment institution etc. State intervention is claimed to introduce more market order and to better regulate the commercial contracts signed between market participants. All these types of interventions are aggressively exercised by the State itself (through his public servants) or by agencies created and protected by the State. Sometimes, this kind of agencies are considered to derive from private market and to be privately created institutions such as central banks or capital market controlling institutions (SEC – Security Exchange Commission for instance). In fact, almost all of these agencies are not private and their ”incomes” are in fact taxes applied to those who are acting in a specific sector or market.

The European Union could not be considered a clear and sound liberal project (Topan, 2007). In many countries, the means of production are merely owned by private operators. But significant products or services continued to be delivered only by the State, considering that such sectors are too sensitive or are not interesting for private operators that could not obtain much profit from such activities: healthcare system remained publicly owned in a lot of EU countries, educational system is also publicly owned in almost all of them (in Greece there are very few private universities, almost all universities being state owned ones; similar to France where about 80% of schools are public or Belgium where private schools are subsidized in the same way as the public ones), pension funds are publicly administrated by State in a lot of countries (in Romania, for instance, the contribution to public pension system is compulsory and this program does not involve an investment of these contributions but the payment of pensions for existing retired persons; similar to France that has a compulsory social security system on a ”pay as you go” system or in Italy where there is a similar ”pay as you go” unfunded program for the public pension system combined with a voluntarily private schemes). The Research and innovation sector is also associated with the State, especially in the countries where education (universities) is merely delivered by public universities. Another interesting example is that of introducing Euro as a Single Currency for the Single Market, European Union that eliminated the competition between European countries in terms of money production and credit expansion. More State-owned producers of money have been replaced by a single one fully controlled not directly by each country participating in this Single Currency Area. Even the production of money is less ”competitive” now than it was initially, generating more moral hazard and more power for EU institutions.

The European Union project started as a project that helped the market in a few specific heavy sectors badly affected by the war: coal, steel and later nuclear energy. State intervention in this sector was considered smaller by creating a common market without trade barriers between the six founding countries. Fewer controls, fewer taxes, fewer trade barriers mean lower state intervention. The project continued in the same way, being extended to a larger number of countries in different moments (now the European Union project was extended to a number of 28 countries, the last one accepted in 2013). At the same time, the ”freedoms” have been significantly extended from (specific) goods to services, labour and capital. At the first sight, the Single Market project could be considered a liberal initiative meaning a reduction of state intervention at the level of member countries. In fact, this intervention was slightly moved from national level to supra-national level by creating new EU institutions with specific policies that are regulating the ”free” movement of goods, services, capital and labour. Almost all means of production, mostly privately owned, became dependent on the public support one way or another:

- There are ”sensitive” sectors like SMEs sector (Small and Medium Enterprises) or agriculture that are significantly subsidised in different ways: direct payments for farming and animal breeding; guarantees for private loans that increase the credibility and the borrowing capacity of SMEs or farmers; subsidised interest rate; guaranteed prices (minimum price for agricultural products); protection from external competition using pricing programs;

- There are many companies that are encouraged to develop their project and business ideas using significant co-financing programs from EU funds that cover different kinds of expenditures in an important percentage (60% - 80%). Such projects involve the acquisition of new machineries for production purposes, the building of touristic facilities in rural areas, the human resources development programs, the acquisition of a patent or a production licence, the start-up of a business, the building of a technological park for SMEs;

- Another important intervention consists in financing an important value of projects developed by local public authorities (the water supply of a community, the sewage system for a village, the roads system, cultural heritage preservation, historical sites). Even the financing is granted by European Union (there could be a co-financing part from local or national budget), the development of such projects involves their externalization to private companies for construction, operating, maintaining the sites. The connection between the State and the private sector is present again in this case;

- Another form of intervention is to regulate the market. The private operators should take care of so many regulations established by EU public servants that claim to take care of consumers or, sometimes, of producers. This overcare of European regulators for the market conditions is futile and very costly for private operators that are trying to remain competitive and connected to the real needs of their consumers. In a capitalist system, the consumers are the regulators of the market. They are sanctioning any entrepreneur that is increasing the operating costs by introducing unnecessary ones. They are sanctioning (by refusing to buy from them) any entrepreneur that will make a mistake or that will be far from their needs. The perspective of bankruptcy in this case is significantly reducing the moral hazard of these entrepreneurs. In a socialist system, the power of market to regulate (or to correct / to adjust) the problems is replaced by the power of government. Without having any reason or economic logic, the European Union developed a huge and complicated regulating system trying to intervene in any sector as much as possible: they have forbidden the traditional pig slaughter on the occasion of Christmas Eve (the animal should be totally anaesthetised before). The private markets are full of imperfections due to the fact that they are based on cooperation between people interested in exchanging goods and services. The buyers and sellers are not robots or machines, they subjectively act, they have imperfect information, they have limited time to decide and they have limited capacity and resources to deal with existing data and information. Moreover, not all of them are honest with the others, trying to obtain as much as possible from each market transaction. The power of market to regulate and to correct all these imperfections is simply reduced to the elimination of those operators that are far from the competitors. Replacing this power with the European Union institutions' power to regulate the private markets is a huge mistake that will introduce more imperfections in the exchanges of goods and services at the level of Single Market. Markets are always unstable, dynamic and full of unforeseen events. All these imperfections are part of the uncertainty that is associated to economic decision-making. Without these imperfections the profit of entrepreneurs will cease to exist and the price of goods and services will be calculated at cost level only. The absence of this profit will determine the absence of entrepreneurs. The way of dealing with these ”imperfections” exercised by the State's institutions is altering this natural state of markets and the efficient allocation of resources. The capacity of markets to correct such imperfections is significantly reduced automatically. Finally we have

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more volatile markets (due to the necessary correction and adjustments that occur from time to time and that are generally called ”crises” or ”economic depressions”), more imperfect markets and less ”just” or ”fair” prices and costs.

By looking at the current situation in European Union we can simply state that this group of countries is promoting socialist rather than capitalist system. We can find all types of public interventions (autistic, binary and triangular interventions) exercised by EU institutions in collaboration with local administration. The last economic crisis significantly strengthened this intervention by creating new institutions and policy instruments (see the case of European Fund for Financial Stability). Private owners of production means are suffocated by taxes, by increasing public debts that are producing nothing valuable for the markets, by increasing the number of institutions and market rules or by increasing the number of public servants never connected with real economy. The allocation of resources based on market principles and needs is slightly replaced by an allocation significantly controlled by the State (including the European Union institutions). The introduction of Euro increased the capacity of such European Institutions to produce more debt and deficits, providing the ability to issue debt securities on behalf of EU tax payers. Unfortunately, the path is not in the direction of capitalism and free market but in the opposite direction: more controlled and regulated markets.

This evolution is not improving the wealth of EU citizens. Day by day, this wealth is destroyed and transferred from more efficient to less efficient allocation. The economic arguments are very simple:

1. All these state intervention mechanisms are in fact operating costs for private operators. The private entrepreneurs have limited possibilities to deal with such additional costs. If they should try to transfer all these costs derived from higher taxation, higher bureaucracy and more complicated barriers to the final price of goods and services labelled EU origin, prices will be higher than elsewhere and these entrepreneurs will become less competitive compared to others located outside EU. If they should try to accept all these costs and not to transfer them in the selling price, their profits will significantly decrease. It will be more profitable to locate the business outside EU where the profit margins will be higher. Due to this lower profitability, the EU originating business will become less competitive than elsewhere;

2. All these restrictions, barriers, subsidies, financial support are affecting in an irreversible way the structure of production in a specific region or country.

The producers will be focused on supplying the goods and services that are connected to the public funds provided by the European Union (it is well known the case of farmers that traditionally cultivated a specific type of plants or breed a specific type of animals and that changed their option in accordance with existing subsidies or cheap financings from the European Union). The capital goods are channelled to the same direction. If the European Union is interested in ”green energy”, all entrepreneurial efforts are artificially connected to this public policy that means cheap finance too. Competition policy, agricultural policy and fiscal policy contain a lot of protectionist elements. By protecting European farmers for instance, the European Union hampered the market in a negative way creating huge surpluses of specific agricultural products (EU countries are producing a surplus of 2 billion wine bottles per year more than can consume or sell as the result of decades of EU intervention in this sector). The market needs are completely ignored and the allocation of funds (from taxes mainly) has a strong political nature: under pressure or lobby of specific groups of producers or consumers, the European institutions are always changing / adjusting their priorities for public policies and financing mechanisms;

3. The interventionist measures taken by the European institutions created and protected different privileges for specific groups of interests. In the case of market economy everybody is free to enter the market as an entrepreneur or as an employee. All the entrepreneurs are acting under the permanent pressure of consumers, controlling their costs and managing the uncertainty in the best way possible. There is no protection in the market for those who are not able to fulfil the consumers` needs accordingly. There is no privilege there. The producers are enslaved to their consumers. If someone wants to be a consumer and to dominate by his consumption decisions the actions of different producers, this person should act as a producer and seller of something on the market. In a market economy everybody is at the same time producer and consumer of something. But before being a consumer, we should find something to produce and to sell. The wealth of everybody is linked to the production and exchange capacity. The interventionism of the European Union created privileges for the producers of taxes (fiscal entrepreneurs) and producers of money (monetary entrepreneurs). Without producing something valuable for the market, more and more privileged persons are increasing their wealth in an unfair way. In this system, keeping oneself outside this interventionism seems not to be a profitable choice. The power and the fight between different privileged groups significantly increased. Producing taxes (including in this category those entrepreneurs that are financing the development of their business by using EU financings), regulations (working as a market controller) or money out of nothing is more “valuable” than supplying the market with the necessary goods and services.

To conclude, the European Union project is far from being a market economy system. Interventionism is suffocating the private initiative and is forcing more and more entrepreneurs to be connected to this public intervention that is granting a lot of privileges and is redistributing the wealth by involving political means. All these privileges have a cost : they are financed from the others' wealth (there is no ”free lunch” in the economic system), usually those that are less (if at all) connected to the public funds and subsidies voted and granted by central planner that is now moved from the national level to the EU level. In the long run, such interventionist project will fail into a socialist one or will go bankrupt due to the fact that it is impossible to create and to finance privileges for everybody without producing notable disruptions and losses for somebody. The last decades have revealed a weak and reduced economic growth rate for almost all EU economies, with very few exceptions (Germany, Poland or Netherlands but for very short periods).

The European Funds and the myth of their role in the economic growth

The European Union project is unique and full of contradictions. The interest for this project significantly increased in the last decades. A lot of former socialist countries decided to join this project considered to have more benefits than costs. One of the reasons for those countries was the redistribution of wealth through so-called EU funds for different purposes: regional development, rural development, increasing competitiveness, economic development. Almost all European countries linked their economic growth to EU funding absorption capacity. The impact of such funds on economic growth is inconclusive: countries with higher absorption rate have lower economic growth than countries with lower absorption rate (with very few exceptions). Countries that relied in their economic development on such funds (Spain, Italy, Portugal, Greece or Ireland) are faced now with long recession and obvious recovery problems.

Why aren't these funds so effective in ensuring a long term and sustainable economic growth, such as it is claimed in their very generous aims and objectives? In order to answer this key issue it is very important to understand the complete mechanism of European Funds. The first step in this mechanism consists in the contributions made by each country to the European Union budget. The annual subscription is collected by each country from their tax payers, in accordance with a local fiscal code and collecting system. There is no uniform fiscal code at the level of the European Union. The main taxes are different in terms of levels and even in terms of accounting and reporting procedures from a country to another. These taxes are collected with a cost by local administration. This means that from 1000

Euros collected by local administration, a share of this amount is covering the collecting expenditures (including the operating costs and the wages of fiscal operators). The amount of money collected by local authorities is annually transferred to the European Union where it is voted to be redistributed by the European Council and the European Parliament following a very complex procedure. European Commission should administrate this budget proposing programmes and funding schemes for country members in accordance with the principles and priorities of the European Union (as it is politically decided from time to time). This means that o significant part of 1000 Euros collected taxes transferred to the EU budget is used to cover the expenditures of all these EU institutions that take care of them. After these expenditures are paid, the European Union is transferring the funds back to the local authorities from eligible countries. We should notice that a significant redistributive principle is applied, meaning that richer countries are receiving fewer funds than the poorer ones and, locally, richer regions are receiving fewer funds than poorer ones. The same redistributive principles are applied to selected economic sectors: agriculture or SMEs sectors are receiving more funds than other sectors. Local authorities are now responsible for the distribution of EU funds in accordance with local financing programs and mechanisms. Specific institutions (different from the initial fiscal collectors) are created to generate and to administrate such programs. The expenditures of such institutions are supported by tax payers too. This means that a smaller proportion of the initial amount of 1000 Euro taxes collected by the fiscal authorities from different country members is coming back into real economy. After a very expensive travel from the pockets of tax payers to local fiscal authorities and then to EU institutions in order to be sent back to local financing authorities in order to be distributed to eligible ”private” applicants for such funds, the available amount of money that could be used for economic growth is substantially diminished. The economic growth of ”private” sector interested in applying for such funds (farmers or entrepreneurs interested in developing a new business idea or an existing one) is significantly harmed by the economic growth of wealth of each political entrepreneur involved in such a mechanism. If we take into consideration the entire bureaucratic system that is associated to the EU funds (including the auditors, the controllers, the regulators etc.) we will notice that the available funds for economic growth are much reduced. Instead of letting those 1000 Euros at the level of private operators to decide their allocation in accordance with market needs, the European Union considers that its funding mechanism could produce more positive economic effect, without revealing the fact that an insignificant part of this amount of money is returned to the markets. This is the main problem with the European financing schemes. Money is coming from everybody and is very costly to be allocated in such a way. Instead of taxing European citizens to create a funding mechanism to ensure the financing of building a road or sewage system in a village from a poor region, it could be better to let the market decide if that village needs a new improved road or a new sewage system. It could be better and less expensive for all of us to be free to decide what kind of infrastructure or part of our existence needs to be improved, to be free to enter into a private contractual partnership to generate such projects and to be able to decide the conditions of such developments. The way of dealing with market imperfections and negative externalities proposed by the EU project is too expensive for us (Păun, 2014).

Additionally, European Funds are public funds initially collected by fiscal operators. These operators are prone to corruption. In a country with weak state administration (like most of the European countries are), this collection of taxes could be arbitrarily applied (deliberately or not). The government could negotiate with selected groups of tax payers the deduction or the exclusion of them from paying certain taxes. The tax collectors could negotiate with tax payers their tax evasion (especially when taxes are too high or when the tax collectors are not well remunerated). The European budget is voted and allocated in accordance with political agenda of certain countries or groups. After being transferred back to local authorities, these funds are redistributed by public institutions created in this respect (management authorities). In the case of a corrupted administration or a weak state (problems with justice and controlling authorities), this allocation could be politically influenced to a significant extent (Tatulescu & Patruti, 2015).

European Funds are allocated in accordance with voted priorities. It is clear that at the level of European Union there is a competition among different categories of operators. German farmers are not open to any subsidy that is granted to Romanian farmers from the Germans` taxes. Therefore, the priorities and eligible actions and financings are politically influenced. It is well known that European Funds could be used only for established sectors and type of projects, especially for the case of funds allocated for agriculture and the business sector (including SMEs). This competition developed by the existing producers' taxes is not considered necessarily that good. Many financed projects in the agricultural sector in Romania encouraged the snail farming (heliciculture) or ostrich farming. At the same time, the allocation for animals (per capita) was different and significantly below the allocations for former countries (France for instance).

Another problem with these funds, as politically distributed funds, is related to the fact that conditions for redistributing such money locally are established by public authorities with specific interests. All the guidelines elaborated by managing authorities are full of mistakes and incomplete, generating confusion and frustration at the level of applicants. It is not fair for the EU contributors to such funds to accept to finance private small business developments with internal rate of return below 10% (the proposals with such return below 10% or 5% that is the cost of capital are more rewarded than the proposals with high returns, meaning that the EU is more interested in financing inefficiency rather than stimulating performance).

Moreover, after the project is accepted by taking into consideration such problematic criteria, the control after the implementation of such projects made by local authorities is also very weak. The public controllers are very corruptible and willing to turn a blind eye and to cover mistakes or frauds made by applicants. Due to the crisis (but not only) a lot of projects financed by EU funds encountered serious problems with the market (clients). Nobody was held responsible for accepting such uncertain projects that had many errors in the market estimations from the beginning (Tatulescu & Patruti, 2014).

In conclusion, the European Funds represent an interference of the State in the economy that is contrary to the market economy. This kind of public finance represents a very negative impact on the private sector by increasing the role of the State in the allocation / redistribution of resources. It is an important source of moral hazard and a source of entrepreneurial error. This public intervention (consisting in raising funds from taxes or inflation and redistribution of them by public institutions) is altering the economic behaviour and it is creating an unfair competition among those who have a direct access to such cheap financings compared with those who are not able to obtain them.

Concluding remarks

Economic growth became an obsession (or a nightmare) of each politician. The absence of this growth is prone to create social convulsions and violence. Everybody should be employed in a productive job and this ”full” employment is stimulated only by an economy that is growing. Stimulating instruments are used to boost the economy and to reduce, as much as possible, the recession period. In fact, the business cycles are very relative and measured by using composite indicators such as the real GDP growth rate. These indicators are very inconsistent and unable to capture the evolution of an economy or of a group of integrated countries. Due to these inconsistences, any public policy applied in order to correct the economic situation is, in fact, a source of major errors at the level of real economy.

The European Union and entire public policies (and instruments) proposed to improve the wealth of its citizens are closer and closer to socialist economy rather than market economy. The production means are privately owned but fully controlled by public institutions that are influencing what should be produced and sold on the market, how the goods and services should be sold on the market, how business should be organized etc. All these interventions became barriers against any entrepreneurial action (Jora & Butiseaca, 2010). Strong additional costs are permanently added to any private business developed within the EU Single Market. These costs are affecting the price of goods and services making the EU economy less competitive or are affecting the profits of private business determining a lower efficiency of invested capital with the clear result of re-allocation of such business elsewhere than the EU area. Interventions promoted by the European Institutions are creating privileges for selected groups of interests reducing the chances or the wealth of others. Redistribution of resources creates a negative stimulus and increases the connectivity of private operators to the State. Redistribution based on political means and criteria is generating corruption and bureaucracy, increasing the costs and reducing the wealth of everybody. Interventionism is suffocating the private initiative and is transforming the economy from one connected to the market to one connected to the State's intervention. Socialist economy failed and significantly reduced the wealth of everybody. The failure of socialism was predicted before the bankruptcy of economies in Eastern Europe (the lack of market prices, the political allocation of resources, the error in the redistributive process etc.). No lessons have been learnt from the failure of socialist economies. Today, more and more institutions and State intervention measures are created by bureaucrats in the European Union applied in combination with local public policies. The crisis introduced the concept of "austerity" understood as State intervention reduction by reducing social assistance allowances, by cutting off the wages in the public sector or by reducing the public expenditures and debt (including the reduction of the number of employees in the public sector). The austerity has a huge electoral cost for almost all political parties that promoted this solution to fight economic crisis. The socialists with their propaganda won the elections in almost all important EU countries fighting with this "wrong" idea of austerity in the public sector (Marinescu & Jora, 2013). The logical solutions for the economic crisis have been replaced with more State intervention: the banks have been saved by especially created funds, more subsidies and more financial aids have been channelled in the economy from the European Central Bank (similar to "quantitative easing" from United States). Finally, after many years of recovery by refusing austerity and State intervention reduction, almost the entire European Union is faced with problems of economic growth and employment. Competitiveness and innovation also stagnate.

The European Funds are seen as a consistent support for weak economies of the new EU members in the Eastern European area. Local authorities are obsessed with the "absorption rate", "contracting rate" or "reimbursement rate". The entire EU allocated budget should be used in order to boost the economic growth. Of course, the GDP increased in almost all Eastern European Countries due to this redistribution from others' GDP (Germany, France etc.). But it is very important to understand how this GDP increased in the last years. Is this growth consistent and durable without this strong financial support? Will such public funds create durable jobs and business? In these countries with weak public institutions and weak justice and anti-corruption services, these politically allocated funds are submitted to create more bureaucracy and frauds than economic growth. Errors and moral hazard are present in any EU financed project. Controlling efforts are altered by the quality of public institutions too. In this case, allocation is not the only one prone to errors and frauds; the implementation and after-implementation phases are too.

The economic growth promoted by the European Union intervention is not a durable one because it is far from market conditions. This intervention is more concentrated on equalizing the incomes and wealth rather than supporting the most performant sectors or regions to become more competitive. This intervention is creating privileges and protection for different groups of operators and costs for others. Finally, the intervention and the bureaucratic apparatus will become stronger. All these enthusiastic and ambitious social programs promoted by EU institutions (Horizon 2020 for instance) will fail into a bankruptcy, as Eastern European socialist economies finally failed, after producing a lot of wealth problems for their citizens.

Acknowledgment: This paper is a revised version of the paper presented at *International Academic Conference Strategica: Management, Finance, and Ethics*, Second Edition, 2014.

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