A high price to pay? Britain and the European budget

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Of bougets and budgets …

Shadows of 'bougets', in the old sense of moneybags, loom over Britain's stance on the EU budget today, as they did over EC budgets 40 years ago. Three of the make-or-break issues for the UK in the negotiations over the multiannual financial framework (MFF) for the period from 2014 to 2020 concern the direct cost of UK membership. The first is maintaining the British correction or 'rebate', while also maintaining member state sovereignty over budget revenue decisions. (The current rebate, some claim, was finally gained by another 'bouget', Mrs Thatcher's fabled handbag, in 1984.) Cutting finance to the Common Agricultural Policy (CAP) is the second, and closely linked to the first. At the time Britain was negotiating its terms for accession, its less Eurocentric agricultural trade patterns, and its higher dependence on cheap food imports from outside the Communities, marked it off from the six founding EC member states for which food security was a high priority.[1] UK food prices were relatively low compared to Continental prices. Agriculture was a smaller economic and employment sector in the UK than it was in Continental Europe, and land ownership patterns also differed markedly. The third, and again related, issue is reducing the overall size of the MFF: that is, limiting the amounts available for the EU's annual budgets over several years, and therefore reducing the UK's contributions.

All three issues take account largely of direct costs—a book-keeping view—rather than the direct and indirect implications of membership. They tend to underestimate the broader benefits, and the effects, of policy changes at European level over time.

How have these three issues affected Britain's benefiting from the EU budget? Has the price been too high? Or has Britain squandered opportunities by taking a book-keeper's view rather than that of a public investor?

The EC budget and British stances before accession

The UK stood aside from the early beginnings of the European Communities after the Second World War. An attentive and growing Commonwealth watched

[1] Belgium, France, West Germany, Italy, Luxembourg and the Netherlands.

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the dismemberment of the empire, concerned about the UK's trade preferences.[2] Continental Western Europe's burgeoning economies benefited from a period of peace and cooperation through agreements such as the enlightened Marshall Plan, and the treaties of Brussels, Paris and Rome. Britain's economic fortunes during the 1950s and 1960s did not prosper greatly, and by the end of the latter decade Britain was one of the poorer countries among the EC members and accession states.

Though invited to participate at preparatory meetings of the six founder members of the European Coal and Steel Community (ECSC), the British government did not commit itself to the enterprise and missed opportunities to shape the direction and policies of the developing economic and atomic energy communities agreed in the Rome Treaties of 1957.[3] Financing the new communities did not immediately exceed finance of the Coal and Steel Community, formed in 1951. In 1958, of a total equivalent of 81.3 million EUR, 86.5 per cent of Community expenditure was on the Coal and Steel Community.

Agricultural policy divergences

Britain's views on agricultural policy differed from those of the Six, despite shared memories of the horrendous hardships of the Second World War, and of the starvation, scarcity and humanitarian crises of the early postwar period.[4] State intervention in food production was common in postwar Europe. Freedom of movement of agricultural goods conflicted with national intervention mechanisms. Important food production markets in Central and Eastern Europe had been cut off from Western Europe through the formation of the Soviet bloc.

The CAP aimed to reduce and rationalize these intervention mechanisms, enabling agricultural matters to be managed at EC level while also allowing a greater degree of freedom of movement of agricultural products. People needed food at reasonable prices, cushioned from the instability of world prices and supply. Encouraging agricultural production became an indispensable element of economic recovery in Europe. The terms of the 1957 EEC Treaty describing the CAP's aims were thus understandable. After much wrangling, and an empty (French) chair, the Six agreed to finance the Common Agricultural Policy through the EC budget, which changed the size and form of the latter dramatically.

The Six were unimpressed by Britain's attempts to create a competing but looser free trade area. Nor did they welcome the idea that the Council of Europe should be the hub for the growing network of Community agreements in the

[2] See e.g. Nicholas Fram, 'Decolonization, the Commonwealth, and British trade 1945–2004', Stanford University, 2006, http://www.stanford.edu/group/siepr/cgi-bin/pubpol/?q=system/files/shared/documents/Fram_Nicholas.pdf, accessed 22 Sept. 2012. Fram concludes: 'The downward trend in UK trade with its empire in the two decades following World War II indicates that it was not the UK's adoption of the EEC's common external tariff [in 1973] that forced empire trade into decline. Rather, British trade with its empire had, for a myriad reasons, been declining ever since the end of the Second World War' (p. 54).

[3] Roy Denman, *Missed chances: Britain and Europe in the twentieth century* (London: Cassell, 1996).

[4] Tony Judt describes the period in sombre terms in *Postwar* (London: Heinemann, 2005), p. 89.

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1950s.[5] The Six wished to create a union that would go beyond a traditional international organization and in which some sovereignty would be pooled.

The EC budget as symbol of growing unity

The EC budget became a symbol of that vision, with contributions not necessarily in line with gross national product (GNP), but rather reflecting the benefits of the policies pursued together, within a context where activities were financed and implemented by the Community's executive, where democratic and judicial institutions held sway, where the Community's executive shared its task with member states' executive authorities, and where the goal was an ever closer union.

The budget course was set down most clearly in the treaties of 1970 and 1975,[6] coinciding with Britain's accession to the Community. These set out the broad principles and procedures of the EC budget and its financial autonomy, which were then elucidated in legislative rules and administrative guidance. The course confirmed *inter alia* the agricultural policy set out at the 1958 Stresa Conference, implemented in 1962, financed through the EC budget and confirmed by the 1965 merger treaty.[7] Between 1965 and 1970 agriculture's share of all Community expenditure rose from 8.5 per cent to 86.9 per cent, in figures from 28.7 million EUR to 3,108 million EUR. This was achieved in part through transfer of national agricultural expenditure to the EC budget.

Own resources to replace national contributions ...

The Six had agreed in 1970 that revenue for the EC budget should take the form of own resources stemming from the functions of the European Communities as a trading bloc and single market.[8] Own resources are now defined as 'revenue allocated irrevocably to the Union to finance its budget and accruing to it automatically without the need for any subsequent decision by the national authorities',[9] even if collected by the individual member states. They were to be agreed unanimously by member states in Council and then ratified nationally.

Customs duties and agricultural levies on imported products from outside the Communities, and sugar levies, formed one own resource, now called 'traditional'. A 1 per cent share of a uniform value added tax (VAT) on traded goods and services within the common market formed the second own resource.[10]

5 Anthony Eden, *Full circle* (London: Cassell, 1960).

6 Treaty amending certain budgetary provisions (1970), *Official Journal of the European Communities* L 2, 2 Jan. 1971; Treaty amending certain financial provisions (1975), *Official Journal of the European Communities* L 359, 31 Dec. 1977.

7 Merger Treaty (1965), *Official Journal of the European Communities* 152, 13 July 1967.

8 The EC treaty provisions stated that 'without prejudice to other revenue, the budget shall be financed wholly from own resources'.

9 European Commission, *European Union public finance*, 4th edn (Luxembourg: Office for Official Publications of the European Communities, 2008), p. 135.

10 VAT was introduced in the UK on 1 April 1973, and became an EC budget revenue source from all nine member states in 1979.

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Duties and levies were initially relatively high, while levels of food self-sufficiency rose from a low level. Consumption began as a high proportion of personal expenditure. This trend would assure a healthy inflow of the harmonized VAT share. The UK would contribute relatively more than others, in part because its VAT base represented a higher percentage of GNP compared to other member and accession states. But no sooner were they agreed than the two own resources proved insufficient to meet the needs of the EC budget.[11]

… based on the customs union and internal market

An EC customs union and incipient internal market for the tariff-free exchange of goods and services was key to economic recovery and to the healthy growth of agricultural production. It came with the freedoms of movement and of capital. It encouraged intra-Community trade and competition and controlled state aids. These regulatory activities required less finance than food production.

But little EC funding went to aid the formation of the internal market, despite notable disparities in GNP between member states and between their regions, despite major market shortcomings, and despite low levels of research and technological development. Regional and social development aid, or structural funds, conceived to tackle these disparities, rose only from 1.4 per cent to 2.7 per cent of all Community expenditure between 1965 and 1970, and remained small in monetary terms.

By 1970, total Community expenditure through the EC, ECSC and European Development Fund (EDF) budgets amounted to 3,576 million EUR, of which agriculture took 86.9 per cent, structural funding 2.7 per cent and research 1.8 per cent. This was equivalent to 2 per cent of member states' public expenditure, and 0.7 per cent of member states' gross domestic product (GDP).

Accession agreements reached on revenue and expenditure

Understandably, given Britain's reservations about the CAP and its own relatively weak economic state, coupled with its will to be part of the Community in order to shape its future more to its liking, the future UK contributions to the EC budget were a major sticking point in the negotiations. They caused splits within and between the UK political parties that multiplied the divisions on whether or not to join and what renegotiation would be needed.[12]

The British government's calculations on its future contributions showed a significant imbalance, to the UK's disadvantage. They were based on revenue to be contributed by the UK less estimates of expenditure received by the UK, rather than an estimate including the indirect effects of membership: that is, on

[11] The Coal and Steel Community budget, financed largely through levies on those industries since 1952 and dissolved in 2002, and the European Development Fund for aid to poor countries—mostly ex-colonies—set up in 1959 and resourced through agreed shares, did not call upon the EC budget's own resources. See Philippe Mioche, *Fifty years of European coal and steel: 1952–2002* (Luxembourg: Office for Official Publications of the European Communities, 2004), ch. 3, pp. 65–78.

[12] See Julie Smith's article, 'The European dividing line in party politics', in this issue.

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a book-keeper's approach. Customs duties and agricultural levies were assumed to 'belong' to the member state levying them, rather than to the Community through which and within whose tariff walls the goods moved. The Six were not always impressed with the 'bouget' approach of the British negotiators. But solutions were found. The own resources decision was phased in over seven years in the acceding states, and in due course a financial mechanism was agreed.[13]

Expenditure-side proposals were made during the negotiations, involving increased regional funding through the EC budget to lessen inequalities in economic development across the EC and to correct market shortcomings. This would partly 'correct' the UK contribution imbalance and would help to create a level playing field for the internal market. The Regional Development Fund came into action in 1975, after much difficult discussion in the European summits of 1972–4. The aim was to complement the Social Fund and the European Agricultural Guidance and Guarantee Fund (EAGGF), and to encourage the extension of the internal market.[14]

Britain as a member state: committed or unsure?

In 1973, Britain's first year of membership, total Community expenditure amounted to 4,704 million EUR; agriculture accounted for 76.8 per cent, structural funding 5.5 per cent and research 1.5 per cent. The total was equivalent to 1.3 per cent of member states' public expenditure.[15]

That year the UK, along with other European states, suffered a first major oil price hike. Energy prices soared. Miners struck. Inflation took off. Northern Ireland's troubles re-emerged. The government called a general election for 1974.

Renegotiations

The Labour Party's manifesto for the February 1974 election called for 'new and fairer methods' of financing the Community budget. 'Neither the taxes that form the so-called "own resources" of the Communities, nor the purposes, mainly agricultural support, on which the funds are mainly to be spent, are acceptable to us. We would be ready to contribute to Community finances only such sums as were fair in relation to what is paid and received by other countries.'[16] What exactly would be 'fair' was not clarified.

[13] See details in Daniel Strasser, *Les Finances de l'Europe*, 5th edn (Paris: Fernand Nathan, 1984), ch. 8 and annexes 10 and 16.

[14] Council Regulation (EEC) 724/75 establishing a European Regional Development Fund, Council Regulation (EEC) 725/75 for the funding decision transferring 150 million ECU from the EAGGF to the new Regional Development Fund; Council 75/184/Euratom, ECSC, EEC on modifications to the Financial Regulation of 25 April 1973, Council Decision 75/185/EEC and Council Decision 75/186/EEC establishing a European Regional Fund to the French overseas departments. These were all decisions of 18 March 1975; see *Official Journal of the European Communities* L 73, 21 March 1975.

[15] European Commission, *The Community budget: the facts in figures* (Luxembourg: Office for Official Publications of the European Communities, 2000), SEC (2000) 1200.

[16] Cited in the UK Prime Minister's note to the Cabinet on the EEC White Paper C (75) 43, 21 March 1975 (London: National Archives).

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By way of illustrating the contrast between the 'bouget' approach of the UK and the aspirational, geopolitical and moral dimensions of the European Community espoused by the Six, Hugo Young recounts the German Chancellor Helmut Schmidt's speech to the Labour Party conference in November 1974, in what was then the 'temple of British anti-Europeanism', admiring the way 'he elevated the European discourse to a level which the British were so seldom capable of addressing'.[17]

The renegotiations would show that the British government's estimates of the UK's contributions, receipts and net contributions to the EC budget in 1973, 1974 and 1975 overestimated its actual net contributions when compared to the outturn in all years.[18] Receipts almost doubled between 1973 and 1974, mainly owing to increased agricultural productivity.

Requests to reduce a member state's contributions have been examined and corrections proposed since the early 1970s. The 1974 renegotiation of UK membership focused on what the British government claimed to be an 'unacceptable situation', namely an unfair balance of revenue and expenditure. But the idea of such an unacceptable situation had already been examined by the Community in a note of 9 November 1970 during the initial negotiations, which stated that if in the current Community or an enlarged Community an unacceptable situation should arise, the life of the Community itself would demand that the institutions find fair solutions to it. No clear definitions of unacceptability or fairness were agreed, however. They remained in the eye of the beholder, or bouget-carrier.

The gradual implementation of the own resources decision in the accession states between 1973 and 1979 coincided with the first agreement on a UK correction,[19] aided by the German Chancellor at the time, Helmut Schmidt. On 4 June 1974 the British Foreign Secretary, Jim Callaghan, raised the issue in Council and the Commission was mandated to examine the situation and report back. That report affirmed the risk of imbalances in the future, and the December 1974 summit invited the Commission to propose a general corrective mechanism as quickly as possible, which it did.[20] Simplifying somewhat, the mechanism would come into effect for net contributors whose per capita GNP was less than 85 per cent of the EC average,[21] whose rate of growth of per capita GNP was less than 120 per cent of the EC average, and whose transfers to the EC budget exceeded by more than 10 per cent its share of EC GNP.

The Dublin European Council of 11 March 1975 agreed a financial mechanism, and a week later the British Prime Minister was able to recommend a 'yes' vote in the referendum. In the event, 67 per cent of Britons (on a high turnout of 65 per

[17] Hugo Young, *This blessed plot: Britain and Europe from Churchill to Blair* (London: Macmillan, 1998), p. 282.

[18] These estimates were prepared for the 1975 EEC White Paper before the referendum.

[19] Trends in UK direct contributions and receipts of a similar kind continue to decorate modern UK public expenditure figures related to the EU budget.

[20] Council Regulation (EEC) 1172/76, *Official Journal of the European Communities* L 131, 20 May 1976, p. 7.

[21] Calculated on the basis of the previous three years. In the event of positive balances of payments, the calculations were to be based on VAT contributions and the transfers not covered by customs duties or agricultural levies. Discussions were complicated by the change of unit of account and the application of monetary compensatory amounts.

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cent) voted in favour of the country's remaining an EC member, and so the UK took up its full place in the Community institutions. The other eight member states accepted the outcome of the negotiations with relief.

Continuing problems on rebates and own resources …

That relief did not last. Between 1975 and 1984 the argument about Britain's contributions deepened. The financial mechanism agreed in 1975 provided no rebate from 1976 to 1982. Through most of this period the own resources decision was being phased in, and the difference between the UK contribution to the EC budget and its share of EC GNP/GDP was not more than 10 per cent. In one year, 1976, the UK was a net beneficiary, and in 1981–2 UK growth exceeded the EC average so that the UK GNP per capita was no longer less than 85 per cent of the Community average in 1982. This was partly a result of changing economic circumstances, with North Sea oil coming on stream, and also of the enlargement of the EC to include Greece in 1981. Nor did UK food prices initially rise by as much as was feared. Table 1 summarizes the conditions to be fulfilled to trigger the financial mechanism and the outturn for each of the years 1976 to 1982. The financial mechanism provided no relief for the UK (or, indeed, for Ireland or Italy) during that time. As the phasing in of own resources was drawing to an end in 1978 and as the financial mechanism had not applied, the UK government pressed for a new mechanism. Ad hoc arrangements were agreed for 1982–3, which ran into opposition in the European Parliament. [22]

Table 1: Application of EC financial mechanisms to the UK, 1976–82

Year	*UK net contributor?*	*UK GNP/GDP per capita compared to average, % (trigger: <85%)*	*UK GNP/GDP growth per capita compared to average, % (trigger: <120%)*	*Contributions to EC budget and share of EC GNP/GDP*		
				UK contributions to the EC budget, %	*Share of EC GNP/GDP, %*	*Difference (trigger: >10%)*
1976	YES	77	100	10.7	15.7	*−31.6*
1977	*NO*	75	27	12.2	15.4	*−20.9*
1978	YES	74	74	15.4	15.7	*−2.5*
1979	YES	72	88	17.5	16.7	*+5.0*
1980	YES	74	60	20.5	18.9	*+8.5*
1981	YES	82	42	21.5	20.3	*+5.8*
1982	YES	*89*	Negative	24.2	20.1	+20.3

Note: figures in *italic* denote failed criteria.
Source: Daniel Strasser, *Les Finances de l'Europe*, 5th edn (Paris: Fernand Nathan, 1984), p. 636.

[22] A rebate system was agreed for the two years 1980 and 1981, and it appeared to operate satisfactorily, according to Mrs Thatcher. The UK arranged a diminishing ad hoc refund for the two following years, 1982 and 1983, which was increased in 1984 to 1,000 million EUR (the euro equivalent of the units of account used in the budget).

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The change of government in Britain in 1979 altered the tenor of the debate in the European Councils as 'bougets' swung.[23] Europe was suffering 'Eurosclerosis' and political pressure bore on all parties to resolve the outstanding quarrels. Five years after Greek accession to the EC, Portugal and Spain would join in 1986.

The British rebate

The Fontainebleau European Council of June 1984, under the presidency of François Mitterrand, agreed on the British rebate. The European Council concluded that 'any Member State sustaining a budgetary burden which is excessive in relation to its relative prosperity may benefit from a correction at the appropriate time'. That principle remains in force today. Mrs Thatcher also pressed for a genuine common market in goods and services, which was to be launched with the 1986 Single European Act.

In simplified terms, the rebate provides a reimbursement to the UK of two-thirds of the difference between its contribution and what it receives back from the budget. The calculation is based on its gross national income and VAT. It is calculated a year in arrears, and updated over four subsequent years. From 1985, Germany's contribution to financing the UK correction was limited to two-thirds of its normal share. Since 2002, this limit has been reduced to one-quarter and extended to the Netherlands, Austria and Sweden.[24]

Insufficient own resources and growing agricultural budgets lead to conflict

The 1984 European Council also agreed to raise the VAT ceiling from 1 per cent to 1.4 per cent, knowing that the effect of the British rebate on all other member states' payments would reduce this putative ceiling to about 1.25 per cent and that strains on the supply of own resources were emerging.[25] The automatic link between revenue and expenditure had not been established at the outset:[26] the founding treaties foresaw a limit only to one type of expenditure, namely the non-compulsory, while compulsory expenditure—largely agricultural funding—was not covered by the maximum rate of increase.[27] Agricultural production grew

[23] See e.g. Ian Gilmour, *Dancing with Dogma: Britain under Thatcherism* (London: Simon & Schuster Pocket Books, 1993), pp. 285–96, esp. p. 287.

[24] See European Parliament Policy Challenges Committee Publication, vol. 2: *Factual background note on the reform of the EU financing system*, annex 3, p. 132: 'exceptions introduced by the European Council in December 2005 on the expenditure and income side of the budget', which identifies over 40 different corrections on either the revenue or the expenditure side. See http://www.europarl.europa.eu/committees/en/sure/publications.html#menuzone, accessed 25 Sept. 2012.

[25] See Prime Minister Thatcher's statement to the House of Commons on 27 June 1984 on the results of the Fontainebleau European Council, Hansard (Commons), vol. 62, cols 993–1009. Many changes have occurred since to the percentage of VAT flowing to the EU budget, known as the VAT call rate. The call rate in 2013 is 0.3%, with reduced levels for Austria, Germany, the Netherlands and Sweden.

[26] The EU budget has to be in balance each year. That avoids having to budget for interest payments on debt. UK repayments on public debt (interest), for instance, amounted to £48.6 billion (€60.8 billion) in fiscal year 2012, an amount by itself equivalent to half the total EU budget for all 27 member states.

[27] A single percentage calculated each year on the basis of the volume trend of GNP within the Community, the

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and excess stocks built up, leading to the infamous butter mountains and wine lakes that have attracted so much criticism ever since.[28]

Agreeing the British rebate and raising the VAT rate in 1984 did not resolve the insufficiency of own resources. The directly elected European Parliament (EP) had rejected the EC budget for 1980 in December 1979 on the grounds, *inter alia*, that agricultural expenditure was uncontrolled and own resources insufficient. With the exception of 1983 and 1984, in every year from 1979 to 1988 either the EP rejected draft budgets and/or supplementary and amending budgets for similar reasons, or Council contested the budgets adopted by the EP in the European Court of Justice.

Resolving revenue shortages, setting ceilings, and reducing budget conflict

In 1988 a third revenue source was agreed: a national contribution based on the gross national income (GNI) of each member state. An overall ceiling of own resources was set at a small percentage of EC GNI.[29] The link between revenue and expenditure was formally established. Expenditure agreed by the budget authority would be covered by revenue.[30] Limits on expenditure would come from the own resources decision, the 'financial perspective' and the programme authorization acts.

In that same year of 1988 the European Parliament, the Council of Ministers and the European Commission agreed the first financial perspective for five years. Separately, an agricultural guideline was agreed that limited the growth of agricultural expenditure to 74 per cent of GNP growth, the first of the legal limitations in this area. Conflict on the EC budget was thereby reduced.

The fourth MFF, as the financial perspective has become, covers the seven years 2007–13 and sets out ceilings for commitments, or pledges to pay, each year in very broad policy areas or headings. The perspective was not foreseen in the 1970 and 1975 budget treaties and was agreed between the three institutions. Under the Lisbon Treaty the MFF is part of a formal law, where the Council has the final unanimous word once Parliament assents. It replaces the maximum rate of interest in the treaties.

The MFF also fixes the annual ceiling on payments to be made from the EU budget for all areas together, averaging 1.07 per cent of GNI over the seven years, well below the own resources ceilings.[31] The €975.8 billion ceiling on pledges for

average variation of the budgets of the member states, and the trend of the cost of living during the preceding financial year.

[28] Between 1973 and 1983, the EC's degree of self-sufficiency in major agricultural products rose dramatically: for example, in wheat from 104% to 125%, in sugar from 91% to 144%, in butter from 101% to 123%, and in beef and veal from 91% to 104%. Figures from a Trilateral Commission report cited in Robert L. Paarlberg, *Fixing farm trade: policy options for the United States* (Cambridge, MA: Ballinger, 1988), p. 29. The UK shared in this increased productivity.

[29] Initally 1.27% of GNP, calculated on the basis of the 1979 European System of Accounts (ESA 79).

[30] The budget authority comprised the European Parliament and the Council, acting on the basis of proposals from the Commission.

[31] These upper limits are currently 1.29% of GNI in commitments and 1.23% in payments.

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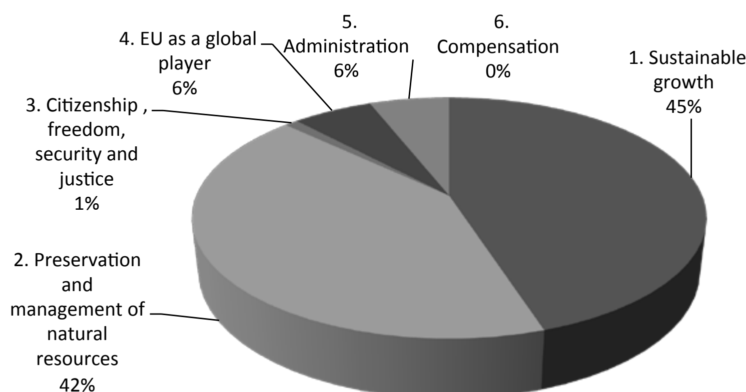
the 2007–13 period in current 2012 prices (averaging 1.12 per cent of EU GNI) is broken down by heading in figure 1.

The MFF does not authorize the committing and spending of these amounts. Authorization laws for programmes and actions and an annual budget have to be adopted before monies can be spent within the framework ceilings. The MFF foresees small instruments, such as the European Global Adjustment Fund or the flexibility facility, that are outside the ceilings of the perspective and which can only be called on in extraordinary circumstances, with the agreement of the budgetary authority and within specific financial limits. The rules of the MFF do not allow displacement of funding between headings, or subheadings, without formal decisions of the budgetary authority.

Figure 1: The EU budget: overall ceiling of commitments 2007–13



Source: European Commission, Draft General Budget of the European Union 2013, general introduction, p. 82.

Has the book-keeping logic been overtaken?

Since 1984, 17 more states have joined the EU. The fact that the two accession states in 1986 and the twelve accession states in 2004 and 2007 were significantly poorer than the UK did not deter the British from arguing for and securing the rebate as part of own resources decisions in 1989, 1994, 2000 and 2007, and, of course during the 1992, 1999 and 2005 MFF negotiations.

Despite the rebate being enshrined in the own resources decision, change in which requires unanimity in Council and ratification by all member states, it has nevertheless developed to take account of succeeding enlargements and MFF negotiations. For instance, in the MFF negotiations in 2005–2006, agreement was reached to exclude non-agricultural expenditure in accession states from the rebate.[32]

[32] From the 2008 UK correction onwards, total allocated expenditure in the annual budget, the basis for rebate calculations, was reduced in phases by allocated expenditure in member states that had joined the EU after 30 April 2004, except for agricultural direct payments and market-related expenditure as well as that part of rural development expenditure originating from the EAGGF Guarantee Section. The effect of this additional contribution on the UK may not exceed a ceiling of €10.5 billion, in 2004 prices, during the period 2007–13. The cost of the correction is borne by the other member states, with some abatement for Germany, the Netherlands, Austria and Sweden.

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Agricultural funding was also agreed in 2002 for the period 2007–13, through a procedurally adroit Franco-German initiative accepted rapidly by all the other member states but much contested three years later by the British Prime Minister.

'Only such sums as were fair in relation to what is paid and received by other countries ...'

Fairness takes on a different meaning when we consider the relative wealth of states now contributing to the UK correction, which is estimated to amount to around €4,072 million in 2012. Table 2, taken from the Commission's 2013 draft budget, shows each member state's estimated contribution to the UK correction. As a result of the MFF negotiations, the Netherlands and Sweden enjoy a reduction of about €653 million and €145 million respectively before the calculations are made for the UK correction, to which they contribute. Poland contributes €201.8 million to the UK correction.

The table also shows comparative GDP per capita in purchasing power standards (PPS) for the member states. The UK ranks well above the average, comparable with member states such as Germany, Belgium and Finland, and with France and Italy below it. The figure for Poland is little over half that for the UK.

Total own resources per capita that may be contributed to the EU budget in 2013 vary from €650 for Luxembourg, €517 for Belgium, €508 for Denmark, €412 for Sweden, €403 for Finland, €395 for the Netherlands, with the UK very close to the EU27 average of €271, well below Germany, France and Ireland. Ranged with the UK are Spain, Italy and Cyprus, somewhat above Slovenia.

A focus on such rebates or corrections and the GNI contribution encourages a book-keeping view of the Union, rather than one that acknowledges the budget as a vehicle to promote particular policies in sectors that all have agreed should be dealt with at Union level. The book-keeping perspective implies that some believe that they pay too high a price or that they are not confident that the funds are well used by other member states, or both.[33] Yet analyses of the costs and benefits of the single market and of European regulation, though contested, suggest a positive balance for the UK and for the Union as a whole, even though the single market is not complete.[34] A study by the European Commission in 2007 estimated that over the period 1992–2006 the single market programme raised EU GDP by 2.2 per cent (€233 billion), creating 2.75 million jobs in the process. For the UK, that increase in GDP would have been around £25 billion.[35] Furthermore, the benefit–cost ratio

[33] The European Commission's annual *Financial Report* provides extensive breakdowns of operating budgetary balances by member states using accepted definitions: see the 2011 report at http://ec.europa.eu/budget/library/biblio/publications/2011/fin_report/fin_report_11_en.pdf, accessed 27 Sept. 2012.

[34] Commission Communication, 'Single Market Act: twelve levers to boost growth and strengthen confidence. Working together to create new growth', COM(2011)0206, 13 April 2011, preceded by Mario Monti's report to the President of the European Commission, *A new strategy for the single market: at the service of Europe's economy and society*, Brussels, 9 May 2010, http://ec.europa.eu/bepa/pdf/monti_report_final_10_05_2010_en.pdf, and by the European Parliament in Louis Grech's report, *Delivering a single market to consumers and citizens*, May 2010.

[35] UK HM Treasury, 'Literature review: economic costs and benefits of EU membership', 201, http://www.hm-treasury.gov.uk/d/foi_eumembership_literaturereview.pdf, accessed 25 Sept. 2012.

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Table 2: The British rebate, total own resources, population and GDP per capita in member states

Member state	*Estimated contribution to UK correction, €million*	*% share in total national contributions*	*Estimated total own resources, € million*	*Total own resources, %*	*Total own resources per capita, €*	*Population, 2011, millions*	*GDP per capita in PPS, 2010 (EU27=100)*
Austria	28.5	2.39	3,052.2	2.2	363.2	8.4	126
Belgium	203.3	3.22	5,660.6	4.2	516.9	11.0	119
Bulgaria	20.6	0.33	452.2	0.3	60.3	7.5	44
Cyprus	9.0	0.15	196.8	0.1	244.7	0.8	99
Czech Rep.	76.2	1.22	1,680.2	1.2	159.5	10.5	80
Denmark	133.2	2.08	2,826.6	2.1	508.3	5.6	127
Estonia	8.6	0.14	189.0	0.1	141.0	1.3	64
Finland	106.4	1.70	2,167.0	1.6	403.2	5.4	115
France	1,099.8	17.57	22,729.5	16.7	349.4	65.0	108
Germany	247.5	19.91	27,218.4	20.0	332.9	81.8	118
Greece	102.1	1.62	2,048.8	1.5	181.1	11.3	90
Hungary	52.1	0.82	1,081.8	0.8	108.3	10.0	65
Ireland	65.8	1.06	1,464.8	1.1	326.9	4.5	128
Italy	827.8	13.03	17,123.9	12.6	282.4	60.6	101
Latvia	11.3	0.17	231.0	0.2	103.6	2.2	51
Lithuania	17.1	0.27	367.8	0.3	113.4	3.2	57
Luxembourg	16.6	0.27	332.6	0.2	649.8	0.5	271
Malta	3.2	0.05	71.3	0.1	170.6	0.4	83
Netherlands	56.1	3.81	6,572.4	4.8	394.6	16.7	133
Poland	201.8	3.25	4,263.4	3.1	111.6	38.2	63
Portugal	83.8	1.35	1,720.9	1.3	161.8	10.6	80
Romania	73.5	1.14	1,460.9	1.1	68.2	21.4	46
Slovakia	37.5	0.58	824.5	0.6	151.7	5.4	74
Slovenia	18.2	0.30	429.1	0.3	209.3	2.1	85
Spain	534.2	8.54	11,263.5	8.3	244.0	46.2	100
Sweden	37.9	2.83	3,880.4	2.8	412.1	9.4	123
UK	-4,072.4	12.23	17,034.2	12.5	272.8	62.4	112
Total EU27	**0.0**	**100.0**	**136,343.7**	**100.0**	**271.3**	**502.5**	**100**

Source: Columns 2–5 European Commission, *Draft general budget of the European Union 2013*; column 6: author's calculations; column 7: Eurostat 2011; column 8: Eurostat 2010.

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of EU regulations in the UK is 1.02: that is, for every £1 of costs that EU regulations impose, they deliver £1.02 of benefits. Submissions to the House of Lords in 2010 estimate *inter alia* that 52 per cent of UK trade, half of inward investment and nearly 3 million jobs are linked to the EU.[36] Evaluations cited below support this positive view more generally. The search for fairness continues.

Return to 'own resources'

Action on the revenue side is no distraction, as the UK House of Lords suggests, but is driven by a return to the original treaty concept of the Union's revenue being derived from own resources, distinct from national contributions. Figure 2 shows the extent to which the GNI-based resource has taken the place of the original customs duties and VAT share over the period 1958–2011, distorting the original treaty principles. It also shows, incidentally, the plateau reached by the EU budget since 2003, just before the major enlargements to include countries in Central Europe and the Mediterranean.

Figure 2: Structure of EU financing, 1958–2011

Source: 'Financing the EU budget: report on the operation of the own resources system', European Commission staff working paper SEC(2011)876 final/2, http://ec.europa.eu/budget/library/biblio/documents/fin_fwk1420/proposal_council_own_resources__annex_en.pdf, accessed 22 Sept. 2012.

The EU budget's economic impact and size

Many commentators would agree with the EP's view that

the main purpose of EU budgetary spending is to create European added value by pooling resources, acting as a catalyst and offering economies of scale, positive trans-boundary and spill-over effects thus contributing to the achievement of agreed common policy targets

[36] House of Lords Select Committee on the European Union (Sub-committee B), *Inquiry into re-launching the single market*, 7 Oct. 2010, http://www.parliament.uk/documents/lords-committees/eu-sub-com-b/single marketinquiry/singlemarketwe221010.pdf, accessed 25 Sept. 2012.

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more effectively or faster and reducing national expenditure; … EU spending must always aim at creating greater value than the aggregated individual spending of Member States.[37]

An EU investment budget

The supposition is that the EU budget does attempt to meet these stipulations, and much evidence cited here supports that argument. Pelkmans argued in 2005 that the economic functions—allocation of public goods, distribution or equity, macroeconomic stabilization, and promoting externalities—are hardly perceptible in the use of EU funding from the budget.[38] Delors and others, the Ecorys study, and Daniel Tarschys and others make a case for the stimulus provided by EU funding through the budget having long-term effects; it is an 'investment' budget, in spite of its relatively small size.[39] The MFF within which it operates supports this view, providing as it does scope for long-term structural action and research.

The debt crisis in Europe has thrown the spotlight onto the EU budget's small role in macroeconomic stabilization, which should not be dismissed. Both the European Economic Recovery Programme, set up in 2008 and funded through the EU budget from 2009, and the current growth-enhancing measures for 'Europe 2020—Mission Growth', funded in part through the EU budget and through financial engineering instruments, such as project bonds, seem likely to have macroeconomic impacts.

The EU budget and the euro

The EU budget is denominated in euros. The MacDougall Report of 1977 suggested that the EC budget would need to make up a considerably larger share of GDP than it did at the time, if it was to have a significant economic impact in a monetary union (it would need to be initially 2–2.5 per cent, rising to 5–7 per cent of EC GDP).[40] Federal budgets are very much larger proportionately than the EU budget. In the United States, Canada or Switzerland, for instance, central public spending amounted in 2008 to between 11 and 25 per cent of total public spending as a percentage of the respective national GDP. By comparison, the corresponding proportion for the EU is just 1 per cent—which is not surprising, as the EU is not a federal state.[41]

37 EP resolution, 'Investing in the future: a new Multiannual Financial Framework (MFF) for a competitive, sustainable and inclusive Europe', 8 June 2011, http://www.europarl.europa.eu/sides/getDoc.do?type=TA&reference=P7-TA-2011-0266&format=XML&language=EN, accessed 25 Sept. 2012.

38 Jacques Pelkmans, *European integration: methods and economic analysis* (Harlow: Pearson Education, 2006).

39 http://www.notre-europe.eu/en/about-us/authors/auteur/463/, accessed 25 Sept. 2012; Ecorys/ Netherlands Bureau for Economic Policy Analysis (CPB)/Institute for Economic Research IFO, *A study on EU spending: final report* (Rotterdam, 24 June 2008); Daniel Tarschys, ed., *The EU budget: what should go in? What should go out?* (Stockholm: SIEPS, May 2011).

40 European Commission, *Report of the study group on the role of public finance in European integration* (Brussels and Luxembourg: ECSC–EEC–EAEC, 1977).

41 Amélie Barbier-Gauchard, 'Thinking the EU budget and public spending in Europe: the need to use an aggregate approach', Notre Europe policy brief no. 29, June 2011, http://www.notre-europe.eu/uploads/tx_publication/Bref29_ABarbierGauchard_EN.pdf, accessed 25 Sept. 2012.

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A high price to pay?

The economic impact of the budget depends on its functions, its revenue sources and its output. When future firewalls for the euro were first being discussed, the EU budget was rapidly excluded from discussions of possible sources of funding, though exceptionally it was to guarantee up to €60 billion of the European Financial Stability Facility (EFSF).[42]

As the discussions on the eurozone illustrate, those figures are small compared to the sums now being suggested for the European stabilization mechanism (ESM), whose lending capacity may total some €500 billion, or the EFSF, with its €440 billion lending capacity. The size of that mechanism for the eurozone supports the longer-term estimates of the MacDougall Report, though the funding, if needed, would be made available through Eurozone member states and elsewhere rather than through the EU budget.

The EU budget and national budgets

What needs strengthening is the examination of national budgets in conjunction with the EU budget.[43] Barbier-Gauchard and Bertoncini estimate that for agriculture, rural development and fishing, about 70 per cent of public spending, both national and EU, comes from the EU budget. In the case of structural and cohesion policies this falls to 50 per cent; for humanitarian aid, to 37 per cent; for external aid, 12 per cent; and for research and development, 6 per cent. For all other policy areas that have any funding at EU level, the amounts are negligible, with national budgets providing almost all funds.[44]

EU budget's added value

The Commission's staff working paper on value added of the EU budget summarizes many of the reasons why the budget exists. It points out the peace dividend assured by the Union's existence, and continues:

> Over fifty years of working together as Europeans has created a Single Market, a common currency and an area of internal mobility unhindered by border controls. Belonging to the EU helps Member States solve problems that go beyond national borders, whether in the area of climate change or dealing with illegal migration. Working together in a European regulatory framework EU members can exploit the economies of scale of an internal market of 500 million people and ensure fair play between all Member States, big and small, old and new, rich and poor. [45]

[42] The EFSF is backed by guarantee commitments from the euro area member states for a total of €780 billion and has a lending capacity of €440 billion. See http://www.efsf.europa.eu/about/index.htm, accessed 25 Sept. 2012.

[43] European Commission, 'The added value of the EU budget', SEC(2011)867 final, 29 June 2011, http://ec.europa.eu/budget/biblio/documents/fin_fwk1420/fin_fwk1420_en.cfm#doc10, accessed 25 Sept. 2012. See also the extensive documentation of the European Parliament Policy Challenges Committee and the resolution adopted in June 2011, http://www.europarl.europa.eu/committees/en/sure/working-documents.html#menuzone, accessed 25 Sept. 2012, e.g. working document on the concept of European added value, PE 454.599v01-00. See also e.g. Eulalia Rubio, 'The "added value" in EU budgetary debates: one concept, four meanings', Notre Europe Policy Brief no. 28, June 2011.

[44] See Amélie Barbier-Gauchard and Yves Bertoncini, 'Scoreboard of public spending in the European Union and its member states', Centre d'Analyse Stratégique, Strasbourg, Sept. 2009.

[45] European Commission, 'The added value of the EU budget'.

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Many would agree. The Lithuanian Prime Minister Andrius Kubilius and the EU Budget Commissioner Janusz Lewandowski agreed, for instance, that the EU budget 'is an essential tool to promote economic growth and job creation, notably through investments in infrastructure, education, innovation and research and support for SMEs. They agreed that as the EU's economic strategy is being reviewed to combine sound public finances with growth and employment, the EU budget's role needs to be recognised and defended.'[46] EU Budget Commissioner Janusz Lewandowski has also recently pointed out that 'in cohesion policy, over the 2000–2006 period, each euro invested resulted in a return of €2.1. By 2020, that return is estimated at €4.2 per euro invested. In science and research this ratio is even higher: in some cases, one euro invested at EU level can generate up to €14'. He goes on to say: 'Studies have shown that GDP in the EU-25 as a whole has been 0.7 per cent higher in 2009 thanks to cohesion policy investments over the 2000–2006 period. This is estimated to rise to 4 per cent by 2020. In the EU-15 alone, the estimate is a cumulative net effect on GDP of 3.3 per cent by 2020.'[47] The leaders of the EU27 member states also all agreed at the 29 June 2012 European Council that the EU budget is a catalyst for job creation and economic growth in Europe.[48]

The EU budget, the next MFF and Europe 2020

The results of the budget reform conference in 2008 were analysed in the Commission's communications and in the subsequent budget review.[49] The EP and many national parliaments, including recently the UK House of Lords, examined the budget reform and the Commission's MFF proposals of 29 June 2011.[50] Discussions in Council began in July 2011. Even before the Commission's proposals had been made, the government leaders of the UK, France, Germany, the Netherlands, Austria and Sweden—all net contributors—demanded a freeze on EU spending ceilings for the coming period. Size was for them the key criterion, it seems, not the policy priorities, nor the quality of investment proposals.

Many organizations and commentators have recommended changes to the EU budget for the next MFF period. The Ecorys study argued for a rebalancing of policy areas to make the most of the positive economic effects of funding.[51] The SIEPS study did likewise.[52] The Sapir study of 2003 recommended a wholesale shake-up to concentrate on growth.[53] Centre for European Policy Studies (CEPS)

[46] Interview on 1 March 2012, cited on http://ec.europa.eu/commission_2010-2014/lewandowski/headlines/index_en.htm?id=201203011200, accessed 27 Sept. 2012.

[47] 'Lewandowski: €1 invested at EU level can generate up to €14', EurActive.com, 3 Sept. 2012, http://www.euractiv.com/euro-finance/lewandowski-euro-invested-eu-lev-interview-514566, accessed 27 Sept. 2012.

[48] European Council conclusions, EUCO 76/12, 28–29 June 2012, Annex, p. 12 http://www.consilium.europa.eu/uedocs/cms_data/docs/pressdata/en/ec/131388.pdf, accessed 27 Sept. 2012.

[49] EC Communication on the EU budget review, COM(2010) 700, 19 Oct. 2010, http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=COM:2010:0700:FIN:EN:PDF, accessed 27 Sept. 2012.

[50] http://ec.europa.eu/budget/biblio/documents/fin_fwk1420/fin_fwk1420_en.cfm, accessed 25 Sept. 2012.

[51] Ecorys/CPB/IFO, *A study on EU spending: final report*.

[52] Tarschys, ed., *The EU budget*.

[53] André Sapir, Philippe Aghion, Giuseppe Bertola, Martin Hellwig, Jean Pisani-Ferry, Dariusz Rosati, José

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and Centre for European Reform (CER) studies also argue for significant funding reductions for some policies and increases for others.[54] All these studies accept that the EU budget was the right vehicle for such spending and that it provided added value. Almost all argue for a reduction in EU funding to agriculture.

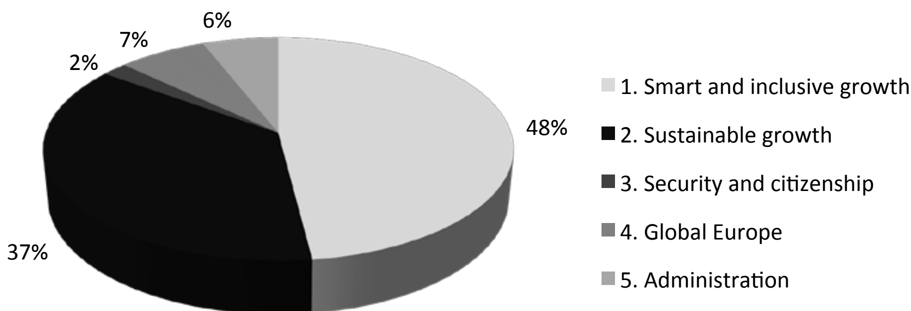
An overall strategic plan, Europe 2020, has been agreed by the Union. Much of the current budget does not directly target these goals, though the future MFF proposals of the Commission plan for the steady accretion of Europe 2020 funding over the period. And of course the titles can hide major policy shifts.

Comparing the proposals for expenditure within a seven-year ceiling of €1,025 billion or 1.05 per cent of GNI from 2014 to 2020 with the previous MFF (2007–13) shows that funding for smart and inclusive growth increases relatively as that for natural resources declines. Spending under the cohesion (economic, social and territorial) subheading constitutes three-quarters of that under the 'smart and inclusive growth' heading. Market-related expenditure and direct payments still form nearly three-quarters of 'sustainable growth', otherwise known as agriculture and rural development, fisheries and environment (see figure 3).

The MFF proposal continues the practice accepted with the previous MFF of adding off-MFF items: this time two of some size, the nuclear fusion project ITER and the Global Monitoring for Environment and Security project for earth observation from space, together accounting for €8.5 billion.[55] With both on- and off-MFF items, the proposals amount to 1.11 per cent of GNI in commitments, while the payments ceiling overall remains at 1 per cent of GNI (€972.2 billion).

Peet and Tindale plead for more boldness for the 2014–20 MFF, but set out the many reasons why it is unlikely to be forthcoming.[56] They identify three

Figure 3: Proposed commitment ceilings to EU spending, 2014–20



Source: European Commission proposal COM(2011)398 of 29 June 2011, p. 17.

Viñals, Helen Wallace with Marco Buti, Mario Nava and Peter M. Smith, *An agenda for a growing Europe: making the EU system deliver*, report of an Independent High Level Group established at the initiative of the President of the European Commission, Brussels, July 2003 (Oxford: Oxford University Press, 2004).

[54] http://www.ceps.be/search/node/EU%20budget and http://www.cer.org.uk/search/node/EU%20budget, both accessed 25 Sept. 2012.

[55] Under the current MFF, the off-MFF items have used a small proportion of the usable funding.

[56] John Peet and Stephen Tindale, *The European Union budget 2014–2020: more boldness needed* (London: Centre for European Reform, April 2012), www.cer.org.uk/sites/default/files/publications/attachments/pdf/2012/pb_budget_5april12-4897-4947.pdf, accessed 27 Sept. 2012.

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stumbling blocks that need to be put back on the negotiating table: the British rebate, CAP financing, and the overall size of the MFF—issues that Europe has lived with ever since British accession.

Negotiations continue as EU economies, burdened by heavy sovereign debt, attempt to find growth and recovery measures that will take them out of the world economic downturn. Without a dramatic and far-reaching revolution of ideas on the development of the Union, the size of the EU budget will remain strictly contained, as will its impact.

Is the EU budget large or small?

The EU draft budget for 2013 proposed by the European Commission totals €150.9 billion in commitment appropriations and €137.9 billion in payment appropriations. This compares with the adopted 2012 budget of €147.2 billion in commitments and €129.1 billion in payments.[57] In these terms, the budget seems large.

The European Union budget amounts to about 53 pence per person per day on average[58] for the 500 million people of the European Union—less than the price of a cup of tea. That is equivalent to less than 1 per cent of annual EU GNI. It is dwarfed by national public budgets, which are equivalent to about 44 per cent of EU GNI. It is also a very small total compared to the sum of national budgets of all 27 EU member states, which amounts to more than €6,300 billion.

In 1973, on Britain's accession, the equivalent budget amounted to 0.5 per cent of the GNI of the nine member states, or 1.3 per cent of member states' general government expenditure: some €4.5 billion for the 260 million inhabitants of the then EC.[59] Agriculture and regional development accounted for over 80 per cent of the budget, with the former accounting for about three-quarters of the total budget: far more than today, when 40 per cent goes on natural resources overall.[60] Superficially, the likenesses are impressive, until one looks at the details of each policy then and now and notes the fundamental changes in each.

Reform to take account of the EU's development

The EU budget's limited size reflects the limits of what it funds. The EU budget does not fund the personnel and infrastructure costs for social security, pensions, health, justice, education and defence that most national budgets do, areas that constitute a large proportion of national budgets. British public spending on pensions and health care for fiscal year 2012 are equivalent to €161.6 billion and €154.6 billion each,[61] much more than the whole of the EU budget—and those are the figures for just one of the 27 member states.[62]

57 £126.5 billion at exchange rate of 21 Jan. 2012.
58 64 euro cents.
59 1973 values.
60 Via the EAGGF.
61 £0.79990 : €1, European Central Bank exchange rate of 31 May 2012.
62 See Barbier-Gauchard and Bertoncini, 'Scoreboard of public spending in the European Union and its member states'.

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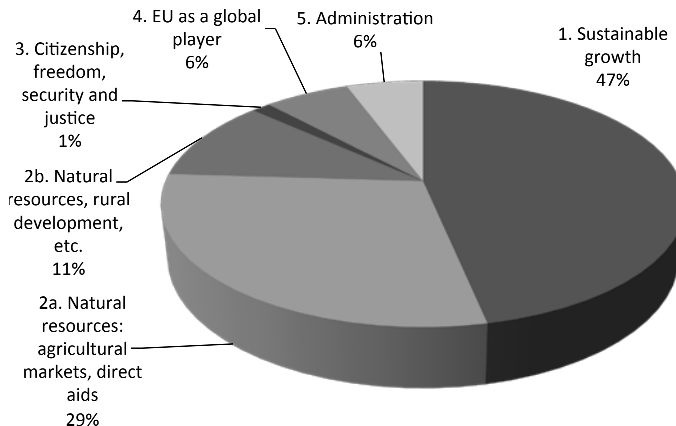
Most EU budget funding is used to support researchers, businesses, farmers, transport and environmental bodies, unemployed, youth groups, students and teachers, along with many other organizations in member states assisted through actions and (frequently long-term) programmes.[63] Major aims are to strengthen the single market, to promote the four freedoms of movement (of people, goods, capital and services), to boost employment, to rectify market failures, to help poorer regions grow, and to assure high food quality and supply. Funding also goes to aid accession and neighbouring states and developing countries around the world, and to finance emergency aid and reconstruction.[64]

Figure 4: 2013 draft EU general budget by MFF heading



Source: European Commission, Draft General Budget of the European Union 2013, general introduction, p. 18.

The functions financed are largely investment-oriented. About 47 per cent of the draft 2013 budget is allocated to actions in the EU to sustain growth, including cohesion (accounting for 36 per cent), as set out in figure 4. The draft foresees about 29 per cent going to direct aids and agricultural market measures, and a further 11 per cent to rural development. Under 6 per cent of the EU budget goes on administration of EU institutions and bodies. In most national budgets, capital expenditure is a relatively small proportion of the total. The reverse is true for the EU budget.

Compare these figures to those that applied in 1973, when agriculture accounted for about 77 per cent of total spending, cohesion about 5.5 per cent, research a paltry 1.5 per cent and external actions a meagre 1.3 per cent (though the European Development Fund added a further 3.4 per cent to external spending in the African, Caribbean and Pacific states outside the general budget).

[63] Details of who receives funding through the EU budget can be found through the European Transparency Initiative site, http://ec.europa.eu/budget/contracts_grants/fts/fts_en.cfm, accessed 24 Sept. 2012.

[64] Apart from the European Neighbourhood instrument, the EU has also been helping out countries with serious, short-term financial difficulties since 1990. So far, 23 countries have benefited from a total of €7.2 billion. Bosnia and Herzegovina, Serbia, Armenia, Ukraine and Moldova are recent recipients. For the most recent set of accounts of the EDF see http://ec.europa.eu/budget/biblio/documents/FED/fed_en.cfm#2010, accessed 25 Sept. 2012.

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New challenges for old issues—agriculture

Agriculture presents today's EU with several challenges. Providing the member states that have joined since 2004 financial benefits from the CAP similar to those already enjoyed by farmers in the older member states, in fulfilment of a pledge made in 2002, is one. Making single payments to farmers conditional on natural resource husbandry and thus sustainability is another, as is limiting the maximum amount that can be paid to individual farmers, to reduce the risk of major landowners reaping disproportionate benefits. Food security for the coming decades, in view of forecasts of world population growth and resource penury, will be a consideration. All these matters will have an impact on the overall scale of funding of the CAP and the legislation that will need to be adopted, in respect of which the EP now has co-decision powers.

The days of major food surpluses in Europe are long gone. The current round of reforms aims to make agriculture even more responsive to market forces, more sustainable, and more in tune with climate change avoidance and mitigation, while also respecting high animal welfare standards.

The arguments for fixing the rules at Union level remain: to allow the single market to provide its rewards, and to reduce negative externalities such as a return to national external trade policies. On the other hand, the enormous diversity of conditions across the 27 member states argues for policy implementation and funding at local level, if equitable and controllable, and if clear policies can be agreed and are effective. Member states already implement the CAP themselves, under the critical eye of the Commission; but co-financing is not foreseen for direct aids and market measures, though it is for rural development.[65] And funding is used regularly. Contrary to the earlier years, audits and controls of the funding of agriculture and rural development show very low levels of error.[66]

New challenges for old issues—cohesion

EU regional policy is an investment policy, requiring commitment from both member states and from the Union. It supports 'job creation, competitiveness, economic growth, improved quality of life and sustainable development'.[67] Regional funding contributes to allocation and equity economic functions.[68] The principles are set out in the treaties. The acts setting up the structural funds keep legislative conditions constant for the medium term.

[65] See the EP study, 'The CAP in the EU budget: new objectives and financial principles for the review of the agricultural budget after 2013' (Brussels: European Parliament 2011), http://www.europarl.europa.eu/committees/en/studies.html?action=4&tab=search#studies, accessed 25 Sept. 2012, p. 93: 'Co-financing mechanisms consistent with the principle of subsidiarity could help to get a satisfactory answer to the problem of allocating responsibilities among different levels of government.'

[66] See e.g. the annual report of the European Court of Auditors for 2010: http://eca.europa.eu/portal/page/portal/publications/auditreportsandopinions/annualreports, accessed 25 Sept. 2012.

[67] See Commission website http://ec.europa.eu/regional_policy/what/index_en.cfm, accessed 22 Sept. 2012.

[68] See Ecorys/CPB/IFO, *A study on EU spending: final report*; Tarschys, ed., *The EU budget*, esp. ch. 7 by Willem Molle.

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The policy aim is to strengthen economic, social and territorial cohesion by reducing disparities between the levels of development of regions and countries of the EU. The policy is intended to contribute positively to the overall economic performance of the Union, and requires co-financing from the recipient country. It has taken over national funding on such actions to a considerable extent. Co-financing is a key aspect of cohesion policy and has proved difficult for poorer member states, especially in hard economic times. It is a policy the UK espoused during its accession negotiations and has supported, albeit somewhat critically, ever since.

The Commission's independent evaluation programmes have identified positive impacts. Support for cohesion policy has grown significantly in the decades since British accession.[69] The Ecorys study (2008) draws moderately positive conclusions.[70] The EP's studies on the economic returns of cohesion expenditure conclude that the economic benefits for the recipient countries are positive both during the implementation phase and in the long run.[71] Donor member states may well benefit from expanded trade, though this may not compensate in all cases for the extra cost incurred. Decisions taken in the MFF negotiations or early in each funding period break down the funding between member states.[72]

New challenges—research and innovation; networks and migration

The EU's research and development programmes have grown significantly over the past four decades, and the economic arguments for such programmes and funding at EU level are strong. The UK's long tradition of leading-edge research has bolstered the European research capacity. Such research is more complex, interdisciplinary and expensive, and requires proportionately more investment, than it did 40 years ago. Not only are there economies of scale, the Ecorys study argues that more of national research and development budgets could be moved to the Union level to take full advantage of such scale economies in major research infrastructures, for example in defence, space and energy.[73]

Transport, energy and telecommunications networks were traditionally designed to serve individual states. Creating a single market required better cross-frontier links, and measures to reduce bottlenecks, to foster communication and to increase supply security. The EU budget has steadily provided more funding to seed projects and to fill the gaps, reflecting treaty additions. Projects in these areas are long term and complex, and require favourable investment conditions as well as significant private sector input.[74]

[69] See e.g. European Commission, *Seventh progress report on economic, social and territorial cohesion*, COM(2011)776, and the staff working paper accompanying it, SEC(2011)1372, both 24 Nov. 2011.

[70] Ecorys/CPB/IFO, *A study on EU spending: final report*.

[71] European Parliament Directorate-General for Internal Policies Policy Department B, 'The economic return of cohesion expenditure for member states', 15 May 2009, http://www.europarl.europa.eu/committees/en/studies.html?action=3&tab=search#studies, accessed 25 Sept. 2012. See also comments of EU Budget Commissioner Lewandowski cited above, and footnote 48.

[72] http://ec.europa.eu/budget/biblio/documents/fin_fwk0713/fin_fwk0713_en.cfm#alloc, accessed 25 Sept. 2012.

[73] Ecorys/CPB/IFO, *A study on EU spending: final report*.

[74] HM Treasury, 'Global Europe: vision for a 21st century budget' (Norwich: Office of Public Sector Information Norwich, June 2008).

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Concerns related to climate change turn the spotlight onto rural development, which should deliver environmental benefits to society that would not otherwise be secured from the market. EU policies in the fields of transport, natural resource protection, civil justice and citizenship should continue to receive targeted, proportionate and flexible EU budget support. Regulatory action or the use of financial engineering instruments should be considered, rather than relying solely on grants or subsidies.

Constant challenges—control

Implementing budgets that have been adopted is a core role for parliaments the world over. Poor implementation wastes resources, and puts policies in jeopardy. The same is the case with the EU budget, where the executive is accountable to the parliament, and where the latter can sack the former in the event of poor results. Critical attitudes towards the EU budget are often founded on misunderstandings or sometimes even bad faith, particularly in respect of control.

Overall implementation rates of the EU budget are high—significantly higher than those of many member states. The external auditor has given the Commission's accounts a clear statement of assurance in the past.[75] Relatively few errors have been found in procedures and interpretations of the legislation or in applying rules. The most likely error in transactions in the 2010 budget, estimated by the European Court of Auditors (ECA), was about 3.7 per cent. That means that 96.3 per cent of transactions were likely to be error-free. In some sectors, such as agriculture and rural development, this figure dropped to 2.3 per cent, bordering on the 2 per cent threshold adopted by the Court as the target.[76]

Rather than praising the fact that more than 95 per cent of the funds are used in a legal and regular manner, a figure most member states long to reach for the implementation of their national budgets, some critics complain that funding and the accounts are irregular. They go on to cast doubt on the results of the funding. The level of fraud is in fact judged to be very low (about 0.2 per cent), and cases against it are pursued successfully. Evaluation of results is constant. The UK government has successfully identified control rigour as the key quality in setting an example for national administrations' financial management.[77] Few commentators make the comparison with the audit results of national spending, which, if done, could temper critical comments on the EU budget implementation.

The annual budget discharge of the European Commission by the European Parliament analyses implementation with the help of the European Court of Auditors, suggests improvements and brings closure to the accounts.[78] In reply to the EP's 2010 discharge resolution on 10 May 2012, Commissioner Šemeta

[75] For a summary of findings on the regularity of transactions, see annual report of the European Court of Auditors for 2010, p. 18.

[76] See annual report of the European Court of Auditors for 2010.

[77] UK government initiative during UK Council presidency 2005: 'EU budget control framework', Council conclusions 13678/05 (Presse 277), 8 Nov. 2005, pp. 7-11.

[78] http://www.europarl.europa.eu/sides/getDoc.do?type=TA&reference=P7-TA-2012-0153&language=EN&ring=A7-2012-0098, accessed 25 Sept. 2012.

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noted that many improvements had been incorporated in the next generation of programmes for the period 2014–20, such as simpler rules, more transparent reporting and enhanced accountability requirements for member states, a new system for monitoring progress in achieving set targets, and stricter preventive and corrective measures.[79] It remains to be seen whether the member states are prepared to accept these tighter rules.

Missed opportunities?

The European Union is not a federation. Its policy responsibilities do not range over the full range of areas covered by individual states. Therefore the usual GNI keys that may be used for national contributions are of limited relevance. Few Union policies have taken over from those of member states, and those that have do so very unevenly. That has not prevented member states from claiming that their contributions are unfair or excessive. The British rebate is one of many, albeit the largest.

The own resources system, with its additional national contributions and many corrections, has become a complex area for specialists, riven with special interests and pleas, rather than a simple, transparent and understandable system recognizable to the person in the street. The Commission proposed major changes to the own resources system in 2011. It suggested ending the current complex VAT resource, simplifying and making 'ad hoc' rebates according to assessed need, adding resources from a financial transactions tax to replace a proportion of the GNI contribution, introducing a new VAT resource in 2020, in the spirit of the Fontainebleau summit, and respecting the concept of 'own resources'.

The nation of shopkeepers, traders and financiers appears unconcerned about larger political or cultural union in Europe, provided that it has open access to Continental markets for goods and services. World trade conditions negotiated from a position of strength as a union is a concomitant need. Market access and trading power have a price that has been worth paying. But even a confederal future seems a step too far for many.

Britain has at times pressed other member states to improve their financial management of the EU budget and thus of their own national budgets. At times it has pressed for greater redistribution between rich and poor regions through the budget. It has consistently been sceptical of the large amounts from the budget going to support agriculture in the Union. It has, from the earliest days of its accession negotiations, been concerned about how much it contributes to the EU budget, and how it can contrive to contribute less, whether it was counted among the poorer or the richer member states. The British 'rebate' or correction mechanism stands out as a symbol of the British government's stance of insistence on unanimity on the revenue flowing to the EU budget, and ratification by

[79] 'Commission welcomes European Parliament's positive vote on discharge for the 2010 budget', European Commission News, 10 May 2012, http://ec.europa.eu/budget/news/article_en.cfm?id=201205101413, accessed 25 Sept. 2012.

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member states. Other member states may support unanimity too for EU budget revenue decisions. No co-decision here, not even in the implementing rules.

Rather than showing concern to promote certain policy sectors in a consistent manner, Britain has argued first for restraint. Back in the early 1980s, Christopher Tugendhat admitted that 'too often in the past we have let slip the opportunity to shape policies essential to our future'.[80] While the Lisbon competitiveness targets received strong support from the British government when they were proposed in 2001, and the subsequent Europe 2020 goals set concrete growth targets in line with Britain's own, this policy shaping is tempered with constraint and restraint, giving current credence to Tugendhat's comments of some 30 years ago. Britain's rather single-minded concern for discipline and restraint has not allowed it to draw full political benefit from the EU budget, either on its targets or on its control. Britain's 'bouget' is not as effective as it could have been.

[80] Christopher Tugendhat, 'The budget', in Lord O'Hagan, ed., *Here to stay: Britain's role in the European Community* (London: European Democratic Group, 1981), p. 34.

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