Money and Power: EU budget negotiations in a time of austerity

May 2012

The ongoing negotiation of the EU's multi-annual budget is heavily constrained by how the decision process takes place. Governments focus on narrowly defined national interests, rather than on securing a better budget for Europe. While the budget is small in size, it could be used as a powerful political tool for much needed economic growth policies on a larger scale.

Sara Hagemann, s.hagemann@lse.ac.uk

In recent years, European governments have had their political agendas dominated by questions of how to restructure and ensure better governance of the Eurozone. A new EU economic political order is starting to emerge, although opportunities for significant change have not been fully exploited. Still, far from all challenges to the markets and economies have been tackled, and governments are likely to keep these issues as their main priorities for the foreseeable future.

It is against this background that the Danish EU presidency is currently seeking to make progress with the next Multiannual Financial Framework (hereafter referred to as 'the EU budget'). While the EU budget is rather inconsequential in its size and impact in the wider economic context, the current budget negotiations for the 2013-2020 multi-annual budget are of great political importance: a reformed and 'efficient' budget agreed by all 27 governments would reflect ambition, unison and credibility at a time when such signals are much needed. It could also be a

POLICY RECOMMENDATIONS

- **Timing and sequence of negotiations of the EU multi-annual budget should be changed. It should be linked to political cycles of the EU institutions, and better accountability mechanisms should be put in place vis-à-vis national parliaments.**
- **The EU budget should be revised and used as a political tool for more extensive economic growth policies.**
- **The focus on narrowly defined national interests, rather than on a budget for strategic EU policy making, could be overcome by decoupling financing and haggling over individual budget allocations from negotiating longer-term priorities.**

powerful tool to signal real ambitions for economic growth policies. However, judging from the economic context, political rhetoric and the legal rules for adopting the next EU budget, any ambition for a more efficient financial frame-work may – once again – be left unsatisfied.

Leftovers from previous negotiations

The last rounds of negotiations, which completed in late 2005 for the 2007-2013 budget, ended with several governments explicitly criticising the outcome. Negotiators voiced relief that a deal had been possible at all, but indicated general dissatisfaction that neither governments' individual interests nor overall policy ambitions for the EU were properly reflected in the agreed budget allocations. Necessary reform of several areas was stalled due to the need to reach a consensus agreement.

The current negotiations, in the context of the political and economic difficulties faced by the governments, are no doubt even more complicated. The Union has 27 governments around the table, each with veto powers and strong preferences for budget items of particular importance to their domestic interests. In parallel, there is an increasing pressure to meet new and different priorities not currently reflected in the budget and, moreover, the leftover problems from the last negotiation rounds are simply impossible to ignore.

A game on two levels

The decision process for agreeing an EU budget has resulted in a strong bias towards maintaining the status quo, mainly influenced by the dominance of narrowly defined national interests in the negotiations. Member state representatives are often constrained by internal decision-making processes prior to their presentation of country positions at the EU level, which in effect constrains the political mandate to negotiate at the bargaining table in Brussels. This is especially true in member states characterised by different levels of governance with each having significant influence on budgetary negotiations, and in member states with multi-party systems and strong parliamentary committees.

In the current set-up, the demands on member state negotiators are often very high in terms of bringing back evi-

2007-2013 Financial Perspective

BUDGET ITEMS (EUR MILLIONS)	2007	2008	2009	2010	2011	2012	2013	TOTAL 2007-2013
1. Sustainable Growth	**53,979**	**57,653**	**61,696**	**63,555**	**63,974**	**66,964**	**69,957**	**437,778**
1a. Competitiveness for Growth and Employment	8,918	10,386	13,269	14,167	12,987	14,203	15,433	89,363
1b. Cohesion for Growth and Employment	45,061	47,267	48,427	49,388	50,987	52,761	54,524	348,415
2. Preservation and Management of Natural Resources	**55,143**	**59,193**	**56,333**	**59,955**	**60,338**	**60,810**	**61,289**	**413,061**
- of which: market related expenditure and direct payments	45,759	46,217	46,679	47,146	47,617	48,093	48,574	330,085
3. Citizenship, freedom, security and justice	**1,273**	**1,362**	**1,518**	**1,693**	**1,889**	**2,105**	**2,376**	**12,216**
3a. Freedom, Security and Justice	637	747	867	1,025	1,206	1,406	1,661	7,549
3b. Citizenship	636	615	651	668	683	699	715	4,667
4. EU as a global player	**6,578**	**7,002**	**7,440**	**7,893**	**8,430**	**8,997**	**9,595**	**55,935**
5. Administration	**7,039**	**7,380**	**7,525**	**7,882**	**8,334**	**8,670**	**9,095**	**55,925**
6. Compensations	**445**	**207**	**210**					**862**
TOTAL COMMITMENT APPROPRIATIONS	**124,457**	**132,797**	**134,722**	**140,978**	**142,965**	**147,546**	**152,312**	**975,777**
- as a percentage of GNI	**1.02%**	**1.08%**	**1.16%**	**1.18%**	**1.16%**	**1.13%**	**1.12%**	**1.12%**

Photo: © AP / Christian Lutz

dence of success to their parliaments and constituencies. The measure of success is often reduced to the best possible monetary deal in terms of net contributions (so-called *juste retour*), rather than focusing on the wider policy priorities. This can be aggravated if the member state negotiators at the EU level are tasked with focusing on public finances rather than higher-level policy priorities. The pressure not to compromise can be especially strong for the larger member states which contribute significantly to the budget.

Whose budget?

The focus on *juste retour* and the reluctance of any member states to consider additional funding for EU-level priorities impact on the likelihood of reaching a deal. In effect, they turn the negotiations into a zero-sum financial game, where any expenditure allocated to a specific country must reduce another's and where any additional funding for one policy area must reduce the funding in others. With 27 veto powers to appease, there is a strong bias towards the current status quo, with the existing budget seen as the benchmark against which the outcome is compared.

The existing decision-making structures also mean that there is little representation of the EU common good from the outset, with limited influence of the Commission and the European Parliament. Of course, political choice explains the fact that EU budget negotiations are characterised purely by intergovernmental bargaining, but it is unlikely that this choice will lead to the effective identification of which EU public goods and policy priorities should be financed and delivered at the EU level.

The current bargaining structure, furthermore, leads to skewed negotiations, as only certain interests are represented by the member states. For example, the interests of students who are studying in other EU countries as part of EU funded exchange programmes are unlikely to receive representation equal to the interests of farmers. It also leads to a general undervaluation of European public goods, since the wider EU common good is incompletely represented in the negotiations. In addition, there is a prevailing tendency to focus only on areas where the EU already has competencies and expenditure, rather than considering wider priorities. This creates difficulties in dealing with new priorities, an issue that is aggravated by the current somewhat rigid budget structure, which fixes expenditure in budgetary items.

Timing and transparency

Timing and sequencing of budget negotiations are also crucial. Negotiating expenditure, revenue and strategic priorities behind closed doors as a 'package' almost guarantees that most attention is focused on net contributions. Member states have a significant incentive to pre-empt the negotiation by reaching agreement on significant expenditure areas before the negotiations, further limiting the responsiveness of the budget to changing policy priorities.

The focus on *juste retour* also has a negative impact on the effectiveness of spending.

To try to determine *ex ante* how much each country will receive in expenditure is to tie spending to certain policy areas, regardless of changing circumstances and needs, or how the money is spent. While funding can be made conditional on results, this entails a heavy administrative burden. In a modern, interdependent economy, earmarking expenditure for countries or regions is also increasingly meaningless, with companies and individuals operating across borders and benefiting from spending elsewhere.

Finally, there is little connection between the budget process and political processes, either at national or the European level. With the limited role of both the Commission and the European Parliament, and no synchronicity of the budgetary cycle with election or appointment cycles, there is no real political responsibility, legitimacy or accountability for the budget at the EU level. The general lack of transparency in the process also means that the relationship of the final outcome to the expressed policy priorities of the European Commission tends to be tenuous.

What can be done?

The Danish EU presidency has a challenging task in finding a balance between significant reform of the EU budget and the need to ensure the consent of all 27 governments. In fact, the many remaining negotiation points, as well as the timing of the French presidential election in spring 2012, may well mean that negotiations continue well beyond the Danish presidency before a final framework agreement can be reached.

But significant reform is necessary, as the EU budget must address many new challenges. However, this paper has argued that one of the most crucial questions is whether the process by which the EU budget is negotiated can be reformed. This goes beyond the simple legal decision-making procedure. Rather, the whole process, which includes informal agreements, negotiation tactics, habits and commonly understood principles as well as legal processes, needs to be assessed. Past experience has shown that, even with the best intentions at the outset, the process becomes dominated by narrowly defined sectoral interests and member states' own national interests and as a result it is difficult to arrive at a priority-driven budget.

This paper has outlined a number of issues that should be considered in the budget review process, noting the need for reforming budgetary decision-making procedures to deliver a budget which fits with EU policy priorities. In order for both member states and the EU as a whole to win in the long run, governments should not regard the current review process as a Commission responsibility prior to the next round of multi-annual budget negotiations, but rather as an opportunity to significantly reform the budgetary decision-making processes. Synchronised budgetary and political cycles of the EU institutions are critical for the legitimacy and accountability of the negotiation and adoption of budget agreements. The European Parliament and the Commission should not have to deliver a new EU budget in their first days in office, nor towards the end of their term. This is the case at the moment and the implications are evident.

'Red lines' and pre-negotiated agreements should not be allowed to determine the outcome of future budgetary agreements. One way of achieving this could be through a complete separation of the formulation of long-term strategies from the detailed haggling over specific budget items Even a complete decoupling of negotiations about financing from negotiations over expenditure is worth considering. This might prevent a situation where the governments have pre-determined positions and a narrow focus on *juste retour*. The national-level formulation of country positions and priorities must also be addressed in order to achieve a more satisfactory and efficient outcome, and this cannot be done on the initiative of the Commission.

Decisions concerning the EU budget have consequences not only for the detailed spending and financing of each budgetary heading, but also for the EU's long-term political and economic strategies. They have knock-on effects for current and future social, economic and environmental policies which may not (yet?) be directly reflected in this limited budgetary framework. For these reasons, it is crucial that the EU has a decision-making mechanism which can produce a more rational, priority-driven budget.

The opinions expressed in this policy brief are those of the authors alone and do not necessarily reflect the official opinion of the Danish Institute for International Studies.

DIIS · DANISH INSTITUTE FOR INTERNATIONAL STUDIES
Strandgade 56, DK-1401 Copenhagen, Denmark · tel: +45 32 69 87 87 · Fax: +45 32 69 87 00 · e-mail: diis@diis.dk · www.diis.dk