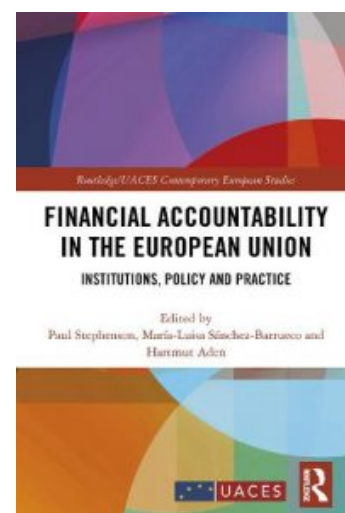


Book Review: Financial Accountability in the European Union: Institutions, Policy and Practice edited by Paul Stephenson, María-Luisa Sánchez-Barrueco and Hartmut Aden

*Existing books on the EU budget tend to focus on the politics of negotiating it. In **Financial Accountability in the European Union: Institutions, Policy and Practice**, edited by **Paul Stephenson, María-Luisa Sánchez-Barrueco and Hartmut Aden**, the contributing authors explore a different perspective: that of the EU's budgetary and financial accountability. At a time when the EU's macro-economic role is growing, the book makes a strong case for financial accountability to figure more prominently in academic research, writes **Gijs de Vries**.*

Financial Accountability in the European Union: Institutions, Policy and Practice. Paul Stephenson, María-Luisa Sánchez-Barrueco and Hartmut Aden (eds). Routledge. 2021.

The EU's unprecedented budgetary response to the COVID-19 pandemic has transformed the Union. Four taboos crumbled in rapid succession. First, the EU freed itself from the obligation to limit its spending to roughly 1 per cent of EU Gross Domestic Product (GDP) by creating a €806.9 billion 'Next Generation' instrument on top of its multi-annual budget for 2021-27 (€1210.9 billion). In absolute terms, Italy and Spain will be the largest beneficiaries, while countries such as Bulgaria, Croatia and Greece will receive grants equivalent to around 10 per cent of their GDP. Second, the EU circumvented the rule that its budget cannot run a deficit: it empowered the European Commission to finance the Next Generation recovery instrument by borrowing resources on the financial markets. Third, member states restricted their budgetary sovereignty by accepting common spending goals: they agreed to devote at least 37 per cent of the EU's recovery aid to climate policy, and at least 20 per cent to digital innovation. Last but not least, to finance its regular budget the EU created a new source of revenue, based on non-recycled plastic waste. Other possible new 'EU taxes', such as a carbon border tax and a financial transaction tax, are under consideration.



To be sure, this is still far from a federal budget in the traditional sense – in the US, federal spending amounts to roughly 30 per cent of GDP. But in terms of size, composition and delegated powers to the Commission, the EU's multi-annual budget and pandemic response represent a new phase in European integration. The EU has become a macro-economic player. In US Senator Everett Dirksen's hallowed (but apocryphal) words: 'A billion here, a billion there, and pretty soon you're talking real money.'

This massive budgetary firepower needs appropriate scrutiny. Financial accountability is a cornerstone of public trust in government. How to make sure that the targets are reached, that funding is not wasted and that fraud and corruption are prevented? Will Europe's principal accountability institutions, parliaments and audit offices, be up to the task?



In democracies, parliaments hold the strings to the public purse. They set the annual budget and hold the government to account for funding and spending – both of the national budget and of any money paid to and received from the EU. National audit institutions assist parliaments by auditing budgetary management. Scrutiny of the EU's own revenue and spending is vested in the European Parliament (EP) and the European Council, assisted by the European Court of Auditors (ECA). Contrary to what its name suggests, the ECA lacks judicial powers. Its principal role is to provide the factual basis for the European Parliament's annual vote to grant discharge to the European Commission for its execution of the budget. Should the EP refuse discharge, this could trigger a vote of no confidence in the Commission.

On paper, this system works, but in practice there are gaps. Some national audit offices are more professional than others. The ECA lacks full powers to audit the European Investment Bank and the European Central Bank, and it is not allowed to audit the European Stability Mechanism. As for parliaments, many MPs do not regard budgetary oversight as a politically attractive pursuit. The task tends to be seen as complex, tedious and, above all, thankless: unless you manage to dig up something that passes as 'dirt', journalists will pass you by. Critically scrutinising the national spending of EU funds generates even less interest, particularly in net-receiving states where politicians sometimes treat EU subsidies as 'free money' – it is best not to look a gift horse in the mouth. And the EP's power to refuse the Commission's discharge is too blunt a weapon to be wielded effectively. In short, while the EU wields growing budgetary and financial power, countervailing scrutiny mechanisms remain largely unchanged.

Financial Accountability in the European Union provides a welcome overview of the tensions between power and accountability in EU financial management. Whereas existing books on the EU budget tend to focus on the politics of negotiating it, this one focuses on the less familiar dimension of accountability. The book consists of three sections: institutional aspects (the roles of audit agencies and the EP); policy perspectives (cohesion policy and structural funds); and financial accountability challenges (such as combating fraud). Subjects covered range from the European Parliament's role in budgetary scrutiny to the protection of financial interests through criminal law.

Several of the seventeen chapters break new ground. Mechthild Roos, for example, sheds light on the European Parliament's little-known involvement in establishing the European Social Fund. Gilbert Moggia discusses another unfamiliar episode: the EP's efforts to get EU governments to hold themselves accountable for their management of EU subsidies by issuing an annual statement of assurance. Laura Polverari carefully parses the multiple accountabilities at work in EU cohesion policy. Giacomo Benedetto looks back on the accountability of the (now defunct) European Fund for Strategic Investments and David Howarth and Aneta Spendzharova critically address the accountability of the European Stability Mechanism.

Other chapters are less compelling. The case studies of cohesion spending in Italy and the Netherlands would have benefited from a shared perspective and a common set of questions. Some contributions suffer from limited familiarity with the work of audit institutions – a feature of much administrative science literature in this field. On the whole, however, readers unfamiliar with the field will find much to enlighten them about the complex twists and turns in EU financial management and scrutiny.

Perhaps the greatest benefit of this edited volume is to expose EU financial accountability – still a black box to many – to wider academic analysis. As the book demonstrates, the EU's growing financial and macro-economic power warrants greater scrutiny, including by political scientists. Major questions await additional research. For example:

- Can the EU's punctuated equilibrium in terms of budgetary and financial power hold, or will its [presumed Hamiltonian moment](#) prove to have been an illusion?
- In light of the fact that EU governments already operate 292 different reporting systems to account for traditional agricultural and cohesion funding, will they manage the influx of recovery grants and loans efficiently, effectively and accountably?
- How will the huge increase in complexity affect the European Parliament's ability to hold the Commission to account?
- In terms of multinational governance, will national parliaments be prepared to exercise control together with the EP, and will national audit institutions overcome their reluctance to work with the ECA and vice versa? Has the time perhaps come to break another EU taboo and introduce a unified, EU-wide, legally binding approach to public sector audit?
- How will the new European Public Prosecutor (EPP) work with the ECA to combat fraud and corruption? And what role remains for the European Commission's semi-independent anti-fraud agency OLAF, which now finds itself squeezed between the EPP and the ECA, obliged to monitor the ECA while the ECA itself is obliged to audit OLAF?

Financial Accountability in the European Union addresses a subject area that has only become more complex as well as more topical. As its various contributions illustrate, there is a strong case for financial accountability to figure more prominently in academic research, including on a multidisciplinary basis.

Note: This review gives the views of the author, and not the position of the LSE Review of Books blog, or of the London School of Economics and Political Science.
