Despite a historic fall in spending, last week's budget deal will help to increase the EU's effectiveness.

Blog Admin

At last week's European Council summit, the EU's leaders agreed to a real terms spending cut to the EU budget for the first time. Despite this, **Patrick Diamond** *and* **Renaud Thillaye** *argue that not only could the overall amount of money spent at EU level be higher in the next seven years, but that a great deal will also depend on the national actors' capacity to draw on co-financing opportunities. Far from being a disaster for the European centre-left, this budget contains some important aspects, such as the Youth Unemployment Initiative.*

Last week's EU budget agreement generated many headlines, not least because for the first time in the history of the EU, spending is set to fall in real terms. The cut of €34.4 billion (£29 billion) between now and 2019 from the ongoing 2007-2013 financial framework has been seen in the UK as a political triumph for the British Conservative Prime Minister, David Cameron. Much of this speculation misunderstands the true significance of the budget deal, however.

For one, it is not the aggregate levels of expenditure which the budget specifies that is the issue, but how effectively the money is spent by member states. As François Hollande acknowledged on Friday, the greater flexibility allowed for the use of remaining credits each year means that the level of actual expenditure might well be higher in the next seven years than during the last seven. The extent to which member states will benefit from programmes such as the EU structural funds relates to their own capacity to draw on 'co-financing' opportunities. Moreover, the significance of the budget ought to be analysed and assessed according to more meaningful criteria: not only how well the settlement will enable Europe to function in the foreseeable future, but the extent to which the agreement will provide members states and the EU with an exit strategy from the present crisis.

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The 2013 budget deal was by no means a disaster, not least by comparison with the 2007-13 framework. For those seriously committed to reform of the EU in order to stem the decline in public trust and to increase Europe's effectiveness, there are important initiatives. The fall in direct payments under the Common Agricultural Policy and the decision to direct more funds to poorer farmers in Central and Eastern Europe is particularly welcome, as is the commitment to environmental conditionality.

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The budget agreement also strengthens the macroeconomic conditionality regime in the EU, restricting the flow of credit to those member states who are in an 'excessive deficit' or 'excessive imbalance' situations, and who are not abiding by their budgetary and reform commitments. This is a potentially powerful instrument to incentivise reform, although the punitive logic ought to be balanced by additional funding if governments perform well. This idea of 'convergence and competitiveness contracts' between the Commission and member states on a voluntary basis will be on the agenda for EU leaders meeting later this year.

Of course, the proposal initially tabled by the Commission was more radical in key respects, and it might have been preferable to follow the Commission's lead. For instance, the Connecting Europe Facility to strength the EU's transport, broadband and energy networks was initially budgeted with €40 billion, a figure brought down to €29 billion. This still represents a double-digit increase from 2007-2013, but the roll-out of fast broadband takes the biggest hit (down from €9 to €1 billion).

The fundamental question raised by the budget settlement is how far it underpins the Europe 2020 Strategy and in so doing, offers a tenable exit strategy for Europe out of the 2008-09 crisis. The 2020 Strategy ought not to be too easily dismissed. Although it was agreed by a group of mainly centre-right governments, it is strikingly social and environment-friendly, and providing an important statement of reforming intent. Narratives and the language of reform matter in enabling politicians to frame initiatives that will be more readily accepted by voters. Europe needs a story line which sets out a long term trajectory of reform.

The 2020 objectives are demanding: 3 per cent of GDP must be invested in research and innovation. There must 20 per cent less energy consumption, 20 per cent lower greenhouse gas emissions, and the share of renewable energies must reach 20 per cent. 75 per cent of 20 to 64 year olds must be in employment. 40 per cent of 30 to 34 year olds must have completed tertiary education. And there must be 20 million fewer EU citizens living in poverty and social exclusion.

Analysing the impact of last week's budget deal against these targets is difficult, as the alignment between the budget's commitments and the 2020 objectives is neither clear nor transparent. The good news is that the research and innovation budget will increase from €55 to 71 billion in the next seven years (although the Commission tabled €80 billion), providing a much needed boost to European competitiveness. The decision to slash the Globalisation Adjustment Fund, in contrast, sends mixed signals about European solidarity in achieving the employment targets set out in the Europe 2020 strategy.

However, an important development is the allocation of €6 billion to a Youth Unemployment Initiative. This was a longstanding claim of the centre-left, who recently succeeded in passing a resolution in the European Parliament urging member states to put 'youth guarantees' in place. Again, a lot will depend on how far national governments seize the opportunities created by this budget agreement, aligning their spending priorities with those of the EU. In this regard, the Commission has been correct to identify 'modernising public administration' as a key priority in the last two Annual Growth Surveys.

So we should certainly not be distracted by the side show of David Cameron's storytelling. The European Parliament's President Martin Schulz has announced that MEPs would probably hold a secret ballot on the deal at some point in March. This would make the financial framework's adoption difficult since MEPs would be under less pressure from their home government. Whatever the headlines that greeted last week's deal, now more than ever the EU needs a clear strategy linking budget commitments with long-term social and economic goals.

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