# The UK will gain very little from blocking a deal on the EU budget.

by Blog Admin

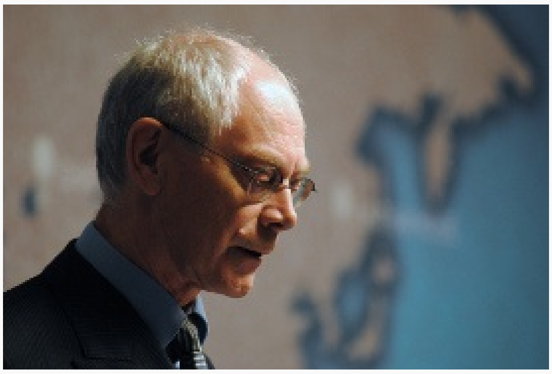
*On the 22nd and 23rd of November, the European Council will meet to discuss the next seven years (2014-2020) of the EU budget. While this process is typically prolonged and divisive, the upcoming negotiations are expected to be particularly problematic due to the commitment of the UK government to avoid a real-terms increase in the overall size of the budget.* **Iain Begg** *argues that there is very little to be gained from the UK blocking a deal, and that making excessive demands may carry a significant financial and political cost for the country.*

Here we go again… Every seven years the EU has to agree a medium term deal for the EU budget, known as the Multiannual Financial Framework (MFF), and every time it becomes a protracted, acrimonious, but ultimately pretty pointless exercise in arm-wrestling.

The purpose of the MFF is to establish ceilings for expenditure under different headings for each of the seven years from 2014-2020. There is then a separate negotiation for each year, but it is the MFF, because it sets the limits, which is the major political decision. As always, the temperature rises as the time for decision approaches. National leaders adopt mutually exclusive positions, the European Parliament and the European Commission try to explain why their plans for a bigger budget should be adopted, while euro-sceptics everywhere compete to prove that EU spending is so wasteful that it should be cut drastically.

Ever optimistic, Herman Van Rompuy has decided to devote an entire European Council meeting, to be held on the 22nd and 23rd of November, to trying to reach a deal. His chances of success have already been dealt a blow by the failure last week to reach an agreement on the 2013 annual budget, amid recriminations between the Council of Ministers and the European Parliament, the two arms of the budgetary authority.

A few days beforehand, in the UK, a peculiar alliance between the Labour party and the euro-sceptic wing of the Tories won a vote in the House of Commons, calling for a real terms cut in the new MFF, compared with its predecessor. The government promptly signalled its intention not to be bound by this vote, but there can be little doubt that the UK will struggle to obtain what it wants and that a nasty fight is in prospect. This raises the obvious question of what the UK really stands to gain and whether it is worth expending its increasingly scarce political capital on it.



Herman Van Rompuy, Credit: Chatham House (CC BY 2.0)

So what does Britain want? The basis for discussion is Commission proposals which would see a limited increase in the budget compared with the seven year period that ends in 2013. While the Commission has been criticised for seeking to increase spending at a time when governments across the continent are having to curb public spending, its proposal would mean an EU budget that remained more or less stable as a proportion of EU GDP – just over 1 per cent. As always, Britain would like more drastic cuts in the Common Agricultural Policy (CAP) and more cuts in the administrative budget.

The UK also wants to ensure that its rebate, secured nearly thirty years ago by Mrs Thatcher in her heyday, continues. It is certainly true that without the rebate Britain would face an unfair burden, not because of what it is required to pay (the UK payments into the EU's coffers, like those of all other countries, are more or less proportional to its GDP *before the rebate*), but because EU spending in the UK is relatively low. In particular, the UK receives much less than others – most egregiously, France – from the CAP. It is the net balance that justifies the rebate.

The problem with the UK rebate and the other rebates that have since been given to Austria, Germany, the Netherlands and Sweden is that they result in a bizarre and opaque system. The Netherlands, for example, now benefits from four different rebates, yet continues in per capita terms to be the biggest net contributor to the EU budget, and they mean that the (generally richer) biggest net contributors pay less into the EU budget as a proportion of their national income than much poorer Member States. No rational system of inter-governmental fiscal flows sets its revenue and spending, then claws back large amounts to adjust net payments.

On the rebate, the UK tends to be one against the rest, but on issues like the size of the EU budget other Member States, such as the Germans, the Swedes and the Dutch, are broadly sympathetic, and with more Member States set to become significant net contributors later in the decade, an extravagant increase in the EU budget will find scant support. Quite simply, it is not going to happen. However, the others appear to be more willing to accept that a minimal increase may well be a small price to pay for reaching agreement. Much acrimony and effort will go into deciding whether the eventual figure should be higher or lower by something of the order of 0.03 per cent of EU GDP, an amount that would cost or refund the average tax-payer in Britain the equivalent of the duty on about half a gallon of petrol *per year*.

If David Cameron blocks a deal, he will look foolish and will stand to gain little. Bluntly, the impact on British public finances of whatever he achieves will be negligible. But having let the veto genie out of the bottle, he has now backed himself into a corner: concede too much and the UK Parliament will reject the deal, with repercussions for the unity of his party; demand too much and he risks blocking the agreement in a way that could easily end up costing the UK more, both financially and politically.

Given the inauspicious outlook, the time-honoured EU solution would be to postpone the negotiations. Yet all concerned know that a new MFF is needed and that an agreement will eventually be reached, so it is hard to see what will be gained by 'kicking the can down the road'. Moreover, a failure by Europe's heads of state and of government to conclude the negotiations this year – bearing in mind that they also have to persuade the European Parliament – will be disruptive not only to the functioning of the EU, but also to the implementation of the major EU spending programmes (such as research or regional development) that directly benefit Britain.

After two debilitating years of euro-procrastination and wrangling over how to sort out the sovereign debt crisis, is it too much to hope that, for once, sense will prevail?

*Note: This article gives the views of the author, and not the position of EUROPP – European Politics and Policy, nor of the London School of Economics.*

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Iain Begg is a Professorial Research Fellow at the LSE European Institute. His main research work is on the political economy of European integration and EU economic governance. He has directed and participated in a series of research projects on different facets of EU policy and his current projects include studies on the governance of EU economic and social policy, the EU's Lisbon strategy, the social impact of globalisation and reform of the EU budget. Other recent research projects include work on policy coordination under EMU and cohesion policy.

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