The EU budget process encourages deadlock and makes large reforms almost impossible. The best that reformers can hope for is gradual change.

by Blog Admin

Ahead of tomorrow's European Council summit to discuss the EU budget, **Peter Becker** *assesses the prospects for EU heads of state and government reaching a deal. He argues that the negotiation process facilitates deadlock between member states because it is dominated by concerns over the net balance paid into the budget by individual countries. The process also makes reform extremely difficult as there is a large degree of 'path-dependency', where states that benefit from existing programmes are unwilling to agree to cuts in expenditure. In this context the best that can be hoped for is a gradual reconfiguration of EU spending.*

On November 22 and 23 the European heads of state and government will try to strike a deal on the next European Multiannual Financial Framework (MFF). The MFF is the centrepiece of the European Union's budget policy and financial programming. It sets the maximum volume for the annual budgets and the main spending policies and thus definesEurope's policy priorities. The European Union started to negotiate its fifth MFF on 29 June 2011 when the European Commission presented its proposal. However, shortly before the decisive summit this week it seems unlikely that a compromise will be reached after fierce struggles.

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Traditional lines of conflict characterise these negotiations. The antagonism between member states that are net payers and net receivers is still paramount, but there are also distribution conflicts between individual policy areas, especially agriculture and cohesion. From the perspective of governments and parliaments of the member-states, the net balance remains the decisive point for assessing the outcome. National negotiating strategies are consequently characterised by the relationship between gross payments into the EU budget via the EU's own resources mechanism and the returns from EU spending programmes, especially under the two largest budget headings. France for example, as a major net payer, seeks to restrict the volume of the EU budget while at the same time, as the biggest recipient of agricultural spending, retaining a special interest in defending Common Agricultural Policy (CAP) subsidies in the EU budget. Germany for its part seeks to avoid tangible cuts in European Structural Funds that would reduce its returns and worsen the German net balance. The Finnish government is in a similar position, declaring its openness for cuts in all policy areas including the Structural Funds but seeking exceptions for the thinly populated Lapp regions of its far north. The British follow a comparable logic, but focusing on the revenue side because their budget rebate always reduces the British net payment regardless of their returns from European spending programmes. In short, the focus on national net balances affects the EU's spending priorities.

Thus the EU seems to be heading for deadlock and apparently nobody knows how to avoid it. Even worse, a probable result of the negotiations is that a new MFF would be far from meeting the standards, expectations or criteria that apply to national public budgets. The EU budget, critics say, is primarily used to fund redistributive policies with marginal growth effects, and the prohibition on borrowing robs the Union of the flexibility to respond to short-term challenges, because spending and revenues must always balance. Moreover, the EU cannot make its own autonomous decisions about how to fund its budget. Certainly, the European Commission, the European Parliament and the European Council share this criticism in general – if not in all points. Decision-makers in the EU and member-states have repeatedly acknowledged the necessity to overhaul the EU budget, and underlined the need for action. But if that is the case why have no fundamental reforms to address the problems yet been considered or implemented?

This paradox stems above all from the extreme path-dependency of the European budget system. Every compromise reached consolidates institutional structures and increases the costs of change, even as the outcomes of the negotiations become ever less convincing and indeed unsatisfactory for those involved. In particular, the net payments logic means that the large paymasters to the European budget are not really interested in bold reforms of European spending policies. Reforming CAP and Cohesion funds would involve refocusing spending priorities and cutting subsidies. These reforms, therefore, could mean reduced flows back from the EU budget to the net payers and therefore a more negative net-payment balance. In addition to this, risk of loss in terms of return flows through reform of the biggest spending policies would be loaded with domestic quarrels, as the national beneficiaries (regions or farmers) would inevitably face a reduction in EU funds. Thus any fundamental change to European spending policies initially brings only increased insecurity and uncertainty as well as reduced predictability, especially where the national net balance is concerned. This diminishes members' willingness to fully subscribe to a reform of the EU budget and prevents solutions from being found that are orientated toward a common European interest. The member states tend to stick to existing agreements and safeguarding the status quo.

In addition, the negotiating process follows a well-trodden informal path with various assigned roles. The European Council's first attempt to agree an overall compromise usually fails, upping the pressure on all involved to reach consensus. At the same time this helps the heads of state and government to justify the final outcome to their own populations and national media and to demonstrate convincingly that they fought to the last for their own national financial and budget interests. After matters have come to a head agreement is generally reached at the second attempt, often after long and contentious bilateral and multilateral talks and repeated rows during the concluding summit meeting of the heads of state and government.

In this negotiating environment a gradual reconfiguration is the best that can be expected, in the sense of a pragmatic shifting of spending priorities. In view of these political realities, there seems little point in disseminating yet more normative proposals for an ideal European Financial Framework, priorities and public goods the EU should pay for, and how it should fund its budget fairly and adequately. Nor is the current round of negotiations moving towards an optimised EU budget adequate to the theoretical requirements of financial federalism. Instead the strong current of political realism forces negotiators to find a result acceptable to member-state governments and parliaments within the prescribed timeframe. Therefore instead of thinking about the best possible European budget it appears more feasible to choose the path of inconspicuous gradual and sustainable reforms within the existing European spending priorities. The policies should be aligned with the new funding objectives, thus shifting the longer-term substantive priorities of agricultural and cohesion policy. The budget headings could keep their old names, remaining formally unchanged and retaining their symbolic meaning, but being used to fund new policies. The substance of the policies then can be gradually reoriented through incremental changes. Only at the end of the reform process and the financial "weaning" can the policies finally be redefined. But by that time this will no longer be understood as a fundamental change of direction.

This article is based on the SWP Research Paper, '"Lost in Stagnation: The EU's Next Multiannual Financial Framework (2014–2020) and the Power of the Status Quo".

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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