COMPETITION, COOPERATION, SOLIDARITY

Seminar 19th April 2007, Brussels
«The EU budget: What for?»

Synthesis Paper

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Introduction

In December 2005, the European Council adopted a final compromise for the medium-term financial perspectives for 2007-2013. While expressing satisfaction for the achievement of a compromise which had been particularly difficult to reach, a final clause was added inviting the Commission to undertake *a full, wide ranging review covering all aspects of EU spending, including the CAP, and of resources, including the UK rebate*" to report in 2008/2009.

A year-and-a-half after this announcement, the reform of the EU budget has become a major topic of discussion in both academic and policy-making circles. *Notre Europe* invited a group of academics, policy researchers and representatives of EU institutions to discuss the possible components of the reform in a seminar held at the Committee of the Regions in Brussels. The seminar was organised in five sessions. The first three sessions were devoted to debating the role of the EU budget with respect to the three classic functions of public finance: allocation, redistribution, and macro-economic stabilisation. The remaining two sessions addressed the most pressing issues concerning the institutional design of the EU budgetary system (the size and structure of the EU budget, the financing system and the budgetary decision-making process), the idea being to discuss in more detail the operational implications of the decisions or points of agreements achieved during the morning.

The discussions revealed the existence of a broad consensus on the need to re-think the structure and content of the EU budget as well as to improve the budgetary decision-making system. There was, for instance, a general agreement on the need to reform the budgetary procedure to prevent negotiations for the next financial perspectives being stalled as they were in 2005. The dominance of the logic of 'net returns' in budgetary negotiations was unanimously criticised, and most participants agreed that political priorities should be clearly identified and reflected in the EU budget. There was also general agreement on the benefits of bringing more clarity and simplicity to the EU financing system and on the need to remove the UK rebate.

Yet, beyond these general points of agreement, the discussions put into evidence the existence of a wide variance of opinions, and even clear-cut disagreements, on various key questions placed at the centre of current debates on the EU budget reform. What is the exact meaning of 'EU public goods' and 'added value' and what are the implications of applying different criteria for the size and content of the EU budget? How to reform the EU budgetary procedure to fulfil the double criteria of efficiency and political legitimacy? What sort of reforms are required on the revenue side of the budget?

This synthesis paper will put forward the main arguments of discussion raised in the course of the seminar, without citing names of contributors. To give the readers the possibility of knowing in more detail the points of view and ideas of the various participants, the documents that served as basis for the interventions of some of the speakers are included in the appendix (only available in the electronic version).

The EU budget as instrument to finance collective goods

Both the high level of interdependence between the EU member states, which comes as a result of the process of economic and social integration, and the common exposure to the phenomenon of globalisation make it highly recommendable to endow the EU with a budget oriented to finance collective goods. One should admit, however, that the nature of these collective goods has been substantially altered during the past fifty years and, in particular, from the late 1980s onwards, when Delors' Commission introduced profound reforms to both the EU budget structure and the EU's general goals and ambitions. Currently, the question of the definition of an 'EU public good' remains to be answered.

At least two different approaches - technical and political - may be adopted to determine **what is an 'EU public good'.** The technical approach distinguishes EU public goods from national public goods by using objective criteria of 'added value', subsidiarity and the type of externalities produced. In particular, two technical-based definitions of 'EU public good' may be put forward. The first one is grounded in the notion of 'added value'. Assuming that it is accepted that the EU should complement or make up for national interventions, EU public goods are defined as those collective goods under-provided at the national level. The second definition takes as criteria the existence or absence of EU-wide externalities. From this perspective, EU public goods are defined as those collective goods providing benefits and/or imposing costs to all European citizens (and not only to those located in one national or regional jurisdiction). While the technical approach is widely accepted, a political definition of 'EU public good' should be also envisaged if we recognise that it is crucial to take into account citizens' preferences. In fact, the possibility of calculating and comparing the 'added value' of different EU interventions from an objective point of view may be questioned. EU public goods might therefore instead be defined as those considered as such by European citizens or their representatives. A list may easily be drawn up; it would contain, at least: internal socio-economic cohesion; external solidarity; security and peace; a clean environment; economic prosperity; and EU citizenship. Some issues may be debatable - such as food security and agriculture, rural development and territorial cohesion, high-level education or research and development - given that it is not clear whether a direct EU intervention may be more efficient than coordinated national ones and whether public intervention is preferable to private intervention in these policy areas. In the final analysis, this debate highlights the need to decide who is in charge of defining the EU public goods - the Commission, the Council or the European Parliament – and who will influence the choice – the lobbies, the experts, the general public through opinion polls or elections, the NGOs and/or civil society.

As regards the amount of **EU money spent in different policy areas,** three policy areas are generally considered as areas in need of an increased allocation of EU money: Lisbon-related policies (especially R+D); foreign, security and defence policy; and the environment and climate change. However, it is essential to make sure that EU spending in each of these

three areas is used to finance interventions having a genuine 'added value'. Hence, for instance, EU spending should play a catalyzing role in education and research and, in the area of internal security, it should focus on financing those interventions having a genuine European dimension (i.e. border control). With respect to foreign policy, external security and defence, it is not clear what the right level of EU spending is. A significant increase may be considered as necessary to catch up with the US, which spends twice as much on defence as Europe. However, one should take into account that (according to Eurobarometer) EU citizens display a low preference for raising public spending on defence.

Not surprisingly, **agriculture is the most contested issue.** Those advocating a removal of agriculture from the EU budget argue that it can hardly be considered an EU collective good. They state that the reasons justifying the need for EU intervention in this policy area in the immediate post-war period (that is, to ensure self-sufficiency and food security in Europe) are no longer valid. Others call for a more multi-dimensional debate on the future of the CAP, and stress the existence of some factors justifying the maintenance of some sort of EU intervention in agriculture. The PAC currently serves to ensure that EU environmental and animal health and welfare regulation are effectively implemented (direct aid payment to farmers is made conditional on the respect of these regulations). There are also new global challenges having a direct impact on the agricultural sector – the environmental challenge, the risk of world food insufficiency in the coming decades - that could be better addressed at a EU level. Finally, it should be noted that EU spending on agriculture is very high when compared to other EU spending items, but it is not exceptionally high if one takes into account the total amount of public spending on agriculture (that is, if one aggregates EU and national spending).

Ensuring that EU money is rightly allocated is important, but it is equally important to control and monitor how this money is spent. In other words,

all EU spending programs should be sugject to a proper evaluation to check their efficiency as well as their effectiveness. As expressed by one participant, we need to ensure that EU money provides an 'added value'; but also that 'added value' means 'value for money'. Partly related to this point, there is a growing consensus on the **need to have an aggregate vision of public finances**. So far, discussions on EU spending choices have been blind to what happens below the EU level. Yet, one cannot properly evaluate the need or appropriateness of EU spending in particular policy areas without knowing how much money other public authorities spend in these same policy areas. Adopting this aggregate approach to public spending is therefore essential to sustain an informed and well-grounded debate on EU spending choices. At the current stage, there are serious technical impediments to adopting such an aggregate approach. In particular, there is a lack of harmonised aggregate data on public spending per sector in the EU - that is, data on how much is spent at the EU, national and sub-national level per sector or policy area.

Another issue at stake concerning the discussion on the 'EU goods' is **whether regulations and rules can substitute public spending as mechanisms to ensure the provision of EU public goods**. Some criticise the idea of the EU budget being the only instrument able to provide EU goods, arguing that many EU goods can be adequately provided through non-costly instruments such as regulations (environmental protection, management of the EU currency, trade policy. While this is a correct point, it is also true that, in several circumstances, neither 'hard regulation' nor 'soft law' (e.g. the Open Method of Coordination) is enough: financial incentives are required to induce national and sub-national governments to adjust their policies to the EU priorities. Besides, it may be misleading to consider the regulation as an entirely cost-free mechanism. The adoption of EU regulation usually entails the creation of regulatory agencies in charge of monitoring the implementation of this regulation, and the maintenance of these agencies costs some money.

Finally, the **link between changes in the expenditure side, the prospects of upcoming budgetary negotiations and the general process of European integration has to be highlighted.** On the one hand, reforming the expenditure side might have a positive impact on the general process of European Integration. A better budgetary mix may enhance the legitimacy of the EU in the eyes of its citizens. A strict application of the criteria of 'EU goods' and 'added value' could help eliminate the logic of 'net returns' from budgetary negotiations - the more the EU budget is focused on financing genuine EU goods, the harder it is for member states to calculate the national benefits and costs associated with different EU spending items. On the other hand, the opposite is also true: the prospects for reforming the EU budget are very much dependent on how the current constitutional crisis will be solved. A significant reform of the EU budget can be only envisaged if the current institutional crisis is overcome in a way that implies a serious commitment to advancing the process of European integration.

The EU budget as instrument of redistribution

Even if not always explicit, discussions about the role of the EU budget as an instrument of redistribution develop on two different levels. On the one hand, there is a general, theoretically-grounded discussion on the rationale of undertaking redistributive actions at the EU level and on the principles or goals that should inform EU action on cohesion. On the other hand, there is a more specific and empirically-grounded discussion on the functioning and impact of the most important EU redistributive policy instrument, the EU cohesion policy.

With respect to the first discussion, we can observe that while a fiscal equalisation system similar to what exists in most federal entities seems politically unfeasible (and probably undesirable) at the EU level, some degree of financial redistribution should be kept for both ideological and instrumental reasons. From an ideological point of view, redistribution should be considered as an inherent component of the project of European integration: preserving an element of solidarity is essential to ensuring that the project of European integration goes beyond the construction of a common economic area. From an instrumental point of view, promoting cohesion is not only ethically correct, but economically efficient. Cohesion and competitiveness are mutually reinforcing goals. Of course, those who consider that the EU budget should not have a redistributive component may oppose this position. In their view, financial redistribution has so far been used in two types of circumstances: a) to ensure that the poorest member states and regions are well-equipped (in terms of basic infrastructure) before making a further move towards economic integration (the creation of the single market, the creation of EMU); or b) to smooth the accession of new member states into the EU. Given that we are not currently facing a circumstance of this sort in Europe, there is no reason to keep the redistributive dimension into the EU budget. EU spending should be exclusively used to provide EU collective goods.

When discussing the goals that should inform EU action on redistribution and/or cohesion, a **distinction should be made between redistribution at the level of individuals and redistribution at the level of territories.** There are serious doubts over the possibilities for the first sort of redistribution at the EU level, given the lack of information that EU authorities have on the total personal income of individuals (and therefore the difficulties of ensuring that financial transfers are really going from the rich to the poor). For example, the first pillar of the CAP behaves nowadays as a mechanism of interpersonal redistribution. However, agricultural aid is unscreened and therefore benefits both poor farmers and wealthy landowners.

Another point at stake is the meaning of 'cohesion'. So far, EU cohesion policy has been narrowly focused on reducing the gap in economic and social conditions. It is probably time to move towards a **broader concept of 'cohesion'** - that is, to include a more politico-cultural dimension. In other words, EU interventions on cohesion should be also oriented to build up and foster a "sense of togetherness" among EU citizens, or a sense of belonging to the same community. From this broader perspective, the EU cohesion policy has still much work to do: more EU spending should be used to develop the European public space, by financing projects of cultural co-operation, education and so on.

It is also important to highlight the emergence of a new social cleavage in Europe, which divides **those working in the tradable sectors from those working in the non-tradable sectors.** In fact, the creation of the European single economic space has mainly benefited the first of these, and this has resulted in a growing gap - in terms of income, productivity and profit margins – between tradable and non-tradable sectors. Given that this social cleavage comes as a result of the same process of European integration, developing an EU action to "force winners to compensate the losers" seems appropriate. Besides, there are grounds to believe that the existence of this social cleavage is one of the hidden causes explaining the weaker attachment to Europe among certain sectors of the population. EU action aimed at reducing this gap, hence, could also contribute to raise the level of public support for Europe.

Regarding the functioning and impact of the EU cohesion policy, **the latest reform,** which has implied a clearer alignment of EU cohesion to the Lisbon agenda, is generally approved, with the observation that it has put the EU cohesion policy "on the right footing". Coherent with this, current EU spending on cohesion is widely regarded as appropriate.

Nevertheless, one must not ignore the remaining critics **with respect to the impact up till now of the EU cohesion policy on economic growth.** These critics stress that the budget of the EU cohesion policy is too small to have a substantial impact on economic growth and jobs. In particular, they question the results of official EU evaluations and criticise these studies for a) paying attention only to what happens in the territories benefiting from structural funding (hence neglecting the impact of cohesion policy on the non-recipient territories) and b) not taking into account the counter-factual argument - that is, what would have happened in the recipient territories had they not received structural aid. These arguments may be countered. First, while the total budget of the EU cohesion policy is small, in many recipient territories EU spending represents a substantial part of total public investment. Second, it is necessary to take into consideration the environmental effects derived from the concentration of resources in key sectors, as well as the existence of a 'return effect' for net contributing territories. Third, **the EU cohesion policy has an important 'leverage effect'.** In this respect, the EU cohesion policy provides multiple benefits to the recipient territories, benefits that go beyond the co-financing of projects: it improves policy-making practices at the national and sub-national level, helps build institutional capacity and serves as catalyst for national and regional investment (financial leverage). The 'leverage effect' may be summarized by saying that the EU cohesion policy is "a redistributive system with strings attached, where the strings are just as interesting, if not more interesting, that the basic principle of redistribution".

The EU budget as instrument of macro-economic stabilisation

There seems to be a consensus between experts that **the EU budget should and could not play a role in macro-economic stabilisation.** Various reasons sustain this point. First and foremost, there is the question of size. The current EU budget is too small; it currently represents around 1% of EU GDP and it would need to be of a size equivalent of at least 5 or 7% of EU GDP to have a macro-economic impact. Secondly, there is the problem of inertia. EU spending choices are subject to the unanimity voting rule, which means that it is very difficult to re-allocate EU spending in a short period of time (just the type of action that would be required if the EU budget was to play a role in macro-economic stabilisation). Third, there is a question of complexity. Macro-economic stabilisation problems are very different for EMU and non-EMU countries, while the EU budget is the same for all twenty-seven member states. Besides, playing a 'stabilisation game' with such a high number of players (twenty seven national fiscal authorities plus one monetary authority and one EU fiscal authority) is almost impossible.

Apart from these straightforward arguments, there is a more refined argument against tasking the EU budget with a macro-economic stabilisation function: the conditions that would create the need for this function are very unlikely to occur. An EU macro-economic stabilisation function would be only necessary in situations in which a) fiscal policy has to substitute or support monetary policy and b) national fiscal policies are not able to do so. While there are various situations in which the first of those conditions could occur, it is difficult to imagine, in those circumstances, the second condition being met.

While the need to assign a macro-economic stabilisation role to the EU budget may be rejected, **the crucial problem remains of how to coordinate national fiscal policies among the EMU members.** Theoretically, the coordination of fiscal policies was to be ensured through the Stabilisation and Growth Pact, but in practice national governments have not respected the formal commitments established in the SGP. In fact, there are strong political incentives working against the accomplishment of SGP (national governments have incentives to not apply the pact and therefore free-ride on the common benefits generated by the rest). An alternative to the SGP could be the establishment of a pact at the EU level defining an aggregate fiscal position. This pact would define a total aggregate level of deficit and would then assign a share of this total deficit to each national jurisdiction, opening the possibility for member states to trade their deficit assignments (through, for instance, a system of tradable deficit permits). A pact of this type would not be technically difficult to implement. The main obstacle to its establishment is the lack of political will.

Another issue is **whether the EU budget actually alters national governments' capacity to respect the excessive deficit rule - that is, to maintain the deficit below 3 % GDP.** On the one hand, net contributors to the EU budget may be regarded as having less borrowing capacity than net beneficiaries, who receive from the Union important transfers; but on the other hand, while the EU budget is financed by contributions from the national governments, the EU subsidies do not go to the national budgets, but to farmers, regional governments and others. In fact, due to the co-financing requirement, the effect might be just the contrary: those countries receiving more money from the EU might be forced to make an additional spending effort to co-finance the projects financed by the EU.

Finally, there is a causual link between the EU budget and natinal governments' macro-economic stabilisation capacities. A better budgetary mix on the expenditure side – in particular, a greater focus of EU spending on supply-side policies - would increase member states' capacity to adjust their economies to shocks, hence reducing the need for macro economic stabilisation at the national level.

EU budget reforms (I): The size of the budget, the revenue side and the criteria of evaluation

The bulk of discussion was centred on the revenue side even if three topics were open to debate. Different points were raised with respect to the prospects and need to reform the revenue side of the budget.

Even if not openly discussed, the size of the budget is still subject to conflict between experts. On the one hand, some consider that 1% is easily enough. Arguing of the scarcity of public resources, their main concern is to allocate envelops to the policies showing the 'highest return'. On the other hand, others do not accept any preliminary limitation and plea for a bottom-up construction of the budget, which means that the size will be determined in accordance to the political priorities and/or the 'EU added value' criteria.

Switching to the revenue side, one of the main points of discussion was **whether there is a need to introduce important reforms on the revenue side of the EU budget** – or, in other words, what factors make it desirable to shift from a system based on national contributions to a system funded by EU own resources. Some contributors question the need to undertake this shift, pointing out that the current funding system, based on GNI-based national contributions, presents many advantages: it is stable and predictable, it guarantees budgetary balance and it is proportional (member states contribute according to their wealth). If we want to move to another system, we should make sure that the benefits of the new system are greater than those of the current system. On the opposite side, four arguments may be put forward to sustain the need to move towards a system funded by EU own resources. First, an EU budget funded by genuine EU own resources would give more financial autonomy to the EU; second, it would prevent member states from calculating their 'net return'; third, it would make EU finances more visible and transparent in the eyes of the citizens, and fourth, the establishment of a genuine own-resource funding scheme would imply giving all financial powers to the European Parliament.

These arguments may be questioned in their turn. With respect to the first, one may claim that an own-resources-based funding scheme would not give more financial autonomy to the EU. The current funding system gives the EU considerable independence: as soon as the amount of national contributions is approved by the Council, the EU funding is guaranteed. In contrast, in a system exclusively funded by EU own resources, the revenues would be unstable and non-guaranteed. With respect to the second argument, the creation of a EU tax might not necessarily imply the elimination of the logic of 'net returns'. Since the EU does not have competence to collect taxes, national governments would still be those responsible for collecting the revenues for the new EU resource and sending them to the EU. Hence, it would still be easy for them to calculate their 'net return'. Finally, regarding the third argument, it is debatable to what degree the introduction of an EU tax would make the EU more visible in the eyes of the citizens. In fact, visibility should be a secondary concern; it should not determine alone the move towards another financial system.

The fourth argument is undoubtedly the strongest one. Changing the revenue side is a political decision. The present system works quite well, but gives all the power to the national governments. Creating an EU tax would imply shifting the power to the European Parliament, who would then be responsible for designing the tax regime - that is, defining the tax base and setting the tax levels. If we accept this interpretation, then we have to ask ourselves whether we have reached a level of political integration where it can become politically acceptable to give all the powers to the Parliament. The answer to this question is to be found in the future constitutional text. Indeed, the creation of an EU tax is a constitutional change: only if the issue enters the constitutional debate is there going to be a substantial reform of the revenue side.

Among those accepting the need to create an own-resources funding scheme, there is **some discussion on what would be the most appropriate tax instrument fot the EU.** Three tax instruments may be pointed out as feasible candidates: An EU surcharge on VAT, an EU corporate income tax and an EU eco-tax (i.e., a tax on $CO2$ emissions). The first one is undoubtedly the easiest to put into effect, as national VAT bases are already highly harmonised. The second option is generally considered attractive for two main reasons: First, because it would concern an activity which is directly related to the project of European economic integration and, second, because the creation of an EU corporate income tax would eliminate the distortions and negative effects derived from the existence of different national corporate tax systems. However, given the existence of large differences in the national corporate income tax base, the creation of this tax would require a preceding process of tax harmonisation. Finally, the eco-tax may be regarded as an interesting alternative because a tax of this sort would be in line with current EU discourse and action on climate change. However, the logic of an eco-tax – that is, to discourage certain behaviours - may contradict the aim of creating an EU tax to ensure sufficient resources for the EU.

Those defending the merits of the current GNI-based funding scheme present **various proposals to improve the functioning of the existing system.** Generally speaking, these proposals are grounded on the following diagnostic. The EU budget is financed in a roughly fair way (all member states pay according to their wealth). However, the benefits are unevenly distributed among the member states. There is, thus, a need to introduce a correction mechanism in order to ensure that member states' contributions are proportional to the benefits received. In particular, as regards the 'CAP question', the solution would be to create mechanisms to make member states' contribution to the CAP proportional to the amount of CAP spending on their territories. It must be pointed out, however, that this approach amounts to reinforcing the 'net return' bias.

At a more general level, the differences between those calling for radical reforms of the revenue side and those proposing the introduction of correction mechanisms reveal the existence of **different opinions with respect to where the problem lies and how to prevent the logic of 'net returns'.** The first group is of the opinion that the logic of 'net returns' is to a great extent caused by the existence of a funding scheme dominated by national contributions. In coherence with this, it considers that reforming the revenue side is a higher priority than reforming the expenditure side. The second group accepts that the main problem of the EU budget is the dominance of the logic of 'net returns', but argues that the latter is not caused by the features of the revenue side but by the deficits of the expenditure side. It considers, hence, that it is essential to start with a reform of the expenditure side.

EU budget reforms (II): The EU budgetary procedure

Discussions in session five revealed the existence of a general consensus on the need to introduce changes in the EU budgetary decision-making system. Some features of the current system were a source of concern to most of the participants.

First, there is a general consensus on the need to introduce more simplicity and coherence into the budgetary procedure. In particular, the annual budgetary negotiations are regarded as needlessly complex and disconnected to the multi-annual financial framework. The practice of adopting budgetary decisions through the legislative procedure, piece by piece, without having the total picture of the budget in mind is unsatisfactory. Some consider it essential to separate the legislative procedure from the budgetary procedure. This would not only be positive for the budget procedure; it would also improve the legislative process: as it stands now, the Parliament is obliged to renew all legislative programs every five or seven years, something which is highly costly in terms of both time and human resources. Apart from that, simplification would prevent budgetary debates from being dominated by the logic of 'budget accounting', and it would make budgetary decisions more visible and understandable in the eyes of citizens.

The **synchronisation of the duration of the multi-annual budgetary procedures with the timeframe of the EU political institutions** and the introduction of **more flexibility into the multi-annual budgetary framework is also generally welcomed among academics and experts.** With respect to this, the 5% flexibility introduced in the IIA of April 2006 goes in the right direction, even if it is still insufficient to solve the problem.

The **lack of co-ordination between EU, national and sub-national budgetary decisions was deplored,** with reference to the failed attempt of creating an 'EU strategic framework' during the negotiations of the last financial perspectives. Approved by the Council, the EU strategic framework was expected to ensure the link between EU spending and EU policy priorities, as well as the coordination between EU, national and sub-national policy action – once approved, the EU strategic framework had to serve as framework for the elaboration of 'national strategic frameworks'. Even if the EU strategic framework was finally approved by the EU council, it was adopted one year after the approval of the financial perspectives, which meant that it had no capacity to condition EU and national spending. Moreover, during the negotiations of the 2007-2013 package, the Commission made a major mistake in giving national figures at an early stage, which helped member states to calculate their 'net return' and then ruined any attempt to return to a discussion on political priorities. This experience should serve as a warning for the next financial perspectives: we need to make sure that the policy discussion – that is, the discussion on the EU policy priorities for the coming years - comes before the budgetary negotiation at the European Council.

While **the issue of evaluation and monitoring** was not broadly debated, some participants pointed out the need to pay more attention to these questions. In particular, focusing annual budgetary procedures more on these tasks should be considered a priority for the coming years.

There was much discussion on **what should be the role of the Parliament, the European Council and the Commission in the elaboration, negotiation and approval of the financial perspectives.** Generally speaking, placing the bulk of budgetary negotiations in the European Council has negative effects because it is the least EU-oriented institution, its members being direct representatives of the national governments. So long as discussions on budgetary matters take place in the EU Council, these will therefore be dominated by national interests rather than by EU concerns. Besides, the EU Council is the institution which has the biggest 'status-quo bias'. Maintaining the Council at the centre of the budgetary process would make it difficult, if not impossible, to introduce radical reforms to the content of the budget. However, no agreement easily emerges with respect to what should be the role of the other two institutions – the European Parliament and the Commission - in the budgetary decision-making procedure.

Another option would be to give to the European Parliament the main responsibility in the elaboration and approval of the multi-annual budget. As budgetary decisions concern all EU citizens, they should be taken by the sole democratically-elected institution at the EU level, the Parliament. However, the benefits of transferring to the European Parliament the decisions on EU spending are not obvious, bearing in mind that many EU deputies work 'de facto' as representatives of national interests. The Parliament already has some decision-making capacity in budgetary matters but it does not seem to make appropriate use of it.

As a way to prevent the negative effects of the Parliament 'bias' towards more spending, it may be possible to give to the Parliament the powers to decide about the content of the budget (that is, the right to determine the budget allocations across categories of spending) while leaving to the Council the final say with respect to the size of the budget. This would be appropriate not only from an instrumental point of view, but also from a normative point of view: so long as the budget is financed by national contributions, it is legitimate to leave the final say on how much to spend to the representatives of the national governments.

Finally, there was also some discussion on whether or not the Commission should keep the formal power of initiative – or, in other terms, whether the Commission should be responsible for drawing up the financial perspectives. The vision of the Commission as the 'guardian angel' is probably questionable. There is empirical evidence which shows that the Commission has frequently been captured by sectoral interests. Besides, giving a formal right to the Commission to draw up the proposal does not sit very well with the idea of giving the same power to the Parliament. However, the Commission is the EU institution with the strongest EU-integration bias, and is therefore the best placed to defend the EU's interests. No one considered it appropriate to renounce the Community method in this area.

Conclusion

We are currently less than one year away from the mid-term budgetary review and, in spite of the interest created and the ambitious wording used in its December 2005 announcement (*"a full, wide ranging review"),* it seems rather unrealistic to expect that this revision will bring major modifications to the budgetary package for 2007-2013. Nevertheless, one should not underestimate the importance of this mid-term revision: the period of reflection and discussion preceding it will surely set the basis for the negotiations concerning the EU budget after 2014.

The way this new budget will be negotiated probably constitutes the first issue of concern. The pitfalls of past budgetary negotiations, trapped in the logic of national bargaining since the very beginning, were not the product of chance. They came, in fact, as a result of the combined effect of two factors: firstly, the dominance of the 'net return' approach, whose origins can be traced back to 1984; and secondly, the self-imposed constraint set up by the Prodi Commission in the context of a broader reflection, taking place during the summer of 2002 and led by the Sapir group, on how to re-define the whole EU economic policy while maintaining the current EU expenditure ceiling.

If we want to re-build the EU budget on a sound footing, we therefore need to start by removing these two constraints. On the one hand, the processes of European integration and decentralisation have substantially altered the amount and type of economic flows among member-states as well as the transfers of public resources between the national, sub-national and European levels. On the other hand, the idea of limiting 'ex ante' the size of the EU budget seems unjustifiable (or only justifiable for ideological reasons) at a time when the EU budget as a whole is under scrutiny, including the revenue side of the system. These arguments merit further consideration, as they have so far received little attention in the debates on the EU budget reform.

A second issue which merits further analysis, and which has been suggested by the discussions taking place in this seminar, is the notion of the 'European public good". Trying to determine the list of 'European public goods' is certainly an ambitious task. First of all it requires clarifying and updating the objectives pursued by the EU at the end of its first 50 years of existence, in a global context that has radically changed since the beginning of the 21st century. Even following a solid theoretical thinking exercise, it will still be necessary to carry out a detailed empirical analysis shedding light on the relative financial contributions of the different levels of governance (European, national, sub-national) in the different policy areas, if we are to open the debate about the best way to reach the commonly shared objectives.

A third line of analysis, which has already attracted the attention of both the Commission and the Parliament, concerns the system of EU own resources and, in particular, the prospects of creating an EU tax on the 2020 horizon.

At the moment, discussions around this topic seem limited to a narrow, retrospective framework, underestimating the scope and magnitude of future external and internal challenges as well as the malleability of public opinion. The institutional framework also risks influencing the potential scope of possible fiscal changes. It would seem therefore that the debate on the EU tax needs a few more years to mature.

As a laboratory of ideas whose first priority is to assemble all the elements of analysis to help European decision-makers define the future EU budget, *Notre Europe* aims to contribute further to the debate on the EU budget reform. With this in mind, a commitment has been made to create a task force comprising experts and university researchers. The mission of this task force will be to analyse in more detail and depth the first two topics highlighted above: possible ways of removing current constraints to budgetary negotiations, and the notion of 'EU collective goods'.

Annex

Progamme
« EU Budget : What for? » - 19th April 2007, Brussels

10.00- 10.15 **Welcome - Pierre Lepetit,** vice-president of Notre Europe

Moderator: **Marjorie Jouen,** Cabinet of the President of the Committee of the Regions and external advisor of Notre Europe

Morning sessions: What functions for the EU budget?

10.15-11.00 **Session I -The EU budget as an instrument to finance collective goods**

What economic and political criteria should be used to assess the 'added value' of EU spending? What is the optimal distribution of tasks between EU, national and sub-national spending in different policy areas (i.e., agriculture, regional policy, Lisbon-related policies, security, immigration, foreign policy)?

Speakers: **Philippe Cichowlaz**, director responsible for cohesion at the Conference of Peripheral and Maritime Regions (CPMR)

André Sapir, professor at the *Université Libre de Bruxelles* and senior fellow at Bruegel

Debate: **Maxime Lefebvre, Stefano Micossi, Antonio Missiroli, Corrado Pirzio-Biroli, Yves Bertoncini**

15.15-15.15 ***Coffee Break***

11.15-12.00 **Session II – The EU budget as an instrument of redistribution.**

What should be the redistributive role of the EU budget in an enlarged Europe?

Speakers: **Gianluca Spinaci**, Committee of the Regions

Daniel Tarschys, chairman of the political science department at the University of Stockholm and member of the Swedish Institute for European Policy Studies (SIEPS

Debate: **Ronald Hall, Josef Van Ginderachter, Corrado Pirzio-Biroli, Mario Nava**

12.00- 12.45 **Session III: The EU budget and macro-economic stabilisation**

Should the EU endow itself with some capacity to engage in macroeconomic stabilisation? What reforms should be introduced to convert the EU budget into an effective instrument of macroeconomic stabilisation?

Speakers **Stefan Collignon,** professor at the European Institute of the London School of Economics

Jean Pisani-Ferry, director of Bruegel

Debate: **Elena Flores, Daniel Gros**

12.45- 14.00 ***Lunch Break***

Afternoon sessions: What operational consequences for the size and governance of the EU budget?

14.00- 15.00 **Session IV: The size of the budget, the revenue side and the criteria of evaluation**

Is the current EU budget big enough to perform as an effective instrument of EU governance? If not, what would be the 'right' size of the EU budget? Does the EU need to increase its financial autonomy to develop its own fiscal policy? Should the EU budget-balance rule be removed? Who should be in charge of evaluating EU spending choices (European Parliament, EU Commission, external experts)?

What sort of criteria should be used to this end?

Speakers: **Daniel Gros**, director of the Centre for European Policy Studies (CEPS)

Phillip Mohl, research fellow at the Zentrum für Europäische Wirtschaftsforschung (SEW), Berlin)

Jorge Nuñez Ferrer, research fellow at the Centre for European Policy Studies (CEPS)

Debate **Marco Buti , Vasco Cal, Josef Van Ginderachte, Johan Ureel**

15.00- 16.00 Session V: The EU budgetary procedure

Should the time frame of the financial perspectives be shortened? Should it be synchronised with the European Parliament elections? Is there a need to increase the flexibility in budget allocation? Should there be a mid-term review every 3 years, or regular annual revisions of the expenditure allocations? Is the existing division of competences between the European Council, the European Parliament and the European Commission appropriate? What reforms could be envisaged to better coordinate EU, national and sub-national budgetary decisions?

Speakers **Stefano Micossi**, director General of Assonime and former Director General for Industry in the European Commission

Alfredo de Feo, director for budgetary affairs at the European Parliament

Debate **Phillipe Cichowlaz, Catherine Guy-Quint**

16. 00- 16.30 Closure

List of Participants

Yves BERTONCINI, in charge of Europe and the Lisbon Agenda at the *Centre d'Analyse Stratégique* (CAS)

Nicolas BONDONNEAU, Committee of Regions

Pierre BOULANGER, Research and teaching fellow, *Groupe d'Economie Mondiale* Sciences Po Paris

Marco BUTI, Deputy Director General, DG ECFIN, European Commission

Vasco CAL, Member of the Cabinet of Commissioner on Financial and Budget affairs Dalia GRYBAUSKAITE

Philippe CICHOWLAZ, Director responsible for Cohesion at the Conference of Peripheral and Maritime Regions (CPMR)

Stefan COLLIGNON, Professor at the European Institute of the London School of Economics

Alfredo DE FEO, Director for Budgetary Affairs, European Parliament

Xavier DUTRENIC, Counsellor of the socialist Party, European Parliament

Elena FLORES, Head of Public Finances unit, DG ECFIN, European Commission

Daniel GROS, Director of the Centre for European Policy Studies (CEPS)

Catherine GUY-QUINT, Member of the European Parliament for the Socialist Party

Sara HAGEMANN, Policy analyst at the European Policy Centre (EPC)

Ronald HALL, Director of the Division of Development and Coordination of the Cohesion Policy and the Solidarity Fund, DG REGIO, European Commission

Marjorie JOUEN, Member of the cabinet of the President of the Committee of the Regions, external Advisor of Notre Europe

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Maxime LEFEBVRE, Former research fellow at the *Institute Français des relations internationales* (Ifri), research associate at the *Centre des Études Européenes de Strasbourg* (CEES)

Pierre LEPETIT, Vice-President of Notre Europe

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Anders ÖSTHOL, Swedish Institute for Growth Policy Studies (ITPS)

Olivier PASSET, Director of the department for economic and financial affairs at CAS

Jean PISANI-FERRY, Director of Bruegel

Corrado PIRZIO-BIROLI, Former Head of Cabinet of former Commissioner on Agriculture Franz Fishler (1995-2004) and Chairman of the European Landowners' Organisation Consultative Committee

Fabrizia PEIRCE, Member of Assonime

Sylvain PLASSCHAERT, professor emeritus of the Catholic University of Leuven

Eulalia RUBIO, Research fellow at Notre Europe

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Gianluca SPINACI, Member of the Unit of Political Analysis, Committee of the Regions

Daniel TARSCHYS, Chairman of the Political Science Department at the University of Stockholm and member of the Swedish Institute for European Policy Studies (SIEPS)

Lotte TITTOR, Directorate for Budgetary Affairs, European Parliament

Josef VAN GINDERACHTER, Professor emeritus of the University of Namur

Johan UREEL, Head of the Unit Outlook for Financing and Budget Forecasts of Own Resources, DG BUDG, European Commission

Legal Mentions

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