FONDATION POUR L'INNOVATION POLITIQUE

No. 9 - February 7, 2006

www.fondapol.org

Policy Brief

Marie André
Research Fellow at the Fondation pour l'innovation politique, and former student of the École normale supérieure (ENS, Paris), she holds a Masters degree in Geopolitics (University of Paris I – Panthéon Sorbonne) and is also Associate Researcher at the Centre de géostratégie (Center for Geostrategic Studies) at the ENS.

Soon available on www.fondapol.org: the policy paper *Quel budget européen pour quelles politiques après 2013?*, under the direction of Francis Mer (in French).

What Should the European Budget Be?

As the French and Dutch "no" votes during the Spring 2005 referenda have shown, Europe has failed to get back on a path to growth. And yet Europe's citizens expect that, having created peace, Europe should now bring them a dynamic economy. For thirty years, and despite the common market and the Euro, European per capita income is no longer but 70% that of the US. And with 1.4% of income earmarked for higher education, and 1.9% for research (as opposed to 3% and 2.6% in the US), the European Union is not building the foundations of future growth[1].

Doing so is particularly necessary for a Europe striving to preserve its social model. If Europe cannot manage to encourage a strong knowledge-based labor market, it runs the risk of seeing the very basis of European integration put in the balance.

Given this situation, the way in which the European budget is used becomes a central concern. If we don't succeed in bringing the content of EU-financed measures closer to citizens'preoccupations, then their bitterness towards an EU perceived as useless and founded on institutions from which they feel excluded could possibly block any continuation of European integration.

Today, the volume and distribution of the EU budget do not allow a true clarity of the measures funded by Europe, lack clarity. It isn't surprising, then, that a good number of European citizens reject the institutional overhaul presented as the answer to all of Europe's problems.

What needs rebuilding are the spirit and practice of the European budget; as former French President Charles de Gaulle said in regards to the French 1958 Constitution, institutions alone are not enough. The measures financed by the EU are an expression of a certain idea of Europe, and as such they should reflect the expectations and needs of Europeans so that when the time comes for them to give their opinion once again on institutional modernization, they feel that it's worth the trouble.

As can be seen with the failure of the June 2005 European Council, there are no givens. A lowest common denominator agreement was nonetheless concluded in

1 Jean Pisani-Ferry and André Sapir, "Restructurer le budget européen", *Libération*, August 26, 2003.

December 2005. The UK accepted to give up 20% of its rebate for the period 2007 to 2013, and France allowed a clause calling for "an exhaustive and vast review" in 2008 of the entire budget, which will include, among other things, spending for the common agricultural policy. As for new member states, they have accepted that subsidy levels remain lower than what they might otherwise be, seeing the larger contributors to the EU budget tone down their claims for a "fair share".

Progress in the area of the budget is therefore possible without going through a complete overhaul of the community structure, because, basically there is agreement on a number of points. Accepting to renegotiate on agriculture would break the deadlock on the "British rebate" and the rest would follow: the distribution, as well as the size of the budget, since member states would probably be willing to more extensively fund research and innovation policy as they know that everyone will benefit from it. However, if we want to make the most of the opportunity for reform suggested for 2008, we need to begin the debate now.

Without an institutional revolution, how can the budget be redesigned so that the citizens can again feel a part of the Europe that they have been building since 1957?

PROPOSALS

1/Aiming for budget efficiency

Setting better conditions for fund allocation

The European budget is not a complement of national budgets. It must serve the interests of the Union, and correspond to the expectations of European citizens.

It would be advisable, then, to define and enforce a code of good behavior with the intention of assuring budgetary efficiency. The following elements could be included in such a code:

— **Mid-term economic balance;** the Commission suggests that receivers reimburse allocated subsidies if significant modifications arise within seven years in the receiving company or public entity. European subsidies are intended to increase or maintain economic vigor, and they should not be considered from the perspective of short term profit.

— **Respecting European legislation;**

— **Effective availability of national co-funding credits;** the European Union is often criticized for granting funds that later go unused. Indeed, European subsidies rarely fund the cost of the measure, and the national funds intended to co-fund EU supported projects are not necessarily freed in the end, even if according to the regulations the receiver must justify the sum of co-funding contributions.

Better auditing the budget's use

Verifying European public funds is today limited to an audit of legality. One possible remedy would be to generalize at a European level the spirit of the *loi organique relative aux lois de finance* (LOLF, French Institutional Act on Finance Legislation). Given that the LOLF hasn't yet proven its worth, it would be advisable to combine its intention with that of the National Audit Offices, which, implemented in Denmark, the UK and Sweden, do in fact enable also the verification of spending efficiency.

Along these lines, an annual, independent document could be established to review EU policies one by one, explaining why a given policy is executed at the European level, what it funds, and analyzing (with the help of indicators of usefulness rather than cost efficiency indicators) the results of the policy[2].

2 *Quel budget européen pour quelles politiques après 2013?*, under the direction of Francis Mer, Fondation pour l'innovation politique, February 2006.

Rewarding efficiency

The "performance reserve", provided for European regional policy represents just 4% of the latter's budget for the period of 2000 – 2006. This reserve is allocated to ongoing projects showing the best indicators of efficiency and transparency.
Raising this rate and broadening its scope would lead to improved efficiency in European policy without excessively burdening auditing bodies.

2/Moving towards a transparent budget

Adopting an exhaustive budget presentation

The budget presentation should include the general budget, the European Development Fund (EDF) budget, the Common Foreign and Security Policy (CFSP) budget, and the budget concerning Justice and Home Affairs (JHA) measures. Such a presentation would have the advantage of being open and clear to both MPs and European citizens.
Furthermore, it would be preferable that the budget presentation takes into account, if only through a summary, real expenditures instead of just predicted or maximum spending. In a context of financial perspectives limited to 1.24% of GNI (gross national income) for 2000-2006, payment appropriations amounted to just 1.08% on average, and real expenditures to 1.04%.

Continuing the strengthening of GNI resource

All member states agree that the GNI resource, where each state pays a percentage of GNI in relation to its population, is fairer and clearer than resources raised through VAT and customs. In any event, VAT levies are leveled off in a growing number of countries, which effectively turns them into a de facto GNI resource. Customs resources will continue to decease due to the lowering of trade barriers in the framework of the WTO.
We must also consider the idea of a European tax with prudence. Despite certain framework procedures that could be implemented, a European tax would doubtless increase the tax burden on the entire European territory, and also hurt the image of the EU. Once more, it would be better to first concentrate on making European-funded measures more visible and more in touch with the preoccupations of European citizens. At that point, funding such measures through a European tax would naturally gain legitimacy.
Such a tax wouldn't solve the problem of net contributions. Some states will endeavor to calculate the share of funding that comes from their territory to show that they pay too much; and with somewhat questionable methods, they will succeed. A European tax would always run the risk of appearing less equitable than the GNI resource.

3/Putting the budget to work for our future

Funding an ambitious education, training and R&D policy

This goal coud be achieved It would be necessary to significantly reduce the Common Agricultural Policy (CAP) share of the budget, which would in turn enable the phasing out of the British rebate and the generalized correction mechanism.
The limited share of the agricultural sector in the European economy, and the pressure developing countries are applying at the WTO puts the pertinence of the CAP, which accounts for 40% of the EU budget, in doubt. A European budget amounting to 1% of GNI cannot play a significant role if it is considered as a substitute to national budgets. On the other hand, the budget is likely to play an important role if it is considered to be a driver.
It would therefore be wiser to implement a progressive agricultural spending reduction mechanism, while respecting the subsidiarity principle, that would enable the European budget to slowly get to a situation where there is room to maneuver. Each country would then have to decide whether or not it wants to continue funding a national agricultural policy, and if so, in what form.
European coordination would still have to continue to function in the agricultural sector. An appropriate regulation could enable the advantages of integration to be retained without burdening the European budget with the excessive costs of putting an entire branch of the economy on life-support[3].
Significant increases in education, training, and R&D

3 *Quel budget européen pour quelles politiques après 2013?, op. cit.*

credits would then be possible. By channeling newly freed credits to solid projects supervised by reliable organizations, these areas that feed growth are most likely to have a ratchet effect on a European level. Today there are numerous small budget projects with considerable administrative costs (higher than 10%). These "marginal" programs must either grow in magnitude if they constitute a worthwhile avenue for the future, or be abandoned.

Funding policies for which a consensus is most likely to be formed

This is a question of infrastructure policies: efficient cross-border facilities in the European Union constitute a necessary condition for the common market to work correctly, and as such, they are an extraordinary driver of growth. Of course, the infrastructures in question are those of transport, energy and telecommunications.

Moreover, questions relating to the environment, safety, and defense are too seldom treated by the EU even though citizens consider them to be priorities.

The European Investment Bank (EIB) could also play an increasing role in funding these policies. Considering the stakes of European economic development, the EIB's reserved stance seems all too timid: in general, it takes on around a third of project cost, and never more than 50%. The EIB needs to be able to raise its level of funding to 100% for the most important projects in regards to the interests of the EU[4].

Once more, a change in distribution of European funds could suffice: at the beginning, there is no need to develop funding that has great difficulty being credible in the eyes of European citizens. Once the budget is reoriented towards Europe and its inhabitants, the question changes entirely: it will be difficult to believe in a European Union whose budget remains forever limited to around 1% of GNI. Furthermore, a number of member states would likely end their opposition to an increasing European budget when it is no longer principally dedicated to funding the CAP.

If a discussion on the distribution and volume of the budget is not begun right now, the EU runs the risk in 2008 of finding itself in the same stalemate as in 2005: with little means, since a great deal of resources will be dedicated to the CAP, while member states try to limit the increase of a budget that benefits but a few; with institutions that work poorly; and with citizens unprepared to change those institutions because neither the institutions nor the budgetary practices will have been able to bring about a new European spirit.

4 See above, footnote 2.

CONCLUSIONS

Today, most member states are faced with serious budget constraints. But if they don't have much room to maneuver, it's partly because these countries earmark considerable means for funding the past rather than for building the future. Elaborating a Europe-wide policy for research and innovation is no doubt the way of getting out of the standstill in an acceptable manner.

It is a collective responsibility, yet France and the UK are particularly capable of initiating the movement. They already started it, at least partially, last December. London accepted to give up a part of its "rebate" in exchange for Paris accepting a renegotiation of the CAP in 2008. To move further, it is necessary to concentrate on a project that could bring about a successful end to future negotiations, and little by little build consensus around a project that corresponds to the expectations of European citizens. Such a project will need to put the collective interests of the European Union before those of each member state.

The European Parliament has until now refused to approve the December 2005 agreement because it rejects the financial perspectives that provide for a decreased EU budget. That show of force is intended to express the will of the majority of each member state's citizens—and to make them heard by the Commission and the Council.