My "warts and all" portrait of the EU budget process

As the EU's budget commissioner until mid-2014, Janusz Lenwandowski wrestled for five years with the inconsistencies and political pressures that shape the Union's spending policies

It is perhaps fashionable, and certainly legitimate, to think of the EU's budget as a gateway to a more modern and competitive Europe. But that often means over-burdening the budget with excessive expectations, for the budget is not only much misunderstood but is also smaller than many believe.

The budget amounts to only 1% of EU countries' total gross national income (GNI), or to put it another way, 2.5% of the public spending of the 28 member states. That's well below the national budgets of most federal states – the U.S. federal budget, for instance, is a quarter of America's GDP. It may also come as a surprise that on average national budgets have since the new century been expanding more than has the EU budget, despite the EU's "big bang" enlargement in 2004.

Janusz Lewandowski MEP was EU Budget Commissioner from 2010-14, and now chairs the Economic Council that is the main advisory body to the Polish Prime Minister

A good many politicians keep telling their voters that it's all about "us" and "them", pitting contributions to "their" national budget against that which is "for Brussels", and so doing much to foster resentment against the European Union. Yet the truth is that the EU's administrative share of the European budget is less than 6%, so that 94% of the funds in the EU budget are spent beyond Brussels and benefit research institutes, regions, businesses and students across Europe, to say nothing of, say, Syria's refugees and victims of natural disasters worldwide. It's no exaggeration to claim that the EU budget is truly a people's budget.

From all this, it must be obvious that the EU budget cannot be seen as a remedy to all Europe's ills. It is only a modest tool, and reflects the gap between national responsibilities and resources and European-level ones. On the expenditure side, we can see a yawning division between what experts would ideally like and reality.

Think tanks across Europe say the European budget's structure is outdated and unsuited to the challenges of the 21st century, and often highlight the Common Agriculture Policy's very large share of EU spending when calling for a fundamental re-think of the budget. They also brandish R&D as the solution, pointing out that it can deliver benefits that go far beyond national interests while enhancing the EU's global competitiveness. There have of late been recommendations that as well as support for innovation, the budget should give higher priority to both internal and external security.

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The reality, of course, is that the European budget has little connection with these recommendations. But to understand the distinction between what is feasible and what's just wishful thinking, we should first take account of the evolutionary logic that has shaped the EU development, and we should also look at the inter-governmental logic of budgetary negotiations.

Yes, the budget's present structure to some extent reflects the legacy of the past. And given the evolutionary logic of European integration, why should the budget's structure be an exception? The European budget was born in the post-war political climate that placed a great emphasis on food supply, with the result that the farm subsidies of the CAP amounted to 70% of overall expenditure. Today, agriculture remains the only truly federal policy of the EU, with almost 80% of overall spending on farm support being transferred via the European budget. In most other policy areas, upwards of nine-tenths of financing comes from member states' own national budgets.

The CAP's share of today's EU budget has been reduced to just a third, and includes rural development as part of an EU policy aimed at improving the quality of life in the countryside. Then there's the second 'traditional' component of the budget – regional policy. It is designed to compensate for the risks that poorer newcomer EU countries took by exposing their weaker economies to competition in the single market. Accelerated convergence via the structural funds became all the more necessary with the arrival of the post-communist countries. And looking at these countries a decade after accession, who could deny the enormously modernising potential of the structural funds when accompanied by strict conditionality? Traditional doesn't necessarily mean outdated.

The current budget, the 2014-2020 Multiannual Financial Framework (MFF), marks a further step in the evolution of EU-level public finances. Although the budget has been reduced in real terms when compared to 2007-13, its funding of what are seen as "future oriented" projects is growing. Spending on competitiveness for growth and jobs will rise by €34bn (in 2011 prices), or 37%, which means more support for R&D, SMEs, education and a completely new pan-European investment vehicle, called the Connecting Europe Fund.

Commentary

How to make the EU budget more efficient,

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The EU budget has for more than two decades been an object of dissatisfaction and criticism. Some see its size as excessive, others much too small. The share of spending allocated to various EU policies is widely seen as inappropriate, and the efficiency of the EU's financing is regularly questioned by member governments. Taking place as they do at seven-year intervals, the Multiannual Financial Framework (MFF) negotiations that set the path for annual budgets are dominated by rows over 'net national balances'. The outcomes of all these budgetary wrangles have consistently disappointed those who believe the EU budget should be a tool for improving citizens' well-being and promoting sustainable development, as well as introducing a degree of redistribution and financial solidarity. None of the key EU institutions – the European Commission, the European Council or the European Parliament – are happy with the current budget, yet little or nothing changes. When there's a degree of change, it's only marginal, and overall reform is forever postponed.

National governments' fear of further encroachment on their own sovereignty and distrust of the major EU institutions, most of all the European Parliament, go a long way towards explaining this lack of progress. Nevertheless, there are three, loosely connected features of the EU budget's decision-making process that ought to be reformed: there's the unanimity rule and also periodicity and financing.

Economic theory has long shown that the unanimity rule leads only to a minimum-sized budget, and as there's no agreement on what the European collective good actually is, the focus on national 'net balances' in inevitable. The way the budget is financed through national contributions reinforces this bias by making it easier for national

There are also realistic hopes that over 4m young people will study, train, work and volunteer under the Erasmus+ programme, with that supplemented by the Youth Employment Initiative. On top of this there is to be more investment in world-class research, along with a reinforcement of security and external policy. Reduced CAP and cohesion funding will at the same time demonstrate that the profile of EU spending is being progressively modernised when compared to the budgetary structure at the turn of the century.

more transparent and more democratic

negotiators to assess their own share of the costs and to maximize 'national returns' by pushing for country-specific spending projects.

The EU's seven-year financial framework also makes no sense: the MFF should cover the same five-year span as the mandates of the commission and MEPs. The last MFF in any case showed that forecasting receipts and expenditures over such a long time span is bound to fail. More important still, it overrides the co-decision powers granted to the European Parliament by the Lisbon treaty, as the current MFF for 2014-2020 was voted by the previous European Parliament, the MEPs elected in the present one may well see their mandates end with no say on the next budget.

The revenues for the EU budget now mostly come from national contributions based on each EU country's gross national income (GNI). Although it's a simple and convenient way to make sure the budget is balanced on a yearly basis, it also has its limits in times of fiscal austerity: countries' contributions to the EU budget appear only on the expenditure side of national budgets, while possible benefits from the EU budget expenditures do not show anywhere. The bias in favour of a minimum EU budget is reinforced, whereas replacing part of the national GNI-based contributions by a 'genuine own resource' would introduce a more collective style of decision-making based on the 'European value added' of EU spending. Possible candidates for a new 'genuine own resource' include VAT, corporate income tax, a carbon tax or revenue from auctioning carbon emission permits and a financial transactions tax, and all have advantages and drawbacks. But the first step towards reform should be to agree on the overall objectives, and then on a method for assessing each instrument with regard to those goals. ■

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Let's turn to the other side of the equation – the revenue side. The contributions mechanism initiated in 1970 and then amended in 1984 with the famous Fontainebleau agreement in favour of the UK, subsequent budget deals in 1994, 2000 and 2007 created an extremely complex and opaque system with an ever-increasing number of corrections and exceptions to exceptions.

Now it has evolved far from the original idea, and is composed of traditional own resources like customs duties and VAT, both of which account for some 10% of income, with GNI-based contributions representing 76% and the rest coming from other revenues such as fines.

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My experience as the EU Budget Commissioner from 2010-14 was that there is a real difficulty in moving from the diagnosis – meaning the critical and commonly shared assessments of the existing system – to solutions that are usually short-lived and discouraging. The 2014-20 MFF, put forward by the European Commission in June 2011, proposed a modified structure of the way expenditure should evolve, accompanied by a more revolutionary reshuffle of the revenue side.

The revolutionary proposal consisted, apart from a simplification of the legal architecture, of the introduction of genuinely new own resources as well as a simpler correcting mechanism. We proposed the introduction of a financial transaction tax and a new VAT resource to replace the existing VAT-based contribution. On top of that, we ventured to abolish all correcting mechanisms and replace them with temporary lump sums as a way of correcting disparities between the relative wealth of member states and their net balance of payments and benefits.

What followed takes us back to the difference in the development of the EU's public finances between the feasible and the desirable. There is unanimous agreement that the revenue system must be improved, but there is also both an inability and a reluctance to do so. All that remains of our revolutionary proposal is the enhanced co-operation of these member states that volunteer to implement the financial transactions tax. Interestingly enough, our revolutionary approach produced less than the evolutionary one that has now modified the expenditure side of the budgetary equation! It's a lesson to be borne in mind by the High Level Group on Own Resources that is being chaired by Mario Monti.

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I would draw three clear conclusions from all this: First, a public budget is no more than politics expressed in figures. To understand the failure of the various attempts to radically re-structure the EU budget, we need to examine in depth the broader framework of the political climate and procedures, not just the substance of the proposals. Revolutionary proposals will never become reality as long as the EU budget remains prisoner to the inter-governmental logic in which *juste retour* prevails over "European added value".

As I do not foresee major changes in the EU's decision-making process, evolutionary logic will most probably prevail over the radical courses advocated by some. So my second conclusion is that the redistribution of funds via the European budget should not be seen as evidence of an outdated structure. It still makes sense as it stimulates the desirable convergence of southern and eastern European countries towards meeting EU standards. There is also the substantial modernising potential of the structural funds when properly targeted, and not just through grants and loans explicitly aimed at reinforcing innovation policies.

My third conclusion is that much of the added value of the EU budget consists not just in financing projects of common interest and delivering benefits beyond national borders. Of equal importance is the visibility and usefulness of the European budget in upgrading the quality of life of local communities across Europe and so increasing their support for the EU and its institutions. ■

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