DAHRENDORF FORUM
Debating Europe

BertelsmannStiftung

Priorities and Compromises for the Future EU Budget

Workshop, 14 June 2018, Hertie School of Governance

Following the publication (on 2nd May 2018) of the European Commission's proposals for the 2021–2027 Multi-annual Financial Framework (MFF), what are invariably acrimonious negotiations on the future EU budget are now underway. The EU institutions are keen to achieve a deal early in 2019, although this would imply reaching agreement far more rapidly than previously. In the Commission's own words, it has put forward "ambitious yet realistic proposals for a modern EU budget".

Many of the issues expected to frame the emerging policy debate are familiar to veterans of previous MFF rounds. They include: the overall scale of the budget; whether support for agriculture should be cut back; what new priorities to favour; and how the EU is funded—for an overview, see a policy brief by Iain Begg. But there are also key new elements. Brexit will mean the loss of the substantial net UK contribution to the EU's finances—around €12 billion per annum in recent years—and may also make it easier to secure agreement in areas where the UK has been a prominent opponent. Certain EU leaders, such as Macron and Juncker, have pushed for a new approach to the EU budget, and the need for responses to public discontent with the EU is evident.

Against this backdrop, the workshop sought to foster a free and open discussion about different aspects of the future EU budget. It brought together practitioners, academic researchers, and representatives of several member states and the social partners. The workshop was conducted under the Chatham House rule, with the exception of the opening intervention from Dr Christian Kastrop of the Bertelsmann Stiftung. This note summarises the issues discussed and highlights some of the dilemmas.

THEMES

THE DEBATE ON THE NEXT EU MULTI-ANNUAL FINANCIAL FRAMEWORK

ASSESSMENT OF THE COMMISSION PROPOSALS FOR ITS BUDGET 2021-2027

WHAT CITIZENS EXPECT THE EU TO SPEND MONEY ON AND WHAT THE POLITICIANS OFFER

THE POLITICS AND PRIORITIES OF EU BUDGET REFORM

INTRODUCTORY TALK

In his introductory keynote, Dr Kastrop put the new EU budget into context. Totaling €1279.2 billion at current prices, it increased nominally by almost €200 billion as compared to the MFF 2014–2020. However, as a proportion of EU gross national income (GNI), the increase compared with the equivalent proposals in 2011 is from 1.05 percent to 1.11 percent. It should, however, be noted that after negotiations, the settlement for 2014–2020 was 1.00 percent of GNI.

Relative increases are proposed *inter alia* in spending on foreign policy, defence and security, and migration and border management (see annex). Dr Kastrop challenged participants to take an outside look at the budget and compare the EU's expressed priorities with the individual budget lines. Such a comparison suggests a notable disjunction between what citizens care about and the focus of the EU budget. Public opinion, as monitored by the "eupinions" surveys, considers climate change, war and conflict, economic crisis, and mass migration as the biggest global challenges (see annex), yet most spending is allocated to traditional policies, including the Common Agricultural Policy (CAP). In the new proposals, direct payments to farmers and the fishing industry will still account for nearly a quarter of the budget.

> THE COMMISSION OPERATES IN A CONSTRAINED ENVIRONMENT IN WHICH THE LOSS OF THE UK CONTRIBUTION REQUIRES THE EU27 TO INCREASE THEIR CONTRIBUTIONS.

Implementing the claim to align the EU budget better to citizens' priorities would require a fundamental restructuring of the budget, which is currently inadequately sized and wrongly structured to confront the challenges its citizens consider most pressing.

SESSION I: THE SHAPE OF THE FUTURE MFF

Proposed increases in the budget were generally well received and considered justified in view of the new tasks for the EU (defence, managing migration, countering climate change, etc.). The proposed changes in the mix of spending were broadly welcomed, but several workshop participants regretted a lack of ambition. New challenges require more funding, as does the maintenance of funding for old priorities. The discussion also confirmed the perception that citizens demand more action on key challenges, ranging from climate change to migration, digitalisation and tax evasion.

Innovation policy was another issue area in which some participants saw a need for higher spending. With the USA and China investing more heavily in future technologies, a complacent EU would put at risk tomorrow's innovation, productivity, and growth. At the same time, the new budget should be responsive to the social consequences of change and compensate those who feel "left behind". The Social, Cohesion and Globalization Funds would be appropriate channels for such compensation, which would also be important politically to confront the uptick in euro-sceptical sentiment. Participants nevertheless questioned how coping with these profound challenges would be possible on a budget of roughly 1 percent of GNI.

Moreover, the Commission operates in a constrained environment in which the loss of the UK contribution requires the EU27 to increase their contributions. The trilemma of preventing cuts in allocations for old priorities, while increasing spending on new ones and maintaining the current level of spending was observed. However, it was also remarked that the answer to policy problems is not always more money, especially at a time of over-stretched national budgets. New instruments, such as loans, guarantees, and revamped co-financing could contribute to coping with these challenges, while not placing excessive demands on taxpayers.

Nonetheless, the current window of opportunity for reshaping the budget has to be used. Brexit-induced unity among member states and the upcoming European Parliament elections could be conducive to swift agreement. If none is found before the upcoming elections, the process would be delayed by at least another year, and with it the disbursement of funds. This would have a damaging knock-on effect in delaying the regulations for Cohesion Policy and the Horizon Europe research programme, a problem that afflicted the 2014–2020 MFF.

SESSION II: NEW OWN RESOURCES AND CORRECTIONS

The second session was dedicated to questions on the revenue side of the budget. Two questions in particular were discussed. First, should more of the funding for the EU come from "genuine" own resources (such as the plastics tax advocated by the European Commission), as opposed to national contributions paid by member states? Second, should rebates be eliminated from the budget?

Opinions diverged significantly on the first question. Some saw the option as a natural evolution, others saw no benefit in it and cautioned that citizens would not approve, especially considering the current Eurosceptic political landscape. Progress could only be achieved by increasing the legitimacy of the budget and therefore politicising it. The wide range of opinions showed why no agreement has been reached on the issue despite it having been discussed for 30 years since the first "Delors package", which led to the 1988–92 MFF.

On the issue of rebates, there was more consensus. Discussants opined that scrapping them for member states was a matter of equity and therefore fairness. This would, however, run into issues of political feasibility, as outright scrapping would lead to contribution hikes for individual member states. This tension, as many participants recognised, could aggravate political conflict between member states and make agreement on the budget harder. The Commission's proposal for gradual phasing out of rebates may offer the basis for a compromise, but a complete end to rebates will not be easily achieved.

SESSION III: GOVERNANCE OF THE MFF AND LINKS TO EU POLICY PRIORITIES

The third session built on the observation that budget negotiations today were being pulled from their "technical corner" onto the political stage. This would allow ministers to discuss it and thus foster the debate needed to legitimise it. In order for the EU to be able to respond to upcoming policy challenges, the budget needs to be responsive, and thus a fundamental restructuring of the governance of EU finances could be justified.

One proposal from the Commission is to link the budget more closely to the European Semester. As such, the Semester has the goal of highlighting the main socio-economic challenges facing member states and makes recommendations on how to overcome them. Member states could apply for co-financing from national envelopes for implementing specific projects aimed at implementing recommendations. However, not all policy priorities could be served in this manner, as some are, in practice, "European public goods". These include, *inter alia*, security, border control, and foreign policy.

Another key issue for the upcoming negotiations is how to maximise the impact of the EU's Structural Funds. These can constitute as much as 75 percent of public investment for some member states, which receive up to 2–3 percent of their GDP through this channel. Ensuring effective spending and the maximisation of its utility is thus imperative for the EU. It was pointed out that the objective of Structural Funds was not the maintenance of the status quo but inducing convergence and cohesion. In the past, this objective has not always been shown to be met convincingly.

CONDITIONS ON HOW THE MONEY IS USED CAN PLAY A VITAL ROLE IN INCREASING EFFECTIVENESS, ALTHOUGH THERE ARE OBVIOUS POLITICAL CHALLENGES IF SUCH CONDITIONS ARE SEEN AS TOO ONEROUS OR UNFAIR.

Conditions on how the money is used can play a vital role in increasing effectiveness, although there are obvious political challenges if such conditions are seen as too onerous or unfair. A suggestion is to focus more on "carrots" than on "sticks", by rewarding recipients who conform, rather than penalising those who do not.

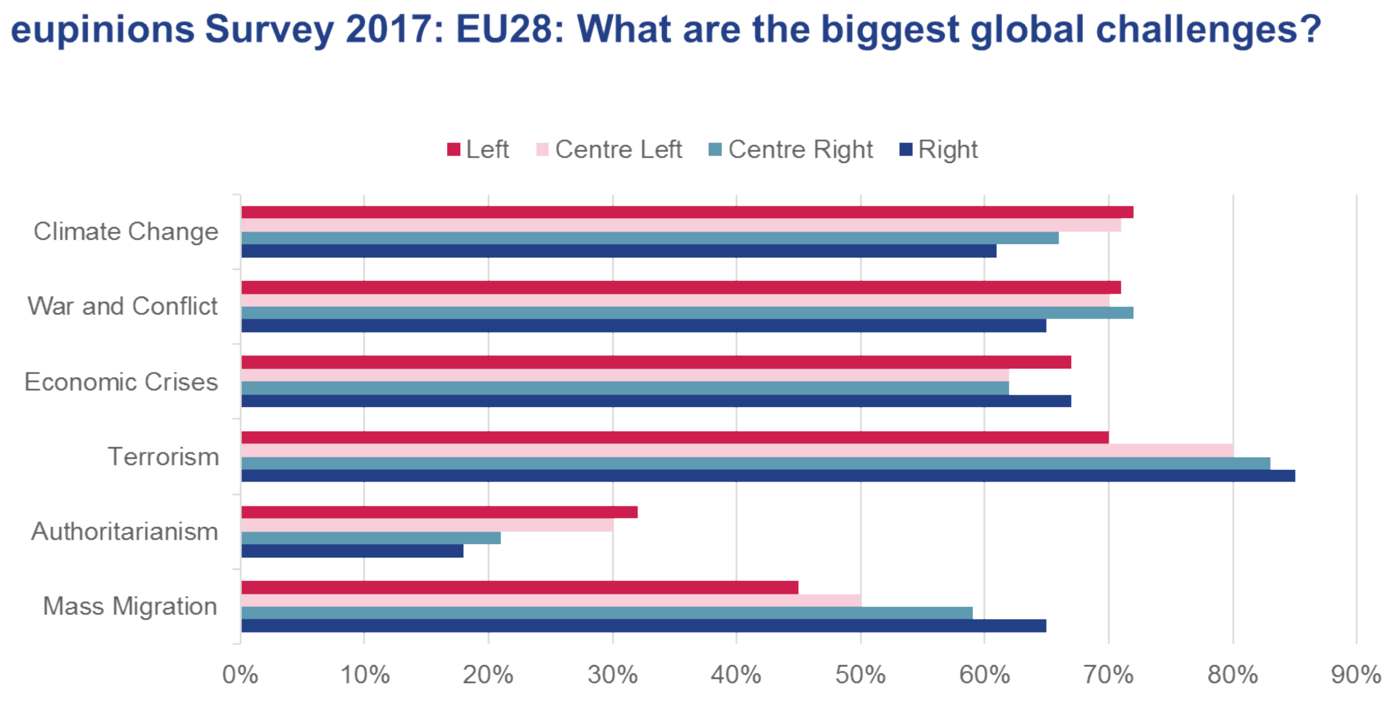
SESSION IV: PUBLIC EXPENDITURE AND THE POLITICAL CONSTRAINTS

The fourth session again picked up on the notion of European public goods, linking it to public opinion. A recurring theme was the need to "rebrand" the concept of European added value (see the study by Stefani Weiss) to demonstrate that the EU is using its expenditure to deal with problems it is best-placed to solve. This vertical distribution of spending tasks is too often neglected—as also explained by Stefani Weiss. By emphasising that the challenges of our time can only be solved on the European level, the narrative behind the EU budget can be made much more attractive. Surveys show that the provision of such public goods is clearly important to citizens, but it was argued that better communication by national politicians was required to generate public support for financing them through the EU budget.

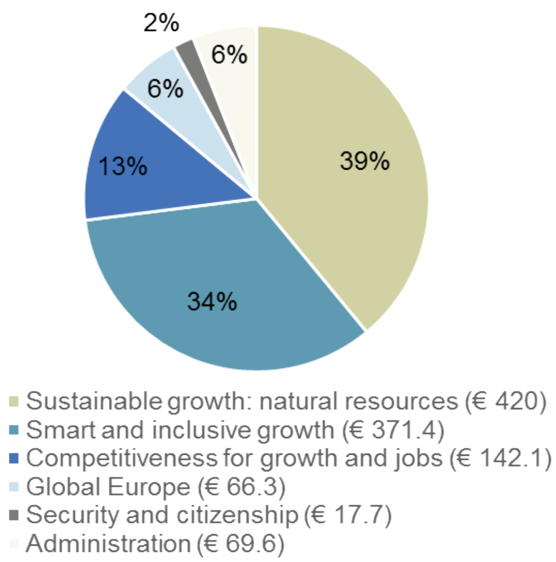
One decisive question would therefore be: do citizens realise they are benefiting from EU spending, when they do. The answer often depends on the behaviour of national politicians, because scapegoating and blame-shifting is a regular occurrence that distorts public understanding of what the EU does. Wales, which voted to leave despite being a net beneficiary from EU funds, was highlighted as a case in point. Nonetheless, mere "publicity" would not be sufficient to generate public support. Rather, it would require more politicians and citizens to make the case for the EU. This, in turn, would need politicisation in public fora within member states, not least national parliamentary debates.

Here, something of a contradiction was visible: on one hand there is agreement on the importance of politicisation of the budget and its alignment with the challenges most pertinent to its citizens. On the other hand, there can be a perception of the EU as an inefficient provider of public goods, even though there is often scope for the supranational level to spend public money in a cost-effective manner. A conclusion could be that the new EU budget should reflect three 'Ps': problem-solving, politicisation and public goods. ■

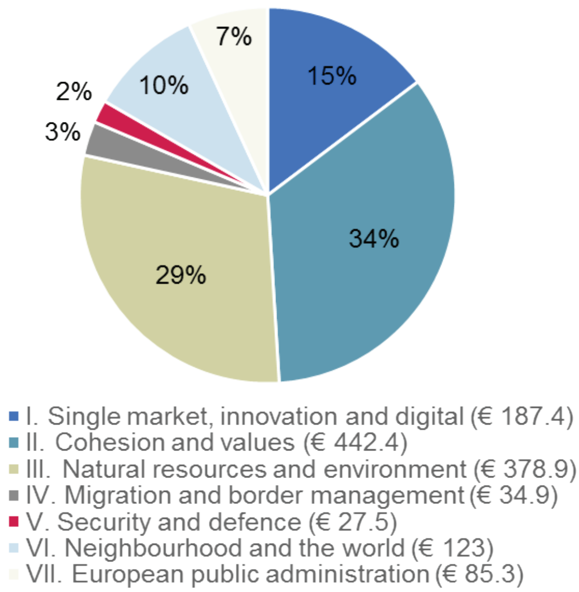
ANNEX



MFF 2014-2020 – budget allocation – total 1087.1 billion euros



MFF 2021-2027 – budget allocation – total 1279.4 billion euros



THE DAHRENDORF FORUM

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