Sieps
Swedish Institute for European Policy Studies

European Policy Analysis
APRIL · ISSUE 2014:3epa

Sara Hagemann*

The EU Budget and Balance of Powers between the European Parliament and the EU Governments

Abstract

The European Parliament elections are just around the corner. Results look set to be a more fragmented Parliament, with a stronger voice for parties and independent MEPs on the fringes. This Europan Policy Analysis looks at the balance of powers between the European Parliament and the EU governments (represented in the European Council and the Council of the European Union) on a particularly thorny issue: the negotiations of the EU budget.

The outcome of the negotiations of the EU's budget for 2014–2020 shows, once again, that its content is heavily constrained by how the decision process takes place. The European Parliament remains marginal in core budget decisions, but its increased involvement highlights a need for synchronising the EU budget cycle with the political term of the Parliament and the Commission. Still, the Council dominates the overall process, and the most pressing problems in the EU's budget relate not to the Parliament's involvement but to governments' focus on narrowly defined national interest, rather than securing a better budget for Europe.

Introduction

European governments have in the last years had their political agendas dominated by questions of how to restructure and ensure better governance of the Eurozone, while tackling difficult domestic situations, too. A new EU economic political agenda is starting to emerge, although opportunities for drastic changes have not been fully exploited. Far from all challenges to the markets and economies have been addressed, and governments are likely to keep these issues as their main priorities in the foreseeable future.

It is within this challenging context that the EU governments and the European Parliament completed negotiations of the Union's 2014–2020 multiannual financial framework (hereafter referred to simply as 'the EU budget') in November and December 2013. While the EU budget is rather inconsequential in its size and impact in the wider economic context, the multiannual budget negotiations are of great political importance: a reformed and 'efficient' budget agreed to by all 27 governments (now 28) would reflect ambition, unison and credibility in a time when such signals are much required. It could also be a powerful tool to signal real ambition for economic growth policies. And, lastly, it affirms the political power balance between the two legislative branches of the EU, the Council of the European Union and the European Parliament.

However, the results from this last agreement are at best pragmatic and include several side deals and political manoeuvres as most governments were concerned only with their own national priorities rather than a European

* Sara Hagemann is a Lecturer in EU Politics at The London School of Economics and Political Science.

BOX THE LISBON TREATY

'The Multiannual Financial Framework'
Article 270a

1. The multiannual financial framework shall ensure that Union expenditure develops in an orderly manner and within the limits of its own resources.

   It shall be established for a period of at least five years.

   The annual budget of the Union shall comply with the multiannual financial framework.

2. The Council, acting in accordance with a special legislative procedure, shall adopt a regulation laying down the multiannual financial framework. The Council shall act unanimously after obtaining the consent of the European Parliament, which shall be given by a majority of its component members.

   The European Council may, unanimously, adopt a decision authorising the Council to act by a qualified majority when adopting the regulation referred to in the first paragraph.

3. The financial framework shall determine the amounts of the annual ceilings on commitment appropriations by category of expenditure and of the annual ceiling on payment appropriations. The categories of expenditure, limited in number, shall correspond to the Union's major sectors of activity.

   The financial framework shall lay down any other provisions required for the annual budgetary procedure to run smoothly.

4. Where no Council regulation determining a new financial framework has been adopted by the end of the previous financial framework, the ceilings and other provisions corresponding to the last year of that framework shall be extended until such time as that act is adopted.

5. Throughout the procedure leading to the adoption of the financial framework, the European Parliament, the Council and the Commission shall take any measure necessary to facilitate its adoption.

outcome. In fact, most governments gave in to a debate about the size of the budget, rather than its content and quality. In addition, the European Parliament also made use of its newly bestowed powers under the Lisbon Treaty and was accused of fighting an institutional power game with the Council, rather than focusing on realistic and efficient budget proposals.

This policy brief will argue that the Council, as expected, 'won' the negotiations with the European Parliament, but that the Parliament has secured some significant concessions, enabling it to position itself as a more influential player in coming budget discussions and formal negotiations. While the government representatives in the Council will always be dominant in budget questions – after all, they are the ones to foot the bill – the Parliament may enable a budget that works towards furthering shared European interests, rather than narrow national demands. Still, the negotiations process as a whole is far from ideal, and the main challenges will not be solved by the Parliament's involvement, but remain a question of how governments' positions are presented and negotiated.

The Parliament's creeping powers

The final budget deal, signed in the Council on 2 December 2013 and voted through in the Parliament a few weeks prior to that, was in fact an unchanged total of €908 billion, which had already been approved at an EU leadership summit in February. The agreement saw the first net reduction in the budget in history. However, after the February announcement the Council representatives found that a number of 'hickups' meant that the governments' deal could not be passed as EU legislation. One such hickup was that the Parliament would not agree to the final terms. The Lisbon Treaty has essentially given the Parliament power to veto any final deal agreed to by the governments as it stipulates that the budget must be adopted by the Council 'after obtaining the consent of the European Parliament' (see box above). Things culminated between the Council and the Parliament during the Irish Presidency in Spring 2013, and it wasn't until the final hours ahead of the June Summit that the Commission, Council and Parliament negotiators could present a final text acceptable to all three institutions.

The Parliament was far from a ‘winner’ in the negotiations – which began formally in 2012 – especially as it had sought to secure much higher amounts on a number of key budget posts. But it did achieve a number of concessions, which are likely to prove of great importance in the coming years. Perhaps the greatest of these is the insistence on including more flexibility so that unspent money can be transferred from one year to the next, or to priority areas, rather than returning it to national budgets as is currently the case.

Another clause included in the request of the Parliament is that the budget is to be revised in 2016 for implementation in 2017. In the context of this review, a process of reforming the financing of the EU budget will be launched in autumn. French centre-right MEP Alain Lamassoure, chairman of the budgets committee who headed the Parliament's four-member negotiating team said, "this agreement on the overall legislative framework allows negotiations to continue in order to clarify the distribution of funds within each policy.” In other words, the battle is not over, and the Parliament is only getting started in this new role as decision-maker on the multiannual budget.

A last achievement in the multiannual budget negotiations by the Parliament which should be mentioned here is the promise by the Commission to look into making the EU budget cycle a five-year one, in line with the appointments and elections of the EU institutions. This proposal was already made ahead of the previous negotiations,[1] and would be an extremely important step for how the budget is negotiated and adopted; currently, there is little connection between the budget process and political processes, either at the national or the European level. The lack of synchronicity of the budgetary cycle with election or appointment cycles means that there is no real political responsibility, legitimacy or accountability for the budget at the EU level, and that the European Parliament and Commission are inevitably sidelined in the process.

A two-levelled game

While the multiannual budget deal has received more attention – also outside the ‘Brussels bubble’ – this time, the general lack of excitement with the carefully crafted compromise is not surprising. The previous round of negotiations, which were completed in late 2005 for the 2007–2013 budget, then resulted in several governments’ explicit criticism of the outcome. Negotiators voiced relief that a deal had been possible at all, but indicated general dissatisfaction that neither governments’ individual interests nor overall policy ambitions for the EU were properly reflected in the agreed budget posts. Necessary reform of several areas was stalled due to the need to reach a consensus agreement.

Table 1 on the next page presents the budget as adopted by the European Council in December and compares the amounts to the previous 2007–2013 budget, and to the initial budget proposal suggested by the Commission.

The latest agreement, in the context of the political and economic difficulties faced by the governments, was even more complicated. The Union had 27 governments (now 28) around the table, each with veto powers and strong preferences over budget items of particular importance to their domestic interests. The Parliament also had to be taken into account, although few could tell from the outset how to interpret the Lisbon Treaty’s text that the budget should be adopted with ‘the consent’ of the Parliament.

The underlying problem is not, however, the number of decision-makers or the new involvement of the European Parliament. It is rather that the decision process for agreeing on the EU budget has a strong status quo bias, mainly influenced by the dominance of narrowly defined national interests. The Lisbon Treaty further emphasised the status quo bias by enabling a previous year’s budget to continue if an agreement on a new multiannual budget could not be found. This means it leaves no incentives for anyone to concede on any issues – whether on the revenue or expenditure side – such that the status quo becomes much more likely to prevail.

Another complicated element is that member state representatives are often constrained by internal decision-making processes prior to their presentation of country positions at the EU level, which in effect constrains the political mandate to negotiate at the bargaining table in Brussels. This is especially true in member states characterised by different levels of governance with significant influence on budgetary negotiations, and in member states with multi-party systems and strong parliamentary committees.

Also, in the current set-up, the demands on member state negotiators are often very high in terms of bringing back evidence of success to their parliaments and consti-

[1] Hagemann, S., & Zuleeg, F. (2008). “Troubles ahead: Can the EU agree a better way of negotiating its budget?” Prepared for the conference ‘Public Finances in the European Union’ of the European Commission, Bureau of European Policy Advisors (BEPA), Brussels 3–4 April 2008. Retrieved from http://ec.europa.eu/budget/reform/library/contributions/us/20080414_US_26_en.pdf

TABLE 1 KEY FIGURES OF THE MFF 2014-2020

Comparison between the abounts proposed by the European Commission and those agreed by the European Council as well as a comparison with the MFF for the period 2007-2013

Commitment appropriations in million euros (2011 prices)	MFF 2007– 2013	MFF 2014–2020 Commission proposal June 2012	MFF 2014–2020 European Council conclusions 08.02.2013	European Council conclusions vs MFF 2007–2013		European Council Conclusions vs Commission Proposals	
				million euros	%	million euros	%
1. Sustainable Growth	446.310	503.310	450.763	+4.453	+1%	-52.547	-10%
1a. Competitiveness for Growth and Jobs	91.495	164.316	125.614	+34.119	+37%	-38.702	-24%
1b. Cohesion for Growth and Employment	354.815	338.994	325.149	-29.666	-8%	-13.845	-4%
of which: Investment for growth and jobs	345.935	327.116	313.197	-32.738	-9%	-13.919	-4%
of which: European territorial cooperation	8.880	11.878	8.948	68	+1%	-2.930	-25%
of which Contribution to CEF			10.000				
2. Preservation and Management of Natural Resources	420.682	389.972	373.179	-47.503	-11%	-16.793	-4%
of which: market related expenditure and direct payments	318.820	286.551	277.851	-40.969	-13%	-8.700	-3%
of which: rural development	95.741	91.966	84.936	-10.805	-11%	-7.030	-8%
3. Citizenship, freedom, security and justice	12.366	18.809	15.686	+3.320	+27%	-3.123	-17%
4. EU as a global player	56.815	70.000	58.704	+1.889	+3%	-11.296	-16%
5. Administration	57.082	63.165	61.629	+4.547	+8%	-1.536	-2%
6. Compensations*	920	27	27	0	0%	0	0%
Total commitment appropriations	994.176	1.045.282	959.988	-34.188	-3%	-85.294	-8%
as a percentage of GNI	*1,12%*	*1,09%*	*1,00%*		*-0,12%*		*-0,09%*

* Compensations: Bulgaria and Romania for 2007–2009; Croatia for 2014.

Source: European Commission 2013. Please refer to www.ec.europa.eu/budget/mff/index for further details.

tuencies. The measure of success is often reduced to the best possible monetary deal in terms of net contributions (so-called juste retour), rather than focusing on wider policy priorities. This can be aggravated if the member state negotiators at the EU level are tasked with focusing on public finances rather than higher-level policy priorities. Especially for the larger member states, which contribute significantly to the budget, the pressure not to compromise can be very strong. But also governments from countries with a strong dependence on EU funding find that they have to secure enough money for their voters, a situation which inevitably leads to a clear division between 'winners' and 'losers', but which no politician would want to accept in front of domestic audiences.

Whose budget?

The focus on juste retour, and the reluctance of any member states to consider any ambitious funding for EU-level priorities, impacts the likelihood of reaching a deal. In effect, it turns the negotiations into a zero-sum financial game, where any expenditure allocated to a specific country must reduce another's and where any additional funding for one policy area must reduce the funding of others. With 27 (now 28) veto powers to appease, there is a strong bias towards the current status quo, with the existing budget seen as the benchmark against which the outcome is compared. (This is further reinforced with the Lisbon Treaty's Article 270a §4, shown on page 2.)

This is where the role of the European Parliament is particularly important. The existing decision-making structures mean that there is little representation of the EU common good from the outset. Of course, political choice explains the fact that EU budget negotiations are characterised purely by intergovernmental bargaining, but it is unlikely that this choice will lead to the effective identification of which EU public goods and policy priorities should be financed and delivered at the EU level. The influence of the Commission's role as the 'Guardian of the Treaties' and the Parliament's role as the 'Voice of the Peoples' are crucial to counter-balance governments' narrow focus on individual country needs. To be fair, the 2014–2020 agreement did make progress of sorts as it saw significant decreases in the two biggest spending blocs, agriculture and cohesion policies, and the funding for 'growth and jobs', such as research, infrastructure investment and education, received a significant boost. This follows a long-term trend in policies that are shifting away from more traditional spending areas. But the problems persist, and budget posts such as agriculture/natural resources still constitute 40% of overall spending.

The problem is that the current bargaining structure will inevitably lead to skewed negotiations, as only certain interests are represented by the member states. For example, the interests of students studying in other EU countries are unlikely to receive representation equal to the interests of farmers. It also leads to a general undervaluation of European public goods, since the wider EU common good is incompletely represented in the negotiations. In addition, there is a prevailing tendency to focus mainly on areas where the EU already has competencies and expenditures, rather than considering wider priorities. This creates difficulties in dealing with new ambitions. The greater flexibility between budget priorities included in this year's agreement on the insistence from the European Parliament may be a step in the right direction. But any new spending priorities will still require all governments' consent, and the default position is the budget lines already in place.

Annual negotiations: The Parliament's best bet

All in all, the European Parliament can hence be seen as still having very little influence on the overall multiannual budget negotiations, although signs suggest that it may become more influential in future negotiation rounds. The reasons for this are partly the points mentioned above regarding the changes in the Lisbon Treaty. But it is also because the Parliament seeks to influence the multiannual budget decisions via decisions on spending in the annual budgets.

The EU's annual budget negotiations are initiated in the spring of each year (although this year it will be delayed due to the elections), and they include more detailed decisions on how the individual budget posts defined in the multiannual budget must be spent. Here, the Parliament finds itself on an equal footing with the Council: the annual budgets are subject to a special legislative procedure where both the Council and the Parliament get one reading to approve, amend or veto the proposal from the Commission. Although the proposal for the annual budget needs to fall below the ceilings defined in the multiannual budget framework, there is considerable room for deciding on the details of how that money must be spent within each of the annual budget cycles. If agreement cannot be reached at a first reading stage between the two institutions, a Conciliation Committee is immediately convened and needs to complete its negotiations within three weeks. If that fails, the Commission has to draft a new proposal and the process starts again.

This means that the Parliament today has a strong possibility for setting its mark on the actual execution of the budget priorities, and the greater flexibility incorporated into the last multiannual agreement has extended this further. In addition, the fact that the Lisbon Treaty changed the Parliament's budgetary powers to cover not only the so-called 'non-compulsory expenditures', but now grants it a say on the whole budget, including 'compulsory expenditures', means that the Parliament has a much stronger hand to play vis-à-vis the Council. 'Compulsory expenditures' were budget obligations as set out in the EU treaties and in international agreements (most importantly agriculture). 'Non-compulsory expenditures' were everything else. The abolition of this distinction is of significance for both the policy process and decision outcomes: the Commission has introduced 'strategic dialogues' with the Parliament, in which the Commission presents allocations and priorities to MEPs and takes their views into account.

Therefore, the Parliament's best strategy going forward is to pursue its policy goals and budget ambitions through both the multiannual financial framework negotiations as well as in the annual budget allocations. And the Parliament showed in its plenary vote in November 2013 that it is willing to do just this: to use its powers in the annual budget to also secure influence on the issues which have general effect on the management of the multiannual budget. It is clear that the Parliament's budget representatives no longer see the two processes as distinct:

> The European Parliament's political leadership has decided not to vote on the European Union's multi-annual budget at next week's plenary session in Strasbourg but to delay a vote until November…. In July, when they reached a political compromise with the member states over the multi-annual financial framework (MFF), MEPs said they would formally adopt the budget only after the Council had approved the €3.9bn top-up for this year's budget that was requested by the European Commission.
>
> *Reported in European Voice, 18 October 2013 by Toby Vogel*

Conclusions: Timing and transparency

Decisions concerning the EU budget have consequences, not only for the detailed spending and financing of each budgetary heading, but also for the EU's long-term political and economic strategies. They have knock-on effects for current and future social, economic and environmental policies, which may not be directly reflected in this limited budgetary framework. For these reasons, it is crucial that the EU has a decision-making mechanism that can produce a rational, priority-driven budget. But it is also crucial that decisions on the budget are sufficiently clear to the public (or at least to journalists who can communicate the consequences to the public), and that decision-makers can be held accountable for the budget as a whole.

This is why synchronised budgetary and political cycles of the EU institutions are so critical for the legitimacy and accountability of the negotiation and adoption of budget agreements.

Since its very beginning the EU has been a compromise between, on the one hand, a vision of a supranational collaboration with independent institutions acting on a mandate to promote and develop Europe's common interests, and, on the other hand, the idea of an intergovernmental organisation controlled and steered by its participating governments. The compromise between supranational and intergovernmental preferences is apparent in all sections of the EU's structures. Its supranational institutions – the European Parliament, Commission and the European Court of Justice – are responses to a need for delegating a number of core tasks to independent institutions that can promote and protect the collective interests of the member states. They are there to ensure that the political and legal agenda is handled efficiently and to avoid (complete) dominance by the largest and richer countries.

But as has been made clear in this policy brief, the Commission is completely sidelined in the current budget set-up, and the Parliament is only starting to have a marginal influence on the sequence and content of budgetary matters. This can be expected to increase further in future negotiations, although core decisions – such as the main priorities and size of the multiannual budget – will remain with the governments. The Commission and the Parliament certainly each have their shortcomings and problems to address, but they play an important part in the democratic representation of interests, as well as in the scrutiny of governments' decisions at the EU level.

European Policy Analysis available in English

2014

2014:3epa
The EU Budget and Balance of Powers between the European Parliament and the EU Governments
Author: Sara Hagemann

2014:2epa
Between a rock and a hard place: the future of EU treaty revisions
Author: Carlos Closa

2014:1epa
Scrutiny in Challenging Times – National Parliaments in the Eurozone Crisis
Authors: Katrin Auel and Oliver Höing

2013

2013:18epa
The outer reach of state obligations under deposit guarantee schemes – What can we learn from the Icesave case?
Authors: Gunnar Petursson, Thor Sigurbjörnsdottir and Asta Sollilja

2013:17epa
Towards Cruising Speed? Assessing the EU Strategy for the Baltic Sea Region
Authors: Stefan Gänzle and Kristine Kern

2013:16epa
The European Council - the new centre of EU politics
Author: Uwe Puetter

2013:15epa
Why the 2014 European Elections Matter: Ten Key Votes in the 2009-2013 European Parliament
Author: Simon Hix

2013:14epa
Germany at the polls – what Europe can expect
Author: Julian Rappold

2013:13epa
The First Leadership Test: What to Expect from the Lithuanian Presidency of the EU
Author: Margarita Šešelgyte

2013:11epa
Enlarging the European Union and deepening its fundamental rights
Author: Christopher Hillion

2013:7epa
Strategic Use of Public Procurement – Limits and Opportunities
Author: Jörgen Hettne

2013:6epa
Aternative Dispute Resolution for Consumers in the Financial Services Sector: A Comparative Perspective
Author: Iris Benöhr

2013:3epa
The EU Neighbourhood Competence under Article 8 TEU
Author: Christophe Hillion

2013:2epa
The creation of an internal market for mortgage loans: A never-ending story?
Author: Christian König

2013:1epa
What to Expect from Ireland´s Presidency of the Council of the European Union
Author: Linda Barry

2012

2012:15epa
Evaluating the Prospects for Enhanced Solidarity in the Common European Asylum System
Authors: Eiko Thielemann and Carolyn Armstrong

2012:14epa
Consumers´ Interest and the EU: A Framework for Analysis, with Evidence from the Italian Case
Author: Paolo R. Graziano

2012:13epa
New Paradigms for Banking Regulation
Author: Xavier Freixas

2012:12epa
Response to Crisis
Author: Axel Leijonhufvud

2012:11epa
Stuck in the Exit: the Dynamics of British-EU Relations
Author: Roderick Parkes

2012:10epa
The EU and Nuclear Safety: Challenges Old and New
Author: Anna Södersten

2012:8epa
The Commission´s Posting Package
Authors: Jonas Malmberg and Caroline Johansson

2012:7epa
The Greek Elections of 2012 and Greece´s Future in the Eurozone
Author: Dionyssis G. Dimitrakopoulos

2012:6epa
Common Fisheries Policy Reform and Sustainability
Author: Jill Wakefield

2012:4epa
Eurobonds, Flight to Quality, and TARGET2 Imbalances
Author: Erik Jones

2012:3epa
The Hungarian Constitution of 2012 and its Protection of Fundamental Rights
Author: Joakim Nergelius

2012:2epa
The EU and Climate Treaty Negotiations after the Durban Conference
Author: Katak Malla

2012:1epa
The EU's Cooperation and Verification Mechanism: Fighting Corruption in Bulgaria and Romania after EU Accession
Authors: Milada Anna Vachudova and Aneta Spendzharova

2011

2011:14epa
Public Services and State Aid – is a Decentralisation of State Aid Policy Necessary?
Author: Jörgen Hettne

2011:13epa
Euro Plus Pact: Between Global Competitiveness and Local Social Concerns
Author: Karolina Zurek

2011:12epa
The EU and Strategies for New Climate Treaty Negotiations
Author: Katak Malla

2011:8epa
Brussels Advocates Swedish Grey Wolves
Author: Jan Darpö

2011:7epa
A New Proportionality Test for Fundamental Rights?
Authors: Anna-Sara Lind and Magnus Strand

2011:6epa
The European Treaty Amendment for the Creation of a Financial Stability Mechanism
Author: Bruno de Witte

2011:5epa
Comment on the European Commission's "Green Paper towards adequate, sustainable and safe European pension systems"
Author: Conny Olovsson

2011:1epa
How Small are the Regional Gaps? How Small is the Impact of Cohesion Policy? A Commentary on the Fifth Report on Cohesion Policy
Author: Daniel Tarschys