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SUMMARY

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Summary of the report

The EU Budget

What Should Go In? What Should Go Out?

Daniel Tarschys (ed.)

In the next few years we will have to decide on the next multi-annual financial framework of the European Union. This is a good reason to revisit the old issue, *what should the EU be doing?* The full answer to that question is not given by the budget. The Union achieves much by means other than spending, but budgetary allocations are nevertheless crucial, also in determining the efficiency of the regulatory instruments, the "soft law" and other forms of influence.

The Member States are ambitious in setting agendas and adopting action plans for the European Union, but they are less keen to provide funding for all these plans and objectives. The budget of the Union has long hovered around one per cent of our common GNI. If we seriously sought to attain all the goals laid down in the Treaties and the decisions of the European Council (including the Europe 2020 platform), that would easily swallow large parts, if not all, of our combined GNI. The grand objectives of the European Union overshoot by far the means put at its disposal.

This makes it imperative to establish sound selection criteria for Union funding. As the resources of our national and regional governments substantially exceed those of the European Union, we cannot expect the EU to assume responsibility for all types of public spending. So what should be its specific contribution? What should go into the EU budget, and what should go out? What can the EU do not only better but *much* better than the member states?

These questions are intimately linked to a whole raft of disputes over the scope and purpose of the European Union, its relations to the member states, the meaning of subsidiarity and the desirable division of labour in the emerging system of multi-level governance. They are also related to long-discussed issues about the budgetary process, the composition of EU revenue and the structure of the expenditure side.

There are many challenges ahead for the European Union. The chapters in the present volume focus on normative issues, exploring the concepts of European Added Value and European Public Goods. They also propose institutional and procedural reforms that might boost genuinely common interests in the budgetary process.

With the regulatory side of European integration assuming increasing importance, we must care about the quality of EU policy-making. *Daniel Tarschys* pleads for more attention to be paid to the Union's "internal agenda". Well-equipped institutions, good analytical capacity, suitable deliberative procedures and timely adjudication constitute important European public goods in their own right. For other spending items he suggests a three-stage test. The first step is to check compatibility with official EU objectives, and the second is to identify the beneficiaries of various expenditures. These are often multiple and overlapping. The wider the implications of a policy, the greater the probability of substantial European added value. Expenditures without return flows to specific member states may be particularly strong candidates for EU funding. In the third step, the time frame should be examined. Sustainable, long-term, investment-type, development-oriented projects should be given preference over ephemeral, short-term, consumption-type or predominantly redistributive undertakings.

Stefan Collignon explains the nature of European public goods against the background of the existing literature. He distinguishes between public goods with different underlying incentive structures, which require different forms of governance. He then argues that European public goods are those that affect all European citizens together. Early European integration was based on incentives to cooperate, but with the creation of the euro, common resource goods dominate policymaking and here cooperation failure is frequent. The solution to this problem is in setting up a democratic government to administer these goods. We must become aware of the far-reaching externalities that have emerged with European integration, requiring new forms of governance. The chapter concludes with a discussion of the federalist and republican approach to public goods and argues that the republican paradigm is superior.

Many policies with strong characteristics of European public goods (EPG) remain under-financed. *Friedrich Heinemann* explores possible reforms that could boost incentives to finance such programmes and investments. Different types of institutional changes are analysed. The scrutiny includes correction mechanisms, new (and true) own resources and, as an innovative element to the literature, approaches where member countries contract out certain provisions of public goods to the European level. Granting the EU level more budgetary autonomy does not address the current flaws in the system, says Heinemann. A more specific result is that the substitution of national contributions through true European own resources cannot strengthen the support for EPG in the budget. Carefully designed correction mechanisms perform better. Other approaches that would promote European added value orientation in EU spending are the sale of European services to the member states based on voluntary contracts and a more convincing protection against biased evaluations of EU programmes.

Will preparation of the post-2013 financial perspective be marked by inertia and the familiar reflexes in favour of the status quo? Such a scenario is increasingly hard to justify, according to *Peter Wostner*. The EU faces new challenges as a consequence of the world economic and financial crisis, the changing climate and the demographic evolution. The transformations in the world's economic geography call for a timely and decisive policy response in the developed world, and in the EU in particular. However, objective selection criteria alone cannot be expected to deliver, since the member states have a systematic disincentive to take them into account. Wostner stresses the importance of fairness and equity in decisions on EU spending. He argues for a modified EU budget preparation process in which the size of the budget would be determined as a result of the agreement on policies, instead of vice versa, as is the case now. This could relieve the negotiations of the *juste retour* problem.

Arjan Lejour and *Willem Molle* examine the value added of various items in the EU budget by two approaches. First, they assess the justification of EU involvement according to the subsidiarity principle. The main arguments for concentrating policies at the EU level are economies of scale and internalising the external effects of national policies. Diversity in national preferences and circumstances speaks against centralisation. The two authors propose a substantial increase in EU spending on R&D and innovation, environment and external policies. These increments can largely be financed by less spending on agriculture on market intervention and, in particular, income support. With respect to stabilisation, there are reasons for a bigger role for the EU but this need not imply large spending. Second, they consider of the effectiveness of the EU budget by checking the degree to which the Union has actually reached its goals. For many policies EU spending is additional to national spending, so its effectiveness cannot be assessed in isolation. In general the picture is satisfactory as far as output performance is concerned, but the long term impact is less clear due to methodological constraints.

The Commission has recently proposed reforms to its cohesion policy, notably the concentration of priorities and the creation of a common strategic framework and other measures to improve the quality of the expenditure. *Willem Molle* examines these proposals in the light of normative economics and past performance. He describes the present objectives and the available instruments to reach them and then discusses the degree to which the policy has actually delivered. How far do these goals, priorities and implementation mechanisms have to change in order to be able to face the challenges of the future? Critically assessing the proposals of the Commission, Molle recommends a strengthened programming device so as to enhance consistency between objectives. He also proposes making disbursements of funds conditional upon clear improvements in the administrative and institutional capacity of the beneficiaries.

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