Sieps
Swedish Institute for European Policy Studies

European Policy Analysis
JUNE · ISSUE 2015:15epa

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The Balance of Power over the EU Budget: European Expenditure since the Lisbon Treaty

Abstract

This paper shows what the effect of the Lisbon Treaty has been on the amounts of money allocated to different areas of spending in the EU budget. How has the Treaty changed the powers of the European Parliament and of the national governments of the EU to implement their preferences in terms of who gets what from the budget pie? In the annual negotiations on the EU budget, spending – whether earmarked for redistribution or for public goods like research and development – has become more constrained. The powers of the European Parliament are reduced, the budget becomes more inflexible and the rules of the Lisbon Treaty have reduced the amounts available to spend compared to what would have occurred under the previous rules.

1 Introduction

The budget of the European Union, set at 1 per cent of gross national income (GNI) is much smaller than the budgets of highly decentralized federations like the United States or Switzerland, and compares to public expenditure of between 40 and 50 per cent in its member states. It is therefore paradoxical that the budget remains so controversial. It is there to provide side-payments to agriculture and impoverished regions, which are sectors that may otherwise oppose the harmonization of markets, and it may also provide genuine and needed economic redistribution to those sectors.

The budget has also begun to finance public goods, which is investment outside normal redistribution that provides a collective gain. Destinations for public goods financing, based on efficiencies and elimination of transaction costs, include research and development, innovation, training, and infrastructure, targeted at securing economic growth. In the Multiannual Financial Framework (MFF) of 2014–2020, investment in public goods has increased from a 9 per cent share in budget commitments to 13 per cent. Although public goods are widely supported, they tend to be the first area to be cut by member state governments on the Council of the European Union. Since the start of the global financial and Eurozone crises, there has been much pressure to reduce EU budget spending, and yet it has been hard to deliver those reductions to sectors most heavily protected by the member states, such as agriculture and regions. The cuts therefore fall on public goods.

The Lisbon Treaty that came into effect at the end of 2009 introduced a new procedure for deciding the EU's annual budget, similar to but also different from co-decision, which allowed equality between the Council and the Parliament. As the paper shows, the new rules make it easier to cut or contain EU spending and reduce the power of the Parliament, which usually wants to spend more. The changes simplify matters in one respect by abolishing the distinction between compulsory and non-compulsory expenditure, but agreement becomes less likely and makes the budget more unstable.

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In what follows, the paper looks at the history of the EU's budget and budgetary powers. It will summarize the changes to the budgetary rules that emanate from the Lisbon Treaty, and their significance. Finally, it evaluates the differences in spending for each of the policy areas in the few years immediately before and after the adoption of the Lisbon Treaty.

2 History

Since the establishment of the European Coal and Steel Community in 1951, the budget of the European Union and its forerunners has evolved. Major change has occurred either when significant forward steps were taken in European integration or in response to external challenges. Originally, the financing of the European Economic Community was provided through national contributions. As the Common Agricultural Policy was given a firmer foundation, at the insistence of the French government in 1969 and as a prerequisite for accepting British membership of the Community in 1973, the first major step in change to the budget was agreed.[1] This set up the principle of 'Own Resources' based on a Community-wide external tariff and agricultural levies to supply permanent financing of agriculture and other areas of spending.

In 1973, the European Regional Development Fund (ERDF) was established to meet the needs of economic development, which had become pressing with the accession of Ireland, a much poorer member state. The concession of a 'correction' or budgetary refund to the United Kingdom in 1984, alongside a more assertive European Parliament that had been elected since 1979 and was prone to vetoing the budget, created an instability in the Community and inequality between member states. The agreement of the Single European Act in 1986 would lead to the establishment of a single market and the need to fund new areas of policy, particularly through a more generous ERDF to promote economic growth in peripheral regions. Extension of the ERDF also provided a convenient side-payment to those member states with peripheral economies that may otherwise have blocked the progress towards market integration.

In response to the needs of the single market programme, the demands for long-term financial planning, and the increasing budgetary and legislative assertiveness of the European Parliament, long-term financial perspectives came into play in 1988 for periods of up to seven years. Following the Maastricht and Amsterdam treaties in the 1990s, the EU's massive enlargement from 15 to 25 member states in 2004, and the spread of Euroscepticism across several member states in North-West Europe, the EU's budget came to be questioned in terms of delivering value for money, and *juste retour* – the notion of getting back what you put in. This occurred at the same time as the laborious process of reaching a new post-2004 constitutional settlement that finished with the Lisbon Treaty and transformed the institutional processes of the EU. Whereas the changes of 1970 (which set up Own Resources) and 1988 (which set up the long-term financial perspectives) were driven by wider political or economic events, the changes to the budget rules due to the Lisbon Treaty were driven by changes to the EU's internal rule book.

An area of controversy remains the revenue base of the EU's budget. Own Resources for the Community were established by the budget treaty of 1970, which provided permanent financing for agriculture. At that point, they were derived from an external tariff and agricultural levies, which still exist in a much reduced state. A levy on value added tax (VAT) was also introduced in the 1970s. These oldest Own Resources now account for approximately 15 per cent of the EU's revenue. The remainder is composed of a transfer of at most 1 per cent of each member state's GNI, which was established in 1988 alongside the multiannual financial perspectives.

The balance of the EU budget is increasingly contested along the lines of *juste retour*, although the GNI percentage transfer, based on ability to pay, is not challenged as a means of finance. Instead, member states may complain about how much EU spending arrives in their countries compared to the amount contributed. Nevertheless, the agreement establishing the long-term budget or MFF of 2014–2020 set up a High-Level Group chaired by Mario Monti to work on the reform of Own Resources. It is hoped that the adoption of new forms of financing will reduce the concern with *juste retour* if it allows for a reduction in GNI percentage transfers.

Concerning the EU's annual budget, the Lisbon Treaty represents the most significant change to rules and practice since the 1970s, while also bringing in changes to the rules on multiannual budgeting and Own Resources. The rest of

[1] In response to known British hostility to the Common Agricultural Policy, the French authorities made the permanent financing of European agriculture a precondition for accepting British membership of the Community, see Rittberger, B. (2005) *Building Europe's Parliament*, Oxford: Oxford University Press.

this paper looks at what these changes are and their effect on spending outcomes.

3 Institutional change[2]

In understanding budget powers across systems, Joachim Wehner[3] argues that the most significant factor is the power of a parliament to amend, not whether the country or system is federal, unitary, presidential, or parliamentary. Despite the global financial and Eurozone crises that have occurred since 2008 and the desire of net contributors to cut funds to the EU budget, the most important factor in understanding how the EU's budget has changed since 2009 is the change in the rules established by the Lisbon Treaty. This reduces the amendment powers of the European Parliament.

The old procedure applied different rules to two types of spending – compulsory expenditure for agriculture, fisheries, and aspects of foreign policy, and non-compulsory expenditure for everything else, including the ERDF. Compulsory expenditure was so called because the EU had a contractual obligation to finance the affected sectors. Under the old rules, if the Council of the EU (representing member states' governments) and the European Parliament disagreed with each other, the Council, by a qualified majority of 74 per cent of the weighted votes between member states, could overrule the Parliament and force through its wishes concerning compulsory expenditure. Meanwhile the Parliament by a three-fifths majority could do the same with respect to non-compulsory expenditure. The Council and the Parliament may have preferred an equitable compromise over the ultimate sanction of overruling each other in different areas of spending, but the default position of mutual overruling ensured that an annual budget was agreed every year. The old rules also allowed the Parliament to reject the budget with a two-thirds majority and this had last occurred in 1987.

In the event of no budget being adopted by the start of the new financial year, a system of monthly budgets would be approved. The Council would vote on these, including increases or decreases, and the Parliament could then vote to increase or decrease non-compulsory expenditure. National finance ministers knew very well that decisions of the Council on compulsory expenditure (agriculture, fisheries and foreign policy) unacceptable to the Parliament could have resulted in a parliamentary rejection and then temporary monthly budgets in which the Parliament could have protected its own wishes in non-compulsory expenditure within those monthly budgets.

None of this is to say that either the Council or the Parliament had unlimited rights to increase spending. Since 1988, annual budgets had to conform to the ceilings (or spending maximums) agreed in the five to seven-year-long financial perspectives. Article 272.9 of the old treaty allowed for those maximums to be exceeded under particular circumstances, subject to the agreement of the Council by a qualified majority and the Parliament by a three-fifths majority.

The new annual budgetary procedure is a single procedure without the distinction between compulsory and non-compulsory expenditure. It appears to be a shorter version of the EU's ordinary legislative procedure, where both the Council and the Parliament have equal powers. Yet the effects of the new budgetary and ordinary legislative procedures differ significantly from each other.

First, for the budget, the European Parliament gets a single reading only, whereas for ordinary legislation, two readings are possible if there is disagreement between the Parliament and the Council. Second, this abbreviated procedure is also much more severely restricted in time than the timetables for ordinary legislation. If the Parliament and the Council disagree, they have just three weeks to agree a compromise text or balance sheet at the conciliation committee (article 314.5), which is the joint negotiating forum of both institutions, and three meetings are foreseen. In reality, it is difficult for national budget ministers to attend Council meetings on three occasions over three weeks, particularly given the vast quantity of amendments proposed by each institution. If the Council and Parliament cannot agree a joint balance sheet by the end of the three-week conciliation period, there is no budget and the European Commission has to propose a new text. Article 314.7d goes so far as to empower the Parliament to reimpose all its original amendments if, after the conciliation committee has agreed a joint balance sheet, the Council should change its mind and reject the agreement. This simply reinforces the conciliation committee's decisions as the endgame, ensuring it as the final stage for the Council, which is forced to be a more inflexible negotiator than the Parliament.

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2 This section is based on the substance of my recent paper: Benedetto, G. (2013) 'The EU Budget after Lisbon: Rigidity and Reduced Spending?' *Journal of Public Policy* 33(3): 345-369.

3 Wehner, J. (2010) *Legislatures and the Budget Process: The Myth of Fiscal Control*, Basingstoke: Palgrave.

The Council and the Parliament have lost the previous powers to overrule each other in different areas of spending and must now agree with each other on everything for a budget to pass. Mutual veto during the conciliation process is therefore very easy and, given article 314.7d, very likely. Indeed the conciliation process for the budget has broken down in alternate years since the ratification of the Lisbon Treaty for the budgets of 2011, 2013, and 2015.

In those three years when the conciliation committee failed to agree, a rapidly reintroduced budget was approved against the default position of needing to adopt monthly budgets at the start of the new financial year. However, the powers of the Council and Parliament over the temporary monthly budgets have also changed compared to the previous arrangements and have reduced the influence of the Parliament. The Council may, as before, propose increases or decreases in the monthly budgets. The Parliament, however, may only block increases that the Council proposes. It may no longer increase or decrease spending at this point. Reversion to temporary monthly budgets is therefore easier than in the past, due to the need to agree on everything, and that reversion is less favourable to the desires of the Parliament, which are usually for increases in spending. The consequence of these temporary budgets would be unfavourable for the Parliament, which therefore finds itself constrained during the period of the conciliation committee to accept whatever spending figure the Council proposes. In fact, the Parliament only gains from the new rules if it is more fiscally austere than a Council that would otherwise raise spending. This means that the new rules have bias towards spending that is lower than if the old rules still applied.

The EU's annual budgets continue to be agreed within the limits of the multiannual packages that commenced in 1988. Those packages have been renamed the Multiannual Financial Framework (MFF) and have been constitutionalized with the creation of the new treaty article 312. The old article 272.9, mentioned above, has been deleted. This means that the spending maximums can only be exceeded in times of crisis with the unanimous consent of the member states' governments in the Council, whereas a qualified majority of those governments had been sufficient in the past:

> Whereas the European Parliament, the Council or the Commission consider that the activities of the Communities require that the rate determined according to the procedure laid down in this paragraph [for agreeing annual increases] should be exceeded, another rate may be fixed by agreement between the Council, acting by a qualified majority, and the European Parliament, acting by a majority of its Members and three-fifths of the votes cast.[4]

All of this leads to inflexibility and spending constraint. The European Parliament and the Council can no longer overrule each other on different types of spending including increases. If there is disagreement, ultimately the Council can set temporary spending and the Parliament can only block increases decided by the Council, and any one member state can now block emergency increases above the spending ceilings that are fixed in the MFF. There is some new but minor flexibility in one respect. While the old financial perspectives were agreed by a unanimous Council and ratification by the European Parliament and every member state's national parliament, the rules of article 312 remove national parliaments from the process. However, from its position of weakness on annual budgets, the Parliament is less able to change or reform EU expenditure. A gain in power for the Council as a whole makes reform more difficult when there is division between the member states' governments.

Agreement of budgets set by a qualified majority of the member states' governments therefore becomes the norm, since the penalty for the Parliament in resorting to monthly budgets where it can only block increases is too high. This results in lower budgets than would otherwise be the case. It contrasts with the old rules where, if there were disagreement, the Council and the Parliament could each protect their preferences for compulsory and non-compulsory expenditure. Since the global financial and Eurozone crises, the prevalence of budget stalemate from the new rules, and the consequent reductions in spending are a clear indicator of the EU's failure to address the crisis either through increased redistribution or through investment in public goods (research, innovation, training, or infrastructure) to trigger economic growth.

Gaining or losing the power to affect policy does not always mean that policy trajectories will be stopped or altered, and this applies just as much to policies of expenditure. The next section looks at whether spending outcomes as desired by the European Parliament or the Council of the EU have changed in line with the changes of power that came into effect with the Lisbon Treaty for the budgets from 2011 onwards.

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[4] Final clause of the deleted former article 272.9.

4 Budgetary amounts since the Lisbon Treaty

Before the Lisbon Treaty, the Council could set the levels of compulsory expenditure, which in the budget accounted for most of heading 2, entitled 'Sustainable Growth: Natural Resources', and heading 4, entitled 'Global Europe'. The bulk of heading 2 is devoted to direct payments in agriculture and fisheries, which were compulsory expenditure, while about one-quarter included rural development and environmental spending, which was non-compulsory. In the event of a dispute, the European Parliament could set non-compulsory expenditure, which applied to everything else, so long as the Parliament's figure did not exceed the maximum specified in the multiannual budget package. Since the ratification of the Lisbon Treaty, the Council and the Parliament both need to agree on the budget. If there is disagreement, it is easier for the Council to secure its preferences, as has been explained in the previous section.

The table on page 6 shows the allocation of payments released for each of the expenditure headings in the agreed annual budgets of 2007 to 2015.[5] Payments are the amounts released to recipients and are often lower than the commitments made by the EU budget to particular sectors. Member states' governments have an incentive to reduce payments, because this means a reduction in the amounts that national treasuries have to transfer to the EU.

The columns indicated by C% denote the percentage difference between the Council's preference and the agreed annual figures, while the columns indicated by EP% denote the percentage difference between the European Parliament's preference and the agreed amounts. The closer that these percentage figures are to zero, the more that either the Council or the Parliament 'wins'. For example, in the agreed budget of 2007, the total payments of €115.497 billion were 1 per cent above the figure selected by the Council in its first reading and were 5 per cent below the amount preferred by the Parliament. On this basis, the Council has won every year in total payments before and after the Lisbon Treaty's ratification, which had effect for the first time on the negotiations for the budget of 2011.

From 2007 to 2010, the Council and the Parliament each had to give way; the agreed budgets imposed increases of between 1 and 2 per cent on the Council's preferences and imposed decreases of between 3 and 7 per cent on the Parliament's preferences. Since 2011, the Parliament's losses appear to have diminished and lie between 1 and 4 per cent. However, the most relevant outcome is the fact that for 2011 to 2014, the agreed payments for each year were identical to the amounts requested by the Council. The Council can therefore set the budget for the European Union and challenge the Parliament to accept that figure, which is what occurred during the negotiations for 2011, 2013, and 2015 where the conciliation committee failed to reach agreement.

4.1 Heading 1a – Competitiveness for Growth and Employment

If the Council can determine the total figure for payments, this is not certain to be the case across the individual policy areas. Heading 1a includes research and development, innovation, and infrastructure, such as the Connecting Europe Programme. The proportion of spending under this heading increased from 9 to 13 per cent of the budget in the MFF, which came into effect at the start of 2014. Heading 1a had previously been part of non-compulsory expenditure so we could expect the Parliament to lose influence in securing its preferences in this area.

In heading 1a from 2007 to 2010, the Council 'won' more often, with the agreed amounts being between 4 and 12 per cent higher than the Council's preference and between 2 and 26 per cent lower than the Parliament's preference. For the budgets of 2011 to 2013, the agreed payments were closer to the Council's preferences by between 1 and 4 per cent than to the Parliament's preferences by between 4 and 12 per cent. The preferences of the Council and the Parliament had both moved closer to the agreed figure, as the two institutions understood the need to moderate their spending demands in order to reach agreement. With significantly increased funds for heading 1a in the MFF of 2014–2020, the Parliament succeeded in securing higher payments than those wished by the Council; in 2014 and 2015, the Parliament's figures differed from the eventual payments by 2 and 1 per cent, while those of the Council differed by 1 and 11 per cent.

4.2 Heading 1b – Cohesion for Growth and Employment

Payments in heading 1b are allocated to the ERDF and other structural funds. Heading 1b was composed of expenditure that was non-compulsory before the Lisbon Treaty, so we might expect the reduction of the Parliament's powers to affect payments. Heading 1b has declined from a 36 per cent share of budget commitments during the financial perspective of 2007–2013 to a 34 per cent share of

[5] Data gained from *The Official Journal of the European Union* during each year's budgetary cycle.

TABLE 1 PERCENTAGE DIFFERENCE OF COUNCIL AND EP PAYMENTS PREFERENCES COMPARED TO AGREED ANNUAL BUDGETS, 2007-2015

	Budget year	2007			2008			2009		
		€bn	C%	EP%	€bn	C%	EP%	€bn	C%	EP%
H1a	Competitiveness	7.072	+4	-26	9.773	+9	-2	11.024	+12	-3
H1b	Cohesion	37.79	+1	-5	40.552	+1	-4	34.975	+1	-10
H2	Natural Resources	54.719	0	-3	53.177	-2	-3	52.566	-3	-8
H3a	Freedom, Security, Justice	0.473	+18	-1	0.533	+11	0	0.617	+8	-7
H3b	Citizenship	0.703	+8	-1	0.708	+9	0	0.679	+7	-3
H4	EU as a Global Player	7.353	+1	-6	8.113	+7	0	8.324	+16	+2
H5	Administration	6.942	+2	0	7.284	+1	0	7.701	+2	0
Total		115.497	+1	-5	120.347	+1	-3	116.096	+1	-7
GNI%		0.99			0.96			0.89		

	Budget year	2010			2011			2012		
		€bn	C%	EP%	€bn	C%	EP%	€bn	C%	EP%
H1a	Competitiveness	11.342	+7	-10	11.646	+4	-4	11.501	+1	-8
H1b	Cohesion	36.385	+1	-6	41.683	0	-2	43.836	0	-3
H2	Natural Resources	58.136	+1	-1	56.409	-2	-3	57.034	0	-2
H3a	Freedom, Security, Justice	0.739	+7	-7	0.814	+1	-4	0.836	+1	-9
H3b	Citizenship	0.659	+7	-2	0.646	+4	0	0.649	+3	-2
H4	EU as a Global Player	7.788	+9	0	7.249	+3	-5	6.955	0	-5
H5	Administration	7.889	+1	0	8.08	0	-2	8.278	+1	0
Total		122.937	+2	-4	126.527	0	-3	129.088	0	-3
GNI%		1.04			1.01			0.98		

	Budget year	2013			2014			2015		
		€bn	C%	EP%	€bn	C%	EP%	€bn	C%	EP%
H1a	Competitiveness	11.886	+2	-12	11.442	+1	-2	15.798	+11	-1
H1b	Cohesion	47.199	0	-4	50.952	0	0	51.125	0	-7
H2	Natural Resources	57.484	0	-1	56.459	0	0	55.999	-1	-2
H3a	Freedom, Security, Justice	0.877	0	-3	1.667	+1	-2	1.86	-2	-3
H3b	Citizenship	0.638	0	0	*			*		
H4	EU as a Global Player	6.323	+1	-13	6.191	+2	-2	7.423	+8	-1
H5	Administration	8.431	0	-1	8.406	0	-2	8.659	+1	0
Total		132.837	0	-4	135.155	0	-1	141.214	+1	-4
GNI%		0.99			n/a			n/a		

Key: H – Heading; GNI – Gross National Income; €bn – billions of euro; C% – percentage difference compared to the Council's reading; EP% – percentage difference compared to the European Parliament's reading. *H3a and H3b are merged from 2014.

commitments in the MFF of 2014–2020. In every budget, between 2007 and 2015, the Council has 'won' in annual payments. During 2007 to 2010, under the old rules for non-compulsory expenditure, the agreed payments differed from the Council's preferences by only 1 per cent. Despite non-compulsory expenditure, the differences between the agreed payments and the European Parliament's preferences were between 4 and 10 per cent.

From the budget of 2011, the Council's preferences remain more successful and both the Council and the Parliament claim amounts at or closer to the final agreed payments, with no difference for the Council and by between 2 and 4 per cent for the Parliament, although for 2015, the agreed amount was 7 per cent less than what Parliament had demanded. In headings 1a and 1b, non-compulsory expenditure did not mean that the Parliament was more successful than the Council in attaining its preferences under non-compulsory expenditure. The new rules of the Lisbon Treaty appear to have made the Parliament more unsuccessful or to have created a situation where the preferences or demands of both the Council and the Parliament are more moderate as a means to try to achieve agreement and perhaps this is to avoid disagreement that can now be more costly for both institutions.

4.3 Heading 2 – Sustainable Growth: Natural Resources

What has been the effect of deciding most of the payments in headings 2 (that include, notably, agricultural payments) and 4 (Global Europe) under the new rules rather than compulsory expenditure? These are areas where we might expect the new outcomes to be closer to the preferences of the European Parliament, given that the Parliament has potentially more influence than under compulsory expenditure where the Council could overrule it. As with cohesion under heading 1b (previously non-compulsory expenditure), the Council has 'won' in every year from 2007 to 2015. Heading 2 is also important since it represents the largest slice of spending, though in decline. During the financial period of 2007–2013, it accounted for 42 per cent of EU budget commitments, of which 34 per cent were destined for direct payments in agriculture and fisheries. Starting in 2014, this had declined to a share of 39 per cent, of which 29 per cent was destined for direct payments in agriculture and fisheries.

From 2007 to 2010, before the Lisbon Treaty came into force, the difference between the Council's position and the agreed budgets was between zero and 3 per cent, while the difference in the Parliament's preference compared to the agreed budgets varied between 1 and 8 per cent. After ratification of the Lisbon Treaty, from 2011 to 2013, the differences were further reduced, with both Council and Parliament preferring figures closer to the agreed outcome. For the Council, the differences lay between zero and 2 per cent, and for the Parliament they were between 1 and 3 per cent. The differences receded further for 2014 and 2015 under the new MFF, at between zero and 2 percent for the Council and the Parliament. If there is going to be a dispute on figures for agricultural payments in the budget, it will occur during the negotiations for the post-2020 MFF and not during the annual budgetary procedures.

4.4 Heading 4 – Global Europe

Heading 4, which covers foreign policy, is the final controversial slice of the budget. During the financial period of 2007 to 2013 and the subsequent MFF of 2014–2020, it has accounted for 6 per cent of budget commitments. Like much of heading 2, it was mostly an area of compulsory expenditure before 2011. In terms of who 'wins' there is no clear picture. Under the old rules in the budgets of 2007 to 2010, the preferences of the Council differed from the agreed figures by between 1 and 16 per cent, while those of the Parliament compared to final amounts varied between zero and 6 per cent. Presumably, the Parliament and the European Commission convinced the Council to accept higher figures in this area of compulsory expenditure as part of wider budgetary agreements. After the Lisbon Treaty came into force, it appears that the Council was more successful, with differences between its position and the final amounts of between zero and 3 per cent for budgets of 2011 to 2013. At the same time, the Parliament differed at between 5 and 13 per cent, a period when the Parliament wished to finance the construction of the European External Action Service more generously. During the period of the new MFF for the budgets of 2014 and 2015, the Council's positions differed from the final amounts by between 2 and 8 per cent, whereas those of the Parliament differed by between 1 and 2 per cent.

4.5 Gains and losses after Lisbon

Finally, to compare the different headings with each other, not including headings 3 (Security, Freedom, Justice, Citizenship) and 5 (Administration) that are minor in amounts and significance, it is clear that the one most likely to be cut is heading 1a (Competiveness for Growth and Employment), which is the public goods heading. This is the case despite the decision in the MFF of 2014–2020 to increase budget commitments in that direction as a means to secure economic growth. During the period of 2007 to 2010, the Parliament and the European Commission had to

accept figures on average 10 per cent below their preferences in heading 1a, while they lost on average by 7 per cent in heading 1b (Cohesion for Growth and Employment), 4 per cent in heading 2 (Natural Resources/Agriculture), and by 1 per cent in heading 4 (Global Europe). In the period of the budgets of 2011 to 2013, following the ratification of the Lisbon Treaty, headings 1a and 4 were hardest hit from the point of view of the Commission and the Parliament by an average 8 per cent, while heading 1b (Cohesion) was reduced by 3 per cent compared to Parliament's preferences and heading 2 (Natural Resources) by 2 per cent. This situation seems to be modified for the larger heading 1a in the new MFF for 2014 and 2015, where payments were reduced on the Parliament's preferred figures by an average of 1 percent, for heading 2 (Natural Resources) also by 1 per cent, for heading 4 (Global Europe) by 2 per cent, and for heading 1b (Cohesion) by 4 per cent.

5 Conclusion

The Lisbon Treaty has made the rules on agreeing the annual budget of the European Union more inflexible. The European Parliament has lost its influence to vary the budget, given the consequences of disagreement with the Council. Whereas the previous situation meant that the Council and Parliament could overrule each other in different areas of spending if there were disagreement, the new rules provide a default setting where the Council can fix spending and the Parliament can only block increases. Deletion of the old article 272.9 also means that any one member state can block increases above the established spending maximums thus reducing flexibility. Because a qualified majority in the Council can secure its spending preferences, because the Council is more reticent to spend money than the Parliament, and because the Parliament's only reserve power in the event of disagreement is to freeze spending, the Lisbon Treaty's budgetary rules are inherently deflationary.

However, the effect of this on spending is not a situation where the Parliament moved from being a clear winner to becoming a clear loser. Instead, the extent to which a qualified majority in the Council can secure its preferences for lower spending has increased, while both the Council and the Parliament specify budget payments closer to the figure that is eventually agreed. In this sense they are both constrained by the new rules, but the Council appears to be more successful. This pattern is repeated across areas of spending, although demands for increases or decreases by either the Parliament or the Council in headings 1b (Cohesion) and 2 (Natural Resources) are significantly more moderate than in headings 1a (Competitiveness) or 4 (Global Europe). In some of the more Eurosceptic and net contributor member states, demands for spending reductions have become more audible since the global financial and Eurozone crises. When those reductions have occurred, they affect public goods under heading 1a far more than redistribution to poorer regions under heading 1b or to agriculture under heading 2. The latter two policy areas remain well protected by powerful alliances of member states.

For the European Union to offer something additional and cost-effective compared to national spending, its budget should enhance skills, competiveness, and economic growth and look to a collective European interest rather than *juste retour*. Given the experience of the new rules, and the divisions within the budgetary politics of the European Union concerning cuts versus spending or spending on redistribution versus spending on public goods, it is difficult to see how the limited budget of the European Union can become an engine for economic growth.

Although the new rules for the annual budget, MFF, and unanimity for increases above the spending maximums can only be changed by amendment to the Treaty, which requires unanimous ratification, there are some fixes. The revision of the MFF in 2016 allows for the balance between the headings to be reviewed, and this could trigger a move to spend more on public goods under heading 1a. Unspent amounts can also be rolled over and spent in subsequent years with the agreement of the Council, thus allowing more resources for key priorities. The MFF agreement of 2013 established a High-Level Group on Own Resources, chaired by Mario Monti, that will propose changes to the financing system of the EU budget. If a formula is found to bring greater legitimacy to how EU finances are raised, it may be possible to orient spending again to public goods. Finally, there is discussion on the establishment of a separate budget for the Eurozone. If this is achieved, it offers opportunities for fiscal benefits and discipline within the Eurozone but could present dangers to the remaining EU budget available for all member states and financed by them. The way ahead, then, is characterized by uncertainty.