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Daniel Tarschys*

Agenda 2014: A Zero-Base Approach

Abstract

On 12 September 2007, the European Commission launched a broad consultation on the Budget Review 2008/2009. While inviting contributions on a wide range of questions in need of "a profound deliberation", the Commission also took pains to underline that the mid-term review should not aim to propose a new multi-annual financial framework or fix the overall size and detailed breakdown of the EU budget. This task, it declared, should be left to the next Commission.[1]

The Member States have good reason to take a bolder position. The mid-term review is an important occasion for taking stock of EU commitments and impact in various fields and setting guidelines for the next overhaul of the budget. Although major changes in the design of the current Financial Perspectives may prove difficult to achieve, principles could be established for the forthcoming revision of the EU budget and some early decisions could be taken about programmes to be phased out. Adding the attribute final to some allocations already made may help clear the board for the next period.

Every annual budgeting process is marked by incrementalism and inertia. With a seven-year time frame, there should be more room for synoptic rationalism. This paper suggests a zero-base approach to the next Financial Perspectives, requiring claims for EU spending to be justified from the bottom up.

The Virtue of Early Decisions

What should the European Union be doing? What is the Union good for, and what functions should rather be kept by Member States or left to other international organisations? What is the true meaning of subsidiarity?

These perennial questions crop up in several different contexts, not least the discussions on the Constitutional Treaty, the Financial Perspectives and the Enlargement of the Union. But they are also underlying themes in deliberations on particular policy areas, regulatory proposals and cases before the European Court of Justice. Expansionary and restrictive visions of the European project cut across the whole spectrum of policy discourses in the emerging common public space.

A major future challenge that is now beginning to attract general attention is the design of the next Financial Perspectives, starting in 2014 and extending to anywhere between 2018 and 2020 (as long-term budgets in the EU may cover anything from five to seven years). The European Commission has recently launched a broad general consultation on the mid-term review, announcing its own proposal to come towards the end of 2008 or beginning of 2009, but it has also underlined that the proposal for the next Financial Perspectives is to be presented by the next Commission.

While this is formally correct, it should not prevent us from participating in far-reaching discussions on the long view. Raising the next Financial Perspectives in the first year of the 2007–2013 period may seem premature, but it is not. If we want to improve and develop the action and impact of the European Union, there are good reasons to submit the set of choices facing us in the longer term not only to serious analysis but to *early* serious analysis. Long

* Professor of Political Science at Stockholm University.

[1] EC MEMO/07/349 (12 Sept 2007)

lead-times in European policy-making are beneficial in that they reduce the ever-present risk of decisions being distorted by short-sighted national reflexes and interests. While politicians in democratic societies will always be responsive to the concerns of their electorates, there are ways of adding weight to their longer-term concerns at the expense of more short-sighted and immediate demands.

The long-term budget in the European Union is in theory well placed to serve this purpose, but this is not how it has worked out in practice. When the strategy of pluri-annual resource commitments was adopted, other objectives were at the forefront, such as the need to avoid endless inter-governmental bickering and attain a measure of continuity and predictability in the operations of the European Commission. The high tension surrounding the distribution and redistribution of resources has so far led to the same result as in most annual budgetary processes, i.e. the postponement of definitive decisions until a very late stage before the entry into force of the new provisions. In budgeting, as in many other difficult endeavours, little is achieved before the deadline is near if not even exceeded: five to twelve or five past.[2] But there is no iron rule preventing the preparation of the next Financial Perspectives from starting much earlier than has so far been the case, and there are even fewer reasons to postpone serious reflections on the topic to the last minute.

Agenda 2014: The Case for Naïve Rationalism

Agenda 2014 is not yet on the agenda. Commissioner Olli Rehn is one of the few European politicians that have started discussing it, but otherwise there is so far slight attention to the next Financial Perspectives.[3] A Google search of "Agenda 2014" + EU on 17 October 2007 yielded only 81 hits while a simultaneous search of "Agenda 2007" + EU harvested 120.000 references. The latter result reflects the intense political process preceding the adoption and recent entry into force of the present Financial Perspectives.

The conflictual nature of this process is no secret. Budgeting in the EU is marked by fierce and prolonged combats both within and between the main institutions, the Commission, the Council and the Parliament. Sensitive souls, Bismarck famously warned us, should avoid watching at close range the production of laws and sausages. There are good reasons to extend this list to the making of long-term budgets for the European Union. The reports on the negotiations paving the way for the Financial Perspectives are short on idealistic visions of Europe but long on horse-trading and *Realpolitik*. They reflect tough inter-governmental negotiations characterised by flexed muscles, subtle and not-so-subtle threats, transient alliances, package deals, complex side-payments and an obsessive interest in national net positions.[4]

Is there any alternative to this rather depressing tug-of-war between national interests? An optimistic answer could be based on the observation that most politicians seem perfectly capable of oscillating between myopic and far-sighted perspectives as well as self-centred and more altruistic motives. If members of the European Council consistently disregard their national interests they will lose support in their own countries, but without the capacity to rise above such considerations and embrace common interests they stand little chance of earning the respect of their peers. So the lift goes up and down all the time: politicians getting stuck on one particular floor will eventually have little say on the final outcomes.

Now if political actors keep swinging between different viewpoints, are there any recurrent patterns in these opinion shifts? To find such regularities it would seem reasonable to take the time dimension into account. Observers of the European political process often claim that agreements are unlikely to emerge in this or that month because it is too close to some crucial election in a major country. The most opportune moments for far-sighted decisions seem to be found in intervals where the main actors are protected from immediate encounters with their electorates. Another way, however, of dealing with the problem of electoral sensitivity is to postpone the coming into effect of the decisions. We often see seasoned decision-makers reaching agreement on tough choices more easily by pushing their practical consequences far into the future. If implementation starts only after a considerable lead-time, there seem to be better chances of containing the strong pressures from adversary interests.

This leads to the following hypothesis: if decisions on the next Financial Perspectives are taken early during the present seven-year period rather than close to the deadline, as has hitherto always been the case, politicians might be in a better position to suppress at least partly their ever-present temptations to give much more attention to their particular national constituencies than to the common European constituency. At least, the mix of perspec-

2 The latter occurred on several occasions in the 1980s, when the budgets were not adopted on time and the European Commission was compelled to resort to the system of provisional-twelfths according to art. 273 (formerly 204) of the EC Treaty. Cf Lindner (2005) *Conflict and Change in EU Budgetary Politics* (London, Routledge).

3 Olli Rehn, "Europe needs a New Consensus on Enlargement", The Eduskunta Seminar on the Future of Europe, Pori 20 July 2006.

4 Brigid Laffan (1997) *The Finances of the European Union,* London: Macmillan; Johannes Lindner (2005) *Conflict and Change in EU Budgetary Politics,* London: Routledge; Jorge Nuñez Ferrer & Michael Emerson, *Good Bye Agenda 2000, Hello Agenda 2003: The Effect of the Berlin Summit on Own Resources, Expenditures and EU Net Balance.* Brussels: CEPS.

tives may be favourably adjusted in the latter direction. On this basis, the elements of inertia and conservative incrementalism omnipresent in budgetary politics may be somewhat squeezed out in favour of "naïve rationalism", i.e. the preparedness to weigh and prioritise the various competing resource claims on the basis of their goal-related merits. To move some steps in this direction, it would seem worthwhile to revisit and revive a strategy long since tested, rejected and buried: zero-base budgeting.

What Is Zero-Base Budgeting?

Zero-Base Budgeting (or ZBB) is built on the idea of the budgetary process starting from a clean slate. From the outset, nothing is given and nothing is sacred: every single investment and every programme has to be proposed, justified, weighed and compared with competing claims on its own merits, without any support from tradition, antecedents, expectations, or entrenched institutions. One author defines the method as "budgeting from the ground up, as though the budget were being prepared for the first time. Every proposed expenditure comes under review." [5]

The concept of ZBB was launched in the 1970s, but the underlying philosophy has a longer history. An early critic of incremental budgeting was Charles F. Bastable (1892) who, for a full half-century, held the chair in political economy at Dublin University. A practitioner following in his footsteps was Hilton Young (later Lord Kennet), a UK Treasury official liaising with the famous Geddes Committee of prominent businessmen charged with recommending all possible reductions in public expenditure. In his *System of National Finance* (1915), Young recalled the two standing admonitions in the Treasury circulars to spending departments: first, that the state of the public revenue demands requires the utmost economy, and, second, that last year's estimates should not be taken as a starting-point for those of the next year. [6]

In its modern form, ZBB was developed by Peter A. Pyhrr, a staff control manager at Texas Instruments in Dallas.[7] Its key message was that deeper reflection should be invested in the definition of the mission and the goals of organisations as well as the choice of means to pursue them. Decision units should be identified, and their activities should then be divided into "cost centres", soon rechristened "decision packages". Further scrutiny would then seek answers to such questions as:

- To what extent does the particular decision package support and contribute to the goals of the organisation?
- What would be the outcome for the organisation if the decision package were eliminated?
- Can the decision package's objectives be accomplished more effectively and/or efficiently?

ZBB was first tried out in business but later adapted to the public sector. Jimmy Carter learnt about it from a paper in the Harvard Business Review, decided to implement it when he was Governor of Georgia and later transferred it to the federal level.[8] There it was launched as something of a panacea for all problems of expenditure planning, with a panache reminiscent of Lyndon B. Johnson's espousal of budgeting, planning programming budgeting (PPB) in his famous executive order of August, 1965. Even before his inauguration, Carter announced a major reorganisation of the Washington machinery and advised the federal bureaucracy that incremental budgeting was no longer on the agenda.[9]

The outcome was less than impressive. Few savings or radical reallocations were recorded, but the amount of paperwork involved more than doubled. Two evaluators concluded that "[m]ost federal agencies believed that the use of ZBB required excessive expenditures of time and effort". [10] Another group of observers suggested that the method was used more as a political strategy and ritualistic symbol for controlling and directing controversy by both the executive and legislative branches of the US government and less as a management tool for improving decision-making within the federal bureaucracy. [11] Subsequent commentaries often underlined that the requirement of an *annual* review of everything was far too cumbersome for the departments and agencies involved. To make ZBB useful one should use it more intermittently, at suitable intervals. This variant was translated

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5 C. T. Horngren et al. (1996) *Cost Accounting in Australia: A Managerial Emphasis,* Prentice Hall, p. 492.

6 E. H. Young (1915) *The System of National Finance*, Smith, Elder & Co, p. 28f. Further on Bastable and Young in George Burrows & Barbara Syme (2000) "Zero-Base Budgeting: Origins and Pioneers", *Abacus*, vol. 36, no 2, p. 226–241.

7 Peter A. Pyhrr (1973) *Zero-Base Budgeting: A Practical Management Tool for Evaluating Expenses*, Wiley.

8 Peter A. Pyhrr (1970) "Zero-Base Budgeting", *Harvard Business Review,* Nov./Dec. 1970, vol. 48, issue 6, pp 111–121.

9 Frank D. Draper & Bernard T. Pitsvada (1981) "ZBB – Looking Back after Ten Years", *Public Administration Review,* vol. 41, pp. 76–83.

10 Virendra S. Sherlekar & Burton V. Dean (1980) "An Evaluation of the Initial Year of Zero-Base Budgeting in the Federal government", *Management Science,* no 8, p. 750.

11 Mark W. Dirsmith, Stephen F. Jablonsky & Andrew D. Luzi (1980), "Planning and Control in the US Federal Government: A Critical Analysis of PPB, MBO and ZBB", *Strategic Management Journal*, vol I, no, 4, pp. 303–329.

into practice in several countries, e.g. in a Swedish reform of the budgetary process that called for deeper expenditure scrutiny every third year.[12]

After some experiments in various countries, ZBB soon disappeared from the budgetary tool-box, but the same reasons that made it unwieldy in the yearly budgetary process should make it much more attractive for the longer budgetary cycle of the European Union.

Budgeting under Goal Congestion

In the preparation of the present Financial Perspectives, there were admittedly some efforts to emphasise the relationship between goals and means. The Commission's plea for a transfer of resources from predominantly redistributive to more growth-oriented types of expenditure was presented in terms of instrumental rationality.

A significant obstacle to this mode of reasoning, however, lies in the great variety of objectives espoused by the European Union at one time or another. The objectives are so numerous and ramified that virtually *any* claim for common resources can be justified in terms of established priorities.

This reduces the usefulness of goal-based vindication. If all projects contributing to the attainment of goals endorsed by the EU were to be included in its budget, the entire GDP of all Member States would not suffice to foot the bill. The Lisbon agenda and the long list of other "processes" launched at various venues of the European Council are so inclusive that few conceivable political endeavours are in fact left out. But how is this plethora of objectives to be accommodated with the scarcity of available means? With so many expressed ambitions and preferences, how can sensible choices be made? Even if the volume of the present budget (around one per cent of the Member States' GDP) were doubled or even trebled, not a very likely prospect in the short range, there would still be tough choices to be made.

Marginalist approaches to budgeting focus on small possible increments or decrements, taking the bulk of established programmes and other expenditure commitments as a given. This method is admittedly in tune with institutional stability, with a whole range of expectations and with the resistance capacity of entrenched interests, sometimes summed up under the label of "political realities".

Radical and rationalist approaches follow a different course of action. With them the first task is to establish grading criteria based on certain objectives or clusters of objectives. The following step is to apply these criteria to individual established activities and to ascertain their degree of efficiency and effectiveness in relation to the goals. Only at this stage is it possible to recommend the maintenance or adaptation of on-going programmes as well as the redeployment of resources towards new initiatives.[13]

Anybody familiar with the practices of EU policymaking will agree that a wholesale shift from the former to the latter paradigm is an improbable proposition. Some steps in a rationalist direction, however, can no doubt be taken, and well-reasoned contributions in this spirit from policy analysts could at least have a wholesome effect on the forthcoming political negotiations.

The Mid-Term Review: A Preface, not a Post Scriptum

An important ingredient in the decision on the current Financial Perspectives is the obligation to subject them to a mid-term review in 2008/2009. This review is supposed to be comprehensive in the sense that no category of spending or revenue should be excluded from scrutiny, but there is on the other hand little doubt that many vested and entrenched interests will do their utmost to limit its impact. In a commonly invoked scenario, the UK would be prepared to give up the remainder of its rebate in exchange for a modification of the common agricultural policy, but it remains a fact that certain commitments about the latter have been made for the entire period until 2013. Should some countries forget everything about this agreement, there are several others inclined to serve them reminders.

Preparing the mid-term review is in the last instance a responsibility of the European Commission, but there is no reason why various *amici curiae* should abstain from providing useful inputs for this process. Such contributions could be made by governments, think-tanks and individuals, or all three in combination. Clearly, only a limited number of heavy-weights will have the necessary punch to catch attention, but this need not preclude a variety of separate initial efforts that could, at a later stage, be combined, packaged and branded for greater impact.

The mid-term review could easily be derailed if it were conceived merely as another look at the "leftovers" from the last budgetary exercise, a continuation of the on-going and seemingly endless discussions about fair shares of burdens and benefits. Instead, it should be seen as an early opportunity to prepare the European Union

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[12] Daniel Tarschys (1984) "Good Cuts, Bad Cuts: The Need for Expenditure Analysis in Decremental Budgeting", *Scandinavian Political Studies,* vol. 7, No 4.

[13] For early statements of this doctrine, see Fremont J. Lyden & Ernest G. Miller (1972) *Planning Programming Budgeting:* A Systems Approach to Budgeting. Chicago: Rand McNally.

for its functions beyond the present seven-year period. Hence, the year of reference should be not 2006 but the span between 2014 and 2020. The mid-term review, in other words, should not be a post scriptum to the last agreement but rather a preface to the next Financial Perspectives, a set of preparatory modifications intended to facilitate the transition to Agenda 2014.

The specific object of the mid-term review is of course the Financial Perspectives, but in addressing the expenditures of the European Union it is important that we do not lose sight of the wider context. What the EU can achieve in various fields depends not only on the budgetary resource flows but also on such instruments as the EIB, the trade agreements and in particular the whole framework of EU legislation. Thus, the aggregate impact of the Union is not merely an effect of its spending but rather of the budgetary, regulatory and treaty-making machineries in combination.

As far as the growth objective is concerned, it seems very likely that (some) rules are more powerful than (most) expenditures and that only a limited range of total EU spending has immediate effects on EU growth, productivity and competitiveness. There is also, however, interdependence between the regulatory system and the institutions, and it is quite possible that expenditures frequently dismissed as entirely unproductive, e.g. payments for the eurocracy, are in fact highly germane to economic growth in that they further rule innovation, compliance and implementation. This is a farrago of intricate causal relationships worthy of further exploration.

Agenda 2014: The Need for Analytical Underpinnings

In advertising the achievements of its various programmes, the European Commission is not averse to ascribing positive developments in Member States to its own actions, in a reasoning frequently based on the old but untenable proposition, *post hoc ergo propter hoc.* The discourse on cohesion policy is replete with such assertions. Though the more analytical texts published by the Commission often reveal a much more sophisticated understanding of the causal patterns in economic and social development, its popular treatises tend to exaggerate the impact of various Community contributions. Similar shortcomings reduce the value of many reports from the evaluation industry involved in various forms of policy assessment.[14]

Laying the ground for the next Financial Perspectives and ensuring that the Mid-Term Review will facilitate the transition to the next Agenda mean that there is a clear need to deepen the analysis of European policies but also to address some very practical issues linked to policy reform. Items on the research agenda should include the following:

(i) **Normative issues related to the goals of the European Union.** These cannot simply be gleaned from treaty preambles and other authoritative texts since such a harvest would present an *embarras de richesse.* There is a need to take a closer look at the high-level priorities of the Union in order to give some more tangible substance to the notions of European added value and *la finalité politique.*[15]

(ii) **Impact data in a historical perspective.** There is a wealth of data on socio-economic trends in areas that EU programmes have purported to influence, such as employment, growth, innovation, investment, regional imbalances, et cetera. While giving us useful hints about the course of development in various parts of Europe, these data do not provide too much conclusive evidence on the efficiency and effectiveness of the Union programmes since there are many other variables involved. Even with the supplementary information supplied by econometric modelling and the growing body of impact assessments we have insufficient knowledge of the outcomes of various investments and activities. Yet we can make reasonably well-founded assumptions on the experience so far and seek to ascertain whether the results of various programmes are historic or enduring, in other words whether their most substantial contributions belong only to the past or can be expected to continue in the future as well.

(iii) **The perspectives of the various Member States.** A further task in the preparatory work for Agenda 2014 might be to examine the long-term budget of the EU in the light of the starting positions of the various Member States. Every country has its own set of preferences and expectations for the future of European integration, and a survey of such cross-national variations may be helpful in trying to find common approaches.[16]

[14] Many examples of this can be found in Daniel Tarschys (2003) *Reinventing Cohesion: The Future of EU Structural Policy.* Stockholm: SIEPS.

[15] For a first bite at this issue, see Daniel Tarschys (2005) *The Enigma of European Added Value: Setting Priorities for the European Union.* Stockholm: SIEPS. For a subsidiarity approach to the Union's public functions, see Jacques Pelkmans (2006), *European Integration: Methods and Economic Analyses,* Harlow: Prentice & Hall.

[16] For an effort in this spirit, cf Jonas Eriksson et al., eds, (2005) *From Policy Takers to Policy Makers: Adapting EU Cohesion Policy to the Needs of the New Member States.* Stockholm: SIEPS.

(iv) **Strategies for policy termination.** Any mature political system will have programmes that have performed well but are no longer called for as much as they once were, for such reasons as declining marginal returns, emerging alternative technologies, or the completion of finite missions. By the time they reach this stage, however, they will still be defended by institutions and organised beneficiaries that have a stake in their preservation. This raises a number of methodological problems as to the best forms of resource redeployment, including the design of phasing-out mechanisms and compensation packages.[17] Meeting this challenge in a multi-member, multi-level body such as the European Union raises many issues in need of constructive reflection.

This is by no means an exhaustive list of issue areas in need of further analysis, but it could at least map out some domains for continued exploration. If the decisions to be taken on Agenda 2014 are to be based on more far-sighted and elevated considerations than those underlying the earlier and the current Financial Perspectives, preparatory studies must be undertaken on a broad front to supply the policy-making machineries of the Member States, the Commission and the Parliament with critical, solid and reasoned proposals. And the time to start is now.

[17] Interest in the phenomenon of "policy termination" started in the 1970's, particularly in the US. Cf Peter DeLeon (1978) *A Theory of Policy Termination.* Beverly Hills, CA: Sage; idem (1977) *Public Policy Termination: An End and a Beginning.* Los Angeles: Rand Corporation.

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Swedish Institute for European Policy Studies

Universitetsvägen 10 F
SE-106 91 Stockholm
Office: Stockholm University,
Frescati, House F, 6th floor
Phone: +46-(0)8-16 46 00
Fax: +46-(0)8-16 46 66
E-mail: info@sieps.se
www.sieps.se