

## The EU Budget – a Promising Result?

At the EU summit in Brussels in December 2005 the course was set for the EU budget for the years 2007 to 2013. With a volume of a good €862 billion and a share of 1.045% of the EU's national income it is considerably lower than the original intentions of the Commission and close to the suggestion of the Luxembourg Council Presidency of June 2005. The British rebate will be reduced by a total of €10.5 billion. The resolution allows for fresh decisions on all questions concerning EU revenue and expenditure to be taken in 2008 or 2009, including decisions on the British rebate and on aid to agriculture. Although the European Parliament has not accepted the summit resolutions in their present form, it can be expected that following an increase in certain expenditure positions, which could raise the budget to 1.09% of European national income, the budget will finally be agreed. With regard to the net payer (net recipient) position of certain countries and with regard to the structure of expenditure no major changes are to be expected.

In view of the rejection of the Draft Constitution by the referenda in France and the Netherlands and of the spectacular failure of the Luxembourg financial summit in June 2005, satisfaction dominates everywhere over the fact that the EU now appears to have regained its capacity to act. If capacity to act is not only regarded as an aim in itself, however, it must be asked whether the EU has made materially promising decisions for the future with this budget. Tony Blair had originally demanded that a reduction in the British rebate should only be agreed to if there was a fundamental reorientation of the budget which stood for more economic growth and competitiveness of the EU. He was unable to have this demand accepted, although there are more than enough good arguments in its favour. With hindsight, however, Tony Blair's entire negotiation strategy fosters the suspicion that from the very beginning he was less interested in bringing to bear a better policy to the advantage of Europe as a whole than in saving as much as possible of Britain's rebate. It should be noted that the present design of the EU budget with its controversial regulations for expenditures and revenues, as well as its design in the next budgetary period, is due in considerable part to British initiatives. The origins not only of the much discussed British rebate, which was introduced in 1984 as compensation for the large EU agricultural subsidies in other member states, but also of the Structural Funds are to be found in British demands. Already during its accession negotiations in 1972 the UK insisted, as compensation for low return payments from the common agricultural policy, on the setting up of a regional fund which was the forerunner of today's structural policy and from which it hoped to receive considerable transfers from Brussels.

The UK, like all other member countries, has always been concerned in the budget negotiations to assert its own interests. The benefits for Europe which could justify the expenditures of the EU have almost never been asked about. One cannot avoid the impression that the different funds and expenditure positions have always served as bargaining tokens in order to achieve a result which is ultimately acceptable to all, although there are very good reasons to enquire as to the European added value of the expenditures which the EU effects. In the EU's budget two policy areas dominate: the common agricultural policy and the compensatory regional policy with its diverse funds. Both areas together account for about 80% of EU expenditure, and will probably continue to do so in the coming budgetary period. How such an expenditure structure could contribute to making the

EU rise to become the most competitive and most dynamic economic area in the world in line with the Lisbon strategy is beyond the imagination.

The expensive common agricultural policy has, despite all reforms, remained at its core a policy for the maintenance of a problematical sector and is therefore *per se* not supportive of growth. Worse still, it is also socially counterproductive because it burdens the consumers of agricultural goods with high prices for these goods and the share of expenditure on foodstuffs is high in households with a low income.

European regional policy is often justified with the argument that it should be regarded as compensation for the states and regions which are on the losing side in the European integration process. If there were no compensation through regional policy then deepening or widening steps towards integration would not be politically feasible. At the bottom of this argument is the idea that in the EU there is a distinct gap between centre and periphery which will become ever greater in the course of further integration processes. Not only is the greatest share of economic activities concentrated in the centre of Europe – this includes Southern England, the Benelux countries, large parts of Germany and France as well as Northern Italy – and per capita income therefore particularly high there. This centre also profits from every integration step while the regions on the periphery are not only poor but will, at least relatively, lose out in this process. This idea has not been supported by empirical research. It is true that the gap described with regard to the density of economic activities and per capita income exists, but it has continually narrowed in the course of the European integration process. The Southern European countries and, in particular, Ireland have rapidly caught up. The East European countries, too, have been undergoing a rapid process of catching up since 1995.

Although regional policy, through the diverse funds, may have supported the catching-up process of the countries on the southern and western periphery, decisive for the catching up of these countries was that they succeeded in rapidly developing industrial production capacity. The East European countries have also succeeded in doing this, even before their formal accession to the EU and without support worth mentioning from EU regional policy. The centre of the EU has lost part of its share of production. The agglomeration advantages and the advantages of a central location are apparently too small to balance out the advantages of the countries on the periphery with regard to wage costs.

The argument with which compensatory regional policy in the EU is justified thus does not prove to be solid. With this policy the EU also sets wrong signals for accession candidates and countries which aspire to this status. For all poor countries membership of the EU is worth striving for simply because under the present regional policy regime they would receive considerable transfers. The real aim of integration into the EU economy, namely to achieve higher economic growth and more distributable wealth through the mutual and comprehensive opening of the markets, which experience has shown is possible precisely for poor, peripheral countries, then recedes into the background.

A fundamental revision of the expenditure structure of the EU budget is therefore a priority task. This has not been accomplished by the recent resolutions. However, it has been agreed that in 2008 or 2009 fresh decisions can be taken on all revenues and expenditures. It remains to be hoped that a fundamental reorientation of the EU's tasks and expenditures will be tackled energetically and not simply pigeonholed due to satisfaction with the fact that its capacity to act has been proven. The efforts to regain the support of the citizens of the EU for the project of European integration must include a meaningful expenditure structure for the EU budget.

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