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The "added value" in EU budgetary debates: one concept, four meanings


Eulalia Rubio

Eulalia Rubio is Senior Research Fellow for Socio-economics Affairs and EU budget project at *Notre Europe*. She holds a degree in Law from Pompeu Fabra University (Barcelona), a degree in Political Science from the Autonomous University of Barcelona and a Ph D degree in Political Science from the European University Institute (Florence). Before joining *Notre Europe*, she had been research assistant and assistant professor at the Department of Social and Political Science at Pompeu Fabra University (1998-2002 and 2007).

The term 'added value' is a centrepiece in contemporary debates on the reform of the EU budget. Both at the academic and the political level, calls are being made to revise EU spending on the basis of added value considerations. Yet, as pointed out by many observers, the notion of added value lacks conceptual clarity.

An analysis of official documents and the academic literature on the EU budget reveals the existence of at least four different ways of using added value: first, to refer to the additional gains of acting at the EU level vis-à-vis the national level; second, to refer to the benefits derived from good management and implementation; third, to refer to the opportunity costs of spending in one area vis-à-vis other areas of intervention; and finally, to refer to the positive side-effects stemming from public interventions at the EU level (such as their contribution to other Union's objectives or its positive impact on sub-national levels of governance).

This Policy Brief describes these different notions of added value. It provides illustration of how they are used in current the EU budget debates, discusses the theoretical assumptions in which they are grounded and analyses the practical implications and difficulties of using them as operational criteria to assess EU spending proposals and programs. Drawing from this analysis, it concludes with some reflections on the use of 'added value' in the forthcoming EU budgetary negotiations.

1. Added value as the benefits of acting at the EU level *vis-à-vis* the national level

The first references to added value in EU budgetary debates date back to the early 1990s[1], and are clearly related to the entry into force of the principle of subsidiarity. The link between subsidiarity and added value was explicit in the Commission's budgetary proposal for the second financial perspectives (1994–1999) – the so-called Delors Second Package[2]. Drafted shortly after the approval of the Maastricht Treaty, the document stated that, in accordance with the subsidiarity principle, "the Community must always demonstrate that its financing provides *added value*" (p. 15). A similar mention to added value was introduced in the Commission's bud-

1. It is noticeable in this respect that the term 'added value' was entirely absent in the preparatory work for the first financial perspectives in 1987/88. Neither the Commission's Communication *The Single Act: A New Frontier for Europe* (COM (87) 100), nor the Commission's financial proposal (the *Report on the Financing of the Community Budget* COM (87) 101) used this expression.

2. The Community's Finances between now and 1997 (COM (1992) 2001).

getary proposal for the period 2000–2006[3]. As in the previous financial framework, references to added value were circumscribed to the areas of shared competence, that is, the so-called 'internal policies' (education, trans-European networks, R&D…) and the 'external action' (cooperation and financial assistance to non-Member States). The two main spending areas – agriculture and cohesion – which fall within the Council's exclusive competence were excluded from the added value test.

From 2000 onwards, this use of added value has become increasingly popular. Claims to assess the added value of EU action are less sustained by legal arguments (the principle of subsidiarity) and more by the economic teachings of the theory of Fiscal Federalism, which provides recommendations for an optimal distribution of tasks in multi-level governance settings. In line with this, references to added value have been extended to all EU domains. Hence, for example, the Commission's budgetary proposal for the 2007–2013 financial perspectives includes a paragraph in which this added value argument is used to justify EU spending on CAP[4].

In academic circles, this use of added value is by far the most extended. This is the meaning implicit in Begg's claim to put into force "a robust means of showing that there is added value from funding public goods at the EU level" (2007: 49)[5] or in Cipriani's assertion that "evidence about the European added value of EU expenditures is (..) crucial in convincing people that the scale or effects of the proposed action cannot be sufficiently achieved by the member states" (2008:28)[6]. Most national governments also interpret added value in this way, as exemplified in their responses to the Commission's 2007-2008 EU budgetary review consultation. Thus, for instance, the German contribution to the EU budget consultation points out that "the European added value is closely related to subsidiarity" and the UK government's contribution argues that "the EU should only act where there are clear additional benefits from collective efforts, or "EU added value", compared with action by Member States, either individually or in co-operation". Finally, 'added value' is mostly (albeit not exclusively) used in this sense in EU commission speeches and documents on the EU budget. The recent EC Communication on the EU budget review, of October 2010, includes a section entitled "EU added value" which is devoted to stress the need to concentrate resources on areas where "the EU level means a better deal for citizens than spending at national level" (2010: 5)[7].

As said above, using added value in this sense is equivalent to applying the teachings of fiscal federalism to decide how to allocate EU. According to fiscal federalists, EU spending should be used to finance actions whose objectives are more efficiently achieved at the EU than at national level. This basically happens in three situations[8]:

- When there are economies of scale in the production of the given action or measure (that is, there is an increase in efficiency of supply arising from declining costs of production).
- In cases of actions or measures whose production requires the attainment of a minimum size which is not guaranteed in small countries or jurisdictions
- In situations where there are cross-national externalities (an action or measure which provides benefits and/or imposes costs on people from different national jurisdictions).

To this 'economic' criteria (existence of economies of scale or cross-national externalities), fiscal federalists add a fourth political criterion, the degree of heterogeneity of policy preferences among member states. It is hence argued that the EU should act in cases where economies of scale and externalities are large, and delegate to national or lower-level governments "the policy areas where heterogeneity of preferences is predominant relative to the benefits of scale" (Buti and Nava: 2003, p 4)

There is general consensus on the usefulness of fiscal federalism criteria as guidance for EU spending allocation. Yet, the principles of fiscal federalism merit some qualifications. As the same Oates (2002)[9] observes, they should be taken as general guidelines rather than strict rules.

Indeed, like market failures, economies of scale and cross-border externalities are not objective realities but elements whose existence is subject to the assessment and judgement of the observer. Breuss and Eller (2004)[10], for instance, compare the recommendations given by different fiscal federalists on the assignment of com-

3. Commission's Communication On the Establishment of a New Financial Perspective for the Period 2000-2006 COM (1998) 165 final.

4. "(..) the CAP has actually been producing value added over time at a lesser cost than would have been the case had the Member States continued with their separate agricultural policies", Commission's Communication Building Our Common Future: Policy Challenges and Budgetary Means of the Enlarged Union (COM (2004) 101, p.17).

5. *Begg, Iain (2007) The 2008/2009 review of the EU budget: Real or cosmetic? CESifo Forum 1/2007.*

6. *Cipriani, Gabriele (2008) Rethinking the EU Budget: Three Unavoidable Reforms. Brussels: CEPS.*

7. Commission Communication *The EU Budget Review* (COM (2010) 7000).

8. *Tabellini, Guido (2003), Principles of Policymaking in the European Union: An Economic Perspective, CESifo Economic Studies, Vol 49, 1/2003; Buti, M and Nava. M (2003 Towards a European Budgetary System,. Robert Schuman Centre for Advanced Studies n 2003-08,; Alesina, A et al (2005) What Does the EU do? Public Choice 123: 275-319.*

9. *Oates, W.E (2002), Fiscal Federalism and the European Union: Some Reflections, paper presented at the Societa Italiana di Economia Pubblica conference, Pavia, 4-5 October 2002.*

petences in the EU and observe the existence of policy areas where the optimal assignment is discussed contradictorily by the various authors. They cite as examples the area of education and research. In this area,

"(..) the ones found remarkable arguments for a decentralised assignment: considerations of heterogeneous local preferences, effects of inter-jurisdictional competition, or limited cross-national externalities (see Persson et al 1996, Alesina et al: 2001, Smekal: 2001). The others in turn depict strong reasons in favour of an assignment to the central European level: adverse effects of sub-national provision on the stock of human capital (Ter-Minassian:1997), avoidance of R&D duplication (Hoeller et al 1996), or increase of EU-wide labour mobility due to enforced teaching of European subjects (Persson et al: 1996)."

Another question that merits reflection is the level at which the assessment must be carried out. Most scholars apply fiscal federalism teachings to review the legal assignment of spending tasks between the EU and the national level. As legal assignments refer to broad policy domains, the result is a multitude of studies pointing out that certain policy domains are more prone to supra-national spending (defence, rans-national infrastructures) and that others mostly correspond to the national level (education, social policy). One might wonder whether this analytical observation brings us any further. In fact, the real functional challenge in multi-level governance systems is not to determine what would the optimal legal assignment of competences , but rather how to organise and coordinate in an efficient manner the overlapping involvement of different governmental tiers in areas of shared competence (Landy and Teles: 2001)[11]. In other words, the real interesting question concerning the EU budget is not whether the EU should spend more on defence and less on education but what specific spending action should be carried on at the EU level in this or that policy domain, and how to coordinate this action with nation-based spending interventions.

Finally, as noted by Persson et al (1996)[12] and Buti and Nava (2003)[13], classic fiscal federalism is built on the assumption of benevolent governments. Yet, governments sometimes function imperfectly; they present what political economists call 'policy failures'. These can be of several types, from corruption to problems of imperfect information or short-slightness, or lack of expertise to diagnose and solve certain problems. In policy areas characterised by the existence of policy failures at either the EU or the national level, decisions to centralise or decentralise might be justifiable as a second-best to minimise the impact of these failures.

2. Added value as the benefits arising from good management and implementation

The term added value is also sometimes used to refer to the benefits arising from good implementation of EU programmes. Examples of this way of usingadded value can be found in the Commission' Communication Communication launching the public consultation on the EU budget review, of September 2007 (which stresses the need of *"effective and efficient delivery to secure the necessary added value")*[14], or in the French government's contribution to the 2007-2008 budgetary review consultation (which points out that added value "*must first be assessed against economic criteria*" but that it "*must also be tested against the actual implementation of the expenditure*").

Rather than a prospective or ex-ante assessment (like in case 1), here added value is used as a sort of retrospective, or ex post assessment criteria. The aim is not to assess the rationale to set up or maintain a EU-level intervention in a given domain, but to evaluate whether EU programmes, once adopted and implemented, provide the maximum 'value' on the ground.

This use of added value is clearly less common than the precedent, but nonetheless important. In fact, it has recently gained prominence as the climate of budgetary austerity at the national level has translated into calls to increase the efficiency of EU spending. Thus, for instance, the 5th European Report on Social, Economic and Territorial Cohesion, published in 2010, discusses questions related to the implementation of the programs - such as the need to cut red-tape or simplifying the daily management of the policy- in the section on "enhancing the European added value of cohesion". And the more recent Commission Communication on the EU budget review, of October 2010, devotes the section on

10. Breuss,.F et Eller, M (2004), The Optimal Decentralization of Government Activity: Normative Recommendations for the European Constitution, Constitutional Political Economy, 15: 27–76.

11. Landy, M and Teles, S (2001) Beyond Devolution: From Subsidiarity to Mutuality, The Federal Vision, 1- 9: 413-427.

12 Persson, T et al (1996) The Theory of Fiscal Federalism: What does it mean for Europe? Paper presented at the conference "Quo Vadis Europe?" Kiel June 1996.

13. Op.cit.

14. Commission Communication Reforming the Budget, Changing Europe (COM (2007)1118).

"EU added value" to discuss the potential use of EU spending to exploit economies of scale and address cross-border challenges. Yet, in section 4, entitled "A EU budget delivering results", it highlights the importance of better monitoring and systematic evaluation to "maximize the added value of EU spending" (2010, p. 22).

This way of interpreting added value can also be found in the works of experts and academics. An example is Nunez Ferrer and Kaditi (2007)[15] analysis of the added value of CAP expenditures. The paper does not address the question of whether or not agricultural policy should be run at the EU level but concentrates on "*the merits of the policy in creating value added in the agricultural sector and the rural areas*" (p. 6). In particular, it analyses whether the policy is well-designed so that it can correctly address the objectives it is supposed to achieve, and whether these objectives are achieved in an efficient manner. The paper concludes that, while there are arguments to maintain support for the agricultural sector and the rural areas, "*the present policy does not address these in an efficient manner, failing to maximize the value added of the result*".

As in Nunez Ferrer and Kaditi, this notion of added value should not necessarily be restricted to a pure cost-benefit analysis of EU spending. Indeed, a well-done assessment of EU programs should include an assessment of both the efficiency and effectiveness of the program. *Effectiveness* here stands for the degree of goal realization due to the use of certain policy instruments (i.e. whether the EU program is well-designed so that it can effectively attain the goals it is supposed to achieve), while *efficiency* refers to the amount and quality of results produced by financial and administrative resources employed (i.e. whether the program has been well implemented so as to produce the maximum results). While both aspects are relevant, efficiency concerns have been more important than effectiveness concerns in EU budgetary debates. This is even more so now that austerity pressures at the national level are translating into calls to increase the efficiency of EU spending.

3. Added value as the opportunity cost of spending in one policy area *vis-à-vis* another area

The study by Nuñez and Kaditi (2007) also includes an analysis of the opportunity costs of CAP spending; that is, the costs of not spending the resources currently deployed under the CAP in other policy areas. The authors justify this interpretation in the following terms:

"An analysis of the added value of interventions cannot avoid taking into account the wider setting of the EU budget, the expenditure items are part of a larger, but limited budget. It is necessary to take into account that interventions should be generating a value added which allows to justify the share of expenditure of the EU budget in the agricultural sector. As a result, the second question which has to be touched upon is the following: Is the value added generated sufficiently high in comparison to the opportunity costs of the expenditure required? Discussions abound on the merits of financing R&D, education or transport, rather than agriculture, and need to be addressed even if only superficially due to the need to narrow the focus of our study" (Nuñez Ferrer and Kaditi 2007, p.6).

This way of using added value is not strange in contemporary debates on the reform of the EU budget. Increasingly, claims are being made to concentrate resources in one policy area instead of another on the grounds that it provides greater 'added value' for Europe. The underlying reasoning behind these claims is that the size of the EU budget is limited and thus spending should be concentrated where it yields the greatest benefits. The following extract from the Swedish government's written contribution to the budgetary review consultation is an example of this type of reasoning:

"A condition for making progress, without risking the principle of restrictive spending, is to get the priorities right. Scarce resources must be concentrated where they generate the highest common benefit. Policy areas lacking European added value should be dismantled and where appropriate phased out."

One might argue that this third use of added value is a sort of variant of the first discourse of added value. The argument is to concentrate EU resources in policy areas in which there are clear economies of scale or cross-national externalities, and thus in which EU spending is expected to deliver more added value. Yet, as in the first citation above, sometimes the comparison is not done strictly on the basis of fiscal federalism considerations but rather on general considerations about the 'merit' of public action in different policy domains. In this second case, the arguments used are heterogeneous, and usually testify of different visions of what should be the mainEU policy goals for the coming decade.

15. Nuñez Ferrer, Jorge ; Kaditi, Eleni I. (2007) The EU added value of agricultural expenditure- from market to multifunctionality- gathering criticism and success stories of CAP Brussels: European Parliament.

Thus, for instance, those who think that the EU main priority for the coming decade is to stimulate growth stress the need to devote more EU resources on policies providing a higher return in terms of economic growth – R&D, education and infrastructures- and to drastically reduce EU financial support to "a declining economic sector" such is agriculture. Others consider that the major and more urgent EU challenge in the future is climate change. They are in favour of maintaining the EU support on agriculture and rural areas providing the latter is adequately re-oriented towards the goal of adapting the EU territory and rural societies to the impacts of a changing climate. They also call for a substantial increase of EU resources on transport and energy infrastructures, increasing EU support to 'green' technologies as well as in favour of increasing EU financial support to third countries in their fight against climate change. Finally, there are those who consider that the EU budget should primarily serve to facilitate and accompany the process of European integration. Those adhering to this vision call for maintaining a significant EU budget on cohesion and CAP, as these are seen as elements of a broader political pact aimed at ensuring an equitable distribution of gains and losses from the process of European integration.

4. Added value as the positive side-effects stemming from EU spending interventions

Finally, added value can also be used to refer to the positive side-effects stemming from EU spending interventions which are additional to the achievement of the expected goals. This way of using added value is particularly popular in the field of Cohesion policy, as illustrated by the following extract from the Second Report on Cohesion:

"The value added of Community involvement in regional development is not only related to the expenditure incurred as such. Benefits also stem from the method of implementation developed in the 1988 reform of the Structural Funds, which was revised in each subsequent programming period" (EC Second Cohesion Report, 2001, p. 145)

Most of the scholars working on EU cohesion policy use added value in this sense. Mairate (2005)[16], for instance, argues that the EU structural funding has not only produced direct economic benefits in terms of cohesion, but it has also produced added value in terms of an improvement in the policy and programming practices at the regional level (i.e. helping the regions to think strategically, providing greater stability in the availability of resources), in the quality of the delivery system (i.e. introducing partnership methods and a more rigorous system of evaluation), in the policy learning practices (i.e. fostering the contact and exchange of ideas among regional or local policy officials from different parts of the Union) as well as in the level of public support for the EU project (i.e. making the EU more visible in the eyes of the citizens). Similar ideas are found in a 2003 Report on the reform of the Structural Funds, commissioned by IQ-Net (an EU network of regional and national management authorities from structural funding)[17]. The report distinguishes between four different types of added value stemming from the deployment of EU cohesion funds:

- *Cohesion added value* (reduction of economic and social disparities)
- *Political added value* (enhanced visibility of the EU, increased support for the European integration project)
- *Policy added value* (strategic improvements made with regard to regional or national policymaking)
- *Operational added value* (improvements in the quality of the delivery system)
- *Learning added value* (greater exchange of practices and dissemination of experiences among regional or local policy officials).

This larger notion of 'added value' echoes the ideas of some scholars on public evaluation, which insist on the need to account for unintended effects when evaluating the merit of a public intervention. According to these authors, while goals should be retained as the central criteria of evaluation, information of side effects is crucial to any comprehensive assessment of government programs. All things being equal, a program generating some interesting spin-off effects must be considered superior than a program producing several undesirable spillovers[18]. The need to cover side-effects is particularly important in cases in which the policy environment is complex or where the causal theories inspiring public intervention are not well-settled. In these cases, a narrow assessment confined to the achievement of premeditated program goals might block innovation and the adaptation of policies to changing circumstances (Zapico Goñi: 2007)[19]. Thus, it is argued, a formative or 'helpful' evaluation approach (Batterbury 2006)[20]

16. Mairate, A (2005) *The 'Added Value' of European Union Cohesion policy Regional Studies* 40:2, 167 - 177.

17. Bachtler, J and Taylor, S (2004) *The Added Value of the Structural Funds: A Regional Perspective*, IQ Net Report on the Reform of the Structural Funds (available at www.eprc.strath.uk).

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www.notre-europe.eu / info@notre-europe.eu
19 rue de Milan -75009 Paris - France
Tél. : 33 (0) 1 44 58 97 97 / Fax : 33 (0) 1 44 58 97 99

might be more appropriate in these cases. Rather than focusing on measuring goal performance, evaluation in these cases should serve to help improve the planning, management and delivery of the program, by providing 'feed-back' on the expected and unexpected results derived from the public intervention.

A major challenge to adopt this broader notion of added value is what criteria to apply in judging the merit of side-effects. Indeed, most of these side-effects are of a qualitative nature, and hence difficult to measure. This is particularly the case in cohesion policy. As pointed out in the Third Cohesion Report, "*most of the effects of cohesion policy (..) cannot be expressed in quantitative terms. Beyond the net impact of policy on GDP or employment, its added value arises from other aspects, like the contribution made to regional development by factors such as strategic planning, integrated development policies, partnership, evaluation and the exchange of experience, know-how and good practice among regions*" (EC: Third Cohesion Report, 2003, p. 138)

Conclusion

The Commission's Communication on the EU Budget Review of October 2010 describes added value as a "key test to justify spending at the EU level". Yet, the notion of added value lacks conceptual clarity. In fact, a detailed analysis reveals the existence of different views on what constitutes added value.

In looking at these various added value discourses, the first conclusion that arises is that added value can be used in two different ways; as a criterion to assess the rationale and relevance of acting at the EU level in a given domain (ex-ante assessment) or as a criterion to assess the outcome of an existing EU program (ex-post assessment). There is also a difference with respect to how the term 'value' is interpreted. In some cases, the value of EU intervention is assessed on the basis of standard, more economic-type, objective criteria of policy evaluation (efficiency and effectiveness). In other cases, the value is assessed on the basis of policy-related or political criteria, such as the relevance or 'merit' of the action, its political legitimacy or the positive side-effects it generates in other policy areas or levels of intervention.

These different uses of added value are not necessarily incompatible. However, if we want to use 'added value' as an objective and rigorous criteria for assessing and comparing EU spending proposals, then it seems necessary to confine ourselves to the narrow, economic-type visions of added value. Having said so, the existence of other, more subjective or political-type visions of 'added value' testify of the ultimate political nature of budgetary decisions, and of the need to take these other political considerations into account when deciding how to spend the EU money. In other words, while EU spending decisions should be submitted to an objective ex ante economic assessment, and while the outcomes of EU spending programs should be appropriately assessed on the basis of efficiency and goal-achievement criteria, these ex-ante and ex-post assessments should not serve to 'depoliticise' budget decisions but to make political decisions on EU spending more informed ■

18. Verdung. Evert (1997) *Public Policy and Program Evaluation*, Transaction Publishers, New Brunswick and London.
19. Zapico Goñi (2007) *Matching Public Management, Accountability and Evaluation in Uncertain Contexts: A Practical Proposal, Evaluation* October 2007, 13-4: 421-438.
20. Batterbury, S (2006), *Principles and Purposes of European Union Cohesion policy evaluation* Regional Studies, 40:2, 179 - 188.

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