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Reaction to Iozzo, Micossi and Salvemini, *A New Budget for the European Union?**

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Categorising public expenditures is a slippery undertaking. At closer inspection even such time-honoured distinctions as that between *investments* and *consumption* turns out to be very blurred. No sooner has ”infrastructure” been proclaimed

to be an overriding political priority than you have a long line of prospective candidates lining up. Roads and power grids, fine, but what about health care, education and law enforcement? Is the social, educational and institutional infrastructure less important than the physical infrastructure? And can schools and hospitals be written off as mere consumption? Are not the services they provide also important forms of investment in the productive capacity of the future labour force? Or, in a more nuanced version of the same assertion, do we not have to look deeper into the various sectors of public spending to distinguish the purely consumption-oriented expenditures from those also having more or less significant investment components?

Similar problems crop up when public expenditures are divided into *(re) distributive* and *allocative*. If we go back to Musgrave (1959) who launched this distinction (with *stabilisation* as the third component), we will find that he spoke not of *three boxes* into which public expenditures could be sorted but rather of *three functions or purposes* of public expenditures and public revenues. This should be kept in mind in assessing the proposal by Iozzo et al.

In fact any piece of spending in the EU budget, or any other public budget for that matter, has both allocative and distributive dimensions and effects. What confuses the picture is that for many public expenditures, particularly those known as transfers, the allocative decisions are not made by the central political decision-makers. Consider for instance a pension or a child allowance. These may appear to be sheer (re)distribution because

the targeting of the final use is not determined by the government but by the primary recipient. But the money is nevertheless allocated, in these cases normally to various forms of private consumption. These latter decisions determining the secondary incidence of the payments are made by the primary recipients.

In some (re)distributive schemes, however, the public paymaster is not so liberal in transferring allocative autonomy down the ladder. Instead, strings are attached. Some income maintenance

is provided in the form of food stamps, housing subsidies or other forms of targeted support. Foreign aid may be tied in the sense that purchases must be made from donor’s country. Public contributions to health care or education may be provided in the form of vouchers that can be redeemed only by certified institutions.

In all these cases a measure of allocative autonomy is granted to the primary recipient but some authority over allocation is also retained by the central decision-maker. Why such restrictions? In the three examples given, the official explanations might run along the following lines. We want to protect children by preventing addicted parents from wasting the poverty relief they receive on drugs. The taxpayers’ money should provide jobs at home and not in other wealthy countries. And freedom-of-choice offered through vouchers should not be wasted on charlatans and profit-seekers.

Others motives may sometimes be suspected to be lurking behind. In some transfers from the public purse the primary recipient may be less important to the policy-maker than the secondary recipient, in other words the supplier of the goods and services that the money is used for. Or, without rank ordering the priorities of various participants in the decision-making process, there could be general agreement that several useful purposes may be served by the same measure. One obvious example from the CAP repertoire: free milk to European school-children goes together with more revenue to European dairy farmers.

Moving now to the various types of expenditure in the first chapter of Iozzo et al., we find that some of them are handed out mainly on the basis of *eligibility* criteria. Here primary recipients are by and large free to spend the money at their own discretion. But in other categories there are also restrictions as far as the *procedures* and *objectives* of resource utilisation are concerned. Allocative autonomy can be circumscribed in different ways, e.g. by prescribed quotas for different purposes (in cohesion policy: so much for environment, so much for transport infrastructure), by rules about the decision-making procedure (regional involvement, partnerships), by requirements for matching grants, by budgetary deadlines (N+2, N+3) and by standards for auditing, evaluation and impact assessment. Depending on the strictness or laxity of such arrangements, the locus of genuine authority over allocative decisions may move up or down the vertical axis of the multi-level system of governance. It may also be divided between several points along that axis.

In structural policy, issues of allocative autonomy have been hotly disputed over the years. At the outset national governments exercised a great deal of discretion over the use of the funds, but then a higher degree of Commission coordination and control was established. Later the regions became co-framers of the programmes, giving rise to a triangular relationship between the Commission, the MS and the sub-national authorities.

Commission authority peaked in the 1990's. Since then national and sub-national actors have retrieved a lot of influence through the acceptance of a broader set of objectives and the relaxation of various conditions. Several labels have been tagged to this trend, such as simplification, streamlining, acceleration and shared management.

The MS preference for a low degree of allocative centralisation is noteworthy. Or, to be more precise: their interest in getting a free hand for themselves is normally greater than their penchant for controlling others. In the negotiations over the present Financial Framework, the final round saw a confrontation of two alliances: "the friends of the low ceiling" and "the friends of cohesion policy" (Mrak & Rant 2008). An ambition shared by both groupings was to retain a high measure of MS autonomy. The supreme form of such autonomy is of course achieved when the money never leaves the national coffers, but a cohesion policy with a great deal of latitude and wiggle-room goes a long way to attain the same objective. Not surprisingly, the main victims as the Council set out to trim the Financial Framework proposed by the Commission were Chapter 1 a, Competitiveness (-39 %), Chapter 3 Security, Justice & Citizenship (-49 %) and Chapter 4 EU as a Global Partner (-42%) (Mrak & Rant p. 6).

Among the cohesion friends we would not find many supporters of the contention that the purpose of this policy is merely or even primarily redistributive. A whole range of other objectives are brought up. Some are mentioned in the Treaties whereas others have emerged gradually in the policy discourse[1]. Historians of the integration process often refer to the compensatory increases in structural appropriations employed to promote the acceptance of the internal market and the introduction of the common currency. Cohesion policy has also played a significant role in the context of enlargement, helping to dispel apprehensions in both new and old member states.

Given this mixed background and the many claims surrounding cohesion policy (some weakly sustained, but that is a different story), is it really possible to place it in the EU budget in a chapter entitled "redistribu-

1 In two articles first inserted into the Single Act and then retained in the Maastricht, Asmterdam and Nice versions: "strenghening its economic and social cohesion", "reducing disparities between the levels of development of the various regions and the backwardness of the least favoured regions and islands, including rural areas" and redressing regional imbalances through "participation in structural adjustment of regions whose development is lagging behind and in the conversion of declining industrial regions".

tion"? Le Cacheux (2009) is right in pointing out that were this policy just a matter of pure redistribution without any other objectives, then the detour through the EU budget would be entirely superfluous. The Member States could keep their money and the revenue system be modified accordingly so as to introduce an element of regressive taxation to benefit the poorer states. What justifies the inclusion of cohesion policy into the Financial Perspective is clearly some other-than-distributive functions which in a Musgravian perspective are allocative but which could also characterised as intended to reflect common purpose and common ambitions. Collective goods, yes, but collective goods of a particular kind: not just satisfying common needs and serving common interests but also intended to create a sense of togetherness, common belonging and a shared future. Such public goods are not merely intended to further collective interests but have also the function of building a collective, or rather strengthening a previously weak community.

Solidarity is a glue badly needed to keep the European Union together, and helping out with public investments in underprivileged areas is an important component of that glue. But does it make sense to dramatise and underscore the element of transfer and redistribution in this undertaking, rather than the element of shared endeavour? That is not at all certain. A much more respectable ambition is to require a high public good rating as well as high standards of efficiency for all expenditures funded by the EU tax-payers. Items not meeting these requirements have no place in the Union's budget.

Which expenditures qualify as common European goods is not carved in stone; it is at least partially an issue to be determined through continuing political argument. Criteria may be advanced, contested, accepted, rejected. Nor is it a digital, "yes-no" question but rather a matter of degree.

In the competition for EU funding, priority should generally be given to spending projects with strong credentials along this dimension.

This is no way an argument against solidarity or against maintaining some spending in agricultural and structural policy, but even here the same principles should apply. The best and the most easily defensible components of CAP and cohesion policy are those offering a high degree of European added value.

Rather than dividing the FP process into two stages (De la Fuente et al. 2008) or the FP into three chapters (Iozzo et al. 2009), we should endeavour to press back the obsession with national net balances and advance European public goods qualities as the principal legitimate criterion for the inclusion of an expenditure into the EU budget.

Many will retort that this is naïve and utopian, and that the operating standards of MS governments and the success indicators by which negotiating prime ministers and ministers of finance are judged at home are immutable. I do not share this view.

First of all we should remember that the concept of net balances is a very dubious construct, already shot to pieces by many analysts (some summarised in Le Cacheux 2007). The primary incidence of taxes does not tell us very much about the division of the ultimate cost-burden, and neither does the primary incidence of public expenditures reveal very much about the ultimate beneficiaries. Much is hidden in the mist of multiplier effects and the endless causal chains of *la longue durée*.

Second, it should be borne in mind that virtually all policies serve multiple purposes and have multiple beneficiaries. Following Tinbergen many economists argue that the single best instrument should always be chosen to pursue well-defined goals, but in the real world of politics things do not work out that way. Creating ad hoc coalitions between consumers and producers is paramount in public policy-making. Different actors have different ambitions and decisions are made only when they can agree on policies that serve several purposes. Moreover, the purposes often keep shifting even after the policy has been launched. This is highlighted in a growing literature on the dynamics of policy-making (Kingdon 1984, Tarschys 2003 & 2005, Sabatier 2007).

Third, the success indicators by which national leaders are assessed are not shaped merely inside the various states. The emerging common public space in Europe can be used to challenge and affect the prevailing parameters. There are many ways in which actions inspired by wider than domestic considerations may be rewarded.

The present budget of the European Union consists of three parts: CAP, cohesion policy, and the rest. Clearly most of the unfulfilled needs and underfunded priorities are to be found in the third part, so this is where there must be relative expansion in the next Financial Perspective. But an exclusive emphasis on European public goods is perfectly compatible with continued reforms in CAP and continued commitments to many cohesion objectives. There are plenty of promising investments worth supporting in the poorer and peripheral regions and countries, but it is time to stop seeing such endeavours as principally redistributive and measurable in primitive geographical flows and balances. They should be seen as common endeavours, important to all of us because we care about the development of the entire European Union. Lock up a few hundred statisticians and unleash a few hundred story-tellers, and this will be better understood by the European public.

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A very good proposal in Iozzo et al. is finally their suggestion to harmonise the FP, legislative and Commission periods.

This goes in the direction of enhancing the political role of the electorate and making the European elections more meaningful. The low turn-out in the these elections remains is a serious challenge to the legitimacy of the European project. While Euro-skepticism and various domestic grievances may provide partial explanations for the weak mobilisation of the electorate, other possible reasons must also be examined.

What participation can be expected in elections that do not influence the composition of executive nor the outcome of any important political decisions? With a grand coalition permanently in charge in the Parliament, the appointment of the Commission essentially in the hands of the governments individually (the members) and collectively (the President), and the budget likewise decided by the Council, what crucial issues are there left for the European citizens to vote about? Given these preconditions we should rather be surprised that so many voters bother to go to the polls.

The Lisbon Treaty improves the situation in that the European Parliament is given more authority over some important domains of the budget, but this shift will not mean much unless it is accompanied by other changes. Two steps seem particularly important to empower the European voter and raise the stakes in the European elections.

First, a measure of parliamentarism could be introduced if candidates for the Presidency of the Commission were launched well before the European elections. This requires no Treaty modification but can be achieved by the political parties on their own. Perhaps even by one of the major parties: if one attractive candidate is presented by one major party it may become difficult for the others to play wait-and-see. This alone would go a long way to electrify the European elections.

Second, there is a need to bring out both regulatory and budgetary issues in the election campaigns. For the budgetary matters this is much easier to do if the electoral and budget cycles are harmonised along the lines proposed by Iozzo et al., with the multi-annual financial framework decided some time after the elections. So far the Financial Perspectives have not been Treaty-bound but determined by inter-institutional agreements, for a time-span defined as 5-7 years. The multi-year framework will now be provided for in the new Treaty, with the time-frame defined as at least five years.

To harmonise the financial frameworks with the legislative cycle there is every reason to stick to five years with, perhaps, 2016 as a starting year after a transitional arrangement for the years 2014-2015. And when it comes to the major regulatory issues, they could also be given much more attention in the election campaigns.

In its interesting verdict on the Lisbon Treaty, the German Constitutional Court has recently analysed of the shortcomings of the European Parliament. Today, this is still a legislature representing 27 electorates rather than one single citizenry. But several steps can be taken to remedy this weakness, and a reform in the budgetary procedure would be an important contribution. This is a challenge for the new Parliament but also for the European Commission, still presumably reflecting on its ”comprehensive mid-term review” document.

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