Eulalia RUBIO

Researcher at Notre Europe
for Economic and Social
Affairs.

Cooperation, Competition, Solidarity

EU Budget Review: Addressing the Thorny Issues

Has the Commission taken the right choices in preparing the 2008/2009 budgetary review? Despite the fact that the Council mandate describes the review as a comprehensive assessment of both expenditures and revenues, there are hints that the Commission will concentrate on the first. In fact, in the Commission's speeches and documents, the budgetary review is frequently portrayed as a policy-driven exercise to discuss future EU priorities and spending needs. This paper argues that such a narrow focus on expenditures is not coherent with the Commission's ambition to use the review to catalyse a "further-reaching reform of EU finances". An analysis of the political circumstances shaping the forthcoming budgetary negotiations indicates that the budgetary review, if conducted as a policy-driven debate on EU spending priorities, has little leap of triggering major changes in EU spending allocation, even less a major and far-reaching reform of the EU budgetary system. Apart from promoting a debate on EU spending priorities (a debate 'within the rules'), it is argued that the 2008/2009 review should serve to discuss major reforms in the structure and functioning of the EU budgetary system (a debate 'on the rules').

www.notre-europe.eu
e-mail : info@notre-europe.eu

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EU Budget Review: Addressing the Thorny Issues

by Eulalia RUBIO

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Eulalia holds a degree in Law from Pompeu Fabra University (Barcelona) and a degree in Political Science from the Autonomous University of Barcelona. Before joining Notre Europe, she had been research assistant at the Department of Social and Political Science at Pompeu Fabra University (1998-2002) and PhD researcher at the European University Institute (2002-2006). In March 2007 she obtained a PhD degree in Political Science from the European University Institute with a thesis on the impact of the EU structural funds and the processes of territorial restructuring on regional vocational training policies.

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Introduction

The European Commission is now undertaking a comprehensive revision of the EU budget, as requested by the conclusions of the European Council of December 2005. This budgetary revision is exceptional: never before has the Commission received such a wide-ranging mandate to revise the European budget, and to do it so early with respect to the next multi-annual financial negotiations. This has led many analysts to wonder about the final outcome of this revision: will it serve as catalyst for a profound reform of the EU budgetary system, as the Commission wishes, or will it only lead to cosmetic changes?

This paper aims to answer these questions, by analysing the prospects of reform arising from the 2008/2009 review. After a short description of the origins of the review, it discusses the choices taken by the Commission in the preparation of this revision exercise (section 2). Section 3 then assesses the likelihood that the review will trigger a major EU spending re-allocation in the coming financial period, by comparing the policy context of the next budgetary negotiations with that of the latest negotiations. The assessment suggests that, if narrowly focused on the expenditure side, the review has little chances to promote a further-reaching reform of EU finances, as wished by the Commission. On the basis of this finding, the paper provides a set of recommendations to make the best of the budgetary review. Apart from promoting a debate on EU spending priorities (a debate 'within the rules'), it is argued that the 2008/2009 review should serve to discuss reforms in the structure and functioning of the EU budgatary system (a debate 'on the rules').

I - The vagueness of the Council mandate

The review finds its origins in the latest financial perspective negotiations. After negotiations failed in the June 2005 Council, the British presidency became in charge of reaching a financial agreement for 2007-2013. Pressured to put the UK rebate on the negotiation table, the British government adopted a particular strategy of negotiation: it made any reduction of the rebate conditional on a reduction of Common Agriculture Policy (CAP) expenditures.

The UK strategy soon proved unworkable, as the idea of touching CAP spending was not welcomed by the rest of the countries. The majority agreed that the deal struck in October 2002 to freeze CAP spending on direct payments until 2013 had to be respected.

Against the impossibility of modifying CAP spending in the short-term, the British government changed strategy. It conceded to minor cuts to the rebate but made any more substantial reduction of the rebate conditional on a "mid-term" revision of CAP spending.

The first UK presidency's detailed proposal of Financial Perspectives, presented on 5 December 2005, reflected this new position. The proposal envisaged a temporal cut of the British rebate during the 2007-2013 period (to *"ensure the UK's fair contribution to the costs of enlargement"*), left CAP spending untouched and included a reference to a review to take place in 2008.

To make it acceptable for all, the British proposal re-framed the review as *"a comprehensive reassessment of the financial framework (…), to sustain modernisation and to enhance it, both within and beyond 2007-2013"*. It had to cover all aspects of EU spending and revenue, *"including, inter alia, the Common Agricultural Policy and the UK rebate"*. The review had to be conducted by the Commission, who would then submit a report to the EU council by 2008. On the basis of this report, the EU council would then be able "*(..) to provide for adjustments in the Financial Perspective for the period 2007-13*". Apart from that, the Commission's report would serve as "*basis for the further reform of the EU policies, and for preparatory work on the post-2013 Financial Perspective"*[1].

The British government conceived the review as a process to revise the current financial framework as well as to think about the future of the EU budget. Yet, the idea of opening the door to eventual modifications of the 2007-2013 financial agreement did not please all member states. In particular, the French government pointed out that it would only accept a budgetary review if stated explicitly that the latter would not affect 2007-2013 spending (*Le Monde* 15/12/2007).

1 European Council, doc. 15393/05 of 5th December

During the European Council meeting of 15-17 December 2005, the reviewing clause was one of the last-minute elements of negotiation. The stubborn position of the British and French governments and the inability to reach an agreement forced the use of ambiguous wording. The expression "*both within and beyond 2007-2013*" was replaced by a vague "*on an ongoing basis*", the reference to the use of the review *"to provide for adjustments in the Financial Perspective for the period 2007-13"* was eliminated and the possibility of using the review *"as basis for the further reform of the EU policies"* was replaced by a general call to the Council *"to take decisions on all subjects covered by the review"*. The final formulation was as follows:

> *79. (..), the European Council agrees that the EU should carry out a comprehensive reassessment of the financial framework, covering both revenue and expenditures, to sustain modernisation and to enhance it, on an ongoing basis.*
>
> *80. The European Council therefore invites the Commission to undertake a full, wide-ranging review covering all aspects of EU spending, including the CAP, and of resources, including the UK rebate, to report in 2008/09. On the basis of such review, the European Council can take decisions on all subjects covered by the review. The review will also be taken into account in the preparatory work on the following Financial Perspective*[2].

2 European Council, doc 15915/05 of 19th December

II - Preparing the review: The right choices?

The vagueness of the Council mandate gave the Commission much discretion in preparing the review. The EU executive was relatively free to decide not only the timing and procedures for the revision (the clause mentioning only a report to be presented "in 2008/2009"), but also the scope and direction of this "*comprehensive assessment*". In order to assess the likely outcome of this revision, it is important to start by having a look at the choices taken by the Commission when preparing for the review.

The first thing to notice is that the Commission has set ambitious goals for this budgetary review. This has been viewed as a historic opportunity for a "further-reaching reform of EU finances", a reform which is believed to be of "vital necessity for Europe"[3]. Hence, contrary to the British position, the Commission has clearly framed the review as a future-oriented exercise. Yet, the time-frame of the analysis remains very vague. The Commission

3 Extracts from the speech made by the Commissioner on Budget (Ms Dalia Grybauskaité) made at a conference on the reform of the EU budget, organised by the Friedrich Naumann foundation and the Marktwirtschaft. Brussels, 10th October 2006.

usually refers to the need to use the review to think about how the budget can "meet the challenges of the next decades and ahead". But is not clear whether this means thinking on the budget for the next financial perspectives (2013-2020), on the after 2020, or on both.

Apart from the adoption of a future-oriented approach, four other choices have been made by the Commission in the preparation of the financial review: openness, priority to expenditures, policy-driven approach and separation from ensuing financial perspectives.

The first, **openness**, refers to the procedure. Instead of conducting the revision as a non-transparent, expert-based exercise, the Commission has decided to adopt an open and participatory approach. Thus, the revision exercise has started with a broad consultation process open to all interested parties at the local, national and EU level. As stressed by the Commission in various occasions, the objective of this consultation is two-fold; first, to broaden the scope of the discussion and stimulate innovative ideas –to promote an "open, 'no taboo' debate on EU finances"- and second, to involve all interested parties in the process, so that they do not "feel the need to take premature positions and (..) develop a sense of ownership"[4].

The second choice is the **priority given to EU expenditures**. Even if the Council mandate refers to both expenditures and revenues, the Commission gives priority to the first. In fact, the 12-page consultation paper[5] dedicates three times more space to expose the problems related to EU expenditures than those related to the financing of the EU budget. Two factors explain this focus on expenditures. First, even if not explicit, the Commission works on the assumption that a reform of the EU financing system is much easier if preceded by a reform of the expenditure side[6]. Second, while a major reform on the expenditure side is considered as paramount, the Commission is more sceptical with respect to the need and urgency of a major reform on the revenue side. In fact, in various interviews Dalia Grybauskaité, the Commissioner on Budget, has shown a reticence to open this question up now (Begg: 2007). It gives the impression that the Commission is influenced by the failure of prior attempts to promote a serious debate on the reform of the EU funding system (notably in 2004, with the publication of the so-called Shreyer Report), and that it has finally renounced to do so. Currently, the Commission's expectations for the revenue part are rather modest; they consist mainly in improving its simplicity and transparency (by eliminating all types of rebates).

The third choice (**policy-driven approach**) refers to the decision of framing debates on EU spending in the context of a general reflection on EU policy priorities and challenges. Behind this decision lies the idea that discussions on EU budgetary allocation are nonsense if not preceded by a serious debate on what purpose EU spending should serve. This idea is not new. Notice, in particular, that the Commission adopted the same approach during the latest multi-annual budgetary negotiations. These negotiations started with a proposal by the Commission entitled *"Building our common future: Policy challenges and budgetary means of the Enlarged Union 2007-2013"*[7]. As the title suggests, the document emphasised the need "to give the EU the resources to match its political priorities", and urged Member States and the European Parliament to engage into a debate over the priorities of the EU before discussing future budgetary allocations. Unfortunately, the harsh political context created by the famous "letter of

4 Information note from the President of the Commission: "The review of the internal market, the social stocktaking and the budgetary review"(SEC(2007) 42, 2-05-1772, of 15th January 2007).
5Communication from the Commission «Reforming the Budget, changing Europe»,SEC (2007) 1188 FINAL

6 This idea is half-expressed in the Commission's consultation paper, when stating that "a consensus on spending priorities could already facilitate a reform of the EU own resources system" (p. 12).
7 COM (2004) 101 final/2, 26th February 2004

six" impeded the development of an informed and sustained debate on EU spending as wished by the Commission[8].

Finally, the fourth choice is to **separate the 2008/2009 review from the preparation of the next financial perspectives**. On various occasions, the Commission has insisted that the review "is not to be perceived as the preparation of a new multi-annual financial framework and should not anticipate on it"[9]. This has been justified on the basis that the elaboration of the next multi-annual budget proposal is a task that falls under the responsibility of the next Commission (to be appointed on the second half of the 2009, after the European elections).

These four choices taken by the Commission have indeed helped to shape the scope and direction of this review. However, there still remain some elements of uncertainty, which hinder any attempt to assess the outcomes of the revision. We can identify at least three open questions.

The first refers to **timing**. Officially, the publication of the final report is expected for the "end of 2008/beginning of 2009". This lack of precision is deliberate: In various occasions, the Commission has explained that the precise moment of publication cannot be determined, since it will depend on what comes from the consultation as well as on the state of play regarding the ratification of the Lisbon Treaty.

Notice that timing might be an influential variable, as it determines who will be in charge of organising and leading the discussions on the paper in the European Council. If the report appears in 2008, this task will belong to France, a long-experienced member state. If it appears after January 2009, and providing the Treaty of Lisbon is ratified, the assignment of responsibilities will be more complex. It is unclear who will hold this responsibility, the newly elected President of the Council or the national government chairing the presidency at that time (the Czech Republic).

A second element of uncertainty is the **procedure**. It is not clear how the Commission will use the results of the consultation process. On various occasions, the Commission has stated that the consultation will form an important basis for the drafting of the final report. However, this will not be the sole input. There will be other elements, such as the mid-term evaluation of the new 2007-2013 spending programmes, the results of various EU policy reviews running in parallel to the budgetary review (the CAP 'health check', the Cohesion policy consultation) and various academic studies commissioned "to help channel the debate and to explore some of the key options in more depth"[10]. Besides, in accordance to the inter-institutional agreement (IIA) of 17 May 2006, the Commission is obliged to take "duly into account" the positions of the European Parliament during the examination phase[11]. How the Commission will make use of these various sources of information is an open question. It is also unclear whether the final report will reflect the Commission's position or whether it will provide an objective account of the main sensibilities and opinions on the reform of the EU budget that exist in Europe[12].

Finally, there is also much uncertainty with respect to the **content** of the final report. As stressed above, the Commission wants to separate the review from the preparation of the next financial perspectives, something which seems difficult to reconcile with the intention of promoting a discussion on future EU spending priorities. In theory, there are two ways of

8 The 'Letter of Six' refers to a letter signed by six Heads of State (all net-contributors) after the 2003 December Council. In this letter, the main net-contributors expressed their complaints and made a strong statement for limiting the total size of the EU budget at 1.0% of GNI
9 Information note from the President of the Commission: "The review of the internal market, the social stocktaking and the budgetary review"(SEC(2007) 42, 2-05-1772, of 15th January 2007).

10 Information note from the President of the Commission: "The review of the internal market, the social stocktaking and the budgetary review"(SEC(2007) 42, 2-05-1772, of 15th January 2007).
11 «The European Parliament will be associated with the review in all the stages of the procedure on the basis of the following provisions: During the examination phase (...) it will be ensured that appropriate discussions take place with the European Parliament (..) and that the positions of the European Parliament are duly taken into account (..)". (Declaration num 3 of IIA 17 may 2006)
12 Notice that this second possibility would be coherent with the wording of the December 2006 clause establishing the review. The clause invites the Commission to organise the review but talks about the "EU" carrying out a comprehensive reassessment of the EU finances" (see section one).

solving this contradiction. The first is by concentrating discussions on the far-future (i.e., beyond 2020). The second is by maintaining discussions at a general level (i.e., discussing the general rationale of EU spending but not entering into discussions on the amount of money per budgetary headings and sub-headings).

The two options are difficult, if not impossible, to put into practice. There is no clear frontier between pre- and post-2020 priorities and challenges, and therefore between discussion on EU spending priorities for the next financial perspectives or beyond. Likewise, discussions on the rationale for EU spending in a particular area (say, agriculture) are difficult to disconnect from discussions on the amount of money and the type of EU spending required (level of co-financing, final beneficiaries, conditionality, distribution of money between pillar one and pillar two, etc...). It is unclear whether the Commission will keep on stressing these artificial separations or whether it will end up accepting that the 'de facto' nature of the budgetary revision is as a preliminary step for the next financial perspective negotiations.

III - Assessing the prospects for a major reform

We know from policy scholars that public policies tend to continuity or incremental change, and that only in exceptional circumstances are policy actors able to alter fundamentally the content of policies. Does the 2008/2009 review offer the right circumstances for a major policy change?

Let's assume that the main objective of the review is to promote a major re-allocation of EU spending in the coming financial perspectives. If this is so, a way to assess the prospects of reform is by comparing the current political circumstances with the circumstances that shaped past multi-annual budgetary negotiations. As explained before, in 2004/2005 the Commission followed the same strategy; it tried to engage key actors into a broad debate on EU policy priorities, believing that the latter would relax member states' obsession with maximizing national net returns. It thereby hoped to facilitate a re-allocation of EU spending in line with EU needs. We know that, at the time, the "policy-driven approach" did not really work:

The only change the Commission succeeded in was merely cosmetic; a re-definition of the budgetary headings. Are there reasons to believe that things will go differently this time?

3.1. Reasons to be optimistic …

Some elements make the current political context more favourable to reform. One of them is precisely the fact of counting with a financial review before the start of negotiations. There are at least two different ways in which the review might favour a radical reform on EU spending for the period 2013-2020.

First, by mobilising a large number of actors, the budgetary review might help build a broad political consensus in Europe on the need for a major EU budgetary re-allocation. However, the latter implies assuming that the majority of actors participating in the consultation process will be in favour of a major re-allocation of EU spending, something which is highly questionable. The most probable is that those mobilising the most are those having a direct interest in the EU budget, that is, those being direct recipients, and therefore resistant to change.

Second, by inviting the European Council to adopt decisions on the basis of the final report, the 2008/2009 review offers member states the possibility of making unpopular decisions on the next financial perspectives well before the start of negotiations, thus free from the political pressures that characterise the period of negotiation. Daniel Tarschys explains the rationale of this argument in the following terms: "we often see seasoned decision-makers to reach agreements on though choices more easily by pushing their practical consequences far into future. If implementation starts only after a considerable lead-time, there seems to be better chances of containing the strong pressures from adversary interests (..) This leads to the following hypothesis: if decisions on the following financial perspectives are taken early (..) politicians are 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" (Tarschys: 2007, p. 2)

While the logic of this second argument is hardly debatable, it is doubtful whether member states will decide to make this move. The likelihood that this happens will mostly depend on the willingness of who holds the presidency of the Council at the moment of discussing the final report. In any case, the Commission determination to separate the review from the preparation of the financial perspectives leads us to belief that the final report will be written in broad terms, thus making it easy for member states to endorse it without pre-conditioning their position in the next budgetary negotiations[13].

Apart from the exceptionality of counting with a budgetary review, another factor distinguishes the forthcoming financial negotiations from the previous ones. Contrary to what happened in 2005, CAP spending will be now in the agenda. In effect, as explained above, in the last financial negotiations member states were constrained by the commitment adopted in 2002 to leave CAP spending untouched until 2013. Now all member states agree that CAP spending should revised, although there are differences with respect to what member states expect from that - ranging from its total dismantlement to the introduction of minor adjustments in the ways and modalities of payment

There is no doubt that a recalibration of CAP spending is a pre-condition for a major reform of EU expenditures. Such recalibration, however, will not be possible if member states get bogged down in the old quarrel between

13 Even in this more refined version, the argument needs to be qualified. All governments do not have the same interests, and they are not at the same point in the electoral cycle. The Council's proneness to change will be therefore dependent on a multitude of domestic factors, apart from what the Commission or the Presidency will do.

opponents and supporters of the current CAP system. The only way to prevent this situation is by promoting early on a serious political debate on the CAP after 2013.

The CAP 'health check', which was launched last November and is expected to finish in the spring 2008, offers an excellent opportunity to promote this debate. If well-organised, it could help build consensus on the objectives and principles that should guide EU action on agriculture after 2013. However, it is not clear whether the Health Check will act as a trigger for a forward-looking, fresh debate on CAP. An element for concern is the way the Commission has organised the 'health check' exercise: as a short-term, pragmatic discussion on ways to adapt the current CAP system over the period 2008-2013 (IEEP: 2007).

But the Commission is not the sole actor influencing the scope and trajectory of the debate on the reform of the CAP. Member states are also engaged in the discussion, and they will be in charge of discussing the results of the CAP Health Check. In this respect, it might be good news that the French President, Nicolas Sarkozy, has publicly expressed his commitment to use France's presidency of the EU in the second half of 2008 to facilitate a debate about a "far-reaching reform of CAP"[14]. The fact that this commitment comes from France, a country which has traditionally been the most attached to CAP, is also to be welcomed since it might help convince the most reluctant countries on the appropriateness and necessity of the reform[15].

14 "La PAC ne peut répondre aux défis de l'après 2013", *Le Monde*, 12/9/2007 ; "Sarkozy opens door for CAP reform", Euractiv.com, 12/9/2007.
15 A CAP reform leaded by France would fit with the logic of the 'Nixon-goes-to China' thesis. This thesis states that radical reforms in policy are more likely to succeed when brought about by a party that has traditionally opposed the change. This is because this party can more credibly signal that the reform is appropriate and/or necessary than a party that defends the reform on pure ideological basis. The thesis is inspired in Nixon's 1972 visit to China. It is argued that only a vehement anti-communist such as Nixon could have opened diplomatic relationships with China in 1972, a move which would amount to political suicide for a Democrat President at that time, exposing the party to the accusation of moving towards communism (Ross:2000).

Finally, there is another reason why the current context might be favourable to reform. The latest financial negotiations were long and acrimonious, and led to a final deal which was highly unsatisfactory. It caused much European embarrassment, in a year which had already been difficult- with the French and Dutch 'no' to the Constitutional Treaty. Against this background, the pressure to reach a satisfactory deal in the coming financial negotiations is high. European leaders are conscious of the fact that a new fiasco in the financial negotiations might entail considerable political costs and might lead to a new stalemate.

3.2. ..but causes for pessimism

The importance of the factors favouring reform should not be exaggerated. There are also strong reasons to believe that change will be highly difficult to attain in the coming negotiations. First and foremost, the change-resistant institutional factors that prevented a major spending reallocation in the past will still be present during the next financial negotiations. In particular, the adoption of the 2013-2020 financial perspectives will still be subjected to the unanimous vote of the Council – irrespective of the fact that the Treaty of Lisbon will enter into force before the start of the next financial negotiations. Thus, member states will still enjoy the same right to veto.

Secondly, there is a lack of political willingness to increase the size of the EU budget. If one adds to this the fact that two low-income countries have joined the EU (Bulgaria and Romania), it is easy to imagine that the forthcoming financial negotiations, as the last ones, will be pursued as a 'negative-sum' game. Actors (member states) will face one another with roughly the same amount of money to distribute among a higher number of players. In these circumstances, major reform is very unlikely. It is highly probable that member states, aware of the fact that there is not much to win, adopt a conservative stance and focus on ensuring their budgetary positions.

Finally, as in past financial negotiations, the forthcoming financial negotiations are likely to suffer from the lack of a compelling slogan or political objective guiding the whole financial package. As noted by Jouen et al (2005) and Cal (2007), the first three multi-annual financial agreements were legitimised by the existence of a unifying political project; the internal market in 1988/92, the Economic and Monetary Union in 1993/1999 and enlargement in 2000/2006. In the last financial negotiations, the Commission proposed the Lisbon strategy, but it was much less appealing than past political goals. And the same might happen in the coming negotiations. Some ideas resonate in public debates (focusing on energy, climate change, the external dimension of the EU) but they are still in the early stages of maturation.

IV - The key to success: focusing on structural problems

The preceding section has raised serious doubts on the capacity to trigger a major EU spending re-allocation by preceding negotiations with a broad debate on EU spending priorities. Why hence the Commission is so attached to the belief that this is the 'right' strategy?

There is an answer to this question. Even if not always explicit, the Commission seems to be influenced by a particular interpretation of what happened in 1988, when the Delors Commission succeeded in passing the last major reform of the EU budgetary system.

A popular explanation of the 1988 reform is that Delors managed to promote a major change thanks to his ability to link a new budgetary deal and a political project that enjoyed unanimous support among member states- the Single Market. In short, he convinced member states of the need to increase the size of the budget and to double the amount of resources for social and economic cohesion, by presenting this as a necessary move to ensure the successful completion of the Single Market in the context of a larger and more heterogeneous Union (after the accession of Spain and Portugal).

While this explanation is broadly correct, it is only part of the story. The 1988 agreement was much more than a "new budgetary deal" aimed at ensuring the budgetary means for the implementation of the Single Market. Apart from increasing and re-allocating EU resources, the Delors first package introduced major changes in the EU revenue side (the creation of the so-called 'fourth resource'; that is, the national GNI-based contributions) as well as important institutional reforms (the establishment of multi-annual financial frameworks, the introduction of discipline rules for CAP spending and the formalisation of an inter-institutional agreement procedure).

In fact, apart from giving effect to the cohesion principles articulated in the Single European Act, the Delors budgetary reform was an attempt to resolve a set of structural problems that affected the functioning of the EU budgetary system since the mid-1970s: a chronic insufficiency of resources (which had led the Commission to define the budgetary situation as "being on the brink of bankruptcy"), the lack of budgetary discipline rules on CAP spending and the continuous disputes between the Council and the European Parliament that repeatedly blocked the elaboration of the annual budget (Laffan: 2000, Ackrill and Kay: 2006, Lindner: 2006).

The establishment of a link between the budgetary reform and the completion of the Single Market was one of the keys to success. Yet, other factors were also important in convincing member states to adopt this major reform. Leaving aside some idiosyncratic factors (Delors' ability and personal involvement in the negotiations, the role played by Chancellor Kohl as president of the Council), another crucial factor was the Commission's strategy of presenting the various proposals as a negotiating package from which no element could be detached. The package character of the proposal forced member states to negotiate a global reform, preventing the adoption of '*à la carte*' approaches and facilitating agreement by providing ample room for coalition-building (Laffan: 2000, Lindler: 2006).

What lessons can be drawn from the 1988 reform? A first important lesson is the need to **focus on the structural problems**. We can endlessly debate on EU spending priorities and budgetary means, but this will serve to no avail if we do not start by addressing the structural problems that impede the adoption of EU spending decisions according to the EU interests and needs. There are various factors explaining the structural mismatch between EU resources and EU needs; some are of a political nature (member states' tendency to focus on their 'net budgetary returns') and others of a technical nature (poor evaluation data, lack of mechanisms to incorporate evaluation data into budgetary planning). The magnitude of these problems and the way to tackle them is open to discussion, and the budgetary review could be an excellent opportunity to develop this discussion.

A second important lesson is **the need to tackle simultaneously all dimensions of the EU budgetary system - expenditures, revenues and procedures**. As noted by Lindler (2005), one of the lessons from the 1988 reform is that changes in one budgetary sub-field are condemned to fail if not coordinated with changes in the other fields. This is because major problems affecting the EU budgetary system have multiple causes and thus require interventions in various sub-fields. The same logic can be applied for current problems. Let's take, for instance, the dominance of the 'net returns' logic in EU budgetary negotiations. There are various factors explaining member states' growing obsession with maintaining or improving their 'net budgetary returns', and scholars disagree with respect to what is the most important one (Jouen and Rubio: 2007, CAS: 2007). Some believe that the problem comes from the growing mismatch between the EU policy agenda and the structure of EU expenditures; others consider that the main explanatory factor is the fact that GNI-based contributions have come to become the main source of funding, and still others stress that the features of the current budgetary decision-making system (the fact that member states have veto power) are crucial in preserving this dynamic. In reality, everything seems to indicate that the three factors contribute to feed this logic, and thus that the best way to tackle this problem is by introducing reforms in the three areas (expenditures, revenues and procedures).

Conclusions and recommendations

Despite the fact that the Council mandate describes the 2008/2009 review as a comprehensive assessment of both expenditures and revenues, there are hints that the Commission will concentrate on the first. In fact, in the Commission's speeches and documents, the budgetary review is frequently portrayed as a policy-driven exercise to discuss future EU priorities and spending needs.

Such a narrow focus on expenditures is not coherent with the Commission's ambition to use the review to catalyse a "further-reaching reform of EU finances". An analysis of the political circumstances shaping the forthcoming budgetary negotiations indicates that the budgetary review, if conducted as a policy-driven debate on EU spending priorities, has little leap of triggering major changes in EU spending allocation, even less a major and far-reaching reformof the EU budgetary system.

Apart from promoting a debate on EU spending priorities (a debate 'within the rules'), the 2008/2009 review should serve to discuss institutional reforms in the structure and functioning of the EU budgetary system (a debate 'on the rules').

Talking about institutional reforms is not an invitation to revise all and everything. It is clear that, after a protracted constitutional debate, member states have no appetite to get engaged into institutional discussions. However, one should bear in mind that there are different levels of institutional reforms. Surely, the most significant reforms require Treaty amendments but many improvements in the current institutional setting do not require changes in the EU Treaties.

There is, for instance, much room to improve EU budgetary planning in order to make it more activity-focused. A first step in this direction was made in 2004, with the re-framing of the budgetary headings. Yet, this move was not sufficient to shift the overall logic of EU budgeting. To ensure that EU spending decisions are taken in accordance with EU objectives and goals, we need to incorporate performance-based information in EU budgetary planning and evaluation in a more systematic fashion.

This is not an easy task. Over the past few decades, many countries have introduced performance-based budgeting reforms and these reforms have not always yielded the expected results. It seems particularly recommendable to have a look at the country where performance-based budgeting has been most applied, the USA. Since the 1950s, there have been multiple attempts –both at the federal and national level- to incorporate output data on budgetary decisions, and there is now an abundant literature assessing the success and failures of these various initiatives (Burns et al: 2004, Gilmour et al: 2006, Kong: 2005, McNab et al: 2003, Postner et al: 2007). Some general lessons can be drawn from the US experience.

A first important lesson is the need to involve all stakeholders in the reform. It is generally believed that the first US experiences with performance-based budgeting (such as the Hoover Commission or the zero-based budgeting) failed in part because they were carried alone by the executive branch, without involving Congress (Mc Nab: 2003, Posner et al: 2007). The same factor might explain the failure of the Commission's 2004 initiative. The so-called 'activity-based budgeting' reform was conceived as part of a broader reform aimed at modernising the functioning of the Commission (implementing activity-based management within the Commission). It was, hence, conceived and viewed as a reform of the Commission's internal functioning rather than a reform of the whole EU budgetary system.

A second important lesson is the need to recognise the ultimate political nature of public spending decisions. As pointed out by Posner (2007), introducing performance-based data in budgetary processes does not mean 'taking the politics out of budgeting'. The ultimate aim should not be to 'de-politicise' budget decisions but to make EU spending decisions more informed and based on genuine EU political interests (rather than on national interests).

A third lesson is the need to develop a supply of performance data which is perceived to be credible, reliable and politically-neutral. This requires a system of evaluation capable of providing reliable and extensive data on outputs and outcomes. Notice that the requisite of political neutrality applies to both the raw data and the metrics used to assess performance achievement. The latter cannot appear to serve a single set of interests since they will not be legitimate at the eyes of other actors.

Last but not least, US experience suggests that building a credible supply of performance data may not be sufficient to provoke a shift in the logic of public budgeting. Many scholars consider that these reforms should be accompanied by other actions aimed at encouraging, facilitating and/or exerting pressure on policymakers to use this information when adopting budgetary decisions. This is an important caveat for the EU. Building a credible supply of performance data can help create the necessary trust to prompt its use in the political arena, but this alone might not be sufficient to neutralise member states' incentives to calculate their net budgetary return and to focus on maximising this return in EU budgetary negotiations. A major shift in the logic of EU budgeting will never occur if not accompanied with more fundamental changes in the EU revenue side and in the EU budgetary procedure aimed at neutralising the 'net budgetary returns' logic. With regard to the revenue side, it is essential to reduce the weight of GNI-based national contributions in the EU financing system, as these provide the basis for the calculation of net returns. As for the decision-making procedure, it is important to weaken or eliminate member states' veto power in EU budgetary decisions, since it is the threat of veto what allows member states to alter collective decisions according to their specific interests. In both cases, we are talking of substantial changes which will surely require Treaty amendments. Yet, the problems are important enough to merit serious discussion in a comprehensive budgetary review which is portrayed as a historic opportunity for a further-reaching, "no-taboo" debate on EU finances.

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