

George Irvin*

Should the EU budget be capped at 1%?

Last December six countries---the UK, France, Germany, The Netherlands, Sweden and Austria---signed a letter to the President of the Commission requesting that the 2006-2013 EU budget plan (aka the next ‘financial perspective’) be capped annually at one percent of combined Gross National Income (GNI) of the member states, even after enlargement. This is approximately the percentage size of the current €100bn budget, a budget which the Maastricht Treaty already limits to 1.24% of the EU’s combined GNI. By contrast, the Commission has proposed raising spending to about 1.15% of combined GNI. In consequence, Mr Prodi is now set on a collision course with the EU’s largest member states. Given that the average EU member state’s budget equals about 40 percent of its GNI, an extra 0.15% of the EU’s GNI is small change. Why the fuss, particularly since the rise is over a 7-year period?



At the heart of the budgetary process lies a contradiction which has always threatened the European project: the main objective of each member state is not to secure the common good but to ensure that it maximises its own slice of the pie.

Why the debate?

At first glance, the budget cap debate seems to be about three things. First, the six signatories are part of the rich men’s club of the EU; ie, they contribute more than they receive, and under conditions of economic stagnation, none wants to increase the size of the pie available for the net recipients. Secondly, three of the six are already in breach of the Stability and Growth Pact, a pact which even Mr Prodi finds silly but which the Commission has chosen to enforce by legal means. Thirdly---and perhaps most important---the six are sending a signal to the ten accession countries that the latter should not attempt to punch above their weight. Poland, for example, cannot expect fat agricultural subsidies, generous structural funds and a disproportionate number of votes. To be sure, the six do not agree on all these points; the Dutch complain about Germany’s breach of the SGP, the French do very well thank you from farm subsidies and everybody resents the fact that Britain claws back a large rebate on its contribution. But there is enough shared purpose amongst them for the six to impose their will.

The budget under strain

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Equally, there is growing concern about how Brussels spends its money. A common theme in the British tabloid press, and increasingly in the rest of the EU, is that most of the money is spent on lavish salaries and perks or else squandered on doubtful projects. In reality, the total cost of running the Commission and the Parliament is less than the annual budget of the mayor of Paris (€ 6mn), so this line of argument can easily be dismissed.

A far more serious problem is that about 80 percent of the EU budget is hypothecated to agriculture (the CAP) and to regional infrastructure (the cohesion fund). The Franco-German deal in 2002 over CAP, while shifting funds towards income support, does little to reduce the share of the budget going to farm subsidies. Because these two categories will absorb the bulk of expenditure for years to come, capping the budget means that there will be little to spend on new needs such as increased EU competitiveness (the Lisbon targets), raising living standards quickly in the poorest new member states, building new infrastructure, extending research or increasing internal and external security. As Professor Ian Begg at the LSE points out in a recent paper, an EU budget freeze is incompatible with achieving expanding membership, faster growth, greater equity and---above all---with Europe's new political ambitions. Something's gotta give!

Another thorny issue which capping will not resolve is that of financing the budget. At present, Brussels receives 40 percent of its money from import duties and levies and from taking a percentage of each country's VAT receipts; the remaining 60 percent is funded by transfers from national budgets. The Commission wants to raise money from EU-level taxation (rather like Federal taxation in the USA) while member states want to retain exclusive control of the purse-strings. Moreover, whereas the need for an EU-wide macroeconomic policy is becoming ever more apparent (particularly in light of the ECB's most recent failure to reduce interest rates), the EU budget has no counter-cyclical component and has only a weak redistributive effect.

In short, the results of the current round of negotiation over the 2006-2013 financial perspective may prove as disappointing as the patchwork of half-measures emerging from the IGC on the Constitution. At the heart of the budgetary process lies a contradiction which has always threatened the European project: the main objective of each member state is not to secure the common good but to ensure that it maximises its own slice of the pie.

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