

# CEPS COMMENTARY



*Thinking ahead for Europe*

## **The EU budget becomes politically more explosive**

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The negotiations on the EU 2014-2020 budget, which will continue into 2013 following the collapse of talks in late November, are proving to be more awkward than usual. In addition to the 'normal' political and financial budget fights, the current negotiations are burdened with tensions between requests for increases in EU expenditure and heavy tasks for governments to reduce budget deficits at home. Also, EU budget issues are now exacerbating the growing political disagreements between the UK and the other 26 members. Calls in the UK for exit from the EU are intensifying and undermine other members' willingness to make concessions to the UK. Many Brits assume or hope that their country can exit the EU, but retain full participation in the EU single market. Such a result, however, is not at all certain.

Most of the debate now focuses on the overall size of the new multi-year budget. The original proposal by the European Commission is – as usual – considered to be unacceptably high by several members (and not only the UK), and rightly so. It is not clear at this moment what final compromise amount would not be hit by a veto.

The composition of EU expenditures, however, deserves at least equal attention. The Commission's proposal is insufficiently disciplined, in that it wants laudable spending increases in several policy areas but lacks the courage and political vision to advocate substantial cuts in traditional and large spending items that are tenaciously defended by beneficiary countries. The EU budget should become more forward-looking in promoting economic growth in Europe and less focused on maintaining legacy entitlements of past years. This means more spending on research, innovation, education and infrastructure (inside the EU-budget and no tricks to shift these items off-budget). It also requires further reductions in the still-dominant agricultural subsidies as well as regional and structural funds.

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These fundamental changes in the composition of EU spending should be facilitated first by termination of subsidies to the poor regions in the 'rich' countries and, second, by sunset clauses that automatically terminate certain cohesion subsidies at a predetermined moment in the not-distant future. What makes reaching a workable solution even more difficult are statements such as the recent one by French President Hollande that "above all, spending on the common agricultural policy must be preserved". Conservatism and insistence on maintaining the status quo will not restore growth.

The new idea circulating in some EU circles to 'solve' the EU budget impasse with the UK by creating a budget of 26 countries without the UK is interesting but unlikely to succeed, if only for legal reasons. It could perhaps work on the basis of (cumbersome) annual budgets with qualified majority voting, thereby avoiding a UK veto. Politically, however, it will further alienate the UK from the rest of the EU. Moreover, countries that now benefit from EU budget rebates (the UK, Germany, Spain and the Netherlands) should be mindful that this solution via annual budgets makes continuation of rebates less likely.