Power, money and reversion points: the European Union's annual budgets since 2010

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ABSTRACT At the close of 2010 an immediate effect of the rule changes to the European Union's budgetary powers brought in by the Lisbon Treaty was a non-agreement of the annual budget for 2011, which was repeated for the budgets of 2013 and 2015. Interviews and documents show that the European Parliament lost and the Council won in determining spending outcomes for 2011 and immediate payments for the subsequent years; whether this also resulted in lower budgets overall is ambiguous. When spending increased, this was in line with the will of the Council. The most significant variable was the change in the rules, which shifted the location of the default budget or reversion point to Council's advantage if there were no agreement.

KEY WORDS Council of the European Union; European Parliament; European Union budget; Lisbon Treaty; reversion point

1. INTRODUCTION

This paper analyses whether the changes of the Lisbon Treaty have led to lower amounts being available for spending. In the inter-institutional game of European Union (EU) budget policy, the paper also investigates which institution loses most through these changes. Whereas a previous paper (Benedetto 2013) presented some hypothetical scenarios to answer these questions, the current paper applies the theory and analyses it empirically. Although this paper analyses the procedures for the annual budget, it makes reference to the EU's multiannual financial frameworks (MFFs)[i] where necessary, since they govern spending maximums and their negotiations overspill into the politics of the annual budget.

The paper presents an overview on comparative budgets and the EU budget. Next, it presents a theoretical discussion that includes a number of assumptions about budgetary outcomes. The paper shows that the new rules shifted the default position if no annual budget is agreed, leading to an unanticipated loss of power for the European Parliament (EP). Finally, the paper presents descriptive data, which draw on the amounts agreed for spending from 2007 to 2016 and on official statements and elite interviews with key officials involved in the EU's annual budgetary negotiations, compiled between 2010 and 2012. A concluding discussion follows at the end.

2. WHAT WE THINK WE KNOW ABOUT THE EU BUDGET

This section reviews the literature relevant to the EU budget, explains its procedures, and presents the theoretical approach of the paper.

Citi (2015) applies time series analysis to measure the fluctuations in spending across the principal areas of policy from 1979 to 2013. He finds construction of coalitions in the Council, the ideological location of Council and EP members, and the enlargement of the EU to poorer member states determine budget change. He does not test for the effect of rule changes of the Lisbon Treaty.

Citi (2013) also finds that punctuated equilibrium explains long periods of little change in the EU budget followed by short but significant changes, which often seem to cohere with the commencement of each MFF. The research that I present reveals continuity of spending or modest increases but below the level proposed by the European Commission, while the constraints of the Lisbon Treaty after 2009 are similar to those of a punctuated equilibrium.

The annual budget of the EU is decided by a new procedure that for the EP carries significant differences compared to ordinary legislation (Benedetto and Høyland 2007). At each step of the new procedure, Crombez and Høyland (2015: 74-79) use backward induction to analyse what happens. They find that the EP gains no influence from its veto power, and in this they differ from Cameron (2000: 198), who in the context of US congressional politics argues that the threat of veto can lead to policy concessions. Crombez and Høyland (2015) and, to a lesser extent, Citi (2015) find that party or ideological positions affect budgetary outcomes. Although the EP is a party-based institution, for the sake of simplicity this paper treats it as a unitary actor.

The old procedure, analysed in detail elsewhere (Benedetto and Høyland 2007; Benedetto 2013), had been in operation for all budgets until that of 2010. Under its rules, there were two types of spending: compulsory and non-compulsory.[ii]

The Lisbon Treaty replaces the old articles 272-3 EC with the new articles 314-5, and this changes the consequences of negotiation breakdown (Crombez and Høyland; 2015). At the Council-EP conciliation committee, the Council by qualified majority and the EP must agree with each other for a budget to pass. Either side can reject by failure to agree. If this happens, monthly default budgets take effect as before, which the Council may increase. The EP gains the power to freeze spending in these, but loses all power to increase. Non-agreement therefore becomes less palatable for the EP but more likely since it is the consequence of failure to agree on everything. The ease of mutual veto is at the core of the procedure’s poor design (Crombez and Høyland 2015: 67).

Across political systems, budget powers vary. If there is no agreement, the status quo is not an option if annual re-approval of the budget is required, in which case the reversion point applies. The reversion point for budgets could be zero expenditure, a roll-over of the spending from the previous year, or simply the amount that the executive proposes (Wehner 2010: 28). The reversion point for the EU’s budget if unamended is the lower of either a roll-over or the European Commission’s proposal, whereas for amending budgets that could increase spending, the reversion point is simply the status quo. To safeguard its preferences, the Council can propose a budget, which the European Parliament prefers only marginally more than the reversion point budget that would otherwise take effect.

The EU’s annual budgets have since 1988 been agreed within the ceilings (spending maximums) established by the MFFs. The old article 272.9 EC allowed for the ceilings for non-compulsory expenditure to be overshot if the EP by a three-fifths majority together with a qualified majority in the Council so agreed. The new treaty deletes the old article 272.9, meaning that an overshoot of the ceilings is possible only with the unanimous agreement of the Council.[iii]

So the position of the reversion point has moved closer to the preferences of a blocking minority in the Council that can choose to activate it. Understanding the EP as a legislature and the Council, representing national governments, as an executive,[iv] we see that the legislature's powers of amendment are reduced. Although the comparative budgets literature (*c.f.* Cheibub 2006: 353; Persson and Tabellini 2003: 23) offers some insights according to whether a parliamentary or presidential system applies, the most significant variable is not the system type but the power that the legislature has to amend the budget (Wehner 2010: 95).

The EP lacks a credible veto power in the new procedure due to the shift in the reversion point in which the EP may make "freezes only" amendments and the loss of the power to increase what used to be non-compulsory spending within the ceilings for expenditure. The EP is confronted by a heterogeneous Council consisting in a simplified form of three collective actors: i) the core Noordwijk Group composed of several net contributor states including the UK, which wish to cut the budget, but which alone cannot mount a blocking minority to prevent agreement; ii) a majority of member states, but below the threshold for a qualified majority, which wish for continuity in spending or increases in line with the MFF ceilings; iii) in the middle, Germany, France, and some others that hold a pivotal position between cuts, continuity, or moderate increases, and may opt to vote with the core members of the Noordwijk Group.

Crombez and Høyland (2015: 77-78) also allude to the role of pivotal member states. Moreover, they find that a qualified majority in the Council always commands a majority in the EP, whereas a majority in the EP cannot be sure of commanding the support of the Council with effects on outcomes.

INSERT FIGURES 1 AND 2 HERE

Figures 1 and 2 are a simplistic comparison of the hypothetical outcomes in spending decisions before and after the Lisbon Treaty according to the reversion points (RPs) available. Whichever institution is furthest from either the status quo (SQ) or the RP will lose. The RP could be the SQ if non-agreement of the budget results in a roll-over of the previous budget. If the EP grows more distant from the RP, it will lose annual budgetary battles.

These hypothetical outcomes presuppose that the European Commission, the EP and the pro-spending member states want more spending, the Council's pivot for a qualified majority vote (QMV), Germany, wants less, and the states in the core Noordwijk Group (NG) want still less. Because the EP was constrained by the MFF ceilings it could only set non-compulsory expenditure (NCE) at a level below its preference but above what the Council would have wanted. This is the RP for NCE. The Council by QMV could establish compulsory expenditure (CE) and could raise the ceilings in NCE. Both of these outcomes potentially increase spending compared to the SQ.

Under the Lisbon Treaty (Figure 2), resort to the RP becomes more likely, the Council then sets spending by QMV, the only option of the EP is to freeze spending and not to increase, and Council unanimity is required to raise the spending ceilings. These outcomes shift the RP for all spending to the ideal point of the Council's QMV pivot. Meanwhile, the core Noordwijk Group (NG) gains a veto over raising the spending ceiling meaning that the ceiling's RP is the SQ.

Although resort to the RP is more likely under the Lisbon rules, it is not certain to happen because the EP and Council may agree with each other. In this case the finding of Crombez and Høyland (2015) that a qualified majority in the Council commands a majority in the EP has valence. The credible threat of a reversion budget is likely to strengthen some institutions over others during the course of the annual procedure. As I have already shown (Benedetto 2013), Article 315 TFEU allows the EP to win if it wishes to adopt a more austere budget than the Council. If the Lisbon Treaty has strengthened the budgetary power of the executive Council then we should expect that budgets will be smaller if the EP wants to spend more and national governments want to spend less. The abilities of the legislature to amend and to set the RP are reduced by the Lisbon Treaty and lie at the heart of the analysis that follows. Has this change led to lower budgets? Alternatively, if budgets have remained restrained and if the public preferences of Council and EP have moved closer together, is this due to the credible threat of using the reversion point rather than preferences in common between the two institutions?

Two hypotheses guide the empirical analysis on the process of agreement of annual budgets since 2007 comparing those from before and after the entry into force of the Lisbon Treaty.

Hypothesis 1: The Lisbon Treaty reduces the power of the European Parliament over the EU’s annual budget

Crombez and Høyland (2015) note the limited influence of the EP in the poor design of the budget procedure, but do not compare this state of affairs to that before the Lisbon Treaty. I analyse how this treaty outcome was reached and I also analyse the EP’s theoretical loss of power by means of a number of hypothetical scenarios elsewhere (Benedetto 2013). In the current paper, I use qualitative data to test the same hypotheses. The only way in which the EP would win from the new rules is if it wants more austerity in EU spending than the Council. I therefore start with the assumption that the new rules are inherently deflationary, which would be consistent with the findings of Citi (2013) that budget spending is prone to punctuated equilibrium. This effect is predicted by hypothesis 2.1.

Hypothesis 2.1: Following the Lisbon Treaty, annual budgetary amounts approved will be lower.

The reversion point could have another effect if, instead of being used by the Council to overpower an EP that had voted for spending increases, it operated as a credible threat leading to a moderation of the EP's official position, which would be consistent with the finding of Crombez and Høyland (2015) that a qualified majority in the Council can secure majority support in the EP.

Hypothesis 2.2: Following the Lisbon Treaty, the spending demands of the Council and the European Parliament will be closer to each other

In the next sections, these assumptions will be analysed first by looking at the annual amounts voted since 2007 (before and after ratification of the Lisbon Treaty) by means of descriptive data comparing for each year: i) agreed amounts; ii) final amounts including sums that follow in amending budgets; and iii) the amounts initially desired by the Council and EP (Table A1 in the appendix). Second, an analysis follows that draws on elite interviews with key actors involved in negotiating the 2011 and 2012 budgets. Official statements and coverage by specialist media furnish the coverage of the budgets of 2013 to 2016.

The analysis is informed by process tracing (Checkel 2006; 2008), which checks developments against the theory presented here and descriptive data in the next section, comparing across time and with different types of elite interviewee.

3. THE ANNUAL BUDGET AMOUNTS OF 2007 TO 2015: CONTINUITY OR CHANGE?

This section compares the amounts approved in the annual budgets of 2007 to 2010, decided before the adoption of the new rules of the Lisbon Treaty, and the amounts voted in the subsequent six budgets of 2011-2016. Were the amounts agreed significantly lower after 2010 and did the spending preferences of the Council and EP narrow?

Table A1 presents descriptive data to show amounts agreed for expenditure throughout the period of 2007-2016. These include commitments and payments, the amounts in agreed budgets before the start of each financial year, and the amounts disbursed in final budgets (usually more though not always). Amounts are reported for the major headings or areas of spending.

Table A1 also reports the percentage differences between the amounts voted by the Council (C%) and the EP (EP%) before any meeting of the conciliation committee, and the agreed and final amounts. For example, in 2007, the agreed amount of total commitments was 0.63 percent above the Council's preference but 0.62 percent below the EP's preference. The closer that this figure is to zero percent, the more an institution has "won" in terms of the agreed or final amount. The agreed budget is concluded in November or December for the year to follow. The final budget includes that amount plus or minus the effect of amending budgets passed during the respective financial year.

An area of controversy is the distinction between commitments and payments. While agreed commitments for 2007 were €127bn, the total for payments was lower at €115bn. The difference between commitments and payments is known as RAL (*reste à liquider*). Commitments are set as the upper limit to which the EU *commits* itself in spending programmes. A proportion of payments is released at the start of a project. On completion, any remaining balance in payments is released if the recipient has complied with the conditions. Some payments honour commitments made several years earlier and there is often an under-spend when a recipient has not fully implemented an agreed programme. Some national governments wish to cut payments because that will mean that the amount disbursed will be lower. Commitments are legally binding so long as all their conditions are met and therefore have to be honoured with payments. The EP has compromised with lower payments on occasions that the Council gives way on commitments. In fact, the political "cost" of Council concessions on commitments is low since they are not immediately disbursed.

The Council and EP do not have absolute freedom of amendment in the annual budget for amounts below the ceilings (or spending maximums). 80 percent of commitments are pre-allocated for policy areas between member states and this includes Cohesion (heading 1b) and Agriculture (within heading 2), although this does not affect payments, which can be reduced while commitments are maintained unless a policy is non-differentiated (see below). In practice, commitments can be below the ceilings if the Council or EP have doubts about the absorption capacities of recipients. Furthermore, most of headings 2 and 5 (Administration) are non-differentiated,[v] meaning that payments will normally follow commitments since local co-financing of EU money is not needed,[vi] and this means that there will be very little variance in the agricultural funds voted under heading 2.

We see that the degree to which either the EP or Council "lose" in agreed commitments is often lower than 1 percent. In agreed payments, we see a different picture (Table A1). In 2007, the agreed payments were 5.34 percent less than what the EP had demanded, with the EP losing by 6.74 percent in 2009. From 2011 to 2015 the EP lost by between 3.04 and 3.67 percent. (The exceptions were the budget of 2014 where the EP's loss was only 0.42 percent because the EP linked that figure to its ratification of the MFF for 2014-2020 just one month later, and the budget of 2016 where the EP's loss was 1.76 percent due to the extra funds voted to address the refugee crisis.) These last figures from the post-Lisbon period seem to show that the EP's losses diminished. However, the degree to which the Council was forced to accept a slightly higher budget than it wanted almost vanished from 2011. In the preceding years, the agreed payments were between 0.77 and 2.00 percent higher than the level requested by the Council. In 2011 and 2012, agreed payments were equal to the Council's request and in 2013 and 2015 were only 0.11 and 0.87 higher. For the 2014 annual budget, the Council went halfway with the EP to secure approval of the MFF, and for 2016, the Council agreed payments 1.24 percent above its preference to address the refugee crisis.

Council won by a greater degree in payments since 2011 although the gap between the payments preferences of the Council and EP has also narrowed. Compared to agreed budgets, final budgets that include amending budgets increase for commitments and, since 2010, do so also for payments. Since 2012, the Council has agreed to final payments above the amounts that the EP requested, reaching a peak for 2013, pending the approval of the MFF for 2014-2020. The only annual fall in spending occurred for 2014 due to the entry into force of the new, lower MFF.

INSERT TABLE 1 HERE

Table 1 illustrates whether the Council or EP won in agreed and final amounts for both commitments and payments from 2007 to 2016. When the degree of win was below 1 percent, it is reported as a draw. Final commitments were set by the EP before the Lisbon Treaty came into force, with draws or EP wins occurring afterwards. Agreed payments were won by the Council in every year except for the draws of 2014 and 2016 discussed above. Final payments (including amending budgets) were won by the Council before the Lisbon Treaty. In 2012 and 2013, final payments were closer to the EP's preferences. Put simply, after 2010 when the Lisbon Treaty came into force, a loss in amounts for the EP has not happened, seeming to refute hypothesis 1. In view of the figures in Table A1 and the confrontation between the Council and the EP in concluding the budget of 2011 (discussed below), this finding needs treating with caution.

Table A1 shows that after 2010 (and except for 2014), gross amounts in the annual budgets were not reduced year by year.[vii] Instead the Council imposed figures lower than what the EP wanted. As Table A2 (see appendix) illustrates, the mean percentage differences demanded by each institution narrowed after 2010, showing that the Council and EP may have moderated their positions to avoid the effects of a reversion point, confirming hypothesis 2.2. The decline in the mean differences in payments voted by the Council and EP hold when comparing the first three years of the 2007-2013 MFF to the first three years of the one for 2014-2020.

Hypothesis 2.1 on lower amounts is partly correct so long as Council wants lower spending than the EP, as was the case for 2011 when commitments and payments in the agreed and final budgets were tightly controlled by the Council, which has continued to keep agreed payments low thereafter. After 2011, commitments and final payments though not agreed payments have been higher.

This suggests that the Council wants to provide spending but by drip-feed. Releasing delayed payments is less visible and less toxic politically for the member states that make up the pivot for qualified majority voting in the Council.

4. THE ANNUAL BUDGETS AFTER 2010: WHAT HAPPENED?

Drawing on elite interviews and original documents, this section analyses the effect of the new Lisbon rules after 2010 on amounts voted and the powers of the institutions. Interviews were undertaken with senior policy officials. From the EP, these included the rapporteur of the 2012 budget and party group advisors on the budget from the European People's Party (EPP), Socialist (S&D), Liberal (ALDE) and hard Eurosceptic (EFD) groups. From EcoFin, interviews were held with key officials from the Permanent Representation or the national Finance Ministry of two member states. A senior official from the Budgets DG of the European Commission was also interviewed. Each of the interviewees was involved in the trilogue and conciliation processes for the budget of 2011. The interviewees represented different policy and institutional preferences to minimise bias (Rathbun 2009) while informing the development of the process.

The section is subdivided as follows: first, a subsection looks at the negotiation process for the 2011 budget, the first time under the new rules; second, the budgets for 2012 and 2013, which completed the disbursal of funds from the 2007-2013 MFF, amid negotiations for the following MFF, and once the experience of the new rules from the 2011 budget had been taken on board; and third, the budgets of 2014 to 2016, which were agreed under the 2014-2020 MFF in conditions of more restrained spending.

4.1. 2011: The first time under new rules

The negotiations on the 2011 budget failed during the conciliation phase due to irreconcilable policy difference and institutional inertia that included:

- Adaptation to the new rules
- The new threat of a reversion point that had shifted
- The question of flexibility in the budget, roll-overs and shifting amounts between headings
- The attempt of the EP to insert conditions on the MFF and the EU's revenue base

Commitments were eventually agreed at a level between the preferences of the Council and EP, while payments were at or close to the preferences of the Council (Table 1). Unlike for 2010, the EP failed to set commitments.

According to more than one source,[viii] the EP treated the new procedure's single reading in the same way as its old first reading. 'The old procedure was one where Council cut and the EP increased as negotiating positions before a compromise. This was attempted by the EP in October and November 2010 but was incompatible with the new rules.'[ix]

When the conciliation committee for the 2011 budget failed to agree, the budget had to be re-proposed for the first time since 1987. Within a few weeks a new budget was agreed. The threat of a reversion point budget and its consequences strengthened the bargaining position of the governments in the Council for a more modest budget. Table A1 shows that the Council obtained payments and commitments in both the agreed and final budgets of 2011 at no further than 0.3 percent away from its preferences.

Disagreement was public: the Belgian Budgets Minister and President of EcoFin, Melchior Wathelet, stated that the Council would release fewer payments for structural funds under heading 1b because of its doubts over the absorption capacity of many member states. Meanwhile, Alain Lamassoure, chairman of the EP's Budgets Committee, noted that the EP's amendments for payments were modest and below the MFF ceilings for the first time in 20 years (Agence Europe 2010). Later, the EP clarified its demand 'to accommodate new policy priorities as well as negotiations on new sources of financing', to extend its power over revenue within the 2011 budget, with the 'new revenue sources including transferring unspent money to future budgets instead of returning it to Member States'. The Budgets Committee insisted that negotiations on revenue were a 'full part of the overall agreement on the 2011 budget' (EP 2010a). The Committee also asserted the full involvement of the EP in the negotiations for the MFF of 2014-2020.

With the start of conciliation, the Budgets Committee accepted the Council's figures; it is the case that a reversion point budget would have allowed the EP "freezes-only" powers (Article 315 TFEU). The EP's President, Jerzy Buzek, stated that '[i]n return' for accepting the Council figures, 'we request from the Council an institutional and political commitment on the future financing of EU policies' (EP 2010b).

The conciliation process failed despite agreement on expenditure, because there was no agreement on the questions of revenue and the MFF. As one press agency wrote, 'Sources close to the discussions said the UK, Sweden, Denmark, the Netherlands and Latvia had collaborated to end Belgian EU presidency efforts to broker a compromise. Softer support for the tough member-state position also came from France, Germany, Austria and Finland' (AFP quoted by Willis [2010]). The above countries include members of the Noordwijk Group.

The Commission re-proposed a budget according to the Council's figures. The EP accepted them but with a political agreement that amending budgets would be agreed during the following year to top-up any funds on a case-by-case basis (EP 2010c). As noted in the previous section, Table A1 shows that the funds provided in amending budgets have increased since 2011 and mean that final budgets for each year except 2014 are higher. Hypothesis 2.1, which suggests that there is less money, is therefore unproven except for the annual budget of 2011.

Interviews have revealed that the failure of the conciliation committee for the 2011 budget was due primarily to the new rules, which reduced the EP's negotiating power, but 'these interacted with politics and economics', while the EP's conciliation delegation for 2011 lacked experience with the new procedure.[x] According to one official, the Council 'talked austerity' in both 2010 and 2011 but the economic situation would not have led to the failed procedure of 2011 without the new treaty rules.[xi] According to another official, conciliation failed due to a combination of the EP's attempt to use leverage on the MFF to secure policy concessions and the effect of the Lisbon Treaty in making the procedure more time-restricted.[xii] The unresolved issue was the question of whether unspent amounts in the budget could be rolled over or moved between policy headings – and on this, the Council insisted on unanimity.[xiii] The EP was successful with the tactic of trying to extend its own de facto powers in the past as Hix (2002) explains with regard to non-budgetary matters in the Amsterdam Treaty, but it failed on this occasion because it continued to behave without having adapted to the situation of new rules.

At conciliation in October 2010, the contentious parts were the issues on which the EP insisted: flexibility (shifting amounts between headings or roll-overs of underspends), revenue, and negotiation of the MFF.

In December, the EP received a written guarantee from the forthcoming presidencies of the Council that it would be involved in discussions on the MFF. The reason why the conciliation for the 2011 budget failed in November 2010 was that the EP chose to link it to reform of the MFF, which is an area the Council can only decide unanimously, and so agreement on the annual budget of 2011 required unanimity and not a qualified majority as a result of the behaviour of the EP.[xiv]

The evidence from the budget of 2011 shows that when the EP and Council disagree, the EP's powers are indeed reduced, confirming hypothesis 1. Gross reductions in spending did not follow though spending was lower than proposed by the Commission, leaving hypothesis 2.1 proven only in part.

4.2. The budgets of 2012 and 2013: amounts and power

The budget of 2011 had been conflictual, the first time under new rules, and coincided with an attempt by the EP to link it to the negotiations on the MFF and EU revenue. This subsection looks at the budgets of 2012 and 2013, agreed as the last ones under the MFF of 2007-2013 and once the new procedure had become more familiar to the political actors. Like the budget of 2011, that of 2013 was not agreed by the conciliation committee. For 2012 and 2013, disagreements centred on:

- Adaptation to the new rules (still, but only for 2012)
- Amending budgets to add more spending
- RAL and the payments backlog
- Negotiation of the MFF (only for 2013)

For both budgets of 2012 and 2013, final commitments and final payments were closer to the EP's preferences, agreed payments were a win for the Council and agreed commitments were a draw (Table 1).

In common with 2011, the figure for payments in the agreed budget of 2012 was identical to the figure demanded by the Council and 3 percent less than that demanded by the EP (Table A1). However, the 2012 budget was concluded at conciliation.

The Commission proposed the Draft Budget for 2012 with a 4.9 percent increase in payments on the previous year, in line with the ceilings of the MFF. Commissioner Janusz Lewandowski claimed that the increases were 'necessary to meet already-made spending commitments, particularly in the area of EU regional policy' (Willis 2011).

France and Germany delayed the 2012 budget not on its figures but on the sixth amending budget for 2011. Previous commitments meant that there was a shortfall of €550 million in the European Social Fund (ESF), for which the Council offered €200 million. The Polish presidency negotiated directly with the French and German ministers but did not speak with members of the core Noordwijk Group because they were unshifting in their opposition and too few to form a blocking minority against a qualified majority.[xv] As part of the package deal, the EP accepted €400 million for

Amending Budget 6, in exchange for which it succeeded in setting the commitments for 2012. The EP prizes commitments, since it may be able to force through future payments to cover them.[xvi]

In November 2011 at conciliation, the EP conceded on payments having demanded an increase of 5.2 percent a few weeks earlier. One official described this habitual approach as an ‘out-of-date, out-of-touch tactic, particularly since [the EP] gave in so easily’,[xvii] while another remarked: ‘We need to revise this tactic due to the single reading situation. The tactic was only credible when we could overpower the Council on non-compulsory expenditure.’[xviii]

Despite the disagreements on payments but not commitments for 2012 and Amending Budget 6 for 2011, the procedure for 2012 ran more smoothly than that for 2011. This was because the questions of revenue, flexibility, and the MFF were not on the agenda. The EP separated the issues and kept the argument on revenue out of the budget for 2012 so that the spending priorities for technological investment under the Europe 2020 programme remained within the ambit of EU rather than intergovernmental funding.[xix] In short, concluding the agreed 2012 budget was easier but the EP still lost in terms of agreed payments compared to before 2010, confirming hypotheses 1 and, in part, 2.1.

The 2013 budget was again one where the EP lost on agreed payments but where final payments exceeded the EP’s demands (Table A1). The procedure was affected by negotiations of the MFF for 2014-2020, which had stalled. The EP refused agreement at the conciliation committee. The Commission proposed a new draft in December 2012 that was accepted in the shadow of a reversion budget.

Amending budgets for 2012 to cover outgoings not accounted for in the agreed 2012 budget played a role in delaying agreement on the 2013 budget. The EP (2012a) emphasised expenditure on R&D and investment in economic growth (EP 2012b): 'MEPs highlighted the contradictions between the agreement among EU Heads of state – who at their 29 June summit agreed on a Growth Pact with extra money for growth, research and innovation – and the severe cuts proposed by member states' civil servants for next year's budget (inter alia minus 15% for research and innovation and minus 25% for small business development)'. In October, the Council position moderated the rise in payments by the 2.8 percent inflation rate in the budget of 2013 given the conditions of national austerity (Agence Europe 2012a). The Commission countered that its planned increase was needed to meet bills for projects approved under the commitments of 2010, when the economic crisis was already under way (Agence Europe 2012b). Whereas agreed payments in 2013 for Competitiveness (including R&D) under heading 1a were €12bn, final payments increased these to €16bn.

Non-agreement on amending budgets for 2012 worth €9bn for Lifelong Learning, Rural Development, the ESF, Cohesion, and the Seventh Research Framework caused the conciliation committee to fail (EP 2012c). Once the Commission had re-proposed a new budget for 2013, the EP stated that the bills for 2012 had to be met separately (EP 2012d). The Council then agreed to fund €6bn out of €9bn outstanding payments for 2012 (Fox 2012).

The experience of the budget of 2013 shows a reduction in power of the EP leading to non-agreement at conciliation and lesser spending with regard to agreed payments, yet an increase in commitments and in final payments. This makes confirming hypotheses 1 and 2.1 problematic for 2013, although the continued convergence of spending preferences (Table A2) confirms hypothesis 2.2.

4.3. Into the multiannual financial period of 2014-2020

This subsection continues the analysis for the first three years of the 2014-2020 MFF, which included again a budget not agreed by the conciliation committee for 2015. Consistent with 2012-2013, policy disputes focused on:

- Negotiations of the MFF (for 2014 only)
- RAL and the payments backlog

Were there winners and losers or effects on levels of spending? Table 1 shows that draws between the Council and EP continued for agreed commitments and that Council control of agreed payments weakened although this was due to the EP's extraction of higher payments for 2014 linked to the MFF (see below) and to the demands of the refugee crisis for 2016. The EP's previous successes in final commitments and payments were discontinued, supporting hypothesis 1.

For the 2014 budget, the EP had greater leverage due to the delay in its approval of the MFF for 2014-2020, which had reduced multiannual payments from 1.00 to 0.95 percent of GNI, with a similar reduction in commitments. The EP made approval for this reduced MFF conditional on agreement of more generous payments for 2014 and for the remaining amending budgets for 2013 during the autumn of 2013 (EP 2013; Agence Europe 2013), as Ivailo Kalfin MEP (2013), the co-rapporteur for the 2014-2020 MFF wrote: 'These additional payments are needed because in previous periods the member states disbursed insufficient resources and now they have to pay the bills to the amount they had previously agreed… [T]he Parliament was very clear that without covering these amounts, there can be neither MFF, nor 2014 budget.' The amending budgets for 2013 were also exceptional, temporarily increasing final payments from €136bn in 2012 to €153bn in 2013, then falling to €139bn in 2014.

At conciliation, Council agreed to increase payments compared to its first reading due to concern over the EP's ratification of the reduced MFF (Potteau 2014: 810). The non-agreement reversion point for the MFF would have been a roll-over of the unreduced amounts in the pre-existing MFF of 2007-2013 (Article 312 TFEU) which the Council wanted to avoid. Thus it conceded on payments for 2014 and in the amending (final) budgets for 2013.

For the 2015 budget, the conciliation committee failed to agree in November 2014, the third occasion since ratification of the Lisbon Treaty. Disagreement occurred not on account of the figures for 2015 but due to the EP and Commission positions that a growing backlog of payments over the years had to be addressed through amending budgets (Barroso 2014) as in previous years. The tighter levels for spending in the MFF of 2014-2020 and adjustment in member state contributions also affected agreement (Georgieva 2014). The Council of the EU (2014) emphasised 'member states' efforts to consolidate their public finances', noting that 'the overall economic situation remains fragile.' A reintroduced budget a month later was agreed that conformed exactly to Council's preferences in commitments and was only 0.87 percent away from its preferred figure for payments. On payments, the EP lost by 3.55 percent.

The agreed budget for 2016 was a draw in commitments and payments (Table 1). The only significant loss for the EP lay in commitments for heading 1a (Competitiveness). The Commission proposed an increase of 22 percent for heading 4 (Global Europe) in response to the refugee crisis (Council of the EU 2015a), which the Council accepted (Council of the EU 2015b). The EP (2015) unsuccessfully called for a windfall to the budget of €2.3bn in fines to be spent on the refugee crisis. During negotiations, the Council accepted commitments 5 percent higher than its original preference for heading 4 and nearly 12 percent higher in payments, given the refugee crisis, and these payments also overshot the EP's original preference.

The findings in this section agree with hypothesis 1 that the EP's powers have been reduced but for agreed rather than final budgets, and this is only because the EP prefers more spending than the Council. The case of 2011 shows that when Council and EP disagree, Council can (if it wishes) cut payments and commitments in the agreed and final budgets. The MFF-related occasion of the final 2013 budget and agreed 2014 budget was an exception that allowed the EP to extract concessions. The interviews and other evidence have shown that a qualified majority in the Council can secure lower amounts than those wanted by the EP though the Council's qualified majority has not chosen to reduce payments year by year; indeed agreed payments have increased by modest amounts but below the preferences of the EP. Hypothesis 2.1 that spending is cut is therefore confirmed only in part but remains true for all parts of the budget in 2011 and for agreed payments since then except for 2014 (the start of the new MFF) and 2016 (the refugee crisis). Hypothesis 2.2 offers more explanatory power that public preferences of the Council and EP narrow in response to the threat of the reversion point; table A2 shows that the mean figure for differences in payment preferences in 2014-2016 is less than half of that of the first three years of the previous MFF in 2007-2009.

5. CONCLUSIONS

This paper summarised the significance of the changes in the powers of the annual budget of the EU under the Lisbon Treaty. It proposed reversion points in relation to the preferences of institutional actors as a means for analysing who will be better able to determine spending. Next, it evaluated the amounts of budgetary funds voted by the EU and desired by the EP or the Council from both before and after ratification of the Lisbon Treaty. Finally, it analysed events for the five annual budgetary procedures completed since 2010, of which three resulted in temporary breakdowns of the annual budgetary system – the first ones since 1987. Process tracing guided the analysis and allowed a comparison between time periods, policy headings, types of budget, and different types of qualitative evidence.

Following Benedetto and Høyland (2007), I predicted via hypothesis 1 that the rules of the Lisbon Treaty would reduce the budgetary power of the EP as a punctuated equilibrium (Citi 2013). Hypothesis 2.1 predicted a fall in expenditure and hypothesis 2.2 predicted a narrowing in Council and EP public spending preferences due to the new rules. The institution lying further from the reversion point will lose if there is disagreement (Figures 1 and 2) either by being overpowered as in the 2011 budget or by conceding to avoid the reversion point. In linking its positions to policy questions concerned with revenue and budget flexibility, the EP sought to maximise its power in the budget of 2011 but failed precisely because this placed it further from the reversion point.

The budget of 2011 where the Council set lower agreed and final commitments and payments than wanted by the EP, and which continued for agreed payments thereafter, supports hypothesis 1 concerning reduced powers for the EP and hypothesis 2.1 on lower amounts being disbursed. Since 2011, the gap between the Council's and EP's preferences has narrowed. This supports hypothesis 2.2 since fear of a reversion budget moderates positions for agreed payments, although the narrowed gap could reflect the willingness of Council to allow more generous commitments and delayed payments.

After 2011, the Council released more generous increases in commitments and in final payments, which were less visible in the domestic politics of some member states. The effect was to deliver more spending that the EP wanted but via commitments and a drip-feed of delayed payments. This means that the power of the purse resides with the Council, whose pivotal members can benefit domestically from curtailing agreed payments, which are the most visible part of the budget, but may not notice the disbursal of delayed payments and the promissory notes of commitments.

The paper offers four findings relevant to comparative budgetary analysis: i) it bears out the claims of Wehner (2010) on the importance of amendment powers in understanding budgetary institutions and of the relevance of reversion points; ii) the reversion point may never be activated but the credible threat of doing so is enough to change the behaviour of political actors; iii) it has shown how institutional change can produce winners and losers in terms of policy outcome (changes to spending) if there is strong disagreement as for the 2011 budget; and iv) changes can be further complicated if they interact with institutionalised behaviour as shown by the EP that miscalculated its position and continued to behave as if the old rules still applied, while negotiating the budget for 2011.

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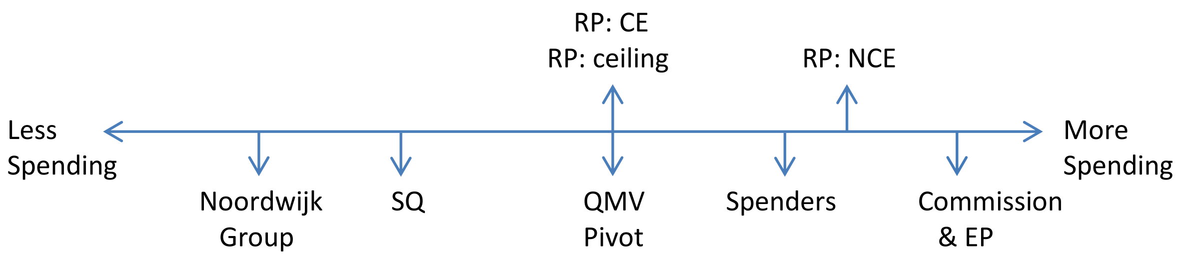

Figure 1 Closeness to the Budget Reversion Point – who wins before the Lisbon Treaty?

SQ: Status quo, RP: Reversion point, CE: Compulsory Expenditure, NCE: Non-compulsory expenditure, QMV: qualified majority voting, EP: European Parliament

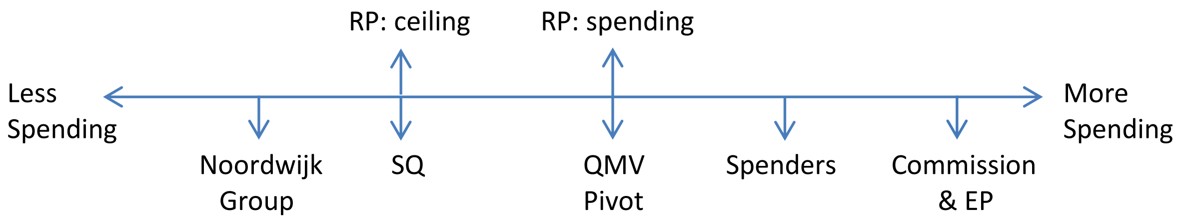

Figure 2 Closeness to the Budget Reversion Point – who wins after the Lisbon Treaty?

Table 1 Winners in each year's agreed and final commitments and payments, 2007-2016

	Commitments		Payments	
	Agreed	Final	Agreed	Final
2007	Draw	EP	Council	Council
2008	Draw	EP	Council	Council
2009	Council	EP	Council	Council
2010	EP	EP	Council	Council
2011	Draw	Draw	Council	Council
2012	Draw	EP	Council	EP
2013	Draw	EP	Council	EP
2014	Draw	Draw	Draw	Draw
2015	Draw	Draw	Council	Council
2016	Draw	N/A	Draw	N/A

N/A – The final budget for 2016 is not yet concluded at the time of writing.

APPENDIX

Table A1 Agreed and final budgets, with percentage increases or decreases reported for the Council and the European Parliament

		2007 Agreed Budget			Final Budget			2008 Agreed Budget			Final Budget		
		€M	C%	EP%	€M	C%	EP%	€M	C%	EP%	€M	C%	EP%
COMMITMENTS													
1a	Competitiveness	9368	+6.67	+6.01	56060	+3.30	+3.20	11086	+16.65	+12.59	11082	+16.61	+12.55
1b	Cohesion	45487	0.00	0.00	*	*	*	46878	0.00	0.00	47256	+0.81	+0.81
2	Natural Resources	55250	-2.16	-4.09	58399	+3.41	+1.37	55041	-1.23	-2.39	55560	-0.29	-1.47
4	Global Europe	6812	+3.32	+0.64	7142	+8.33	+5.52	7311	+2.55	+0.97	7551	+5.92	+4.28
5	Administration	6942	+1.64	-0.20	7291	+6.75	+4.82	7284	+1.31	-0.03	7279	+1.24	-0.10
	Total	126551	+0.63	-0.62	130881	+4.07	+2.78	129150	+0.58	-0.41	130570	+1.69	+0.69
	GNI%	1.08			1.12			1.03			1.04		
PAYMENTS													
1a	Competitiveness	7072	+4.49	-25.88	6663	-1.55	-30.17	9773	+8.71	-2.21	9715	+8.07	-2.79
1b	Cohesion	37790	+1.14	-5.29	36975	-1.04	-7.33	40552	+1.06	-4.46	36016	-10.24	-15.15
2	Natural Resources	54719	-0.32	-2.56	53845	-1.91	-4.11	53177	-1.92	-3.12	53217	-1.85	-3.04
4	Global Europe	7353	+1.25	-6.14	7188	-1.02	-8.25	8113	+7.41	-0.25	7847	+3.89	-3.52
5	Administration	6942	+1.64	-0.20	7227	+5.81	+3.90	7284	+1.29	-0.03	7280	+1.23	-0.09
	Total	115497	+0.77	-5.34	113846	-0.67	-6.69	120347	+0.78	-3.10	115771	-3.05	-6.78
	GNI%	0.99			0.97			0.96			0.92		

*In the consolidated accounts and annual report for 2007, the final commitments for headings 1a and 1b were combined.

For the sake of space, heading 3 (Freedom, Security, Justice, Citizenship) is excluded because it accounts for less than 2 percent of the EU's budget.

Sources: Annual consolidated accounts of the EU; Annual financial reports of the EU; Official Journal of the European Union; author's own calculations.

		2009 Agreed Budget			Final Budget			2010 Agreed Budget			Final Budget		
		€M	C%	EP%	€M	C%	EP%	€M	C%	EP%	€M	C%	EP%
COMMITMENTS													
1a	Competitiveness	11769	+5.91	+4.44	13775	+23.96	+22.24	14862	+22.12	+3.45	14863	+22.13	+3.46
1b	Cohesion	48427	+0.03	+0.01	48427	+0.03	+0.01	49388	+0.01	0.00	49387	+0.01	0.00
2	Natural Resources	56121	-1.79	-4.44	56697	-0.79	-3.46	59499	+1.46	-0.52	59499	+1.46	-0.52
4	Global Europe	8104	+7.28	+5.47	8104	+7.28	+5.47	8141	+7.36	0.00	8141	+7.36	0.00
5	Administration	7701	+1.96	0.00	7597	+0.58	-1.35	7889	+0.99	+0.29	7908	+1.23	+0.53
	Total	133846	-0.06	-1.60	136951	+2.26	+0.68	141453	+2.54	-0.21	141522	+2.59	-0.16
	GNI%	1.03			1.05			1.20			1.20		
PAYMENTS													
1a	Competitiveness	11024	+12.33	-3.16	10318	+5.14	-9.36	11342	+7.26	-9.75	11339	+7.23	-9.77
1b	Cohesion	34975	+0.90	-10.33	34887	+0.65	-10.56	36385	+0.82	-6.34	37461	+3.80	-3.57
2	Natural Resources	52566	-3.26	-7.24	50276	-7.48	-11.28	58136	+0.96	-1.39	57020	-0.98	-3.29
4	Global Europe	8324	+15.82	+2.05	8100	+12.7	-0.70	7788	+8.83	-0.45	7788	+8.83	-0.45
5	Administration	7701	+1.96	0.00	7600	+0.62	-1.31	7889	+0.99	+0.31	7907	+1.22	+0.54
	Total	116096	+0.98	-6.74	113035	-1.68	-9.20	122937	+2.00	-3.60	122956	+2.02	-3.59
	GNI%	0.89			0.87			1.04			1.04		

		2011 Agreed Budget			Final Budget			2012 Agreed Budget			Final Budget		
		€M	C%	EP%	€M	C%	EP%	€M	C%	EP%	€M	C%	EP%
COMMITMENTS													
1a	Competitiveness	13521	+0.98	+0.27	13521	+0.98	+0.27	14753	+1.55	+0.13	15389	+5.93	+4.45
1b	Cohesion	50981	0.02	0.00	50984	+0.03	+0.01	52753	+0.03	0.00	52753	+0.03	0.00
2	Natural Resources	58659	-0.60	-2.03	58659	-0.60	-2.03	59976	+0.61	-0.80	59850	+0.40	-1.01
4	Global Europe	8754	+2.75	+0.82	8759	+2.81	+0.88	9406	+2.17	-0.62	9404	+2.15	-0.64
5	Administration	8082	-0.14	-1.71	8173	+0.98	-0.60	8280	+0.86	+0.29	8280	+0.86	+0.29
	Total	141818	+0.03	-0.88	142194	+0.30	-0.62	147232	+0.67	-0.36	148428	+1.49	+0.45
	GNI%	1.13			1.13			1.12			1.13		
PAYMENTS													
1a	Competitiveness	11646	+3.81	-3.99	11604	+3.44	-4.33	11501	+0.59	-8.42	11971	+4.70	-4.68
1b	Cohesion	41683	+0.52	-2.04	42390	+2.22	-0.38	43836	0.00	-2.90	48504	+10.65	+7.44
2	Natural Resources	56409	-1.58	-2.90	55794	-2.65	-3.96	57034	-0.22	-2.08	58016	+1.50	-0.39
4	Global Europe	7249	+3.39	-5.19	7053	+0.59	-7.75	6955	-0.54	-5.50	6777	-3.09	-7.92
5	Administration	8080	-0.17	-1.75	8172	+0.97	-0.63	8278	+0.84	+0.27	8278	+0.84	+0.27
	Total	126527	0.00	-3.09	126727	+0.16	-2.94	129088	0.00	-3.04	135758	+5.17	+1.97
	GNI%	1.01			1.01			0.98			1.03		

		2013 Agreed Budget			Final Budget			2014 Agreed Budget			Final Budget		
		€M	C%	EP%	€M	C%	EP%	€M	C%	EP%	€M	C%	EP%
COMMITMENTS													
1a	Competitiveness	16121	+3.59	+0.56	19191	+23.32	+19.71	16484	+1.73	-0.07	16484	+1.73	-0.07
1b	Cohesion	54509	+0.03	+0.02	55863	+2.51	+2.50	47502	-0.12	-0.28	47502	-0.12	-0.28
2	Natural Resources	60149	+0.30	-0.26	62540	+4.29	+3.70	59267	+3.91	-0.04	59191	+3.78	-1.65
4	Global Europe	9583	+3.10	+1.23	10015	+7.75	+5.79	8325	+2.03	-0.72	8423	+3.23	+0.45
5	Administration	8431	+0.39	-1.32	9281	+10.51	+8.63	8405	-0.44	-2.35	8405	-0.44	-2.35
	Total	150898	+0.75	-0.17	159810	+13.52	+5.73	142640	+0.20	0.00	142690	+0.24	+0.04
	GNI%	1.13			1.20			1.05			1.05		
PAYMENTS													
1a	Competitiveness	11886	+1.98	-12.30	16290	+39.77	+20.20	11441	+1.54	-2.38	11857	+5.23	+1.17
1b	Cohesion	47199	-0.37	-3.63	57238	+20.82	+16.87	50952	+0.12	-0.29	54006	+6.12	+5.69
2	Natural Resources	57484	+0.02	-0.83	60404	+5.10	+4.21	56459	+0.05	-0.16	55959	-0.83	-1.05
4	Global Europe	6323	+0.72	-13.53	7200	+14.69	-1.54	6191	+1.58	-2.43	6925	+13.62	+9.14
5	Administration	8430	+0.37	-1.35	10056	+19.73	+17.68	8406	-0.44	-2.35	8406	-0.44	-2.35
	Total	132837	+0.11	-3.67	153461	+15.65	+11.29	135505	+0.37	-0.42	139034	+2.98	+2.17
	GNI%	0.99			1.15			1.00			1.02		

		2015 Agreed Budget			Final Budget			2016 Agreed Budget		
		€M	C%	EP%	€M	C%	EP%	€M	C%	EP%
COMMITMENTS										
1a	Competitiveness	17552	+2.50	-0.65	17124	+2.50	-0.65	19010	+1.22	-6.48
1b	Cohesion	49230	+0.01	-0.03	49227	+22.70	+22.65	50831	+0.02	-0.92
2	Natural Resources	58809	-0.63	-0.83	59183	+7.93	+7.07	62484	-0.67	-1.78
4	Global Europe	8408	+0.78	-3.89	8343	+4.42	-0.41	9167	+5.15	+0.26
5	Administration	8661	+0.89	-0.25	8585	+0.87	-0.26	8935	+0.64	+0.25
	Total	145322	+0.17	-0.72	145077	+11.85	+10.86	155004	+1.13	-1.54
	GNI%	N/A								
PAYMENTS										
1a	Competitiveness	15798	+10.88	-0.60	15729	+10.39	-1.03	17418	+1.96	-3.29
1b	Cohesion	51125	-0.50	-6.98	51125	-0.50	-6.98	48844	+0.01	-2.75
2	Natural Resources	55999	-1.34	-1.68	55979	-1.38	-1.71	55121	-0.89	-2.24
4	Global Europe	7422	+6.90	-1.20	7478	+7.71	-0.45	10156	+11.74	+5.00
5	Administration	8659	+0.86	-0.15	8659	+0.86	-0.15	8935	+0.63	+0.25
	Total	141214	+0.87	-3.55	141280	+0.92	-3.51	143885	+1.24	-1.76
	GNI%	N/A			N/A			N/A		

GNI figures for 2015 and 2016 and final budget figures for 2016 are not available at the time of writing.

Table A2 Percentage difference between Council and EP preferences, 2007-2016

	Commitments	Payments
2007	1.26	6.45
2008	0.99	4.00
2009	1.57	8.28
2010	2.76	5.81
2011	0.92	3.19
2012	1.03	3.14
2013	0.92	3.92
2014	0.20	0.79
2015	0.90	4.58
2016	2.71	3.05
Mean 2007-2010	1.65	6.14
Mean 2011-2016	1.11	3.11
Mean 2007-2009	1.27	6.24
Mean 2014-2016	1.27	2.81

NOTES

[i] The MFFs last up to seven years and govern the maximum spending by year that is permitted for the EU. For 2007-2013, this was set at 1.048 percent of gross national income (GNI), falling to 1.00 percent after 2013.

[ii] Compulsory expenditure was linked to agriculture, fisheries and aspects of foreign policy, compulsory since these were items under which the EU was contractually obliged to provide financing. It accounted for approximately 40 percent of spending by 2009. The remaining 60 percent was deemed non-compulsory and included cohesion spending for deprived regions, as well as investment to promote growth and competitiveness.

[iii] Interview, EcoFin official #1, 15 December 2011.

[iv] Given credence by interview with EcoFin official #2, 15 January 2014: 'The Commission's DG Budget is not able to manage spending demands from within the Commission so it is up to EcoFin to behave like the EU's collective Finance Ministry.'

[v] See appropriations at: http://ec.europa.eu/budget/explained/glossary/glossary_en.cfm (accessed 29 August 2015).

[vi] I am grateful to Alan Matthews for his advice on pre-allocation and non-differentiation.

[vii] However, at the start of the 2014-2020 MFF, commitments in the agreed budget fell from €151bn in 2013 to €143bn in 2014. The EP could use approval of the MFF as a means to extract slightly higher payments in the 2014 annual budget.

[viii] Interviews: Commission official, 23 June 2011; EP policy advisor #2, 23 June 2011; EP policy advisor #3, 8 December 2011.

[ix] Interview, EP policy advisor #3, 8 December 2011.

[x] Interviews: EP policy advisor #1, 22 June 2011; EP policy advisor #2, 23 June 2011. In an interview on 21 June 2011, the budgets advisor (#4) to the EFD (Eurosceptic) group expressed different policy preferences from the advisors of the EPP, S&D and ALDE groups but confirmed the same process of events as the others for the breakdown of conciliation in November 2010.

[xi] Interview, EP policy advisor #3, 8 December 2011.

[xii] Interview, Commission official, 23 June 2011.

[xiii] Interview, EP policy advisor #2, 23 June 2011.

[xiv] Interview, EcoFin official #1, 15 December 2011.

[xv] Interview, EP policy advisor #2, 6 December 2011.

[xvi] Interview, Commission official, 7 December 2011.

[xvii] Interview, Commission official, 7 December 2011.

[xviii] Interview, EP policy advisor #2, 6 December 2011.

[xix] Interview, Francesca Balzani MEP, EP rapporteur for 2012 budget, 14 February 2012.

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EcoFin official #1, 15 December 2011

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Francesca Balzani MEP, EP rapporteur for the 2012 budget, 14 February 2012