The European budget: Consolidation or Modernisation?

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1. Introduction

The draft of Janusz Lewandowski, European Commissioner responsible for the budget, for the European budget 2013 caused quite some debate. The proposal included a 6.8% increase in expenditure, which many government leaders believe can hardly be justified at a time when they have make cuts 'at home'. However, the debate on the European budget was largely a rearguard fight, because most expenditure is fixed in the de Multiannual Financial Framework (MFF) 2006-2013. Here and there marginal changes are possible but, by and large, the general outlines are fixed. The disputes over the EU budget for next year were, as such, therefore more a prelude to the negotiations on the Multiannual Financial Framework 2014-2020.

The opening move for the negotiations on the MFF was Lewandowski's proposal to invest today in tomorrow's growth [see Annex 1], leaning on the proposals for *modernisation* of the European budget. In this, he is supported by the Netherlands, which is backing the modernisation of the European budget. The aim of the Dutch government is moreover to secure the rebate received earlier on its EU contribution and to reduce the level of expenditure. This chapter addresses the question of whether the Dutch interest is best served by a strategy focused on thinking in terms of '*juste retour*' – i.e. retaining the rebate and limiting European expenditure – or whether the government is best guided by what Alexis de Tocqueville has called 'self-interest rightly understood', which in this case is based on reallocation of expenditure with a view to stimulating economic growth and thus tackling the sovereign debt crisis.

This chapter first focuses on the *unique* character of the European budget [section 2]. We then look back on the Dutch position during the negotiations on the Financial Perspectives 2007-2013 [section 3][2]. The subsequent sections respectively address the opening position of the European Commission [section 4] and the Dutch position [section 5] in the negotiations on the Multiannual Financial Framework 2014-2020. The Netherlands aims for modernisation of the budget in which case the current rebate on the Dutch contribution to the European Union could be dropped. The chapter ends with some concluding observations cumulating in a plea for compensation on the expenditure side instead of on the revenue side of the budget.

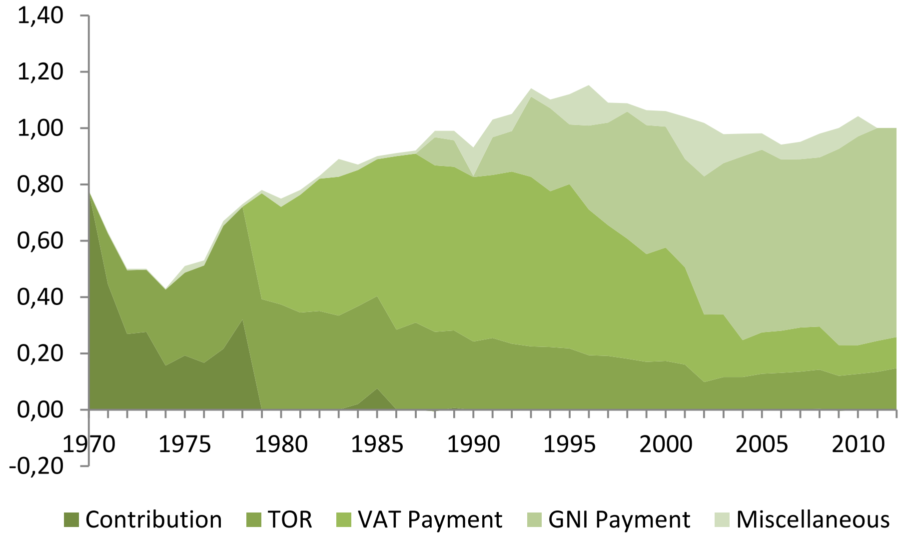
2. The European budget: a budget '*sui generis*'

The budget of the European Union can best be characterised as a budget '*sui generis*'. A large part of the revenue comes [74%] from payments by the Member States, which is dependent on the level of their Gross National Income [GNI]. The remainder is collected in the form of, amongst others, Member States' levies on agricultural products and imports of goods [a

1. The authors would like to thank three persons directly involved for the background information they provided.
2. Until recently, the multiannual agreements on European finances were called 'Financial Perspectives'. Today, they are referred to as Multiannual Financial Framework.

country may keep 25% of the yield]. Legally, import levies are a source of income for the European budget, but is considered by the Dutch government as payment to the European Union. Finally, the Member States have to transfer a percentage of their VAT revenue to the EU.

Figure 1: *Development of the European budget by income category [1958-2008]*[3]

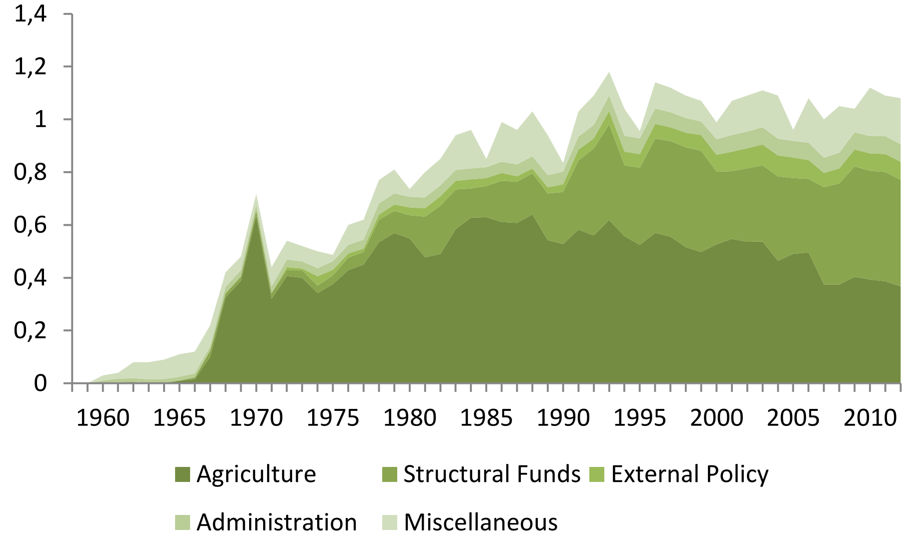


The EU budget is relatively small compared with the budgets of the Member States. Total expenditure is set at about 1% of the common Gross Domestic Product [EU GDP] of European Member States, as a result of which entire spending categories, which national budgets do include, are left out of consideration, irrespective of political or economic considerations in favour of centralisation[4]. Moreover, according to critics, the budget is not up to date, does not meet the demands of the day, and is locked in path dependency, thus seriously limiting possible or desirable changes[5]. These same critics claim that the potential impact of the EU budget is, as such, negligible[6]. The question is whether this criticism is justified. First of all, the EU's policy is, to a considerable extent, shaped by *non-financial* instruments, in this case regulation and coordination. The budget is often not the most important instrument[7]. Secondly, implementation largely takes place at national level, the costs of which are borne by the Member States. These therefore impact on the national instead of the European budget. Moreover, *financial* instruments often involve co-financing, such as in the case of cohesion policy and structural funds. The EU budget, as such, thus paints a somewhat distorted picture of the level of European expenditure. The level of the budget may

3. Data provided by DG Budget.
4. Begg, Iain (2009), *Fiscal Federalism, Subsidiarity and the EU Budget Review*, SIEPS, p. 51.
5. Begg (2009) op. cit., p. 11.
6. Begg, Iain, Sapir, Andre; Eriksson, Jonas (2008), *The Purse of the European Union: Setting Priorities for the Future*, SIEPS, p. 9; Lejour, Arjan; Molle, Willem (2011), *The Value Added of the EU Budget: Subsidiarity and Effectiveness*, The Hague: Centraal Planbureau [CPB - Netherlands Bureau for Economic Policy Analysis], Presentation at the joint CEPS-SIEPS seminar 'The Next Long-Term Budget: What Should Go In? What Should Go Out?', Brussels, 9 March.
7. Pisani-Ferry, Jean (2008), *Comments on Begg and Molle*, paper delivered at the BEPA Conference on Public Finances in the EU, under the auspices of the European Commission, Brussels, 4 April; Tarschys, Daniel (ed.) (2011), *The EU Budget. What Should Go In/ What Should Go Out?* SIEPS, p. 13.

be low, but the interests are considerable judging by the heated debates over a reallocation of available resources[8].

Figure 2: *Development of the European budget by spending category [1958-2008]*[9]



The European budget is mainly characterised by redistribution. The main part of the European budget goes to agricultural policy, which is considered as a barely disguised form of income support for farmers [42.5%], and to the structural funds [35.6%] which are largely about pumping money around. In this context, mention should be made of underspending of the structural funds because Member States have insufficient absorption capacity[10]. The effect of the expenditure is moreover difficult to determine[11].

The annual budget is 'dictated' to a considerable extent by the so-called Multiannual Financial Framework [previously Financial Perspectives] which covers a period of seven years. It is therefore important for a Member States to seize its chance during the negotiations on the MFF before the annual budget is adopted. The annual budget should then remain below the stipulated MFF ceilings. In practice, the budget often stays below the established spending caps because a number of programmes are not realised, or are not fully spent because the Member States do not have enough funds for co-financing. For instance, the amount of commitments of 1.00% of EU GDP corresponds with actual spending of around 0.94 of EU

8. The discussion on [the content of] the EU budget largely takes place in terms of 'public goods'. To what extent does it involve 'public goods': what is the added value? (Heineman, Friedrich (2011), 'European Added Value for the EU Budget', in Daniel Tarschys (ed.) *The EU Budget. What Should Go In/ What Should Go Out?* SIEPS). A problem is that it is not exactly clear what is to be understood by 'public goods', let alone European 'public goods'. The arguments that can be derived from the theory of 'fiscal federalism' regarding centralisation and decentralisation do not provide enough support. The same applies to the subsidiarity principle according to which, for reasons of efficiency, services are best provided at national level.
9. Data provided by DG Budget.
10. Bos, Marko; Riel, Bart van (2011), 'Naar een nieuw begrotingskader voor de EU' [Towards a new budget framework for the EU], *Economisch Statistische Berichten* 96(4618) 16 September, p. 540.
11. ECORYS, CPB and IFO (2008), *A Study on EU Spending*, Rotterdam; Lejour; Molle (2011) op. cit., p. 107.

GDP[12]. Unlike the annual budget – which is adopted by qualified majority – the MFF requires unanimity[13].

3. The Financial Perspectives 2007-2013

In the run-up to the negotiations on the multiannual budget for 2006-2013, the cabinet had already achieved a significant result as regards future spending of European agricultural policy. In autumn 2002, it was agreed in Brussels that the agricultural budget would remain constant in real terms until the end of 2013 [i.e. would only be adjusted for inflation]. As a result, the negotiations on the largest spending category of the EU budget only dealt with the question of whether the ceiling should also apply to new Member States [i.e. Bulgaria and Romania] and with the development of expenditure on rural development.

Together with his colleagues, the then President of the European Commission, Romano Prodi, had reviewed all necessary expenditure. The result was an expansive opening move [between 1.14% and 1.21% of EU GNI] made by the European Commission to the Member States. The proposal was rejected as too ambitious and unrealistic by the Dutch Council Presidency [second half of 2004], following which a round of consultations was held. In consultation with the Ministry of Foreign Affairs, the Ministry of Finance then developed the 'building blocks' method, whereby information had to be provided about both the total amount of money and the allocation of resources per spending category[14] [15]. A couple of countries – Belgium and Luxembourg – were not inclined to cooperate, because they were satisfied with the European Commission's review. The consultations showed that most Member States preferred a lower instead of the higher multiannual budget as provided for by the Prodi package. Thus, it soon became clear that the demand of the European Commission was quite different from the Member States' preference. The Commission proposal therefore hardly came into play during the negotiations[16].

The Dutch position during the negotiations initially focused on the following:

- The Dutch contribution to the EU is proportionate to that of Member States with a similar level of prosperity;
- The expenditure framework of the EU that does not exceed 1% of EU GNI;
- The agricultural budget will not be increased for new Member States;
- The cohesion funds will be limited to the poor regions in the poorest Member States.

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12. Peet, John (2005), *The EU Budget. A Way Forward*, London: Centre for European Reform, p. 2.
13. In his annual New Year's message, the former secretary-general of the Ministry of Economic Affairs proposed to abolish the veto on the European multiannual budget, after a solution has been found for the net contributor position, so that funds can quickly be transferred from 'old to new' (Oosterwijk, Jan Willem (2007), 'Maatwerk en modernisering in Europa' [Customisation and modernisation in Europe'], *Economisch Statistische Berichten* 12 januari, p. 7).
14. Zalm, Gerrit (2009), *De romantische boekhouder* [The romantic bookkeeper], Amsterdam: Uitgeverij Balans.
15. The 'building blocks' method is an effective way of changing the playing field. During the negotiations on the financial perspectives of 2000-2006 [Agenda 2000] the net contributing Member States had put the so-called 'Table C' on the agenda, with ceilings for each category of expenditure. This determined the room of negotiation between both proposals. The Commission proposal was not the centrepiece of the negotiations.
16. The same applies to the role of the European Parliament, which, by its own account, had hardly any influence on the outcome of the negotiations due to a combination of limited competences and internal division (Lange, Esther de (2011), *Financial Perspectives After 2013*. Presentation for the IMP program, Brussels: European Parliament, 30 March.

In the course of the negotiations, the Dutch position increasingly concentrated on a 1 billion rebate on the EU contribution. This focus on a rebate on our contribution to the EU – in line with the British rebate – thus marks an important turning point in Dutch thinking on European integration, defining the Dutch position to this day.

In his memoires *De romantische boekhouder* (The romantic bookkeeper) Gerrit Zalm puts forward the following arguments for this strategy[17]:

- A euro less paid to Europe is a euro that the Netherlands can spend entirely in line with its own priorities;
- A euro of European budget for the benefit of the Netherlands is not part of the national budget and reflects, as such, the European priorities and requirements for subsidy;
- The rules and regulations for subsidy are complicated and contain many administrative conditions that must be met. Consequently, the money is often not spent;
- The money has to paid back, possibly with a fine, when it turns out afterwards that not all conditions have been met.

However, he adds that his arguments have never been narrow-nationalist. He had always accepted that the Netherlands, being a prosperous country, would be a net payer rather than a net recipient. The Dutch stance was geared to a general rebate arrangement instead of a separate treatment[18].

Subsequently, during the Luxembourg Presidency, the ‘building blocks’ method was replaced by the ‘negotiation boxes’ approach, which involved ever-increasing fine-tuning: first the principles of the policy were defined and then the parameters were set for the further allocation of available resources. Finally, an overview was made of the consequences for the Member States[19]. The proposals contained, in principle, all negotiation points, thus preventing agreements on separate issues. In the last phase, the level of expenditure could thus be brought in line with the proposals concerning the allocation of available resources.

The ‘negotiation boxes’ method failed to produce an agreement because three countries – the Netherlands, Sweden and the United Kingdom– did not accept the individual rebate on payments which, in their view, was too low. In the subsequent negotiations during the Council Presidency of the United Kingdom, which shared the Dutch view on the rebate on the contribution, agreement was finally reached. The expenditure framework and thus the contribution of the Member States were reduced, and, as a result, the Netherlands received a 1 billion rebate on its EU contribution. In exchange, the key for the allocation of resources has been revised to make the agreement also profitable for net recipients. Negotiators regarded the common interest of the Netherlands and the United Kingdom as an important success factor[20].

Finally, during the negotiations on the financial perspectives, a few Member States, including the Netherlands, stipulated that there be a fundamental debate on the modernisation of the European budget. One of the things they objected to was the incremental nature of the European budget, due to which the utility and necessity of whole spending categories are not or only marginally scrutinised once the MFF had been adopted. Therefore, the heads of state

17. Zalm (2009) op. cit., pp. 334-335.
18. Zalm (2009) op. cit., p. 342.
19. Bachtler John and Wishlade, Fiona (2005), *From Building Blocks to Negotiating Boxes: The Reform of EU Cohesion Policy*, Glasgow: European Policies Research Centre.
20. Zalm (2009) op. cit., pp. 336-337.

and government of the Member States commissioned a Budget Review, involving a comprehensive reassessment of the European public finances[21 22].

4. The Multiannual Financial Framework 2014-2020

The proposal of the European Commission

Already in autumn 2010, the European Commission published a first Communication on the possibilities to modernise the MFF[23]. The final outlines of the proposal were adopted in May 2011, after, on a tour of the capitals, Lewandowski had consulted the individual Member States on the question of whether either ambitious goals should be set so as to have some room to manoeuvre during the negotiations, or the opposite in order to avoid that the proposal, like last time, would not be taken seriously. The result is a modernisation of the budget, which, as such, is in line with the new priorities set in the framework of Europe 2020 which aims at smart, sustainable and inclusive growth with high levels of employment. In this context, Lewandowski commissioned a consortium, led by the ECORYS research agency, to study the extent to which the subsidiarity principle applies to spending in the context of the European budget. To this end, the efficiency and feasibility of a large number of policy fields were examined. One of the conclusions of the study is that a large part of the agricultural policy could be decentralised , while at the same time centralisation of environmental policy and security policy is justified[24]. Transferring these policy areas to the EU need not affect the budget, since regulation and coordination is largely sufficient in these areas[25].

In total, the multiannual budget represents 1.05% of GNI, which is in line with the call of 9 of the 27 Member States to limit the increase in the budget to inflation correction. However, the percentage rises to 1.11% of GNI if 'off budget' expenditure is taken into account as well; in this way Lewandowski follows the view of the European Parliament that '…freezing the next MFF at the 2013 level … is not a viable option …[and that] at least a 5% increase of resources is needed for the next MFF'[26]. The *consolidated* budget, i.e. the sum of 'on budget' and 'off budget' expenditure, thus provides for an increase of the expenditure ceiling[27].

21. Cipriani, Gabriele (2007), *Rethinking the EU Budget. Three Unavoidable Reforms*, Brussels: Centre for European Reform, p. 19, p. 130.
22. The so-called Budget Review was carried out by the European Commission through a public consultation in 2007/2008. Member States as well as civil society organisations published their views on a website launched by the European Commission (European Commission (2011a). For contributions to the public consultation, see http://ec.europa.eu/budget/reform2008/issues/read_en.htm, last visited: April 2011). Due to a reshuffle of the European Commission, the debate on the European budget mainly took place in the academic world (Laffan, Bridget; Lindner, Johannes (2010), 'The Budget: Who Gets What, When and How', in Helen Wallace, William Wallace and Mark Pollack (eds.) *Policy-Making in the European* Union, Oxford: Oxford University Press).
23. European Commission (2010), *Budget Review: Lessons Learnt for Tomorrow's Budget*, Brussels.
24. ECORYS, CPB and IFO (2008), op. cit., p. 248.
25. Molle, Willem (2008), *Assessing the Structure of EU Expenditures*, paper delivered at the BEPA Conference on Public Finances in the EU, under the auspices of the European Commission, Brussels, 4 April, 2008.
26. European Parliament (2011), *Resolution of 8 June 2011 on Investing in the Future: A New Multiannual Financial Framework (MFF) for a Competitive, Sustainable and Inclusive Europe*, Strasbourg.
27. Mijs, Arnout; Schout, Adriaan (2012), 'Views on the Commission's Draft EU Budget. Excessively Ambitious or Overly Timid?', *EPIN Working Paper*, no. 32, p. 9.

The Commission proposal contains a number of controversial and drastic measures. For instance, on the revenue side of the budget it wants to include a new own resource, financial transaction tax [FTT], which would reduce contributions by Member States by 50%. In addition, the Commission wishes to introduce a generic correction mechanism. The amount that Member States are allowed to keep for collecting traditional own resources [TOR] will be further reduced [from 25% to 10%], which will have major consequences for the Dutch standpoint given the import levies collected at the port of Rotterdam. Unlike last time, Lewandowski has tabled a 1.050 million rebate on the Dutch contribution. The proposal concerning the expenditure side of the budget is lower than that proposed during the previous negotiations. However, a number of budget items, such as the Globalisation Fund and the Solidarity Fund, are placed off budget, thus distorting the picture of actual spending. The proposal also provides for a reform of the agricultural policy [reducing the difference in acreage price which is used as a basis for income support] and of the structural funds by introducing the category of transition regions [regions that are making the transition from subsidy to no subsidy].

5. The Dutch position

The cabinet decided to follow a pro-active strategy and did not wait for Lewandowski's proposal. It announced the Dutch position as early 28 March 2011[28]. The primary aim is *modernisation* of the European budget, namely:

- A frugal and effective budget, i.e. limitation of the increase in expenditure, staying below inflation.
- A future-proof budget, that is, one that reflects the priorities of the Europe 2020 strategy. The funds for these priorities should be generated by exchanging 'old for new'[29].
- Balanced burden-sharing by replacing the current patchwork of own resources by a system fully based on Gross National Income [GNI][30]

The payment correction serves as a bargaining chip and can be dropped if sufficient progress is made on the abovementioned points. The question is whether it is wise to show our hand already at this stage. In any case, it makes clear what the Dutch position is.

The Dutch position, as such, is similar to that at the time of the Financial Perspectives 2007-2013[31] [32], although it should be noted that circumstances have since changed drastically, thus making it more difficult for the Netherlands to attain its goals[33]:

28. Letter from the cabinet to the chairperson of the Dutch House of Representatives regarding the EU Multiannual Framework as of 2014, dated 28 March 2011 (TwK 2011a).
29. To this end, the common agricultural policy and the administrative expenditure would have to be nominally frozen and the cohesion policy limited to the least prosperous regions in the least prosperous countries.
30. Introducing a generic system based on GNI also means abolishing the traditional own resources, thus immediately relieving us in one go from the accounting discussion on the contribution of part of the levy on imports. As a result, the rebate on the Dutch contribution could even turn out higher.
31. Mijs and Schout (2012) op. cit., p. 10.
32. However, some aspects of the Dutch position have altered. For instance, the Netherlands is in favour of nominal instead of real growth of the budget. In addition, the government is more relaxed about increasing flexibility within the European budget.
33. Unlike during the negotiations on the Financial Perspectives 2006-2013, the Netherlands is unable to exert influence by using the rotating Presidency.

- The influence of the new Member States, which at the time had only just acceded, has grown considerably [agricultural subsidies, structural funds];
- The already prominent role of the European Council in this regard has been further strengthened by the appointment of the permanent President of the European Council, thus further weakening the role of the rotating Presidency;
- The Treaty of Lisbon has considerably reinforced the role of the European Parliament, though it should be noted that the EP is internally divided. The EP is moreover inclined to agree as long as the new level of expenditure is higher than the previous level[34].

A not insignificant difference is the Dutch pursuit of *nominal* instead of *real* growth, de facto resulting in regression. To this end, the government has teamed up with the leaders of four other Member States – Germany, Finland, France and the United Kingdom – which argue that as of 2014 the growth of the European budget should remain below inflation[35]. An increase in the European budget is hard to justify at times that drastic spending cuts have to be made at national level[36]. The government's view has been further reinforced as result of a motion tabled by the PvdA and Christen Unie during the parliamentary debate on the State of the European Union on 26 May 2011, exhorting the government, besides going for retention of the Dutch contribution rebate of at least 1 billion, not to agree with a European multiannual budget that goes beyond the nominal zero line[37]. The question at this moment is: what is the status of this motion now that the outgoing cabinet is no longer dependent on the PvdA [and CU] for a majority in parliament? To what extent is the 'new coalition' prepared to support the position of the outgoing cabinet? At the time of writing, the matter is pending until a new cabinet has been formed[38].

In principle, there is not much to be said against the arguments to modernise the European budget. This could, to begin with, take the form of greater transparency, like that seen in the changes made in the budget template due to the introduction of performance budgeting[39]. A transparent budget forms the basis for a better allocation of available resources and for controlling the legality and efficiency of expenditure, and, as such, contributes to legitimacy. However, the chance that the above points will be realised seems remote. An indication of the current balance of power within the EU is provided by the consultations that took place in the framework of the abovementioned Budget Review. They are a good reflection of Member States' views, which are generally stable, irrespective of the composition of the incumbent government coalition[40].

34. The Multiannual Financial Framework is adopted by the Council and the European Parliament in consultation with the Economic and Social Committee pursuant to the ordinary legislative procedure. Specific programmes are adopted by the Council in consultation with the European Parliament and the Economic and Social Committee pursuant to the extraordinary procedure.
35. Cameron, David et al. (2010). *Letter from Prime Minister David Cameron and other European leaders to the President of the European Commission,* London, 18 December.
36. In this context, the Prime Minister signed a letter together with the heads of state and government of Germany, Finland, France and the United Kingdom to the President of the European Commission, dated 18 December 2010, Dutch House of Representatives, House Minutes 21 501-20, no. 496.
37. Dutch House of Representatives, House Minutes 32 502, no. 6.
38. Outgoing Prime Minister Rutte recently stepped up the pressure even further when he arrived in Brussels for a two-day European summit. In his opinion, the EU budget for 2014-2012 must go down by 10 per cent (Coevert, Annemarie (2012), 'Rutte: EU-begroting moet tien procent omlaag' [Rutte: EU budget must go down by 10 per cent'], *NRC Handelsblad*, 28 June.
39. The number of articles was reduced considerably to improve allocation, efficiency and accountability.
40. Lindner, Johannes (2006), *Conflict and Change in EU Budgetary Politics,* London: Routledge.

Figure 3: *Member States' positions on contributions and the expenditure ceiling*[41]

Member States	Contributions to the EU			Expenditure framework		
	Abolish rebates	Generic correction mechanism	New tax / own resources	Limited growth	Middle position	Expenditure follows objectives
Austria	Middle	Pro	Pro	Pro		
Belgium	Pro	Contra	Pro			Pro
Bulgaria	Pro		Contra			
Cyprus	Pro	Pro				
Czech Rep.	Pro	Contra	Contra		Middle	
Denmark	Pro			Middle		
Estonia	Pro				Middle	
Finland	Pro			Pro		
France	Pro			Pro		
Germany	Contra	Pro	Contra	Pro		
Greece	Pro	Contra				Pro
Hungary	Pro	Contra	Pro			Pro
Ireland	Pro	Contra	Contra		Middle	
Italy	Pro					Pro
Latvia	Middle				Middle	
Lithuania	Pro	Contra				Pro
Luxembourg	Middle	Contra	Pro			Pro
Malta	Pro	Pro	Contra			
Netherlands	Middle	Pro	Contra	Pro		
Poland	Pro	Contra				Pro
Portugal	Pro	Contra				Middle
Romania	Pro	Contra				Pro
Slovakia	Pro	Contra	Contra		Middle	
Slovenia	Pro				Middle	
Spain	Pro	Contra				Middle
Sweden	Middle	Pro	Contra	Pro		
UK	Contra	Contra	Contra	Pro		

Pro Middle Contra

A majority of the European Member States seems to be in favour of abolishing the rebate on the contribution, which will be probably vetoed though by the UK government. In the last phase of the negotiations on the present multiannual budget, then Prime Minister Tony Blair did offer an opening as regards the British rebate – he was prepared to give up the British rebate in exchange for abolition of the agricultural subsidies[42] – but the door was closed by

41. European Commission (2010) op. cit.; Blankenstein, Richard (2011) *Onderhandelen over het meerjarig financieel kader van de EU – Een nieuw spel met andere spelers?* [Negotiating the Multiannual Financial Framework of the EU – A new game with different players?], Rotterdam: thesis.
42. BBC News (2005), 'Blair Says EU Rebate "Has to Go" ', 21 June, at http://news.bbc.co.uk/go/pr/fr/-/2/hi/uk_news/politics/4114180.stm, retrieved 9 April 2012; Núñez

the then French president Chirac. At that time, he was not prepared to talk about restructuring the agricultural policy[43].

Figure 4: *Member States' positions on the agricultural policy and the structural funds*[44]

Member States	**Agricultural budget**			**Cohesion fund**		
	Budget size	Abolition of income support	National co-financing of pillar 1	Limiting funds to poor regions in poor Member States	Middle position	Funds for all Member States
Austria						
Belgium						
Bulgaria						
Cyprus						
Czech Rep.						
Denmark						
Estonia						
Finland						
France						
Germany						
Greece						
Hungary						
Ireland						
Italy						
Latvia						
Lithuania						
Luxembourg						
Malta						
Netherlands						
Poland						
Portugal						
Romania						
Slovakia						
Slovenia						
Spain						
Sweden						
UK						

Pro Middle Contra

The moratorium on phasing out income support in agriculture may have expired by the end of 2013, but these parties are still polar opposites – judging by the consultations held in the

Ferrer, Jorge (2007), *The EU Budget: The UK Rebate and the CAP – Phasing Them Both Out*, Brussels: CEPS.

43. BBC News (2005), op. cit.
44. European Commission (2010) op. cit.; Blankenstein (2011) op. cit.

framework of the Budget Review. The same seems to apply to limiting the structural funds to the poorest regions. The Member States cannot agree on this either.

Further analysis shows that the disagreement is considerable. On the one hand, the allocation of the scarce resources should be [more] aligned to the new priorities set in the context of the Europe 2020 strategy. On the other hand, the growth of expenditure should be curtailed, taking the consequences of the sovereign debt crisis into consideration for the budgets of the Member States. It remains to be seen though whether the pursuit of modernising the European budget will lead to merely cosmetic rather than fundamental changes. What will be the government's fall-back position if there indeed proves to be insufficient support for the Dutch position?

Fall-back position: '*juste retour*' or 'self-interest rightly understood'?

For some time now, the significance of the European Union in our country seems to narrow down to a discussion on our net contribution and the place where the European Parliament should meet[45]. In the media, outgoing Prime Minister Rutte has, on several occasions, spoken in favour of a permanent rebate on the Dutch contribution[46]. However, the rebate is dropping to about 750 million because the Netherlands is supposed to contribute to the rebates of the other Member States[47]. The Commission proposal moreover suggests reducing the part of the traditional own resources that the Member States are allowed to keep from 25% to 10%, thus decreasing the amount to around 500 million[48]. The result is nothing to write home about[49]. The aim of getting a rebate on our contribution to the EU therefore nets far less than anticipated. The outgoing Rutte cabinet seems to have been fooling itself as the amount of 1 billion has already been factored into the coalition agreement. Prime Minister's Rutte words therefore seem to be mainly intended for domestic consumption. In this context, it should be borne in mind that the current MFF will indeed continue to apply if no agreement is reached on the MFF for the coming period, but that the temporary rebate will be dropped[50]. In that case, the cabinet will be left completely empty-handed. However, it seems likely that as of 2014 a new retrospective rebate will apply if agreement is reached later than expected.

Considering all this, what is there left to be 'gained'? Restructuring the *revenue* side of the budget, relieving the Netherlands in one go from the accounting discussion on the contribution of port dues and the resulting reputation damage which is hard to express in monetary terms, does not seem politically feasible. Quite the contrary, the Commission even proposes to introduce two *new* own resources – a financial transaction tax [FTT] and a new VAT resource – to make the budget less dependent on the Member States' contributions. Possibilities should therefore be found on the *expenditure* side of the budget, although it seems impossible to find a majority for either scaling down the agricultural policy or focusing the structural funds on the poorer regions. In the field of administrative costs there just is not

45. Adviesraad Internationale Vraagstukken (Advisory Council on International Affairs) (2006), *Europe: A Priority!*, The Hague, p. 8; Adviesraad Internationale Vraagstukken (2007), *The Finances of the European Union*, The Hague, p. 10.
46. For the record, a 1 billion rebate on a contribution of around 4 billion does not even amount to 1 per cent of our gross national income.
47. Reaction of the cabinet to the Commission proposals for the Multiannual Financial Framework of the EU for 2014-2020, 2 September 2011, p. 3.
48. See Annex 3.
49. This amount moreover pales into insignificance compared to the guarantees we issued in the framework of the European emergency fund.
50. The *temporary* rebate on our EU contribution will be dropped, but the *permanent* VAT payment correction – 0.1% instead of 0.3% – will, in principle, be maintained.

much to be gained. What can, or must – given this starting point – be the government's position during the negotiations on the new MFF?

The interest of the Dutch government, though, seems to lie in a qualitative discussion on the *content* of the budget rather than in a quantitative discussion on its *size*. Instead of thinking in terms of '*juste retour*', the government should focus more strongly on our 'self-interest rightly understood', whereby limitation of the increase in expenditure to inflation correction could be used as a bargaining chip. In line with the Commission proposal, the Dutch government should pursue a reallocation of existing resources in favour of activities that increase productivity and thus competitiveness in economically underdeveloped regions[51] [52].

A European budget aimed at economic growth is also to the Dutch advantage because, as calculated by the *Centraal Planbureau* [CPB - Netherlands Bureau for Economic Policy Analysis], we benefit relatively from the export of goods[53]. The results of the ECORYS study could serve as a guideline in this context, although control of spending should be tightened in order to ensure that the intended target group is reached and effectiveness increased. Still, effectiveness is not the only criterion by which expenditure should be assessed. The European integration process is based on solidarity. A positive side effect of a strategy aimed at economic growth is that migration flows subside as economic growth in economically underdeveloped regions picks up and, thus taking the wind out of populist sails.

6. Concluding remarks: towards a more enlightened European budget

In this chapter we addressed the Dutch position during the negotiations on the multiannual budget for 2014-2020. The government supports the proposal of the European Commission to modernise the budget. However, given the balance of power, the chance that the revenue side of the budget will be restructured seems to be slim. In this respect, it should also be borne in mind that the Netherlands had been a net recipient until the Treaty of Maastricht. Improvement should therefore take place on the expenditure side of the budget. The most that can be achieved seems a reallocation of resources in favour van the priorities set in the framework of Europe 2020. Particularly zooming in on those issues that are in line with Dutch priorities, such as asylum policy, security policy and preventing climate change, seems the obvious choice. However, in this context it should be noted that the flexibility of the budget is limited.

In addition and in line with the advice already issued at the time by the Sapir study group, the EU budget should focus more on economic growth[54]. Or, in the words of Pisani-Ferry, Director of Bruegel in Brussels:

> '… as ECB President Mario Draghi recently said, Europe has a fiscal compact, but lacks a growth compact. To be sure, there are no quick fixes: headline-grabbing initiatives often fail to measure up to the challenge of reviving growth. Nevertheless,

51. Adviesraad Internationale Vraagstukken (2010), *The EU and the Crisis. Lessons learnt*, The Hague.
52. In this context it is worth considering not relating the growth of expenditure, a priori, to inflation, but rather to the Europe 2020 strategy which is aimed at economic growth and employment.
53. Straathof, Bas et al. (2008), *The Internal Market and the Dutch Economy: Implications for Trade and Economic Growth*, The Hague: CPB.
54. Sapir, André (2003), *Agenda for Growing Europe. Making the EU Economic System Deliver*, Report of an Independent High-Level Study Group established on the initiative of the President of the European Commission, available at: http://serviziweb.unimol.it/unimol/allegati/docenti/2545/materiale/sapir%20report.pdf, retrieved 2 April 2012.

> serious discussion is needed concerning how to use the EU budget to enhance economic performance, rather than for redistribution only; how to foster pro-growth reforms at the national level; and how to boost investment in the periphery countries' tradable sectors. A credible growth compact would help to overcome immediate hurdles. After all, the post-war Marshall Plan was so successful not because of its size, but because it helped to counteract zero-sum games and self-fulfilling pessimism. That is a lesson to keep in mind today'[55] [56].

To what extent is a European budget that focuses more on economic growth politically possible? The balance of power indicates that most Member States are in favour of modernising the budget, but opinions are strongly divided over how that should be achieved. It seems virtually impossible to get all parties to agree, unless the discussion on the European budget is placed in a different context, i.e. that of the sovereign debt crisis. A 'frame shift' is a tried and tested means of breaking a deadlock in negotiations. The revision of the definition of the problem may reveal new ways of solving the problem, which are moreover easier 'to sell' to one's grass roots supporters by referring to the sovereign debt crisis.

In answer to the question posed in the title of this chapter, it may be concluded that reallocation of the European budget will not be sufficient to do justice to the priorities set in the context of the Europe 2020 strategy. Increasing the level of expenditure seems to be inevitable – even if support is found for reallocation – to meet the many, deviating wishes of all Member States[57]. A European budget that focuses more on economic growth may also help reduce existing macroeconomic imbalances in the Euro zone. The budget of the European Union will thus implicitly flesh out the G-pillar of the Stability and Growth Pact and the E-pillar of the Economic and Monetary Union, thus eliminating the asymmetry in the institutional architecture.

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55. Pisani-Ferry, Jean (2012), 'France and the Netherlands Strike Back', *Project Syndicate,* 30 April, http://www.project-syndicate.org/commentary/france-and-the-netherlands-strike-back, retrieved 5 May 2012.
56. According to Angela Merkel, one of the options would be a larger role for the European Investment Bank borrowing cheap and then lending the money to banks and businesses on favourable conditions (Pop, Valentina (2012), 'More Money for EU Investment Bank As Leaders Re-focus on Growth', *EU Observer,* 30 April).
57. Since it has been joined by Denmark, Italy, Austria and Sweden, the anti-coalition has more than half of the votes [163 of the 345 votes]. Those against increasing expenditure may be in the minority, but they can use their veto considering the unanimity required by the multiannual framework.

Annex 1: Proposal of the European Commission for the Multiannual Financial Framework of the EU as of 2014

MULTIANNUAL FINANCIAL FRAMEWORK (EU-27)

(EUR million - 2011 prices)

COMMITMENT APPROPRIATIONS	2014	2015	2016	2017	2018	2019	2020	Total 2014-2020
1. Smart and Inclusive Growth	**64.696**	**66.580**	**68.133**	**69.956**	**71.596**	**73.768**	**76.179**	**490.908**
of which: Economic, social and territorial cohesion	50.468	51.543	52.542	53.609	54.798	55.955	57.105	376.020
2. Sustainable Growth: Natural Resources	**57.386**	**56.527**	**55.702**	**54.861**	**53.837**	**52.829**	**51.784**	**382.927**
of which: Market related expenditure and direct payments	42.244	41.623	41.029	40.420	39.618	38.831	38.060	281.825
3. Security and citizenship	**2.532**	**2.571**	**2.609**	**2.648**	**2.687**	**2.726**	**2.763**	**18.535**
4. Global Europe	**9.400**	**9.645**	**9.845**	**9.960**	**10.150**	**10.380**	**10.620**	**70.000**
5. Administration	**8.542**	**8.679**	**8.796**	**8.943**	**9.073**	**9.225**	**9.371**	**62.629**
of which: Administrative expenditure of the institutions	6.967	7.039	7.108	7.191	7.288	7.385	7.485	50.464
TOTAL COMMITMENT APPROPRIATIONS	**142.556**	**144.002**	**145.085**	**146.368**	**147.344**	**148.928**	**150.718**	**1.025.000**
as a percentage of GNI	1,08%	1,07%	1,06%	1,06%	1,05%	1,04%	1,03%	1,05%
TOTAL PAYMENT APPROPRIATIONS	**133.851**	**141.278**	**135.516**	**138.396**	**142.247**	**142.916**	**137.994**	**972.198**
as a percentage of GNI	1,01%	1,05%	0,99%	1,00%	1,01%	1,00%	0,94%	1,00%
OUTSIDE THE MFF								
Emergency Aid Reserve	350	350	350	350	350	350	350	2.450
European Globalisation Fund	429	429	429	429	429	429	429	3.000
Solidarity Fund	1.000	1.000	1.000	1.000	1.000	1.000	1.000	7.000
Flexibility instrument	500	500	500	500	500	500	500	3.500
Reserve for crises in the agricultural sector	500	500	500	500	500	500	500	3.500
ITER	886	624	299	291	261	232	114	2.707
GMES	834	834	834	834	834	834	834	5.841
EDF ACP	3.271	4.300	4.348	4.407	4.475	4.554	4.644	29.998
EDF OCT	46	46	46	46	46	46	46	321
Global Climate and Biodiversity Fund	p.m.	p.m.	p.m.	p.m.	p.m.	p.m.	p.m.	p.m.
TOTAL OUTSIDE THE MFF	**7.815**	**8.583**	**8.306**	**8.357**	**8.395**	**8.445**	**8.416**	**58.316**
TOTAL MFF + OUTSIDE MFF	**150.371**	**152.585**	**153.391**	**154.725**	**155.739**	**157.372**	**159.134**	**1.083.316**
as a percentage of GNI	1,13%	1,13%	1,12%	1,12%	1,11%	1,10%	1,09%	1,11%

Annex 2: Net position by EU Member State in 2009[58]

	Revenue	Payments	Reimbursement 2007-2008	Net
Austria	1.822	2.316	-31	-463
Belgium	2.464	4.661	205	-1.993
Bulgaria	903	390	17	530
Cyprus	197	199	9	6
Czech Republic	2.988	1.374	72	1.686
Denmark	1.400	2.491	144	-947
Estonia	710	159	9	561
Finland	1.230	1.814	110	-473
France	14.228	20.093	1.096	-4.769
Germany	11.865	20.510	-1.736	-10.382
Greece	5.450	2.425	126	3.152
Hungary	3.775	909	51	2.918
Ireland	1.940	1.534	92	498
Italy	9.625	15.418	949	-4.844
Latvia	733	216	12	529
Lithuania	1.803	322	17	1.497
Luxembourg	166	287	17	-104
Malta	65	64	3	4
Netherlands	2.007	3.337	-2.109	-3.439
Poland	9.543	3.134	146	6.556
Portugal	3.724	1.637	89	2.177
Romania	2.791	1.342	61	1.510
Slovakia	1.236	712	37	561
Slovenia	636	428	19	227
Spain	11.875	11.170	593	1.297
Sweden	1.463	1.855	-609	-1.002
United Kingdom	6.221	10.112	524	-3.377

58. Algemene Rekenkamer [Court of Audit] (2011), *EU-trendrapport 2011; Ontwikkelingen in het financieel management van de Europese Unie* [EU trend report 2011; Developments in the financial management of the European Union], Dutch House of Representatives, House Minutes 32 624, no. 1, pp. 44-45.

Annex 3: Calculation rebate on Dutch contribution[59]

Gross rebate	1.050	
Contribution to rebate pool	-375	
Contribution UK rebate	75	Dropped
Net rebate	750	
Reduction cost of collection	-250	
Balance	500	

59. Data provided by the Ministry of Finance.