

Financing social and cohesion policy in an enlarged EU: plus ça change, plus c'est la même chose?

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Abstract

The development of the Open Method of Co-ordination, agreement on the Lisbon Agenda and EU enlargement offered the prospect of a new and substantial EU social policy agenda. This paper considers EU social and cohesion policies in the context of the recent negotiation of the EU budget for 2007-2013. We find the Commission's wish to redistribute EU spending in favour of these policy areas and new member states was thwarted by key political features of EU budget-making: CAP spending levels that are downwardly sticky; institutional arrangements that provide for budget-making as, at best, a zero-sum game; and the preferences of contributor member states in the EU15 to contain overall spending whilst preserving their net budget positions. Questions are thus raised as to the ability of the EU to make any progress, from a budgetary perspective, on the social and cohesion policy agenda in an enlarged EU.

Keywords

EU social and cohesion policies; Financial Perspectives; EU enlargement; budget constraints

Introduction

In February 2004, the European Commission presented proposals for a new Financial Perspective for the period 2007-2013 that sought to re-structure EU spending. Given the 2004 enlargement and the challenge of the 'Lisbon Agenda', resources were to be directed towards, in particular, enhanced provision of social and cohesion policies. However, by the time the member states concluded negotiations in December 2005, not only had much of the proposed additional expenditure been removed, the EU budget was cut as a percentage of EU national income, notwithstanding the 2004 and 2007 enlargements. Although, the European Parliament made minor changes to the agreement in April 2006 prior to its final approval, the December 2005 deal was left fundamentally intact.

EU social and cohesion policies cover many different issues, helping create "a generally fragmented literature, riven not just by focus and conclusion about subject matter but also by originating discipline and approach." (Daly, 2006: 462). Recent contributions include Tsarouhas (2005), who explores the lack of progress on social dialogue and labour rights within a path dependency framework, whilst Daly (2006) argues that measures addressing poverty and social inclusion are present, but lack a firm foundation. Jepsen and Serrano Pascual, (2005), and O'Connor, (2005), both examine the meaning, context and substance of the 'European Social model'.

The present paper seeks to contribute to this literature by analysing EU fiscal activism in social and cohesion policies. It considers, first, the theoretical context of the EU as a 'regulatory state' and notes how this can be linked to the introduction of the Open Method of Coordination (OMC) as a way of developing EU policy activism in areas

previously the domain of national action. We then review briefly the development of EU social and cohesion policies, considering the extent to which they have converged around the theme of jobs and employment-creation. The paper also investigates their impact on the budget, noting the difference between the EU acting as a regulatory state and the EU engaging in explicitly redistributive policies. It then examines the evolution of planned spending through the negotiations for the Financial Perspective 2007-2013. In so doing, we seek to establish whether the OMC has shifted EU social policy onto a new trajectory of policy and fiscal activism.

The EU, Policy Functions and the Open Method of Coordination

In a series of highly influential works, Majone (1994, 1996, 1999; see also Moran 2002) introduced the notion of the EU as a ‘regulatory state’. The concept is backed by substantial and sophisticated analysis but may be summarised as prioritising the correction of market failures (through regulation) over traditional state functions such as macroeconomic stabilisation or income redistribution. As Hix (1998: 39) puts it: “the key governance function is ‘regulation’ of social and political risk, instead of resource ‘redistribution’” (Hix 1998: 39). However, as Follesdal and Hix (2006: 542) note this distinction at the heart of the regulatory state concept is problematic because a separation between efficient regulatory intervention and inefficient redistributive policies is rarely clear in practice: ‘...the empirical reality of decisions is a continuum between policies that are predominantly efficient and policies that are predominantly redistributive, with many mixes.’ It is pertinent in this regard and to the subsequent analysis to note also the difference between policy functions and fiscal functions. The former refers to policy ‘types’: regulation, stabilisation and redistribution. The latter

term focuses on their budgetary implications which, as discussed below, can vary considerably.

The concept of the regulatory state allows us to see the EU as something *sui generis* rather than a new version of a traditional welfare state. The limited role of the EU as a technocratic problem-solving regulatory state is a function of the absence of a pan-European identity that would legitimate substantial tax revenue-raising powers at the EU level and a substantial EU-wide welfare state, concerned with redistribution between individuals. This lack of an EU-wide *demos* is also the source of concerns over the democratic deficit (Bellamy 2006). However the function of regulatory state is the correction of market failures and securing Pareto improvements rather than redistribution; for Majone (1996) the lack of common European identity or solidarity is not an issue as the EU should not be seen as ‘democratic’ in the usual sense of the term. Indeed, majoritarian institutions might well choose policies that represent the short term preferences of the majority as opposed to policies which reflect longer term interests or those of minorities. Bellamy (2006) calls this the ‘public interest’ defence of the current EU polity. Instead of democracy, the major issue for the EU is credibility (Majone 1999): for example the role of the European Parliament (the closest EU institution to majoritarian democracy) is to improve quality of legislation rather than encroach upon the policy preferences of national governments.

Interestingly, this represents a strong convergence with the position of Andrew Moravcsik, the leading intergovernmentalist in the analysis of EU integration (see Follesdal and Hix 2006 for an extended discussion of this convergence). This is important for the present paper because our subsequent analysis of the EU budget-

making process is in terms of liberal intergovernmental politics. Moravcsik (2002) starts with the proposition that democratically elected national governments still dominate the largely territorially based, intergovernmental decision-making structure of the EU. Because national governments run the EU and there is hard intergovernmental bargaining in the adoption of all EU policies, the EU is unlikely to adopt anything that adversely affects an important national interest or social group. Follesdal and Hix (2006) set out how, on this view, there will be few gaps in practice between the preferences of the national governments and the EU policy outcomes and thus no significant democratic deficit. Using a liberal-intergovernmentalist perspective, Moravcsik (2002: 614) provides several reasons why EU policy-making should be isolated largely from majoritarian political control: the individual citizen's costs of involvement in complex, technical issues of low electoral salience, to avoid tyranny of the majority, and to avoid the policy process being captured by particular private interests. It is beyond the scope of this paper to investigate the recent critiques of these deficit-deniers, but see Follesdal and Hix 2006, Bellamy 2006, Wincott 2006).

In regulatory state terms, the role of EU social policy is to facilitate the process of EU market integration through, for example, the regulation of environmental standards to ameliorate the negative externalities of pollution, or labour standards to reduce asymmetries of information in individual wage bargaining. However, there has been a recently emerging view that detects the beginning, hesitantly and highly contingently, of an expanded EU social policy beyond the currently limited role implied by the concept of the regulatory state. By the late 1990s, the context of EU social policy-making was changing. Policy developments such as EMU gave rise to new

coordination needs “in areas where legal competences rest with the member states” (Borrás and Jacobsson, 2004: 186). Further, the Lisbon Agenda (see below) sought to coordinate employment and welfare policies to complement EMU (see also Trubek and Trubek, 2005; Wincott, 2003). Third, impending enlargement raised technical issues, such as the efficiency of collective decision-making, as well as practical concerns over the capacity to govern successfully acute social and economic problems.

The Open Method of Coordination (OMC) emerged from this changed context. This variation on soft law (see, in particular, Borrás and Jacobsson, 2004: 188), contrasts with the hard law approach of the Community Method, as it “does not involve a formal or full-fledged transfer of competences” (Borrás and Jacobsson, 2004: 187) to the EU and thus is an appropriate means of “placing issues high on the EU agenda whilst preserving national autonomy” (*op cit*, page 190). Ashiagbor (2004: 305) describes the OMC as a middle way between “centralised harmonisation” and “mutual recognition or regulatory competition”.

The OMC still has similarities with the Community Method, in that it “is, in part, a process designed to bring about changes in *national* law” (Trubek and Trubek, 2005: 359, emphasis in original), but the approach is consistent with subsidiarity: policy guidelines are fixed collectively at the EU level and deadlines determined for when the Member States should achieve policy targets. Indicators and benchmarks are then agreed that allow best practice to be determined and shared. Thus policies are implemented “taking into account national and regional differences” (Lisbon Presidency Conclusions, March 2000, paragraph 37). The EU role is thus to ensure

Member States achieve the policy goals through “mutual learning processes” (*ibid*). The OMC is driven by the Commission and member states, the former able to promote a collective agenda without the aforementioned “full-fledged transfer of competences”, whilst the latter have the ability to determine, individually and collectively, the nature of the policy responses. This, as discussed below, is also relevant to determining the potential impact of the OMC on the EU budget.

Although the analysis that sees a nascent change in EU social policy still assumes that resources will be significantly constrained, it is possible using a neo-functionalist logic to state that, *ex hypothesi*, enlargement and the Lisbon Agenda will generate functional spillovers that require greater EU social policy activism and a commensurate increase in committed resources. The recently acceded countries are at a qualitatively different level of economic development than the EU15; indeed regional disparities in income per capita are of a magnitude that the EU has never previously had to deal with. Alternatively, we view the EU budgetary process in terms of intergovernmental politics; the context here is potentially transformed by the participation of the new member states (NMS) alongside the domestic political consequences of the exporting of large volumes of labour from new to old member states leading to expectations of an expanded EU social policy.

This paper suggests that EU budget-making – in particular the agreement of the new Financial Perspective – is a critical case to test whether the OMC and enlargement are in fact shifting EU social policy onto a new trajectory. Two levels of potential conflict in EU budget-making are explored that may constrain this: between the European

Commission and European Council/member states; and between member states within the Council – notably between the net budget contributors and the NMS.

EU Social and Cohesion Policies: context to the budget talks

Social policy has a longer history than cohesion policy. Funded through, *inter alia*, the European Social Fund (ESF), the 1957 Treaty of Rome identified “Social Provisions” to be provided collectively by the member states. In particular, Article 3 identified ESF funding for “improving employment opportunities” and raising the standard of living of workers, whilst Article 118 identified policy areas² where “the Commission shall have the task of promoting close cooperation between Member States”.

EU social policy has since developed more slowly than market integration initiatives, consistent with Majone’s vision of the EU as a regulatory state. Dekker *et al* (2005: 33-34) explain the lack of development early on in terms of, notably, favourable economic conditions and the impact of unanimity-voting rules on the ability to develop new policies. By the 1980s, worsening economic conditions and growing diversity with successive enlargements re-focused attention on the social aspects of European integration. This generated rhetoric and some policy action around ‘Social Europe’, bolstered by the Single European Act (SEA) and its emphasis on market integration, along with the introduction of more qualified majority voting (QMV).

The 1990s saw a marked shift in the emphasis of EU social policy. The June 1997 Amsterdam European Council, building on the earlier Essen and Dublin meetings, agreed guidelines on growth and employment. This linked back to the original Treaty

goals and can be seen as reinvigorating this strand of policy, given unemployment levels across the EU. The European Employment Strategy, launched in November 1997 at the 'Luxembourg Jobs Summit', established a four-pillar approach to improving employment in the EU: employability, entrepreneurship, adaptability and equal opportunities.

This Strategy remains central to EU policy, but it has been developed further through the Lisbon process. The Presidency Conclusions from the 2000 Lisbon summit declared, famously, that "[t]he Union has today set itself a ***new strategic goal*** for the next decade: *to become the most competitive and dynamic knowledge-based economy in the world capable of sustainable economic growth with more and better jobs and greater social cohesion.*" (Presidency Conclusions, paragraph 5, emphases in the original). Subsequently, the European Commission (2005a) reinforced the importance of employment promotion, through five ESF-funded policy fields: promoting active labour market policies, training and education for lifelong learning, and entrepreneurship through a skilled and adaptable workforce, plus two measures to help specific groups gain better access to the labour market: women and those exposed to social exclusion.

Neofunctionalist arguments often accompany applications of the regulatory state concept; that some forms of social policy are required by the demands of regulating market integration. Contrary to the expectation that a process guided by market liberalisation would lead to a regulatory 'race to the bottom', Egan and Wolf (1999: 253) argue that in certain areas, such as consumer and environment protection, health,

bio-technology, and workplace conditions, standards have been raised: there has been a regulatory ‘race to the top’.

Importantly, both Daly (2006) and Wincott (2003) see potential for the OMC, despite the fiscal limitations, to introduce further patterns of re-regulation and modernisation of the European political economy rather than the deregulation and the politics of the lowest common denominator implied by the notion of the regulatory state, in which the social policy aspects of EU integration are marginalised. Further, following the 1995 enlargement it could be seen from the Nordic countries that social policy initiatives and economic efficiency were not necessarily contradictory policy goals.

In contrast to social policy, cohesion policy was only introduced into the Treaty with the SEA,³ although the Preamble to the original Treaty referred to reducing the backwardness of less favoured regions, achieving convergence between regions and thus ensuring economic unity and the “harmonious development” of the member states. To this end, from 1975 resources had been channelled through the European Regional Development Fund (ERDF). By 1986, however, growing economic pressures and the accession of several poorer countries created divergences and a growing belief that, as with the social agenda, renewed effort was required at the EU level. The new policy sought to strengthen economic *and social* cohesion, with a three funding channels identified: the ESF, ERDF and the European Agricultural Guidance and Guarantee Fund. The 1986 policy identified five objectives with a sixth, for Arctic regions, added in 1995. In 1999, these were rationalised to three which, in line with the changes to social policy, focused increasingly on unemployment concerns.

It is nearly impossible to present a consistent series of data, for any length of time, for EU spending on social and cohesion policies, given policy developments and parallel changes in EU budgetary nomenclature. Data from the Annual Reports of the Court of Auditors indicate that from the late 1960s to the mid 1970s, spending by the 'social fund' was typically 2%-3.5% of total EU spending. Spending by the 'regional fund' only started in 1975, but very quickly caught up with social fund spending. From 1978, other monies are shown for social and cohesion spending in addition to these two funds. By the late 1980s, social spending was averaging about 7-8% of the EU total, with a series of new measures introduced during the 1980s: targeted support for youth unemployment, social aspects of Integrated Mediterranean Programmes and special assistance for Greece, following their accession, to help promote integration.

Cohesion spending was about the same level in 1988, but was about to take off. In 1988, a reform to the EU budget process (see, *inter alia*, Ackrill, 2000; Laffan, 2000) introduced medium term financial planning for the EU budget, through multi-annual 'Financial Perspectives' which set out projected spending by main policy area. Following the SEA, the decision was taken – and implemented through the Financial Perspectives – to double the share of the EU budget devoted to cohesion measures, to one quarter by 1992 (although some of this was the result of technical changes in accounting protocols rather than 'real' increases). In the next Financial Perspective the share was raised further, to one-third by 1999 where, annual fluctuations aside, it has been since.

This highlights the different budgetary impact of regulatory and redistributive policies. The increase in the redistributive capacity of cohesion policy was connected

with the broader policy context – notably the accession of poorer countries and the economic impact of the Single European Market on poorer peripheral regions. Later, the development of the OMC can be seen in a similar light, shaped by the Lisbon Agenda, EMU and also by enlargement, albeit in a policy area where political sensitivities are higher and the reassignment of policy functions more limited.

This relatively limited reassignment of social policy functions is mirrored by a more-limited reassignment of fiscal functions. Indeed, the ‘coordinating’ nature of the OMC represents the transfer of some policy functions that have little or no fiscal impact. That said, EU spending on social policy can still rise under the OMC. Five ESF-funded measures were identified by the European Commission (2005a, noted earlier). Regent (2003: 208), in particular, notes the link between the “reorganisation of the European Social Fund” and “the *partnership* approach....at the heart of the local Employment Strategy” (emphasis in original).

Regarding increases in EU budgetary resources under the OMC, it is important to note the central position of the member states, through the European Council, in negotiating the Financial Perspective and in implementing social measures through the OMC. Thus the rest of the paper, in exploring the negotiations over the Financial Perspective for 2007-2013, highlights potential conflicts between the Commission’s plans to raise EU spending and the member states’ willingness to approve such an increase. Throughout, it is important to keep in mind also the links between planned developments in EU social policy, the introduction of the OMC and EU enlargement.

In presenting our account of the recent budget negotiations, we adopt a liberal intergovernmentalist approach (Moravcsik, 1993; 1998), combined with recent historical institutionalist scholarship on the development of the EU budget system (Ackrill and Kay, 2006). In these terms, the substantive and institutional development of the EU may be explained through the sequential analysis of national preference formation and intergovernmental strategic interaction. The former uses a rational choice perspective, where the national costs and benefits of EU activism are determinants of national preferences, where these depend to some extent on the domestic politics of EU policy. In terms of the latter, the intergovernmental bargaining process over the EU budget is conditioned by the historical legacy of rules, routines and conventions in a particular policy domain.

Negotiating the new Financial Perspective, 2003-2005: outcome and explanations

Table 1 presents data on EU spending from 2000 to 2004. Of €34.2 billion cohesion spending in 2004, €22 billion went to the poorest, Objective 1 regions, whilst €6.5 billion went to Objectives 2 and 3, of which nearly €3.5 billion was channelled through the ESF. In addition the Cohesion Fund disbursed over €2.6 billion. Table 1 also shows the modest sums spent on ‘internal’ policies: in 2004 just €50 million went on “training, youth, culture, media, information and other social operations”, only about two-thirds of which was for the ‘social’ policy areas of education, vocational training and youth – representing about 1% and 0.7% respectively of total EU spending in 2004.⁴

APPROXIMATE LOCATION OF TABLE 1

It is against this budgetary background that we use the negotiation of the new Financial Perspective to test for a nascent shift in the direction of EU social policy in favour of social objectives ahead of, at least in some cases, the demands of economic efficiency. Whilst this would not represent a wholesale overturning of the concept of the EU as a regulatory state it would be an important, if subtle, adjustment of its terms, insights and analysis.

The European Commission (2004b; 2004d) set out the initial proposals for the Financial Perspective (FP) 2007-2013,⁵ shaped by the enlargement process whilst recognising the potential constraints on the availability of additional resources. The EU budget is subject to a balanced budget rule (BBR) – spending each year cannot exceed a pre-set revenue limit. Through the 2000-2006 FP that has been 1.24% of EU Gross National Income (GNI), including a margin for unforeseen expenditure. Allowing for this margin and unspent appropriations, however, actual EU spending in recent years has been around 1.01%-1.02% (see European Commission, 2005c: 136).

The Commission proposal left this ceiling unchanged, but sought to accommodate new policy measures by shifting resources between policy areas and reducing the margin for unforeseen spending within the 1.24% limit. Given the OMC in social policy and its corollary that job-creation is fundamentally down to national policy-makers, the European Commission targeted specific financial assistance e.g. the five ESF-funded policy measures identified earlier, also directing resources towards “the least developed regions and Member States” (European Commission, 2004a: 51), mainly the NMS.

Before examining how these proposals affected planned EU spending, note that the EU budget has been restructured to reflect changing policy priorities and synergies, especially regarding social and cohesion policies. The budget is split into 6 spending lines, of which the focus here is Line 1, Sustainable Growth, divided into 1a (Competitiveness for Growth and Employment) and 1b (Cohesion for Growth and Employment): “delivering the Lisbon agenda entails addressing the mutually reinforcing aspects of competitiveness and cohesion.” (European Commission, 2004b: 6). Thus the convergence in social and cohesion policies is now reflected also in their funding arrangements.

The Commission proposals anticipated a considerable rise in real-terms spending on Line 1. As Table 2 shows, the proposals included planned spending in 2006, adjusted to the new budget nomenclature, enabling like-for-like comparison. Compared with the 2006 figures, proposed spending on Competitiveness was to rise by 38% in 2007 and by 194% by 2013. The respective figures for Cohesion spending are 23% and 33%. Line 3 (Citizenship, freedom, security and justice) includes a ‘Youth Programme’ promoting European citizenship, ‘youth’ previously being part of social policy. Given the limited resources devoted to Line 3 (see below) and peripherality to the main themes of this paper, it is not considered further here.

But, having agreed the ‘Lisbon Agenda’ and enlargement, why did the member states find it so hard to reach agreement on the next FP – and on Line 1 in particular? On 15 December 2003, six net contributors to the EU budget (Germany, France, the Netherlands, Austria, Sweden and the UK – the ‘G6’) pre-empted the publication of European Commission 2004b by publishing a letter demanding that the EU budget be

capped at 1% of GNI. Coming just after the collapse of talks on the Constitution, it could be argued this was a rebuke to two net budget recipients, Spain and Poland, whose attitudes were felt by some to have contributed to the talks collapsing.

Even if this were a factor, however, it is unlikely to have been the sole reason for the G6 demand. In terms of national preferences regarding the budget, within the G6 the Netherlands, Sweden and the UK had long sought budgetary restraint. A tight spending limit was a rational way to contain their budget contributions. Significantly, they now had support from France and Germany. Both had been embarrassed by European Commission challenges to their budget deficits under the Stability and Growth Pact. The call for cuts in EU spending can reasonably be seen as a retort to EU pressure on domestic spending.

European Commission, 2004b (pages 27-28) responding by arguing that 1% would be inadequate, because of the impact of enlargement, a “pressing need” (page 28) to boost spending on Competitiveness for Growth and Employment (Line 1a) and a wish to incorporate the European Development Fund into the EU budget. To this list, a fourth factor can be added. The Commission sought to re-structure EU spending, but in October 2002 the member states agreed to limit real spending on the Common Agricultural Policy (CAP) through to 2013 at the 2006 level, excluding rural development (Council of the European Union, 2002: 5). This appeared to represent a credible containment of CAP spending in the context of the 2004 enlargement. Subsequent discussions, however, confirmed that member states saw the real 2006 level not just as a maximum, but a minimum as well (almost certainly the intention

from the start). Thus with unchanged CAP spending, lower total spending would mean greater pressure on spending on other policy areas.

The Impact on Line 1 Spending

Table 2 shows the evolution of proposed spending for Line 1, from the initial proposal to the 19 December 2005 agreement (no other spending line was changed more times). The Commission proposals represented a substantial increase in spending over 2006 levels, but Table 2 makes clear how much the member states reined-in these ambitions. Taking the elements of Line 1 separately, Line 1b sees a small rise after 2006, with about one quarter of the 5 December cut recovered by 19 December.

Line 1a, reflecting new spending and new policies, sees the final agreed figure 46% below the initial proposal. The Member States even reduced the Commission proposals for 2007 spending below 2006 levels. Annual real spending growth on 1a over 2007-2013, compared with 2006, was 13.5% in the initial proposal. In the 19 May Negotiating Box (see the note to the Appendix Table), the Luxembourg Presidency argued the figure should be between 8% and 11%. In the final agreement, it was just 7.25%. Moreover, the Negotiating Boxes stated that, within 1a, priority should be given to research. The 19 December agreement concluded real-terms research spending in 2013 should be about 75% higher than in 2006. With total 1a spending growing by about 43% spending on other 1a measures, such as social policy, must face lower real-terms spending growth.

APPROXIMATE LOCATION OF TABLE 2

The 19 December agreement also provided for up to €500 million to be made available for a Globalisation Adjustment Fund, “to provide additional support for workers made redundant as a result of major structural changes in world trade patterns, to assist them with their re-training and job search efforts” (paragraph 12). This followed the recognition by the Commission that globalisation and the resulting economic restructuring by firms can have negative consequences for some workers (European Commission, 2005b). The Fund will not be resourced separately, but will draw upon money made available either from the previous year’s unspent margin, or from cancelled commitments from the previous two years from spending lines other than 1b (European Parliament, Council, Commission, 2006: 4-5).

Negative Sum Games, Negative Attitudes and Negative Outcomes

The foregoing raises questions about the forces shaping the negotiations, especially the pressures influencing member state behaviour within the European Council. Under the balanced budget rule, changes to the prevailing distribution of total EU spending across member states represent a zero-sum game: one country cannot gain without another losing. Furthermore, FPs are agreed within the European Council, where decisions require unanimity. Thus when countries negotiate a new FP it is impossible for all to maximise individual returns from the EU budget. A rational second-best strategy, however, is for countries to defend existing budget shares. When new member states join the EU and engage in this negotiating process, the distribution of spending they gain or are entitled to will vary across policies; and without existing baselines to defend or experience of the low politics of EU budget making, NMS are vulnerable to being squeezed during the negotiating process (see Ackrill and Kay,

2006, for a full analysis of national preference formation in the EU budget-making process).

The EU15, when setting the budgetary terms for the 2004 enlargement in 2002, chose to retain the overall spending limit agreed in 1999, despite a larger accession of ten, rather than six, countries. Accommodating ‘non-compulsory expenditure’ (such as social and cohesion spending) is relatively straightforward technically, because such sums are determined directly. In contrast determining CAP spending, the principal ‘compulsory expenditure’, was more problematic. This is determined endogenously within the policy instruments – once they are in place, the EU is compelled to fulfil all resulting budgetary obligations and can only affect spending via changes to the policy instruments.

The main type of CAP spending is direct payments to farmers. The decision was taken to phase-in these payments over ten years. Moreover the mostly costly element, paid per hectare of arable land, was to have a lower unit value in most NMS because a key input, past yields, is typically lower than in the EU15. This agreement does not violate the *acquis* nor the Treaty, because payments are still made and the basis of the payment calculation is the same in each country. Also, several enlargements have included transition periods. This shows the willingness of the EU15 to ring-fence their own receipts from the EU budget, imposing any necessary savings on the NMS.

The negotiations over the next FP, however, were made more difficult by the G6 demand to reduce EU spending as a percentage of GNI, which created not a zero-sum but a negative-sum game, whilst the NMS would now participate fully in discussion

and voting. One way to contain spending and preserve prevailing EU15 spending shares is to seek to reverse the Commission's spending proposals, on Line 1 in particular. The NMS would gain most from higher Line 1 spending but, as new members, the political importance of EU budget inflows (and thus the pressure to defend prevailing transfers) would be less than in the EU15. Moreover, the phasing-in of CAP payments will see transfers rise each year to 2013, even with no new policy developments.

The final agreement, negotiated under these pressures, affected in particular planned spending in the poorest member states. Until 2004, total internal spending was steady at around 6-7% of total EU spending. Within this, 'education, vocational training and youth' was a small element, albeit with a slowly rising share in 2003 and 2004. The new FP sees only a small change in the share of spending going to 'Competitiveness for growth and employment'. The Commission proposals had been for Line 1a to jump to 10% of EU payment appropriations in 2007, rising to 18% in 2013. The 19 December agreement reduced these figures to 7% and about 10.5% respectively.

The Negotiating Boxes disaggregate Line 1b spending much more than Line 1a, as shown in Tables 3 and 4. Table 3 shows that, compared with July 2004, the sum assigned to spending in the poorest 'convergence' regions in June 2005 falls in total, but rises as a percentage of total 1b spending. Within the proposed cut in 1b spending, therefore, there is a relative shift in resources towards the poorest member states. From 15 June on, however, spending on 'competitiveness and employment' rises gradually with each new proposal, whilst proposed spending in the poorest countries is cut by the UK presidency and only partially restored in the final agreement. The

upper portion of Table 4 confirms a similar pattern with the individual elements of convergence spending. Both the funds targeted at the poor regions generally and the funds channelled through the Cohesion Fund are cut, then only partially restored.

APPROXIMATE LOCATION OF TABLES 3 AND 4

The 'phasing-out' regions are those rendered ineligible for Convergence (previously 'Objective 1') or Cohesion Fund support because their per capita incomes are now above the eligibility thresholds for Convergence funding (75% of the EU average) or the Cohesion Fund (90%). This arises because the accession of poorer countries has reduced the EU average, generating the so-called 'statistical effect'. Whilst the 15 June planned cut in spending in these regions was considerable, the final agreement represented a modest increase in regions which are, by definition, the richest of the poor regions, located principally in the EU15.

Table 4 also breaks down 'competitiveness and employment' into its components. Despite the substantial cut in planned total spending on this measure, planned spending on the 'phasing-in' regions holds up and, by 19 December, is 7.5% higher than the Commission proposal (this is the only measure where the final agreement is higher than the original proposal). These are again the richest of the poor regions, but for whom economic growth has seen them lose eligibility for convergence funding. Funding for the other eligible regions, defined negatively as not being eligible for convergence support as either a poor or 'phasing-out' region, is cut sharply in June 2005 but, again for these richer regions, by 19 December had recovered slightly.

In addition, cohesion-related transfers to a member state in any one year have been capped at 4% of Gross Domestic Product (GDP). The June 2005 proposals saw the 4% figure retained only for the very poorest regions (GNI per capita below 40% of the EU25 average), with a sliding scale down so that regions with GNI per capita of 70-75% had a 3.4% limit. The final agreement reduced the figure for the poorest regions to 3.7893% and for regions at 70-75% of the EU average to 3.2398%. Thus even the poorest NMS now have a lower ceiling on total cohesion transfers.

Given the scale of the cuts agreed by 19 December, one aspect of the negotiations immediately before the final agreement is worth noting. Poland was particularly opposed to many of the proposed cuts affecting the NMS. The modest increases in planned spending offered by the UK Presidency through December helped bring some NMS on board, but it appears that Poland was finally swayed by a sum of €100 million, less than 0.2% of their expected cohesion receipts over 2007-2013. This offer, from German Chancellor Angela Merkel, represented money intended for eastern Germany. The Polish Prime Minister said afterwards that it was “a beautiful gesture, hard to measure in zloty or euro because it is a gesture of solidarity”.⁶

Although the 19 December agreement has been referred to throughout as the final agreement, this is not strictly correct: it is the European Parliament who have the final say on the EU budget. They reached agreement during the first half of 2006, knowing the member states would not countenance a significant reversal of their very hard-won agreement. Despite earlier support for the Commission’s spending proposals, the final agreement saw only a tiny rise in total resources and a minor redistribution of money between some spending lines.⁷

Conclusions

The development of the Open Method of Co-ordination, the Lisbon Agenda and EU enlargement all offered hope for an expanded EU social policy agenda. In particular, many suggested that the largest single enlargement in the history of the EU in 2004 would result in substantial policy and governance reforms favouring social priorities. The European Commission's initial proposals for a new budget for 2007-2013 confirmed this view, with plans for large aggregate increases in EU expenditures on social and cohesion policies put forward along with a substantial redistribution at member state level, in favour of those countries acceding to the EU.

In this paper, we have carefully articulated the budget process that resulted in a final agreement in 2006 in which these ambitious initial goals were largely neutralised. Spending plans for social and cohesion policies were particularly affected in negotiating the final agreement, with the new member states being the greatest relative losers. As we have charted, both the Luxembourg and UK Presidencies presented draft compromises for negotiation over a six-month period that not only reined-in planned total spending, but which also redirected much of the remaining planned spending back towards the richer eligible member states.

Enlargement represented not a punctuation in the long-run institutional equilibrium of EU budget making, but merely a mild perturbation, consistent with the path-dependency characteristics of the EU budget process. We have argued there is no 'big bang' punctuation in either the long run scale or member state distribution of the EU budget a given combination of institutional inertia and individual member state

preferences within the EU15 to avoid or limit negative net fiscal positions, compounded by prior agreement to leave CAP spending intact.

The key institutional arrangements that provide for EU budget-making being, at best, a zero-sum game are: (i) the unanimity-voting rule in the European Council, which means each MS may be a veto point in budget making and therefore their preferences need to be accounted for in the budget package; (ii) a balanced budget rule in combination with a long standing agreement to limit the overall size of the EU budget as a proportion of the EU economy; (iii) the informal but widely accepted rule that current CAP spending levels are always downwardly sticky. Of course, institutions do not strictly determine budget outcomes and the potential for various agents or alliances of agents to overcome this inertia in favour of a budget agreement that favours social priorities always exists. However, such agency was not a feature of the budgetary negotiations for 2007-2013; instead member state preferences for the preservation, as far as possible, of the *status quo* cross-country distribution of EU spending shares prevailed.

Although the politics of the EU budgetary process does not strictly preclude fiscal developments in EU social and cohesion policies, the case presented here shows us the strong limits that traditional interstate bargaining puts on this potential. Our study deflates the hopes for an expanded EU social agenda that some scholars have seen in the Lisbon agenda (Daly 2006; Wincott (2003). Whilst there is scope for member states, within the OMC, to agree to the assignment of new policy functions at the EU level without also reassigning fiscal functions to the EU budget the concern is, given growing income gaps as the EU enlarges, the ability of poorer member states to afford

to implement policies to ameliorate the economic adjustments of becoming a member of the EU. Without adequate supra-national fiscal transfers to complement national commitments, plans for economic and social cohesion between increasingly diverse member states will face significant challenges, with or without developments in policy process like the OMC. Indeed, our empirical analysis seems to confirm the convergence of the regulatory state (Majone) and intergovernmental (Moravcsik) perspectives on the contemporary EU polity: a decision-making structure singularly ill-designed for the task of fiscal redistribution on a scale in any sense comparable to a national welfare state (Follesdal and Hix 2006).

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LOCATION OF APPENDIX TABLE

Table 1: EU spending on cohesion and internal policies, 2000-2004

	Cohesion			Internal		
	€mn	o/w MS ¹	% EUB ¹	€mn	o/w MS ¹	% EUB ¹
2000	27590.8	27584.3	33.1	5360.8	4965.3	6.4
2001	22455.8	22439.5	28.1	5303.1	4768.8	6.6
2002	23499.0	23246.4	27.6	6566.7	5730.9	7.7
2003	28527.6	28462.3	31.5	5671.8	4941.6	6.3
2004	34198.3	34110.1	34.2	7255.2	6039.6	7.2

	ESF ²			educ/voctr/youth ²		
	€mn	%EUB	%coh	€mn	%EUB	%int
2000	5922.8	7.7	21.5	422.3	0.5	8.5
2001	3959.8	5.4	17.6	392.3	0.5	8.2
2002	4475.3	5.8	19.3	476.1	0.6	8.3
2003	4926.1	6.0	17.3	500.3	0.6	10.1
2004	6380.2	6.9	18.7	629.2	0.7	10.4

Source: European Commission, 2005c, own calculations.

Notes:

1: Most, but not all, EU spending is allocated to the member states ('o/w MS'). This table also shows total spending, with the percentage figure showing spending under each heading as a percentage of the latter figure.

2: The lower half of the table shows that element of cohesion spending undertaken through the European Social Fund and the element of 'internal' spending devoted to education, vocational training and youth measures.

Table 2: The Evolution of Planned Spending on Budget Line 1 “Sustainable Growth”, €million, 2007-2013

		Document Date	2006	2007	2008	2009	2010	2011	2012	2013	Total 2007-13
1	Sustainable Growth	14/07/04	46621	58735	61875	64895	67350	69795	72865	75950	471465
		15/06/05		50657	51703	52473	53965	55020	56567	58133	378518
		17/06/05		50972	52071	53295	54542	55351	56902	58471	381604
		05/12/05		49530	50540	51690	52580	53330	54840	56400	368910
		14/12/05		49926	50955	52144	52635	53606	55094	56640	371000
		16/12/05		51141	52200	53382	54052	54997	56445	57912	380129
		19/12/05		51090	52148	53330	54001	54945	56384	57841	379739
1a	competitiveness for growth	14/07/04	8791	12105	14390	16680	18965	21250	23540	25825	132755
	and employment	02/06/05		8280	8950	9670	10450	11290	12190	13170	74000
		15/06/05-16/12/05		8230	8840	9490	10180	10930	11740	12600	72010
		19/12/05		8250	8860	9510	10200	10950	11750	12600	72120
1b	cohesion for growth	14/07/04	37830	46630	47485	48215	48385	48545	49325	50125	338710
	and employment	15/06/05		42427	42863	42983	43785	44090	44827	45533	306508
		17/06/05		42742	43231	43805	44362	44421	45162	45871	309594
		05/12/05		41300	41700	42200	42400	42400	43100	43800	296900
		14/12/05		41696	42115	42654	42455	42676	43354	44040	298990
		16/12/05		42911	43360	43892	43872	44067	44705	45312	308119
		19/12/05		42840	43288	43820	43801	43995	44634	45241	307619

Sources: see Appendix Table.

**Table 3: The evolution of planned spending on the elements of line 1b,
cohesion for growth and employment**

Date	Total 1b	Convergence		Competitiveness and Employment		Territorial Cooperation	
	€billion	€billion	share of 1b (%)	€billion	share of 1b (%)	€billion	share of 1b (%)
14/07/05*	338.710	266.023	78.54	58.326	17.22	13.345	3.94
15/06/05	306.508	252.249	82.3	46.758	15.26	7.5	2.45
17/06/05	309.594	254.781	82.3	47.313	15.28	7.5	2.42
05/12/05	296.900	242.200	81.6	47.200	15.9	7.5	2.5
14/12/05	298.990	243.984	81.6	47.505	15.9	7.5	2.5
16/12/05	308.119	252.234	81.9	48.386	15.7	7.5	2.4
19/12/05	307.619	251.330	81.7	48.789	15.8	7.5	2.4

Sources: See Appendix Table; European Commission, 2004c; 2004d.

Note: * The detailed breakdown of shares of total 1b spending assigned to each objective is not presented in European Commission, 2004d, but is given in European Commission, 2004c. That said they show, without explanation, different overall planned spending figures (although the difference, €2.516 billion, 0.7% of the seven-year total, has no impact on the general picture). Here, for consistency, the data on planned spending are taken from European Commission, 2004d, with the spending shares data taken from European Commission, 2004c.

**Table 4: The evolution of planned spending on the objectives of cohesion policy,
by policy instrument⁺**

Convergence Objective								
Date	Total	Poor regions		“phasing out” regions		Cohesion Fund		
	€bn	% of 1b	€bn	% of Obj.	€bn	% of Obj.	€bn	% of Obj.
14/07/05*	266.023	78.54	179.140	67.34	22.293	8.38	63.473	23.86
15/06/05	252.249	82.3	178.094	70.6	12.202	4.84	61.953	24.56
17/06/05	254.781	82.3	179.223	70.34	12.202	4.79	63.356	24.87
05/12/05	242.200	81.6	170.8	71.5	12.2	4.1	59.2	24.4
14/12/05	243.984	81.6	172.152	75.9	12.202	4.1	59.630	20.0
16/12/05	252.234	81.9	178.229	70.7	12.487	4.9	61.518	24.4
19/12/05	251.330	81.7	177.291	70.5	12.521	5.0	61.518	24.5

Competitiveness and Employment Objective						
Date	Total	Not “Convergence” regions**		“phasing in” regions		
	€bn	% of 1b	€bn	% of Obj.	€bn	% of Obj.
14/07/05*	58.326	17.22	48.667	83.44	9.659	16.56
15/06/05	46.758	15.26	37.264	79.7	9.494	20.30
17/06/05	47.313	15.28	37.618	79.51	9.695	20.49
05/12/05	47.200	15.9	37.7	79.8	9.5	20.2
14/12/05	47.505	15.9	37.817	79.61	9.688	20.39
16/12/05	48.386	15.7	38.018	78.6	10.368	21.4
19/12/05	48.789	15.8	38.404	78.7	10.385	21.3

Sources: See Appendix Table; European Commission, 2004c; 2004d.

Notes:

+ Spending under the Territorial Cooperation Objective is not disaggregated by programme in the Council documents. European Commission, 2004c, Articles 7 and 18, shows the proposed split between measures.

* See the note to Table 3. Also, European Commission, 2004c alone shows an additional sum, 0.42% of the total, under the Convergence Objective, for the outermost regions of the EU.

** Eligibility for this programme is defined negatively, as explained in the text.

Appendix Table: Details of the Council Presidency Negotiating Boxes, 2005

Date	Document number	Additional Comments
2 June	9637/05 CADREFIN 115	This first Luxembourg document includes only some planned spending figures
15 June	10090/05 CADREFIN 130	This includes spending by line but not details of total Commitment and Payment Appropriations
17 June	10090/05 ADD 1 CADREFIN 130	This further amends some text and spending Lines 1b and 5. It also includes the full Financial Perspective
5 December	UK EU Presidency Press Release	This is the first UK document
14 December	15649/05 CADREFIN 264	This revises the 5 December document
16 December	“PROVISIONAL VERSION”	This omits total Line 2 spending and thus excludes the full Financial Perspective
19 December	15915/05 CADREFIN 268	The final agreement

Note: A Negotiating Box from 19 May 2005 (document 9065/05, CADREFIN 108) introduces several ideas incorporated into the 2 June document, but contains no detail on the Financial Perspective and almost no detailed data in the accompanying text.

Endnotes

¹ The authors would like to express their thanks to Perri 6 and two anonymous referees for their very helpful comments on this paper. The usual disclaimer applies to remaining shortcomings.

² Notably employment, labour law and working conditions, vocational training, social security, occupational health and safety, the right of association and collective bargaining.

³ See, *inter alia*, Tondl (2005), especially pp. 532-536.

⁴ The other principal 'internal' measures are energy and the environment, consumer protection and the internal market, and research and development (see below).

⁵ Between 2004b and 2004d, the European Commission moved some (unspecified) spending from Line 1b to Line 3 – €61 million in 2006, €6.2 billion over seven years.

⁶ Reported on the euobserver.com website on 17.12.2005.

⁷ This 'final' agreement (European Parliament, Council, Commission, 2006) raised seven-year payment appropriations total by 0.17% (€1.4 billion), taking annual average spending over 2007-2013 to 1% of GNI, as the G6 sought. Changes to commitment appropriations saw a boost to Line 1 of 0.6% (€2.4 billion), 82% of which is for Line 1a. Along with small rises in spending on 'preservation and management of natural resources' (€100 million) and 'citizenship' (€500 million), cuts were imposed on 'EU as a global player' (€47 million) and administration (€500 million).