



LSE European Institute debate, in association with the European Commission
and *FT Business*

What's Wrong with the EU Budget?

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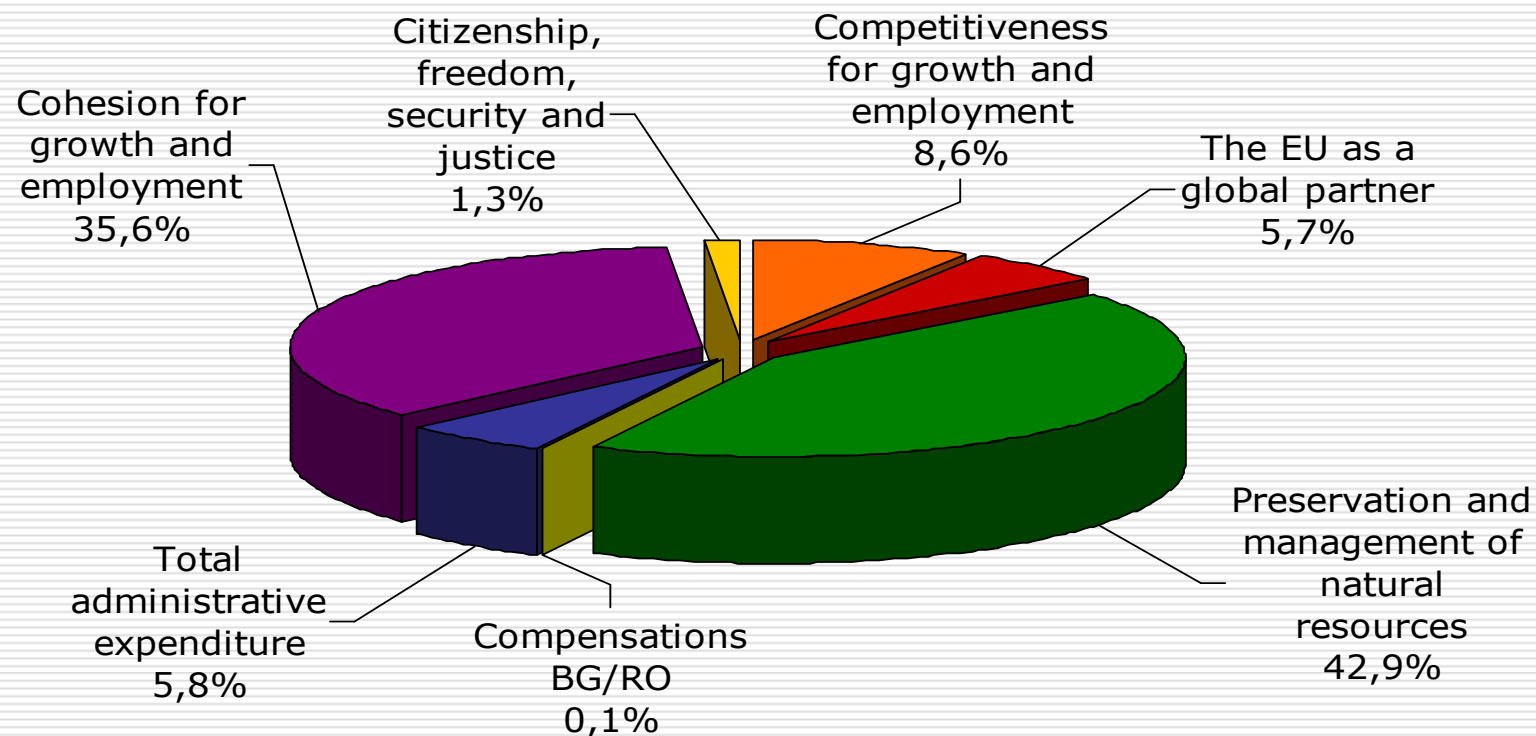
Reforming the Budget, Changing Europe

Results of the public consultation

Dr. Dalia Grybauskaitė
Commissioner for Financial Programming and Budget

London School of Economics
27 November 2008

How the money is spent, 2007 -2013

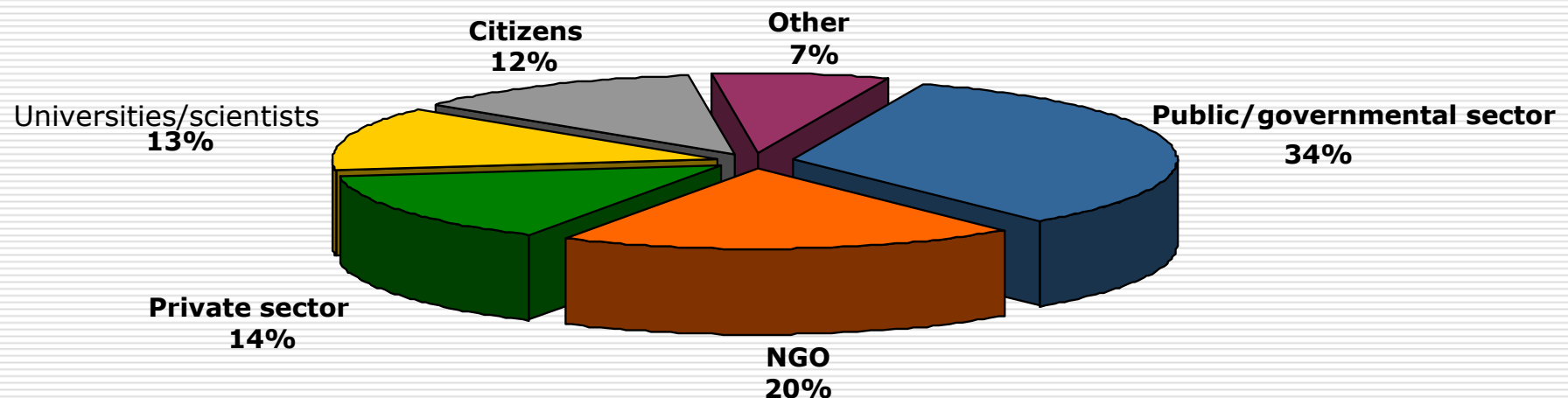


TOTAL : € 974,7 billion (at current prices)

Does the EU budget mirror EU priorities?

Public debate: clear desire for change

- ▶ All Member States presented their official contributions;
- ▶ Over 2.000 people in 20 countries directly debated reform;
- ▶ 300 contributions represent broad diversity of interests;
- ▶ Three independent studies carried out by external experts:
1. Spending (ECORYS Nederland BV); **2.** Financing (Consortium led by Iain Begg -LSE); **3.** Evaluation (Euréal and Rambøll Management).



Diversity of parties represented confirms Europe's total willingness to move forward on bold reform

A new direction for EU spending /1

Contributions moves spotlight to policies for future:

➤ Competitiveness, research, innovation

- ▶ Call to significantly increase R&D spending;
- ▶ Urge for wider financial support for industry & business innovations;
- ▶ Focus other policies on improving competitiveness;

➤ Environment, climate change

- ▶ Call for increasing direct spending for this area;
- ▶ More spending on R&D supporting environmental objectives;
- ▶ Align other policies with environmental needs;

➤ Energy

- ▶ Improve energy supply security by promoting energy interconnection;
- ▶ Concentrate research efforts on energy efficiency;
- ▶ Invest in energy efficient technologies;
- ▶ Increase direct spending on developing renewable energy sources;

Policies geared towards growth and economic progress
are at the top of spending priorities

A new direction for EU spending /2

= **Cohesion** – **support** signalled, **change in policy required**

- ▶ *concentrate funds on less developed MS and regions;*
- ▶ *focus policy on economic convergence or...
extend it to respond to global challenges;*

➤ **Agriculture** – one of the **hottest topics of consultation**

- ▶ *spending on agriculture needs reform;*
- ▶ *maintain CAP as policy aligning with new common goals;*
- ▶ *less for CAP: gradually eliminating direct aid,*
- ▶ *reinforce pillar 2, co-financing pillar 1;*
- ▶ *shift rural development to cohesion policy;*

Cohesion + Agriculture = 2/3 of the EU budget
Massive attention on spending in these areas easily explained

Financing a budget for the future

To ensure resources match political ambitions:

↑ **Traditional Own Resources** - widely supported;

↑ **GNI-based contribution** - strong emphasis it's working well, could be extended;

↓ **VAT-based contribution** – urge to simplify the system by eliminating this resource;

↓ **Corrections** – total disappointment with non-transparent system, loud call to eliminate exemptions;

↑ **Alternative own resources** - calls to "keep the door open", examine new possibilities linked to policy priorities.

The complex EU revenue system needs radical changes towards clarity, simplification and transparency

Lessons to draw

A budget for a fast-moving world:

- ▶ **Reform is the only option:** desire for change strongly confirmed;
- ▶ **Money to deliver objectives:** new budget must open door to new ideas, refocus spending on future challenges, not past;
- ▶ **Shift the centre of gravity for future budget:** competitiveness, environment, energy – on the top of the list of priorities;
- ▶ **Fair and transparent mechanism of contributions vital:** complex web of corrections has no longer any justification;
- ▶ **Dynamic times require flexibility:** unlock budget from rigid “headings”, improve capacity to respond to evolving challenges;

The essential condition for a modern budget is there:
open-mindedness, resolution and strong support for major change



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THE BUDGET REVIEW

Rethinking the EU's Finances

Iain Begg
European Institute, LSE

WHAT THE REVIEW IS... & IS NOT

But probably ought to be

- A project for *this* Commission, not its successor
- No taboos
 - “All aspects of EU spending, including the CAP
 - and of resources, including the UK rebate”
- A reform project: about policies, not money
 - But not stage 1 of the next MFF negotiations
- An opportunity for a decisive break
- Bold proposals emerging now, not caution

THE EU BUDGET IS...

“A result of political trade-offs rather than a well grounded allocation decision to advance European objectives.... the real needs are often of secondary importance.

The EU budget should be policy-driven and based on sound analysis of the added value of EU level spending to advance our shared policy agenda.”

PROGRESS(?) OF REVIEW

- So far, a hesitant process
- Fears for Lisbon treaty ratification
 - Delays in consultation
 - Extended deadline
 - Postponement of political conference
- Growing pessimism about outcome
 - The looming political deadlines
 - Yet shunned by French presidency
- Culmination in early 09, or later, or never?

APPYING SUBSIDIARITY

■ SHOULD BE IN

- Policies offering scale or scope economies
 - External action; R&D
- Cross-border externalities
 - Networks, climate policies
 - Security

■ SHOULD BE OUT

- Policies that reflect diversities in preferences
 - CAP, redistributive policies
 - Other side-payments
 - Even rural development

■ ARE CURRENTLY IN

- CAP
- Cohesion
- Bits of everything else

■ UNDER-PROVIDED

- Network infrastructure
- Climate changes policies
- Underpinnings for competitiveness
- Internal & external security
- External aid

CHOICES ON FUNDING:

Criteria to apply

- Funding the budget effectively
 - Sufficiency, stability
 - Ease of administration
- Economic effects
 - Normative: equity in different ways
 - Positive: avoidance of distortions
- Political
 - Autonomy, simplicity
 - Transparency, visibility

FUNDING: A SIMPLE CHOICE

- Two broad approaches conceivable
 - Inter-governmental transfers
 - Genuine own taxes or other resources
- Current system mainly the former
 - Best to assure sufficiency, stability, MS equity
- True own resources more complex
 - Suitable if more political imperatives matter
 - But there can never be a 'perfect' resource
 - ...yet plenty of credible ones

‘CORRECTIONS’: A HARDER ONE

- Justified for the UK in the early 1980s
 - But harder to sustain when UK is so much higher up the prosperity league table
- Foster a focus on narrow accounting ratios
 - And may, thus, overlook wider benefits of EU
- Becoming increasingly complex
 - Four distinct “rebates” for the Dutch
 - Some not responsive to net balance
- Might a move to equalisation approach help?
 - Various conceivable formulae

ISSUES FOR DEBATE

- When EU spending makes more sense than regulating or co-ordinating
- What matters most in review
 - Designing a convincing subsidiarity test...
 - Implies a wider debate on who does what
 - Funding-side of second-order of importance?
 - What criteria matter most on funding-side
 - Then choose funding instruments
- Procedural changes: five year MFF?
- Ultimately, what do we want the EU to be?

WILL ANYTHING CHANGE?

