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Published by
Edward Elgar Publishing Limited
The Lypiatts
15 Lansdown Road
Cheltenham
Glos GL50 2JA
UK

Edward Elgar Publishing, Inc.
William Pratt House
9 Dewey Court
Northampton
Massachusetts 01060
USA

A catalogue record for this book
is available from the British Library

Library of Congress Control Number: 2019930627

This book is available electronically in the **Elgaronline**
Social and Political Science subject collection
DOI 10.4337/9781788971928

ISBN 978 1 78897 191 1 (cased)
ISBN 978 1 78897 192 8 (eBook)

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1. Introduction

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The budget has constituted one of the most debated and important issues at the political and at the academic level since the inception of the European Economic Community and in the ensuing evolution to the European Community and to the European Union (EU). The changes in its structure and composition are then crucial elements to understanding of the historical and political developments of the European Union and of its legal and economic perspectives. Given that the EU budget is mainly composed of transfers from Member States to the Union, the political negotiation always begins in the Council, where the heads of state and government define the strategic directions of the Union and set the overall amounts of the programming period. Subsequently, the European Commission presents a proposal that is first approved by the European Parliament and then by the Council of the EU. The Lisbon Treaty aimed at reinforcing the role of the EU Parliament to make the discussion more democratic. In this way, the budget would become a fruitful dialogue between European institutions, which are stakeholders of different interest groups. The financial planning would then become a fundamental open space of political confrontation, despite the expected tensions between institutions.

The current European budget amounts to less than €150 billion. It may appear a very large sum in absolute terms, but it corresponds to only 1 per cent of the yearly gross domestic product generated by the EU countries. With respect to revenues, the budget is funded by the national contributions of the Member States (70%), by the EU's own resources, as customs duties (13%), by national transfers of a share of the VAT (12%), and finally, by taxes charged to European staff and fines paid by companies in the case of violation of the right to competition since 2007 (5%).¹ The latter line of financing has allowed a partial reduction in the contributions/transfers from Member States. With respect to expenditures, their largest share is directed to capital account items. The resources of the budget mainly finance common investment programs that have an added value in their European dimension. The budget thus has

¹ The most relevant cases are represented by Telefonica in 2007, Microsoft in 2008, and most recently, Apple in 2016, Facebook in 2017 and Google in 2018.

a different nature from the national ones which are characterized by largest shares of current account items. Its purpose is to carry out joint actions that would be difficult, or at least more expensive, to finance at Member State level. This mechanism has produced many positive effects in strategic sectors such as energy, transport, information and communication technologies, climate change and research. However, the nature of a budget closely linked to long-term investments has severely limited the Union's ability to react to contingencies and emergency situations, as was particularly evident in the migration crisis. Another limit is represented by the imposed balance of the budget that does not allow deficits in peculiar situations. On the other hand, this principle has been deemed necessary in order to have a unanimous agreement of countries characterized by heterogeneous economic structures and cycles. According to Article 312 of the Treaty on the functioning of the European Union, the yearly EU budgets are determined on the basis of the Multiannual Financial Framework (MFF). Its most important aims are the development of expenditures in an orderly manner, the respect for the limits imposed by the EU's own resources and the identification of items of expenditure. The MFF represents the long-term perspective for EU finances and must be related to a period of no less than 5 years.

The MFF for the period 2014–2020 devoted about 80 per cent of its resources to agricultural subsidies (Common Agricultural Policy) and to regional development policies (structural funds and cohesion funds), while just over 6 per cent was allocated to the role of the European Union in the world and only 2 per cent to security and citizenship issues. This financial rigidity has been a huge problem for the solution of complex crises such as those which the EU has had to confront, thus weakening the European institutions themselves. Furthermore, the traditional immobility of the Member States, reluctant to surrender significant shares of their sovereignty, has curbed the EU action.

The negotiation on the MFF for 2021–2027 has taken place in one of the most difficult and controversial phases of the European Union on several fronts. A series of crises, which have occurred almost simultaneously, have called into question the whole European project. After the economic and the single currency crises, the political crisis leading to the rise of nationalism and of sovereignist parties has seen its climax in the referendum on the exit of the UK from the European Union. Its result was followed by the complicated negotiations between the UK and the EU which will lead to the first exit of one of the Member States. Moreover, the continuing migration crisis contributed to making the EU political framework unstable and highlighted the limits of the EU budget for the management of this phenomenon. It is precisely in this context, and on the eve of EU general elections in May 2019, that the Member States and the European institutions were called to plan the MFF 2021–2027, where the political and economic targets to pursue will be settled. As already

mentioned, the definition of budget issues and of expenditure items is not just a financial accounting exercise as it represents the clearest and most important political indicator of the path that the European Union will follow in this period.

The present collective book is based on the awareness that a sectorial discussion on the EU budget can only provide a partial understanding. It thus proposes a multidisciplinary approach that considers not only the economic dimension but also the historical, political and juridical ones. This multifaceted analysis of the EU budget allows a much more detailed and profound knowledge not only of the political and economic dynamics within the EU but also of the real level of European integration. The book provides the latest academic research both on a retrospective view of the EU budget development and on the current and future issues and trends. In this framework, some of the following chapters aim at shedding light on the debate and proposals about the MFF 2021–2027, in order to fully understand the various and contrasting stances of national governments and of European Institutions with respect to the EU budget dimension and relevant subjects.

1.1 THE STRUCTURE OF THE BOOK AND ITS CONTENT

The present book is divided into two parts. The first one will review the historical and political profiles of the EU budget. It will first provide a historical analysis of the EU budget and the European integration process. It will then discuss the role of the EU budget between bargaining tool and policy instrument. This will be followed by the study of the democratic deficit in the European Union and of the citizens' attitudes towards the EU budget. Lastly, the political implications of the MFF 2021–2027 will be considered. The second section will analyze the legal and economic perspectives. It will examine the flexibility and unit principles of the EU budget and of the MFF. It will then consider the European framework for monitoring and control of the EU budget. Moreover, it will review its role for growth and competitiveness. It will then provide a discussion of its relevance for the structural balances of Member States. Lastly, it will analyze the effects of Brexit on the EU budget. The main findings emerging from the various contributions will be discussed in the last chapter that concludes the book.

In detail, Part 1 opens with Chapter 2, 'The EU budget and the European integration process: a historical analysis', by Ubaldo Villani-Lubelli. The chapter first states that the EU budget is of fundamental importance for the consolidation and reinforcement of the European political project and for the defense of the values on which the European Union was originally and is still founded.

Throughout the European integration process, the function of the EU budget has been understood as a system of supranational development of all Member States. However, its evolution, especially since the introduction of the own resources system, has gone in a direction not exactly corresponding to the initial intentions. The Member States have both limited and conditioned the autonomy of the budget of the Union and have made the control much more complex and fragmented. The EU budget finances many economic and social initiatives and determines the direction and level of political integration between Member States. Despite this, it is very modest, just around 1 per cent of Community GDP. This chapter also analyzes the historical development of the EU budget from its origins to the political debate on the 2021–2027 MFF, in order to outline the successes, failures and status of the European integration process. Finally, the contribution aims to highlight the anomalous institutional nature of the European Union and the consequent need to provide it with a more substantial and values-oriented budget.

Chapter 3, ‘The EU budget between bargaining tool and policy instrument’ by Mario Kölling, starts from the assumption that, in the academic and political debate, the EU budget is largely considered a relic of the past that needs a deep reform. The spending structure of the EU budget has evolved according to the EU integration process and subsequent treaty reforms, and according to specific challenges. However, despite numerous proposals for improvements, the reforms of the past did not meet the expectations. The chapter then discusses some theoretical assumptions about the concepts of bargaining tool vs. policy instrument related to the EU budget. The shift between these two possible definitions is first analyzed by considering the evolution of the EU budget headings among the programming periods. The chapter then takes into account the impact of conditionality in budgetary spending and the role of the European Parliament in the negotiation of the MFF. Lastly, the revenue side is studied according to the question of how a reform of the own resources system could support the evolution of the EU budget towards a policy instrument. The chapter argues that the specific characteristics of the EU budget and the negotiation process may not lead to a revolutionary new budget in the next programming period. Nevertheless, the 2021–2027 MFF will reinforce the ongoing paradigm change in the perception of the EU budget, from a budget aimed at compensating Member States for their political compromises to a budget aimed at solving EU-wide problems.

Chapter 4, ‘No representation without taxation’. For a history of the budgetary control in the European Union’ by Alessandro Isoni, aims to highlight how the complex set of procedures concerning the EU budget mirrors the existence of a democratic deficit in the European Union. Starting from the development of the English constitutional experience, this paper analyses how the procedures in force at European Union level for the budget approval

are very far from the Western constitutional patterns, where a clear system of checks and balances is usually established in order to ensure the control of the executive power. In this line, the adopted reforms seem to have only contributed to complicating democratic control over EU budget, eventually leading to a stronger power of Member States. Moreover, the chapter focuses on three important features. The first is the choice adopted by the European “Founding Fathers” to opt for a new funding system, abandoning the *juste retour* principle and creating new complex institutional procedures. The second is a review of bitter struggles among European Member States concerning their financial contribution to the European budget and how this long and exhausting conflict deeply influenced the development of the European integration. Lastly, the chapter tries to propose a new constitutional framework able to ensure a real democratic control on budget issues, through a complete and full involvement of the European Parliament.

Chapter 5, ‘Citizens’ attitudes towards the EU budget: An overview’, by Karsten Mause, states that there is an ongoing debate over the appropriate level of financial redistribution and international solidarity generated via the EU budget. While the opinions of political decision-makers and other experts are relevant, it is also important to take into account what EU citizens – in their role as taxpayers funding the EU budget – think about this budget. National citizens are often considered as the ‘principals’ of those actors or ‘agents’ at the EU level being responsible for the EU budget. It can be expected that many principals have an incentive that their taxpayers’ money is spent well by the EU. Hence, the chapter gives an overview of the topic of citizens’ attitudes towards the EU budget. Using cross-national data from the Eurobarometer public opinion polls, the chapter addresses three research questions. First, it examines how public attitudes toward the EU budget have developed over time. It emerges that in a number of countries public support for an increase in the EU budget increased between 2005 and 2018 despite the fact that one of the EU’s biggest crises happened during this investigation period: namely, the financial, sovereign-debt, and economic crisis after 2007/2008. Second, the chapter analyzes whether EU citizens are satisfied with the status quo of the EU budget system. It appears that the legitimation basis for an increase in the EU budget currently remains rather low throughout the EU. Third, it investigates the cross-national differences in citizens’ attitudes toward the EU budget. As expected, it turns out that approval rates tend to be higher in EU countries that are net beneficiaries. Moreover, the five EU countries that were bailed out through ‘rescue packages’ since 2010 are among the ‘top-10 countries’ with respect to public support for an increase of the EU budget. Lastly, no clear East–West divide with respect to this issue emerges.

Chapter 6, ‘The multi-annual financial framework: reforms and path-dependent development of the EU budget’ by Robert Kaiser, argues

that reforms at the structural level for the 2021–2027 MFF are quite unlikely. This is because the structure of the MFF has proven and still proves to have a certain degree of flexibility, which means that it is capable of incorporating quite substantial changes while at the same time providing all involved actors (mainly at the national levels) with the amount of security needed to commit themselves to a longer-term definition of their burdens and benefits. Changes will probably occur at the instrumental level where it is still possible to agree on new policy objectives or to change certain rules for the distribution of funds. In order to substantiate this assumption, the chapter first presents the conceptual framework that guides the analysis of stability and change of the MFF. It then turns to the structural level of the MFF by examining the overall amount of investments, the duration of the financial framework, the direct linkage between the main expenditure lines and the three most important Union programmes (i.e. for agricultural policies, for structural and cohesion policies, and for research and innovation policies), and the structure of the revenue side. It emerges that the EU budget structure has indeed developed during the last three decades along a solid institutional path. Moreover, the chapter looks at the procedural level elaborating on the main features, such as actors' preferences and coalitions, of the negotiation process. Finally, it evaluates the potential for change at the policy level, especially in funding of research and innovation, in new rules for the distribution of funds to the Member States and in a more comprehensive use of new financial instruments.

Part I of the book closes with Chapter 7, 'Towards a closer Intergovernmental Union? The political implications of the MFF 2021–2027 negotiations', by Matteo Scotto. It first considers that the EU budget negotiations have always been characterized by political disputes, mirroring the Union's economic, social and political evolution. The chapter argues that the political debate around the EU budget composition in the 2021–2027 period reflected the state of the European project, namely an unsteady intergovernmental Union, both at the institutional and at the procedural level. This situation is the outcome of the behavior of Member States acting beyond the EU Treaties by means of intergovernmental treaties (such as the Treaty on Stability, Coordination and Governance in the Economic and Monetary Union or *Fiscal Compact*), or intergovernmental organizations (such as the European Stability Mechanism). The chapter also discusses the EU budget from procedural perspectives, identifying the intergovernmental features of budgetary policy up to the 2021–2027 period, in particular by examining how the EU's own resources are organized. Moreover, it states that the Lisbon Treaty consolidated numerous intergovernmental procedures in new policy areas and the EU budget is no exception. The chapter also analyses the political debate in the negotiation process both on the revenue and on the expenditure side, with potential negative consequences on European integration as a whole. Lastly, it considers that, given the turbulent

times the EU was facing and the unsteady intergovernmental architecture, the MFF 2021–2027 did not constitute an important factor in the economic, social and political development of the EU. The conservative attitudes of the Member States hampered the capacity of the MFF 2021–2027 to represent, even symbolically, a concrete advance in the European integration process envisaged by the EU Commission.

Part 2 of the book opens with Chapter 8, ‘The EU budget and the MFF between flexibility and unity’, by Peter Becker. The chapter discusses the conflict and dilemma between the political necessity of budgetary flexibility and the wish for budgetary stability and predictability, hence the tension between these two fundamental principles of budgetary policy. The chapter first discusses the need for budgetary flexibility, by also presenting the current flexibility instruments in the European Union’s budgetary policy (among them, the emergency aid reserve, the solidarity fund and the European globalization adjustment fund). It then considers the principle of unity of the budget and introduces the relevant exceptions in European policy. These exceptions either stem from the origins of European budgetary policy, like the European Development Fund, or are based on the legal personality of an institution, like the European Central Bank (ECB) or the European Investment Bank, or they are determined by the division of competencies between the EU and the Member States. Finally, the chapter tries to draw conclusions for European budgetary policy in general and the negotiations on the 2021–2027 MFF in particular. Beyond the controversy over the volume and distribution of funds, the search for a reliable balance between budgetary predictability on the one hand and the need for political adaptability of the budget on the other were an issue of these negotiations. The chapter states that the EU will have to improve its capacity for accurate and proper responses on political challenges through flexibility instruments, inside and outside the MFF, that will have to be brought into line with the budgetary principles of unity and completeness. The most fundamental exception to the budget principle of unity could be a special budget for the Eurozone. The European Parliament’s budgetary participation and control rights and thus the democratic legitimacy of the EU budget as a whole must also be taken into account.

Chapter 9, ‘The European framework for monitoring and control of the EU budget’ by Elsa Perreau, provides an overview of the budget monitoring and control system of the European Union. It states that the Article 310 of the Treaty on the Functioning of the European Union lists the six principles governing the EU budget: unity, universality, equilibrium, annuality, specification, and sound management. Moreover, the Financial Regulation stipulates three main principles on sound financial management: the principle of economy, the principle of efficiency and the principle of effectiveness. On the other hand, the chapter considers four risks to good financial management of EU funds: (a) the

funds are not spent according to the rules or for their intended purpose (legality and regularity); (b) expenditures are not accounted for properly (reliability of the accounts); (c) the funds are not spent following sound financial management principles (economy, efficiency and effectiveness); and (d) benefits from the use of the funds do not materialize and the EU budget does not produce EU added-value. The chapter then states that financial accountability takes place internally and externally and involves various EU institutions: the European Commission, the European Court of Auditors, the European Parliament and the Council. The external control by the European Court of Auditors mainly takes place after the implementation of the EU budget. This chapter also reviews the challenges for monitoring and control of the EU budget. While fragmentation and complexity are to some extent inherent to the EU budget because of the structure of the European Union, they have accelerated in the Lisbon era, creating new challenges for budget monitoring and control. The chapter considers four tendencies that have increased fragmentation and complexity: the financial troubles of 2007, the more recent migration crisis of 2015, the increased use of instruments financed only by participating Member States, and the internal fragmentation and complexity within the budget owing to the shift from a policy-driven budget to a demand-driven budget.

Chapter 10, 'Growth, competitiveness and the EU budget', by Luca Zamparini, analyzes two of the most important issues related to all economic systems. The linkages between growth and competitiveness are very important in order to understand the long-term development and also the convergence among different regions pertaining to larger economic areas, such as the EU. The chapter considers the evolution of the EU GDP and of the EU GDP per capita since the inception of the first financial perspective, by displaying the average growth rates in the five periods that have been marked by financial perspectives (Multiannual Financial Frameworks). Moreover, it discusses the competitiveness of the EU and compares it with other world regions (i.e. US and Japan) by taking into account the indicators related to the innovation environment and the reasons for the weak performance of the EU. The chapter also considers the degree of competitiveness in the various NUTS2 regions of the EU. The discussion is based on the results emerging from the Regional Competitiveness Index aimed at providing a measure of economic and social development and at fostering medium- and long-term plans. Lastly, the role of the EU budget for growth and competitiveness, between the first financial perspective that covered the period between 1988 and 1992 and the MFF for the period between 2014 and 2020, is considered. Such analysis is carried out by displaying the historical development of the expenditure commitments of the EU Commission from 1991 to 2018.

Chapter 11, 'The relevance of the EU budget for the structural balances of Member States', by Maurizia Pierri, outlines the key principles governing

the European system and focuses on the golden rule of the balanced budget (principle of equilibrium), from the point of view of the European budget and of individual Member States. The regulatory framework of the budgets in Eurozone countries is extremely complicated, for the simultaneous presence of standards deriving from treaties both external and stipulated within the Union law, regulations and directives on monetary policy. The balanced budget rule is due to an international treaty (Fiscal Compact) that requires the balanced budget to be embodied in the countries' rules of law (preferably at constitutional level). The possibility of including the rule of balanced budget even at sub-constitutional level, the difference between nominal and structural balances and the ambiguous identification of justification causes for the violation of the stability standards determine considerable differences in the Countries' behaviors and so a partial ineffectiveness of the so-called *golden rule*. The issues arising from its application are discussed in the last part of the chapter as it considers its implementation (or attempts of implementation) in five EU countries, namely France, Germany, Italy, Slovenia and Spain. These countries were selected given their adoption, or intention to adopt, the balanced budget rule at the constitutional level.

Part 2 of the book closes with Chapter 12, 'Brexit and the EU budget', by Margit Schratzenstaller. Departing from the hypothesis that the Brexit may act as a catalyst for fundamental reforms within the EU budget aiming at strengthening the added value of EU expenditures and revenues, the chapter sketches the pillars of such far-reaching reforms. It states that EU expenditures should only target policy areas in which Member States' un-coordinated actions would be insufficient owing to free riding, coordination problems and cross-border issues and those areas in which common European interests are at stake. Consequently, the EU action is justified either if it results in a higher value compared with separate national actions or if expenditure has a cross-border element. On the revenue side, the introduction of sustainability-oriented tax-based own resources, partially substituting for Member States' national contributions, can strengthen the role of the EU system of its own resources for central EU policies. The chapter then provides an overview of the expected financial implications of the Brexit. The current status of the UK–EU Brexit negotiations implies a twofold financial impact of the Brexit, comprising the one-off "Brexit bill" or "divorce bill" and the permanent "Brexit gap". The chapter states that the exact size of the Brexit gap will depend on various factors, which are highly uncertain, particularly the modalities of Brexit ("hard" or "soft" Brexit) and the future UK–EU financial arrangements. Against this background, the chapter closes with a brief first assessment of the European Commission's proposals for the 2021–2027 MFF. To cover the Brexit gap and to finance the new priorities, the proposals foresee an increase in national contributions as well as new own resources.

The Conclusions, written by the editors on the basis of the issues emerging in the two main parts of the book, are explicitly comparative in orientation. First, they analytically draw the similarities and the heterogeneities of the themes and frameworks discussed in the previous chapters. Secondly, they aim at representing a well-founded contribution to the political and institutional debates on the reforms of the EU budget and their influence on the development of the European Union.