



No Cuts, No Spending, No Growth: Budget Negotiations towards 2020

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Introduction

The EU's longer-term budget (2014-2020) is a contentious issue since its very existence. Today it is perhaps even more salient than before and this time it certainly is not a simple fight about money only. The question is if and how the EU's budget could contribute to bringing back growth to Europe. The financial and economic crises are questioning the fundamentals of budget allocations in EU member states. The sacrifices that inhabitants of the southern member states are making are deep. In other more prosperous countries there is also an increasing need for budget cuts that seriously affect purchasing power and employment. Austerity is the new rule with financial markets closely monitoring what governments do and punishing them with higher interest rates when they consider cuts not deep enough. This is a time where taboos are being overthrown at the national level and it can be expected that similar taboos will also be overcome in Brussels. If the EU truly wants to connect with the people, there will not be a better time than today.

National perspectives

Negotiations between member states are fierce and they all 'count' their arguments. Member states see the negotiations on the Multiannual Financial Framework (MFF) as a zero-sum game. This zero-sum game is the starting point for the net contributor versus net receiver debate. Every member state will put forward views that in the end will increase its revenue in the case of net receivers or decrease their national contribution in the case of net contributors. Even when a member state argues for seemingly technical implementing measures or regulatory changes, the effects can be calculated in

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terms of revenue or expenditure. Unfortunately it is highly unlikely that member states will let this concept go, especially in the timeframe that is left for the negotiations on the MFF for 2014-2020. In the end every single member state will fight for its own financial gain.

Negotiations have to be looked at through the lens of the austerity versus growth debate. In many eyes these terms exclude each other, but this is not necessarily the case. Sound public finances are of vital importance to growth. Either way, after a head start for austerity the debate is more and more being settled in favour of more growth. Amongst others this can be seen from recent elections. Voters in France and Greece have moved towards the outer edges of the political spectrum and incumbent governments are being punished. It looks like austerity-hardliners are losing out and the call for growth is becoming louder.

It seems as growth is the magic word, but is subject to perception. Even in the words of Keynes and Hayek it has different meanings. In southern member states they translate it to an increase in investment, whilst in northern countries they think of improving competitiveness. It is important to first search a common ground on the definition of these phrases before using them in a debate.

Statements/questions for discussion:

- *What is the impact of the crisis on member state budgets and the MFF negotiations? Have there been changes in positions?*
- *How is the austerity versus growth debate perceived in the Member States?*
- *What does growth mean?*

The road ahead

The negotiations are heading towards the status quo, but with a decrease in expenditure. The 'thrifty' member states have shown their intentions. This becomes evident when looking at their strategy for cutting the EU budget: all Headings have to contribute to the € 100 billion decrease, regardless of their respective impact on the economy, solidarity or other criteria. This is also where the member states do not agree. As stated by Mijs & Schout² the power of this alliance lies in their numbers, not in their

² Mijs & Schout (2012), *Views on the Commission's Draft EU Budget: Excessively ambitious or overly timid?*, EPIN Working Paper No.32.



common view on the future of the EU budget. Without stating the obvious France has other priorities on certain categories than for instance the UK or Finland.

The EU budget should be the main tool for economic growth. As a result of amongst others the sovereign debt crisis European voters are shifting towards the left. Amongst the 'thrifty' member states, there are also socialist governments that want to cut the budget, but at the same time urge for a new growth compact. At the moment it is unclear of what measures and/or investments this growth compact would consist of. Either way in first instance it appears to be a paradox that member states cut a suitable growth instrument and set-up a new one. A possible argument is that they see the EU budget as a redistribution instrument instead of a growth instrument, but this gives even more leeway for a modernisation of the budget directed towards economic growth.

There is a lack of long-term perspective in the member states, and they only act when their net balance is at stake. During the debates in the Budget Review of 2008-2009 agreement has been established on the criteria that make a 'good' EU budget. With the financial and political developments in recent years there are extra criteria that are of vital interest to the EU's economy. First and foremost, long-term economic growth should be added, and in first instance this is also something that everybody can adhere to.

However this also means that there are choices to be made on growth funding. As Núñez Ferrer³ adequately describes there are several criteria on which the budget has to be established: long-term impact, European added value, efficiency and effectiveness. The importance of long-term economic growth has become more and more evident. The completion of the internal market is indispensable to achieve this goal. It also gives member states an incentive to rethink their competitiveness towards the growth potential of intra-EU trade. For a large part the criteria mentioned above can be improved via regulations, (macro-economic) conditionality, procedures etc. In terms of funding Núñez Ferrer argues that the Commission proposal on R&D funding and the Connecting Europe Facility (CEF) should not be reduced. The Strategic Energy Technology Plan and innovative financial instruments should be increased.

The most likely scenario however is that the categories that generate the most innovation will probably be cut first, because of a lack of ownership. Categories such as Horizon 2020 and the CEF are not high (enough) on the priority list of the member state. As a result when something has got to give, these categories are easily given up by member states.

³ Núñez Ferrer, J. (2012), *Investing where it matters: An EU Budget for Long-Term Growth*, CESP Task Force Report.



Statements/questions for discussion:

- *Current debates will lead to a smaller, less efficient budget.*
- *Long-term growth should be the main objective for the MFF 2014-2020.*
- *What expenditures contribute to long-term economic growth?*

Off the beaten track

The current debate of cuts versus 'absolute minimum' is a short-term approach that will create a downwards spiral towards a budget of poorer quality than we have today. Moreover it sheds a biased light on beneficial instruments that stimulate research & innovation and economic growth in the long run. It also steers the debate away from making the different headings more effective and efficient.

However there are several elephants in the room such as the CAP, cohesion policy and own resources. They are adequately described by Peet & Tindale⁴. They come up with a creative solution where the three big member states Germany, France and the UK must put their respective holy grail on the table, i.e. Britain's (permanent) rebate, France's CAP, and Germany's budget austerity. In this way the budget can be debated in a 'radical manner and without preconditions'. Of course these countries' allies must be part of this grand bargain.

They also plead for a substantial reform of the CAP, focusing on direct payments to large farms. Many reform-oriented member states would agree. However the danger thereof is that it takes 'cuts' as a starting point. This automatically triggers the proponents of a strong CAP. In light of long-term growth it might be wiser to start with the competitiveness of the CAP and how to work towards a single market for agriculture. In the long run convergence between member states would speed up, making the debate superfluous in the end.

Ring-fencing long-term economic growth (funding) would be a good first step in the negotiations. Consequently the 'thrifty' member states will demand cuts to be made in other categories. In general there are many different instruments that can be cut, on the basis that they do not function properly and do not match the criteria mentioned above. This is an often-heard argument of the net contributors, and this is a correct analysis.

⁴ Peet, J. & S. Tindale (2012), *The European Union budget 2014-2020: More boldness needed*, Policy brief, Centre for European Reform.



The analysis of an inefficient and ineffective budget provides a choice: 1. Improve the budget 2. Cut the budget. The latter is a solution of today to tackle a problem of the future. In the case of the MFF this will probably not work and in seven years the same discussions will occur. Given that we are now having the same discussion as seven years ago.

The current debate cries out for an institution that can look at the MFF from a European perspective and that can preserve growth-generating categories. Here the new role of the European Parliament (EP) after the Lisbon Treaty comes into play. It has to give its consent, which provides room for manoeuvre. Question is how they exert their influence and what their focus will be. Growth is an integral part of their approach.⁵

As it appears the EP is moving in on the income-side of the budget. Here the national parliaments also play a role in the MFF debate, because they have a say about for the income side of the budget, together with their national exchequers. Since boldness is needed, it is not unimaginable that the Financial Transactions Tax gets a new impetus with the changing of governments. It will be a political choice, because the economic impact is hard to assess. In light of the budget it would work for the good, because it would move away from the cuts vs. spending debate.

Statements/questions for discussion:

- *We need to avoid the austerity vs. growth / cuts vs. spending approach.*
- *The first step for member states is to ring-fence long-term growth funding.*
- *The European and national parliaments hold the key towards a growth-oriented budget.*

⁵ European Parliament (2011), *Investing in the future: a new Multiannual Financial Framework (MFF) for a competitive, sustainable and inclusive Europe*, Report.