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European Added Value narrows EU budgetary reform discussions

Calls for reform of the EU Multi-Annual Financial Framework (MFF), the EU's 7-year budget, are abound. One of the guiding concepts in the budgetary reform discussions is European Added Value (EAV). Current reform discussions appear to be in a deadlock with frantic attempts to agree on the EAV of the MFF. This policy brief argues that EAV, a contested concept, tends to narrow discussions on reform of the EU budget rather than breaking the deadlock. Instead of focusing on the outcome of the MFF and its EAV, the discussions should focus on the process of decision-making through the introduction of several key tests that could determine whether EU money is better spent.

1. Introduction

The EU's Multi-Annual Financial Framework (MFF) post-2020 will be, again, a major political hurdle. There is indeed significant reason to be critical of the EU budget. In the words of Georgieva, former budget Commissioner, "the MFF is a 7-year peace treaty" that no-one is really satisfied with. Call for reforms are abound as the pressures on the EU – and hence its budget – are higher than ever. Yet, former budget revisions and negotiations tell us that big bang reforms are unlikely. As in previous MFF negotiations¹, the European Added Value (EAV) is one of the concepts hoped to guide the discussions. It would serve as a guiding principle and help communicate EU budgetary expenditures to the citizens.

EAV is used in different ways, often in line with the political priorities of the one who defines it. In 2011, the Commission used it in general terms to describe "whether spending at EU level means a better deal for citizens than spending at national level".² The Commission underlined that EU spending should only be used if it is more efficient, effective or synergetic compared to national spending³. However, to what extent does EAV respond to the political challenges and what are the institutional, instrumental and economic rationales? This policy brief argues that EAV tends to narrow the debate as it already presupposes budgetary expenditures and does not question whether expenditures need to be made in the first place. A new MFF should start from a blank sheet that poses important questions related

1 Rubio, E. (2011), *The "added value" in EU budgetary debates: one concept, four meanings*, Paris: Notre Europe.

2 Ibidem.

3 European Commission (2011), *The added value of the EU budget – Commission staff working paper*, Brussels: EC.

to 1) the tasks of the EU and the Member States, 2) what instruments are necessary to perform these tasks and 3) to what extent budgetary resources are necessary to complement existing instruments. The policy brief finds that Better Regulation principles have been relatively successful in creating a framework in which these questions are posed. As such, perhaps the EU should focus on 'Better Spending' principles instead of EAV.

The policy brief consists of five sections. After the introduction, section two puts the budgetary reforms discussion in the current political context. To identify guiding principles for budgetary reforms, including the choice of instruments, section three discusses existing guiding principles in EU policy making (Better Regulation or 'Better Spending'). Section four links the EAV discussion to the wider question of instrumentation. Section five links Better Spending to traditional economic arguments and EAV. Our recommendations conclude the paper.

2. MFF negotiations in a volatile political context

The political context of the EU and its budget is delicate and hence demanding, as well as constraining, in a number of ways. New policy challenges, such as migration and security (both internal and external), demand attention and require appropriate responses. Similarly, the enduring eurocrisis calls for additional measures that may affect the EU budget.

With mounting public tensions concerning European integration, the EU budget, in whatever form or shape, will have to stand public scrutiny with little acceptance for latitude. Poorly argued suggestions for 'more Europe' or for additional expenditures can damage public support for the EU. There is a desire among citizens to 'take back control' and to make sense of the political processes. Evidently, the EU budget can be a divisive topic. Yet, this does not mean that fears should restrict options but it is important, probably more than ever, that the final result

is not merely a compromise but also a set of choices that are justifiable as well as individually defensible. As formulated by Klaus-Heiner Lehne, the President of the European Court of Auditors: "People cannot even begin to trust the EU institutions if they do not believe we are looking after their money properly".⁴

Given the sensitive political context, fiscal transfers from more affluent member states to poorer regions could be defensible but only if the relevant budget expenditures are substantiated. A recent Clingendael report has indicated that (Dutch) citizens are most reluctant to increase expenditures on the EU level *vis-à-vis* other government levels but nevertheless still expect a certain degree of EU intervention and/or coordination.⁵ Hence, the quality of arguments to defend EU intervention and, particularly, budgetary expenditures is of the essence.

The many arrangements of the EU budget regarding revenues, rebates, expenditures, and (shared and national) implementation of the budget make it more difficult to hold the policy actors accountable. A simplification, following clear guiding principles, may help to explain how the budget (and hence the EU) generates added value. At the same time, any change or 'simplification' of resources (e.g. forms of taxation) or management of the EU budget is bound to affect the institutional balance. Recognition of institutional consequences of changes in the EU-budget will have to be made explicit.

3. From EAV to 'Better Spending'

The concept of European Added Value is highly contested and can be considered as an ongoing, permanent, policy dialogue. In addition, EAV tends to narrow the debate

4 European Court of Auditors (2016), *Press release 13 October 2016*, Luxembourg: ECA.

5 Van Loon, Y, M. Luining & A. Schout (2017), *De valkuilen voor een sociaal Europa zijn groot – Burger ziet EU als sociale bedreiging; niet als oplossing*, Den Haag: Clingendael.

on the role of the EU budget as it, amongst others, largely revolves around the question whether the available money should be best spent on national or the EU level. Similar to the EFSI fund, the EU budget appears to be aimed at spending (and leverage additional) money. And European Added Value is used to explain that spending in a (relatively) consistent manner, failing to address the question whether money is the appropriate instrument in the first place.

Path dependency and vested interests play an important role in the MFF negotiations, but in order to truly explain the expenses to an increasingly skeptical population, the EU budget should become part of the overall discussions on the added value of the EU as a whole. That includes a thorough and factual assessment on the proper instrumentation packages and tools the EU should use in order to achieve its goals. That also includes sunset clauses for policies that may have served their purpose in the past but are no longer effective in meeting EU objectives.

The Better Regulation framework and its underlying rules and methodologies for impact assessments⁶ offer a starting point for discussions on the next MFF. Without aiming for radical and comprehensive spending reviews, agreeing on guiding principles and on the process of decision-making (through tests) would be first step in the discussions on the reform of the next MFF. Better Regulation leads to insights into questions about: institutional consequences, instrumentation, subsidiarity, proportionality, costs, and, hence, in the end, on added value.

Better Regulation principles (for the purposes here: Better Spending) have significant overlap with Treaty provisions and existing concepts such as European Added Value that also include tests and subsidiarity and proportionality. The Better Spending framework provides a set of principles for assessing EU spending and prevents

discussions on European Added Value from becoming a shortcut for defending the budget as an instrument.

4. 'Better Spending' and its guiding principles

Although EAV is an important topic in the debates on the EU budget expenditures, a rigorous assessment should not start with discussions on the EAV. The proportionality principle underlines that interventions have to match the size and nature of the identified problem. It includes a preference for lighter instruments (such as information tools or light forms of regulation) unless considerations for impacts and consistency point to the need to work with heavier instruments (regulation or economic instruments). Generally, instrumentation involves packages ('hybrid solutions').

There are major, sensitive, new policy claims and expectations related to, for instance, defense, migration, investments, and social policies. Better Spending, imposes the need to carefully argue effectiveness (feasible results), costs (administrative burdens), proportionality (instrumentation in relation to effectiveness) of EU actions and subsidiarity (including: why are member states failing in delivering results themselves?).

For example, the response of Italy in the migration crisis could, and probably should, entail budgetary support from the EU budget but if the Italian government fails to register (illegal) migrants successfully then the effectiveness of budgetary support is undermined. A demand for budgetary intervention requires a multilayered assessment of the obligations of a member state and additional instrumentation at EU level where the effectiveness of the different instruments plays an essential role.

6 European Commission (2015), *Better Regulation "Toolbox"*, Brussels: EC.

5. Better spending and the functions of a budget

Cold thinking as regards instrumentation and added value also involves economic rationales. Public expenditures have redistributive, allocative and stabilizing functions, and are often a combination of these three. Considerations for whether certain policies concern (mutually reinforcing) redistribution, stabilization or allocation functions are inherently political, but the options should be carefully analyzed, also as a basis for the communication of the final choices.

Redistributive parts of the budget, such as the CAP and Cohesion funds, resemble permanent transfers and are more difficult to defend. Particularly the direct payments under the CAP and the regional competitiveness funds in the Cohesion funds lack normative (fiscal federalist) and positive (political economy/public choice) arguments that justify these EU expenditures.⁷ Secondly, in the EU, redistributive payments are seldom temporary but tend to become 'entitlements' without achieving the underlying goals. For example, Poland and Hungary received EU funds worth 1,98% and 3,57% of their GNI respectively.⁸ Several studies indicate that the results of particularly the Cohesion Policy remains questionable with often a lack of national institutional capacity cited as counterproductive⁹.

CAP and Cohesion funds should, instead, be regarded as allocations to support convergence, with effectiveness of the allocations at the center of the discussions. Currently, the benefits and effectiveness of these funds in generating convergence is doubtful. Increased macro-economic conditionality with links to the Country-Specific Recommendations of the European

Semester is floated as a solution to the lack of structural reforms and overall convergence. However, the funds in itself are too small for a credible stick or carrot.

Therefore, most EU funds – and particularly those related to convergence should be tied to regular reviews including sunset clauses. These funds should be regularly reviewed and discontinued when they are not properly allocated. Such as when investments flow to richer member states and regions and not promote poorer regions catching up. Sun-set clauses Not only will this prevent an ineffective use of funds, it will also provide an incentive to ensure that funds generate the best possible effects rather than that they are considered as redistributive entitlements.

Allocations also include European Public Goods (EPGs), i.e. goods where the EU level is more effective, efficient and able to create synergies.¹⁰ Public goods are non-excludable and non-rivalrous and, in theory, applicable to all European citizens. Nevertheless, the provision of the public goods often occurs on the national or subnational levels, in relation to their domestic demands. The allocation of EU funds should therefore focus on EPGs that are within the competencies and goals of the EU (as set out in the Treaties) and fulfill the general conditions of an EU public good. Examples where the EPG argument will be more convincing include security and defense, environmental protection and EU mobility (through infrastructure or social/education funds).¹¹ However, the European Public Good argument is debatable when member states are simply poorly equipped to provide them effectively. It has to be clear why member states cannot, or fail to, deliver results themselves. Covering these structural problems through the use of the EU budget will not contribute to the solution. As such, EU finances have to be seen in relation to the overall instrumentalisation package.

7 Ecorys, CPB, IFO (2008), *A Study on EU Spending*, Rotterdam: Ecorys.

8 European Commission (2017), *EU expenditure and revenue 2014-2020*. Retrieved from http://ec.europa.eu/budget/figures/interactive/index_en.cfm.

9 Ibidem.

10 European Commission (2011), *The added value of the EU budget - Commission staff working paper*, Brussels: EC.

11 Collignon, S. (2011) The Governance of European Public Goods, in D. Tarschys (2011) *The EU Budget: What Should Go In? What Should Go Out?* (pp. 42-57), Stockholm: SIEPS.

Stabilization was an objective of the multiannual financial framework to defend a flow of investments and (agricultural) support in case the national accounts would suffer from a downturn in the business cycle of a country. Calls for increased flexibility of the EU budget are aimed at increasing the effectiveness of the budget by making it easier to reallocate funds, circumventing the initial MFF design. Current flexibility of the budget is also sought in the form of financial instruments and satellite funds outside the EU budget, increasing the ‘clout’ of the budget. These different tracks complicate the discourse on the EU budget, and reduces accountability and procedural clarity. To illustrate, the launch of EFSI without a proper impact assessment and premature claims of successes can be regarded as a form of ‘budgetary creep’ and may harm trust in instrument and objectives. The increased clout of the budget should not be a goal in itself, but should rather be based on solid principles of good spending and added value.

6. Conclusion

The principle of European Added Value (EAV) is, once again, explored as guiding principle in the discussions on the reforms of the EU’s multiannual financial framework. The advantage of the concept of EU added value is that it specifies the gains of EU spending for the EU public, in comparison to the situation where spending is left to the national level.

However, EAV discussions as a starting point as it is used in current MFF discussions, limits the perspectives on effective budgetary reforms. In practice, the different definitions of EAV lead to a situation where different actors can claim added value of the budget and use it as arguments to protect their political interests. Similarly, arguments such as ‘efficiency’ or ‘public goods’ may sometimes sound deceptively convincing, but should be used with care. The EAV concept prevents discussions on causes and genuine solutions, involving a variety of instruments, of different policy challenges. A higher EU budget should and will not cover weaknesses at national levels.

‘Better Spending’ principles offer a richer framework for assessing the package or combination of instruments required. The use of Better Spending principles warrant, as does EAV, reconsiderations on the current expenditures of the EU budget. Going further, it would broaden budgetary reform discussion by putting expenditures as one (complementary) option amongst a wide range of policy instruments at the EU’s disposal.

Concluding, expenditures in CAP and regional funds in their current form are difficult to defend, especially considering the *juste retour* principle and a lack of desired outcomes. Own resources or EAV will not eliminate *juste retour*: MS will simply calculate their net-contributions again or continue to disagree on the concept of EAV. Better Spending, inevitably inducing issue linkage by not merely looking at expenditures, appears more promising. The overall logic of Better Spending may take time to fully take root in MFF “peace treaty negotiations”. Keeping the overall expenditures modest would be a first step to improve the right incentives a Better Spending framework can provide to ensure effective allocation.

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