

## **Balance of Competences Review: EU budget**

**Professor Cillian Ryan - European Research Institute, University of Birmingham**

### **Setting and agreeing the budget.**

*The length of agreed budget periods, the commitments and payments system, the role of institutions in agreeing the budget.*

The point of EU budget spending should be addressing economic and social externalities associated with the single market and political conditions in the EU. Thus, for example, the focus on spending should be on things like transport facilities which support EU trade (particularly where the facilities benefit other countries beyond the immediate national location e.g. ports, transit routes and rail lines), or ensuring balanced regional economic and social development (to avoid excessive movements from the periphery towards the EU central core). Of necessity, addressing these issues involve long term planning and the budget needs to be protected to some degree from short-term political considerations. It is therefore beneficial to have budget horizons which are typically longer than the standard electoral cycle to encourage multi-party and long-term approaches.

The current budget is undoubtedly unbalanced in terms of its payment design (and benefits to agricultural areas in otherwise well-developed countries - See comments below on agriculture). If this was rectified then there would be room for a renewed discussion of the basis for contributions based on ability to pay and with appropriate recognition of the objectives of the budget in addressing externalities.

I do not have strong views on the budget setting process, I can see a role for all the current stakeholders. I accept there is a question about how representative the current parliament is of the 'normal' electorate given the poor turn-out at EU elections and the performance of smaller protest parties in what is often a mid-term referendum on incumbent governments. But this is a problem which the Parliament/ Council/ Commission needs to address more generally and I don't have a strong view on its particular challenge for the budget.

### **Spending the budget.**

*Whether the current budget is focussed on the right areas of spend, whether spending represents value for money and whether there should be greater flexibility to allow member states to spend money in different ways to the original allocation.*

#### **Areas of spend**

The bulk of EU spending currently goes on agriculture. With the de-linking of agricultural payments from production (and hence guaranteed prices) this is now effectively a form of internal transfer (similar to unemployment benefit or a state-pension). There is thus no longer an EU market-regulatory role regarding potentially distorting production subsidies and the EU should withdraw from this spending, and subject to guidelines on avoiding distortionary production subsidies individual states should be free to decide whether and how to support rural living.

The original case for the UK rebate was largely driven by the imbalance between the UK contribution to the EU budget and its low share of CAP receipts by comparison with other

high-income EU countries. Given that arguably the EU no longer has a competency function in supporting redistributions to the agricultural sector, if there was significant reform of this spending, it would largely obviate the need for the UK rebate.

Should the money previously targeted at agriculture therefore be returned to nation states? Perhaps, but there are other potential calls on these funds which the EU should consider;

- We could consider the possibility of expanding the current regional development budgets to address the externality issues identified under the previous heading (Setting of the budget).
- The other potential area of new/additional EU spending is a budget to capture potential externalities in R&D expenditure. The positive externalities associated with the university sector are not really about the returns to individual education (recall the UK Browne report noted that these were largely captured by graduates) but rather the spin-off benefits of blue-sky and pre-production early-stage research to the wider EU economy. It is arguable that EU countries individually may under invest in research capacity if there are significant spill-overs to other countries and some or all of the existing agriculture budget could be appropriately used to overcome this externality.

Once again, this involves long term planning and needs to be protected to some degree from short-term political considerations. It is therefore beneficial to have a budget horizon which is typically longer than the standard electoral cycle to encourage a multi-party and long-term approach.

#### Budget flexibility

If the EU budget is being used to address trans- EU economic or social externalities then the EU Parliament/Council/Commission should determine these priorities, not national governments. Deviations from agreed specific spending plans should only be allowed where there are changed circumstances AND the Commission agrees the change in priorities with the delegated government. Conversely, the requirement for additionally (matched or proportionally matched spending) from the delegated government needs to be considered flexibly. There is a danger that cash-strapped countries may wish to defer regional-development expenditure given other calls on their budgets in times of economic difficulty. While the Commission understandably wants to operate on a rules-based system (given the potential for abuse of the alternative), nonetheless, if flexibility is desirable, this is the appropriate dimension.

#### Running the budget

*The current financial management system, including the discharge process and the future of the budget, including the impact of Eurozone integration on the EU budget.*

I am not convinced that a distinct Eurozone fiscal regime is necessary (what is needed is an appropriate bank-regulatory regime and an efficient, appropriately risk-priced, market in government bonds) however, in so far as any fiscal regime is necessary for the Euro-zone this should be distinct from the EU budget as currently conceived. I would see the possibility

of any counter-cyclical payment scheme in response to asymmetric regional shocks (for example, an EU contribution to national unemployment spending and/or cyclical-contingent contributions by nation states to the EU budget) as largely symbolic at this stage. Any such scheme might be open to long-term abuse (see for example long-run transfer patterns among US states).

*January 2014*