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European Union Financing Team
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Dnr. 6/2014

Dear Sir, dear Madam,

Thank you for the invitation to respond to the Budget section of the Balance of Competences Review.

The following contribution suggests some criteria for assessing the EU budget from a member state perspective. It draws on studies carried out for the Swedish Institute for European Policy Studies (SIEPS), which is an independent public agency under the Swedish Prime Minister's Office.

The main argument of the contribution runs as follows:

Only a small fraction of EU spending goes to what by any reasonable standards could qualify as genuinely collective European goods. Most of the budget reverts to member states for low-to-medium-priority policy interventions. The underlying purpose of this budgetary transfer is to strengthen the acceptance of EU authority in many different constituencies and ensure compliance with the common norms, in particular those linked to market access. Thus, the key question for small-to-medium-size open economies is not so much whether the EU money (the *quid* of the bargain) is well spent but whether the principal objective of rule enforcement (the *quo*) is attained. This holds for all member states, although net recipients have a slightly greater stake in *quid* aspects. For the United Kingdom and other net contributors, *quo* considerations should matter considerably more than the allocations returning to the national household.

Yours sincerely,

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The UK and the EU Budget: A Quid Pro Quo Perspective

Two cheers for the Balance of Competences Review

The Balance of Competences Review is an excellent initiative by the Foreign Secretary. The relationship with the European Union is presently a moot issue in all member states, but more so in the United Kingdom than anywhere else. There is a great need to deepen public and parliamentary understanding of European integration and to contribute to reforms of EU procedures and institutions in the face of many challenges. The reports produced so far within the framework of the review testify to the great value of the exercise.

It was, secondly, a wise decision to relegate the EU budget to a later stage (“third semester”) of the review. The aspects covered in the early reports provide a useful background for many questions related to the budget.

There is, however, a fundamental problem in the review that affects particularly any considerations of the EU budget, and that is the delimitation of the query to “the balance of competences between the UK and the European Union”. If the purpose is an analysis of “what EU membership means for the UK national interest”, the balance of competences problem is in fact much wider, encompassing also the division of functions between the EU and all other member states. The basic rationale for partial sacrifices of UK sovereignty is rarely a faith in the supreme wisdom of EU institutions, but rather the expectations of gains in partial influence over other states through the agency and intermediary of these common institutions. Decisions on the EU budget play a significant role in determining whether such expectations are realistic.

The division of competences: a triangular relationship

When the division of competences is addressed as a “balance” problem, we imagine a see-saw with weights at either end. On some issues decisions are made in Strasbourg and Brussels, on others in our own national institutions. If competence is shared and the role of the European bodies confined to a supplementary or supportive function, the weights are distributed differently. When there is “multi-level governance” sub-national actors enter into the picture, but to the general public the main question nevertheless remains whether decisions are made at home or abroad: by ourselves, or by ourselves only together with many others.

What is of value to the UK is thus rarely EU supremacy over UK conditions, but much more often the impact that the EU may have over conditions in other member states. This impact is, of course, valuable to the UK only to the extent that the principles upheld correspond to its own interests and priorities, but this goes for large segments of EU legislation. Many of these aim to strengthen and uphold the rule of law and consumer safety as well as market access and a level playing field for foreign actors. Given the ubiquitous protectionist instincts in all

mature economies, such European norms are often perceived to be intrusive in the various countries concerned, and a wide spectrum of arguments is advanced to defend national sovereignty against excessive demands for centralization and uniformity.

In addressing the division of competence problem, it is thus important to recognize its triangular character. While EU legislation now affects virtually all areas of domestic legislation and public policy, it is essential to recall the foreign policy character of the European Union. It is hardly accidental that the Balance of Competences Review was launched by the Foreign Secretary. Ever more dependent on foreign trade in the era of rapid globalization, all EU member states are very much affected by developments in other countries. This is not least true of the UK, very high-ranking in the DHL Global Connectedness Index and the leading European country as far as service exports are concerned.

Many EU norms meet with scant understanding in the public opinion of the various member states. Seemingly incomprehensible commands from Brussels are seen as irritating attempts at Continent-wide meddling by power-hungry bureaucrats. A frequently cited example is the directive defining the maximum acceptable noise from lawnmowers. Why could such an apparently seemingly local matter not be left to the member states, or even the councils? As the investigative journalist tackling this question from a Brussels-bashing perspective soon discovered, the directive stemmed from a UK initiative in response to German legislation outlawing noisy British machines, presumably to defend both the ears of German gardeners or their neighbours and the markets of domestic producers. This is yet another reminder of how easily good causes mix with protectionism.

Thus, besides the “Brussels or London question”, there are also 27 “Brussels or Paris (Berlin, the Hague, Warsaw, Athens etc.)” questions. Even if every single member state has a limited power over the common regulatory framework, there is at least some influence on offer to those playing their cards well. With the proliferation of real or potential cross-border conflicts of interest and the decline of bilateral conflict resolution capacity, the need for multilateral instruments to deal with such tensions is constantly on the rise.

The EU budget as part of a grand bargain

Over the last few decades, several UK innovations in the field of budgetary policy have been emulated in other countries, such as cash limits, policy review procedures, value-for-money evaluations and the pursuit of best value. Yet many of such tools cannot be used in analyzing the EU expenditures unless there is a clear understanding of the part of the Union’s budget in the grand bargain.

Only a minor share of the EU budget is allocated to what could, with any solid justification, be qualified as European public goods. The bulk of the Union’s resources are instead returned to the member states, where it is spent on predominantly medium-to-low-level national and regional priorities. Some of the key principal spending targets do not even qualify as national

collective goods. This goes for most of the common agricultural policy, which in addition is lopsided in favour of wealthier countries and producers.

The obvious question is why such national, regional and local needs cannot be funded from national sources of public revenue. Examined in isolation, the EU budget looks like a bad deal for most member states, and in particular for the net contributors. In this light it is easy to understand the sharp criticisms levelled at EU spending. The repatriation of political sovereignty has now become a major theme in election campaigns throughout the Continent. It is virtually certain that the next European Parliament will be less enthusiastic about super-national integration than the present one.

Yet the flaw in this reasoning is a failure to understand the constant and in fact growing need of modern states to influence conditions in *other* states. In an evolutionary perspective, the rationale for the EU budget was never any belief in the superior capacity of the Brussels machinery to spend tax money more wisely than national governments. As is well described in chapter 3 of the Treasury's call for evidence, the successive modifications of the EU budget were based on a long chain of barter. The logic was always one of negotiated acceptance of common rules. The increase of EU expenditures was steadily linked to regulatory expansion, in depth through new legislation and in space through new accessions.

An important objective for this drive was always the reinforcement of legal institutions and procedures. With growing international trade both in the immediate European vicinity and in the global context, there is indeed a great need to strengthen the rule of law and the respect for legal obligations in the wider political space where international transactions are conducted. Significant resources have been devoted to this end in the enlargement process, both in pre-accession relations with the candidate countries and in continuing assistance to the new member states.

There is no doubt an element of solidarity in the transfer of resources within the Union, but if that had been the predominant motive the budget would have looked different. Another driving force in the development of the Union is clearly the pursuit of compromises whereby new policies or legal norms are accepted only if accompanied with due compensation to spread the benefits of integration more evenly. The history of such arrangements goes as far back as the European Coal and Steel Community, and they were certainly decisive in the engineering of the Rome Treaty. The invention of a community-wide regional policy in conjunction with the United Kingdom's accession followed the same line of reasoning, as did the invention of cohesion policy in the context of the Internal Market and the launching of the Monetary Union. Cohesion policy in particular has been a remarkably adaptable ingredient in many political packages, serving a multitude of compensatory purposes to facilitate the acceptance of new accessions and new pieces of legislation.

The EU as an instrument of foreign policy

When Swedes are asked whether they want power to be exercised in Stockholm or in Brussels, they invariably say Stockholm. Even people in peripheral and rural areas that are generally suspicious of the capital prefer commands issued by the national system of governance to edicts from Brussels. In some countries the national political institutions have traditionally been held in such low esteem that greater hopes are pinned on the EU institutions, but by and large Europeans remain sceptical of the remote and one-size-fits-all ideas coming out of the Brussels machinery. In the UK, such views are spread widely across the whole political spectrum.

What is lacking in this perspective is frequently an understanding of the EU as an instrument of foreign policy. In earlier times, imperial states could assert their interests through other and more forceful means. In 1850, the Foreign Secretary Lord Palmerston dispatched a squadron of the Royal Navy to blockade the port of Piraeus in retaliation for the harming of a British subject. A significant chapter in US history deals with “big stick diplomacy”. France, Germany, Spain, Portugal, Italy, Belgium and the Habsburg Empire have their own experience of colonial rule.

In the modern world, “ruling the waves” calls for new instruments. The need for influencing conditions abroad has not ceased growing in recent decades, quite the contrary. This is linked not only to expanding commercial relations but also to increasing interdependence in many other fields, ranging from security to migration, environmental hazards and climate concerns. That a country could safeguard its national sovereignty by refusing to take part in such efforts is an illusion, if not a folly. Rather, the question to consider is which mix of inter-governmental vs. super-governmental mechanisms is best suited to attain a sufficient measure of impact?

This requires careful analysis of the available options. In a great many areas, there is regrettably no surplus of efficient organizations serving such purposes. The choice is often between various weak and badly deficient instruments. The initiatives of the European Union, principally through the European External Action Service, are often held back by the aspirations of particular member states. The result is a substantial under-supply of agencies responding to the need for multilateral collective action.

Some implications for priorities within the EU budget

The main benefits of the EU to the United Kingdom have been covered in several previous papers within the Balance of Competences exercise, particularly the seminal report on the Single Market. The EU budget should mainly be seen in the light of such objectives and accomplishments. The reverting allocations play some role, particularly within regions and particular sectors, but they should not be allowed to capture all the attention in the framing of UK priorities. From the perspective of any individual member state, the key purpose of EU spending is rather to assure acceptance of the fundamental values and principles embodied in the EU regulatory framework throughout the 28 countries, and beyond them in other countries

partially bound by EU rules. Central elements in this framework are the rule of law, the respect for common obligations, free access to markets and various forms of cooperation in the pursuit of common goals.

If this argument is accepted, at least one ingredient in the UK Government's priorities in the recent 2014–2020 MFF negotiations deserves re-examination in view of future budgetary processes. In the chapter on administration in the EU budget, the UK sought substantial reductions as these expenditures were deemed to give very poor value for money.

The political appeal of this position is obvious: who likes administration? Nor is there any reason to exclude the possibility of sound savings in this area. The main thrust, however, should be different. If a cardinal purpose of the EU budget from the UK point of view is to achieve a measure of influence over conditions in other countries, reducing the capacity for this very function in the Union seems undeniably counterproductive.

With the paramount administrative inertia, and potent political pressures within member states to resist various forms of extraneous interference, the existing instruments for attaining compliance with EU norms are very feeble and built mainly on indirect mechanisms. For an efficient rule enforcement throughout the Union, there is a clear need for stronger not weaker institutions of adjudication, monitoring, auditing and control. The relatively modest pains inflicted by the EU machinery on UK national institutions must not be allowed to eclipse the much more important gains of EU supervision of similar institutions in other countries. If the UK wants better value for money from its contribution to the EU budget, it should favour channelling *more* resources to oversight and vesting *more* authority in the Commission and other supervisory bodies to deal with recalcitrant member states. This includes proper attention to the good functioning of the European courts.

A dilemma in this policy sphere is what view to take on the level of salaries and other emoluments in the EU institutions. These may seem high when compared to domestic conditions, particularly in the poorer member states, and politicians of all stripes can be certain to earn popular approval at home when asking for greater stringency in the Union. A reason for restraint in the demand for restraint, however, is its potential impact on the balance of perspectives and backgrounds within the EU institutions. If top-rate experts from the UK and other similar countries hesitate to compete for positions in the higher echelons of the Union, this could affect the desirable equilibrium between member states.

Conclusion

A key purpose of EU spending is to maintain and strengthen the basis for compliance with EU norms. The division of competence between the EU institutions and the UK must not be allowed to eclipse a question that is even more important for the defence of UK national interests, namely the division of competences between the EU and the 27 other member states.

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Maza, A., and Villaverde, J., 2011, *Regional Disparities in the EU*, SIEPS Report 2011:4

Collignon, S., Heinemann, F., Lejour, A., Molle, W., Tarschys, D., and Wostner, P., 2011, *The EU Budget. What Should Go In? What Should Go Out?* SIEPS Report 2011:3

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