NEGOTIATING THE MEDIUM-TERM FINANCIAL PERSPECTIVES FOR THE ENLARGED EU:

THE FUTURE OF THE EUROPEAN BUDGET

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Although the 2004 enlargement adds some 70 million inhabitants to the EU population, which was about 370 million before, and in spite of the very significant gap in average incomes between old and new members, the latter being much poorer, the size of the EU budget will hardly increase, by a mere 15% till the end of the current programming period, in 2006. With the opening of a new round of negotiations over the next multi-annual financial perspectives for the period 2007-2013, in a context of slow growth, competing objectives and tight financial situations in most EU15 member states, the future size and composition of the European budget are open to debate and the choices that have to be made will, to a large extent, shape the future of the common policies and of the existing instruments of financial solidarity, with likely consequences on economic growth and its distribution amongst member states.

This paper presents and discusses the main proposals that have been put forward at the initial stage of this negotiation. It then extends the analysis to broader considerations about common policies, most notably the Common agricultural policy (CAP) and the structural and regional policies, and collective goods for the EU, and about the various institutional and budgetary arrangements, as well as sources of financing, that may be contemplated to implement European policies or to achieve common objectives by means of a more decentralized budgetary system. It also discusses the delicate issue of net contributions and analyzes the pros and cons of various alternative sources of financing for the EU budget, including a European tax.

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Will the new climate following the changes of governments in Spain and Poland in March 2004 speed the adoption of a European Constitution up and ease the negotiations over the European budget? Occurring only months after the decision, finalized in Thessalonica, to welcome 10 new members in the European Union (EU), the failure, in December 2003, to adopt the constitutional treaty that had been elaborated by the European Convention chaired by Valéry Giscard d'Estaing has had immediate consequences in many fields of the functioning of the EU, including the budgetary negotiations that are due in the coming months to decide on the new medium-term financial perspectives that are to follow the current "Agenda 2000" running until 2006, covering the period 2007-2013.

But how costly will the new enlargement be, and will the next ones– with the already decided adhesions of Bulgaria and Romania in 2007 and the possible joining of others, such as Macedonia, other Balkan countries, and possibly Turkey– add to the financial burden of richer, more ancient members? As is well known, new members are markedly less developed than the 15 older members, which makes the negotiations more difficult, especially in times of bad overall economic performance and very tight budget conditions in most member states. Instead of reasoning on common goals and appropriate tools to reach them, the new negotiations over the size and structure of the EU budget that is to prevail well into the next decade are dominated by a petty accounting logic and by the concern of major current contributors to minimize their net financial "burdens" and get closer to the "*juste retour*" once advocated by former British Prime Minister Margaret Thatcher in the early 1980s.

This paper is an attempt to analyze the stakes surrounding the EU budget in the context of the present and likely future enlargements. The first section briefly presents the structure of the current EU budget, and discusses the distributional issues that dominate the debates over its future. Section 2 summarizes some of the major controversies surrounding the two common policies that currently account for almost 80% of the EU budget expenditures, namely the Common Agricultural Policy (CAP) and the regional and structural policies; it also discusses some of the proposals that have recently been put forward to reform these policies, most notably the so-called Sapir report (Sapir *et alii*, 2003) and the programmatic document of the EU Commission (EU Commission, 2004). In section 3, we sketch an alternative way of assessing budgetary prospects and choices, by emphasizing the logic of common objectives and policy choices. Section 4 deals with the issue of financial resources and discusses the possibility of introducing a European tax. Finally, section 5 offers some concluding remarks about the prospects of European budgetary negotiations.

1. The accounting logic and the "juste retour"

Whereas the initial objective of the multi-annual budgetary programming in the EU, first implemented in 1988 under the Delors presidency, was mostly to enhance the quality and efficiency of common intervention tools by explicitly reasoning in a medium-term framework, it has, in practice, and especially in the latest two negotiation rounds over the EU budget, led to overemphasizing the financial and distributional dimensions of issues and policy choices involved, at the expense of substance and goals. With the adoption of an overall ceiling on total expenditures– currently at 1.24% of EU GNI– and in a context of poor economic growth performance and tight budget constraints at the national level, the "accounting logic" that prevailed in the drafting and adoption of the previous multi-annual budget package– the so-called "Agenda 2000", covering the period from 2000 to 2006– adopted in Berlin in March 1999 (Fayolle and Le Cacheux, 1999) is once again likely to dominate the upcoming negotiation round, as clearly demonstrated by the positions taken at the beginning of 2004 by major actors.

1.1. The structure of the EU budget in the aftermath of the enlargement

Amounting to a little less than €100 billion in 2003 and due to rise to only €115 billion in 2006, the European budget is both small, relative to national or even, some local budgets, and highly tilted towards two major expenditure items: the Common agricultural policy (CAP) eats up about €45 billion, and structural and regional policies about €33 billion. While the former has been considerably trimmed over the past ten years, in the process of adapting EU agriculture to the rules of world trade and of reducing public support to production prices and farmers' incomes, structural policies have progressively emerged as the major financial instrument for promoting economic convergence and social and spatial cohesion amongst EU countries and regions. With their low income per capita and, for many of them, relatively large and backward agricultural sectors, the new member states would, in the absence of any change in the rules for distributing EU funds, have been important beneficiaries on both accounts.

On the receipt side, the traditional "own resources" of the EU budget– import duties– now amount to very little (about 12.5% of total resources in 2003), and the two major components are the VAT resource (about 25%) and, now predominantly, the GDP contribution (approximately 60%), both calculated on the basis of each member state's current activity and mostly proportional, so that it is relatively easy to impute expenditures to each member state and assess the net gain or contribution of each participant. Given their initially low per capita GDP and incomes, the new members will all be net beneficiaries in the immediate aftermath of their adhesion. However, depending upon the choices made for the next financial perspectives, some of them may soon become net contributors.

1.2. Net contributors and the Commission: two proposals

Although the mere idea of calculating net gains and losses may seem contrary to the spirit of European integration and the notion of financial solidarity that goes with it, it has become a habit to start all budgetary negotiations in the EU with an assessment of net financial gains and losses of each member state, and indeed to reason almost exclusively in these terms even in the course of the negotiation (see, for instance, Gaillard and Sutour, 2004). Such calculations are made possible by the specific structure of both expenditures and resources: the national distribution of each item is easily assessed, hence net overall gains or losses too. And given that expenditures are dominated by the CAP and structural policies, both heavily tilted towards a handful of countries, the distribution of net gains and losses is itself quite unbalanced: in 2003, the spontaneous working of EU budgetary rules on spending and financing would have left the United Kingdom (UK) with a net contribution of almost €9 billion, Germany a little over €5 billion, and the Netherlands €3 billion, while Spain was registering a net gain of more than €8 billion, Greece almost €4 billion, Portugal about €3 billion and Ireland about €1 billion, in spite of the spectacular catching-up of the latter, now third in the per-capita GDP ranking, after Luxemburg and Denmark[1]. The fairly massive transfers thus organized *via* the EU budget with very little relation to each country's real income level and ability to pay had led to the adoption a correction mechanism for the UK in 1984, so that net contributions are more evenly distributed: €6 billion for Germany, €4 billion for the UK, €3.5 for Italy, €3 for the Netherlands, and a little less than €3 for France, all other members except the four net beneficiaries mentioned above being net contributors too, but for smaller amounts[2].

This extreme polarization of net benefits and contributions, which the new enlargement to relatively poor, and in some cases, agricultural countries, reinforces, strongly influences the negotiating positions of national governments, especially in the current context of tight budgets and difficulties to meet the Stability Pact targets: indeed, given the distri-

1. In a world of economic openness and globalization, country rankings based on GDP are not a proper way of approaching notions of fairness or ability to pay, better measured by GNP or GNI, which only take into account incomes accruing to residents. In the cases of Luxemburg and Ireland, the gap between the former and the latter is actually quite large (over 20%). This is also likely to be the case for a number of new member states that are fairly small open economies, with large fraction of their production sector in the hands of foreign investors.

2. Though, of course, net contributions are, in some cases, large when expressed as a share of GDP.

bution of current expenditures and the current financing rules, any increase in the overall size of the budget will lead to larger net contributions by those who already contribute the most. As a reaction to this state of affairs, and a threat to net beneficiaries, the heads of governments of the six larger net contributors (Germany, UK, the Netherlands, France, Sweden and Austria) have, in early January 2004, sent a letter to the President of the Commission demanding that the total EU budget be submitted to a tighter ceiling of 1% of GNI in the next financial perspectives.

In an effort to meet this opposition, accommodate previous commitments, such as the one made by Germany and France in 2002 to stabilize the total amount spent on agriculture after 2006, and yet obtain an increase in the size of the budget (to about 1.15% of EU GNI, and up to the 1.24% of GNI ceiling when including the emergency reserves), the Commission has, in its programmatic document (EU Commission, 2004), proposed several changes in the budget. Some have to do with the nature and classification of expenditure items, and may be regarded as mostly cosmetic[3]. But the major proposal, in this respect, is a generalized correction formula for net budgetary balances of member states, that would leave no country with a net contribution larger than what all would regard as "fair". Although such an approach may be necessary to win the support of major net contributors to a larger EU budget, it also tends to postpone the reflection on better sources of financing and to institutionalize the notion of "*juste retour*", with all the theoretical objections and practical problems of assessment that may be raised against it.

2. The track record of major common policies

Within the current structure of the EU budget, two common policies– the CAP and structural funds– alone absorb almost 80% of total expenditures. Given their relatively low per-capita incomes and the structure of their economies, with, in some cases such as Poland, a very large agricultural sector, new member states also stand to benefit from these policies, provided their financing and general orientations are maintained. However, under the pressure to reduce its budgetary cost and to conform to the new international-trade context, the CAP has been profoundly restructured over the past twelve years and its extension to new members has been conducted in a rather restrictive and progressive manner. Similarly, the rules prevailing for the distribution of regional and structural funds have been subject to several restrictions and are currently under review by the Commission, while a number of recent studies question their effectiveness in reducing

3. See below, and Begg, 2004.

regional economic disparities and/or in promoting growth in the EU. Hence, in spite of the widely spread opinion that these two policies are likely to retain major shares in the expenditures of the EU budget, their overwhelming importance is increasingly questioned and some critics (e.g. Sapir *et alii*, 2003) even advocate a drastic reduction or indeed a complete disappearance of these policies from the European panoply.

2.1. The CAP and its budgetary costs

Long regarded as an intangible part of the "*acquis communautaire*", the CAP has also reaped the lion's share of the EU expenditures, reaching more than 75% of total spending in the late 1980s. But the reforms conducted in 1992, 1999 and again in June 2003 have brought its budgetary cost under control: currently representing less than 50% of total expenditures, agricultural spending is supposed, under the Franco-German compromise of 2002, to remain constant in money terms from 2006 till 2013.

Conceived in the late 1950s, in the aftermath of World War II that had brought widespread food shortages back in some European countries and as a response to the division of Europe by the "Iron curtain", that had deprived Germany of her most productive agricultural regions and cut her off from her traditional suppliers, in particular of wheat, the CAP initially was a policy to boost agricultural production and to raise farmers' incomes, in a context where farmers were still a large fraction of the working population in some countries, and where living standards in rural areas were markedly less than average. The major instruments to reach these goals were the "orientation" section of the European agricultural budget– along with national subsidies– to encourage modernization, mechanization and restructuring of farming, on the one hand; and, on the other hand, a system of internal price support and external protection for major staples, cereals, milk products and beef, initially. This policy proved remarkably effective in boosting food supplies and farmers' incomes in the 1960s and 1970s; it was also inexpensive for the budget, at least as long as the European Community, then limited to the six original members, was still a net importer of the major crops, insofar as the receipts from import levies was a significant source of revenue for the common budget, and price support was easy as long as supply fell short of demand[4]. With the success of this "productivist" strategy, the net budget cost started to increase, as import levies vanished and had to be replaced by export subsidies to get rid of excess supplies and interventions on domestic markets to store or destroy part of the crops. In the early 1980s, while the

4. Of course, trade barriers meant that domestic prices were kept artificially above world levels, so that the main cost was then born by European consumers.

budgetary expenditure on agricultural support was rising, a first reform was introduced in milk farming, with the adoption of production quotas, which effectively resulted in the disappearance of excess supply and the maintenance, for 20 years, of relatively stable prices.

As the budgetary cost of the CAP was still on the rise, and Europe had become of major exporter of staples– especially wheat– and processed food, in the 1980s, competing with the US and other traditional exporters, the GATT Uruguay round, initiated in 1986, decided, for the first time, to bring international trade in agriculture and food products into the realm of liberalization and market opening. As a response, the CAP reform of 1992 started a movement of lowering internal prices and replacing price support and export subsidies by direct income maintenance to farmers, initially as a compensation for lower production prices. This new strategy, which was then pursued in the Berlin reform of 1999, and generalized in June 2003, was meant to bring domestic prices in line with world prices, in order to benefit European consumers and to encourage an expansion of sales, both in domestic markets and abroad. In practice, although consumers did not really benefit, the new policy was effective in reducing excess supplies and controlling the budgetary cost of the CAP, while retaining a mechanism for farmers' income support. The latter has been progressively shifted onto two major types of instruments: a small fraction of expenditures, mostly under the so-called "second pillar" is now used on instruments to promote environmental protection, animal welfare, etc., while the bulk of support is in the form of "decoupled" income subsidies, bearing no direct link with current production, and hence deemed not to introduce distorsions in prices, hence in decisions to produce. In the current round of international trade negotiations, in the realm of the Doha round, the fight against what is left of export subsidies has been intensified with the argument that they are detrimental to farmers in poorer, less developed countries, which is undoubtedly right; but the more wide ranging attack against public support of agriculture in rich OECD countries, i.e. essentially the EU and the US, is probably much more debatable (see Fitoussi and Le Cacheux, eds., 2003; Laborde and Le Cacheux, 2003).

The new situation created by the successive reforms of the CAP, which is now mostly geared at farmers' income support by means of decoupled subsidies, threatens the rationale of a European agricultural policy. Indeed, with free markets and the almost complete dismantling of price support mechanisms– and soon also of production quotas in milk farming–, the major reasons for having a common policy disappear, as the policy tools are mostly distributional, and the only shared objectives, such as environmental protection and rural development, represent only a minor fraction of expenditures, while their common character may even be questioned.

With the only partial extension of the benefit of income support to farmers in the new member states, and with the pursuit of decoupling decided in June 2003, when the precise rules for distribution of farmers' subsidies were also left in the hands of member states, it may be argued than the CAP has almost ceased to exist, in spite of a formal agreement to carry it forward at least until the end of the next medium-term financial perspectives. Renationalizing agricultural policies, as advocated by some (e.g. Sapir *et alii*, 2003) would, in these conditions, be a logical step. But the new orientations may well introduce less visible forms of distorsions in competitive positions; and they effectively lead to a complete free-market approach to agriculture, at a time when threats to food security and safety, the environment, rural development, but also expansion of food-processing industries could be regarded as proper objectives for a renewed approach to agricultural policy in an enlarged EU. In addition, of course, the modernization and income support objectives of the initial CAP still retain pertinence in the new members, especially Poland and, in the next round of enlargement, Bulgaria and Romania. But in these cases, the fear of having to bear large budgetary costs and, incidentally, of raising productivity and competitiveness in agricultural sectors that might then become serious competitors led to a restrictive approach, opening up the way to complete renationalization of agricultural policies.

2.2. Cohesion policies, economic convergence, and the catching-up process

Although their expansion is more recent and their budgetary cost less than that of the CAP, structural and regional policies, which, if left unchanged, are to greatly benefit new member states, have also been increasingly criticized in recent years, and their mere existence has been questioned too[5]. Two strands of criticisms have been set forth in recent years. The first type rests on available empirical evaluations of regional and structural policies that tend to conclude that they have not been very effective in promoting the catching-up of poorer regions, and have therefore not decisively reduced income inequalities amongst regions. Hence, for instance, Fayolle and Lecuyer (2000) argue that European funds have helped narrow the average income gaps amongst countries, and especially benefited Ireland and Spain, but they seem to have failed to pull poorer regions in poorer countries closer to the average. Although more recent studies (e.g. Dall'erba and Le Gallo, 2003) reach more nuanced conclusions, there may indeed be a problem of efficiency

5. Once again, the most radical attack is to be found in the Sapir Report (2003), which essentially pleads in favor of dismantling the major financial instruments of regional policies, to retain only the ones meant to compensate for the regional consequences of increased market integration. See below.

of these policies, either because they are not focused enough and tend to spread funds over a large array of regions, even those with medium income levels, or because their rules, in particular the so-called "additionality condition", prove more favorable to richer regions, that benefit from a better capacity to design projects eligible for European funding and from larger financial resources to match European ones. However, it may also be the case that these policies take time to effect economic conditions in the regions, so that, given their relatively recent expansion[6], their consequences on catching-up will only be measurable in years to come.

A more drastic criticism is developed in the Sapir Report (2003) which argues that regional and structural policies are, indeed, detrimental to overall economic growth, insofar as they contribute to artificially maintaining economic activities in peripheral regions and thus prevent agglomeration, which, according to some "new growth theory" models, is a major factor of efficiency gains. Dismantling the major instruments of regional policies would therefore result in higher average economic growth in the EU, which would then benefit all and the proceeds of which could then, to some extent, be redistributed, possibly by national governments. However, such a reasoning may be criticized on several grounds: in particular, first the idea that agglomeration is the best way to maximize overall growth is debatable, and would have to be subjected to deeper empirical scrutiny; and second, in a world of second best, objectives other than mere growth maximization may be equally defendable (see Le Cacheux and Sterdyniak, 2003).

Notwithstanding these theoretical and empirical considerations, the current approach to regional and structural policies in the EU is dominated by purely distributional considerations. The new members, being all much poorer than former members, all stand to benefit from existing instruments; but given the size of their income gap, their benefits have, in the current financial perspectives, been limited to less than 4% of their GDP. For the new medium-term financial perspectives, the Commission has proposed an extension of existing policies, with increased funding, that is meant to preserve most of the benefits of former member states, in order to preserve political support (see, for instance, Gaillard and Sutour, 2004). But given the expressed will of net contributors to cap the overall size of the EU budget, choices will have to be made.

6. Cohesion funds, currently benefiting the four « cohesion countries » (Greece, Ireland, Portugal and Spain) have been created as late as 1992, and their resources have been increased only late in the 1990s. Given the long-term character of many infrastructure projects financed under this heading, one would not expect visible economic consequences to materialize immediately.

3. European public goods and common objectives

Rather than focusing the debates on the overall size of the EU budget or on net contributions of member states, a more constructive and potentially more fruitful approach would emphasize the common objectives and possible collective goods that European countries recognize they are willing to provide, either jointly through the direct intervention of the EU level *via* its budget, or indirectly, by inducing national governments to provide them. The way the Commission has tried to reformulate common policies and recast the various spending items in terms of major objectives (essentially competitiveness, cohesion and external actions, see Table 1) is an interesting attempt in this direction, although it appears quite artificial and mostly cosmetic in the Commission document (EU Commission, 2004).

An earlier attempt at this kind of reasoning had been made by the so-called MacDougall expert group, back in the mid-1970s (EU Commission, 1977). The study then envisaged various scenarios, inspired by the experience of existing federations, for the evolution and overall size of the EU budget. In the most modest scenario, it viewed an EU budget reaching about 2% of GDP and concentrating on the financing of a limited number of European public goods or services, such as a common defense; in other scenarios, it envisaged an expansion of the common budget to 5 or 6% of GDP, in which case it would also provide macroeconomic stabilization services.

1. Planned expenditure under the 2007-2013 financial perspective

In % of total budget

Policy heading	2006*	2007	2008	2009	2010	2011	2012	2013
1a. Competitiveness	7.3	9.1	10.4	11.7	12.0	14.1	15.3	16.3
1b. Cohesion	32.1	35.6	34.9	34.3	33.6	32.9	32.5	32.2
2a. Agriculture	36.2	32.6	41.7	40.6	39.5	38.5	37.5	36.5
2b. Other 'sustainable management'	10.2	10.2	10.3	10.3	10.2	10.1	9.9	9.8
3. Citizenship, security, etc.	1.1	1.2	1.5	1.6	1.8	2.0	2.1	2.3
4. EU as global partner	9.3	8.5	8.8	9.0	9.4	9.7	9.8	9.9
5. Administration	2.8	2.8	2.8	2.8	2.8	2.8	2.8	2.8

* Due to a one-off adjustment made by the Commission in the current structure to make it comparable to the planned one, this column adds up to a little less than 100%.
Sources: EU Commission, 2004, calculations by Begg (2004).

Of course, the current political situation is quite far from such a "fiscal federal" approach to EU budget programming. Yet, if one is to take the idea of common objectives, such as the Lisbon ones, or public goods, such as a common defense, seriously, it may be worth launching a new reflection on the appropriate way of promoting these goals: one way, as explored in the MacDougall report (EU Commission, 1977) is an increase in the overall size of the EU budget; another way is presented in the Sapir Report (Sapir *et alii*, 2003), with an unchanged overall size of the budget, kept under the 1%-of-GNI limit, along with a complete overhaul of expenditure items, reallocated to new objectives, such as growth and competitiveness, at the expense of more traditional ones, such as agricultural support and spatial cohesion. A third way would consist in rethinking the objectives and trying to transform the EU budget in a toolbox containing relatively small-sized, but well-targeted financial incentives to induce national governments to deliver on commonly agreed collective goods and objectives. This third approach, which would seem more akin to the current European integration process, in which centralization is generally regarded as a trend to be fought, would also promote more ambitious policy objectives, an important ingredient in the aftermath of an enlargement that seems to have lessened the political integration dimension and on the eve of a new debate on the project of a constitutional treaty[7].

4. A European tax?

Even though it may appear relatively simple, transparent and fair, insofar as it mostly rests on contributions that are proportional to each member's GDP, the current mode of financing the EU budget has several weaknesses that contribute to emphasize the distributional dimension in the negotiations. First, the reference taken for calculating national contributions– GDP– is not an appropriate indicator of the ability to pay. Second, the national contributions are treated as an expenditure in the national budgetary process, which clearly individualizes the burden of European duties, administration and policies, giving the false impression that these expenditures are large. Moreover, financing the EU budget with national contributions makes it possible, and indeed relatively easy, to calculate net gains or losses from the European budget.

Already in the late 1990s, the European Council had asked the Commission to make proposals for a reform of the EU budget resources. But no precise proposal had been made in Berlin, at the time when the previous medium-term financial perspectives– the so-called

7. For more on this, see Fitoussi and Le Cacheux, eds. (2003). For an alternative way of thinking about these issues, see also Buti and Nava (2003).

"Agenda 2000"– had been discussed and adopted. The new proposals of the Commission for the next financial perspectives covering the 2007-2013 do not explicitly recommend a reform of financing sources, but briefly allude to the possibility of instituting a new mode of financing by creating a European tax. Long advocated by some (e.g. Sterdyniak *et alii*, 1991; Le Cacheux, 2000; EU Commission, 2002), a European tax would help solving several problems of the EU budget, especially the lack of political legitimacy, insofar as it would have to be voted by the European Parliament, a major step on the road towards a traditional form of democracy.

But which tax then? The Commission cites a genuinely European VAT, a tax on energy consumption (an eco tax) and a corporate income tax. In each case, the idea would be to concurrently reduce the national tax pressure, so that the overall tax burden would not increase. Given that the last two (eco tax and corporate tax) are currently among the major instruments in the hands of national governments to engage in tax competition (see Le Cacheux, 2000), a Europeanization of at least part of one such tax would ease the problem. It would also be consistent with the aim of completing the European single market and ensuring a "level playing field" for European firms, while retaining the possibility for national governments to levy their own taxes on the same basis. In addition, financing the EU budget at least partly with the proceeds of a European tax would also be a way of blurring the calculation of net gains or losses, as the localization of receipts would be made almost impossible in most instances. And it would introduce a double automatic stabilizer mechanism in the EU budget: on the one hand, total receipts would fluctuate with business conditions, which would imply either the tolerance of a budget deficit at the EU level or some compensation formula; on the other hand, the EU budget would function as a spatial stabilizer, cushioning the effects of macroeconomic asymmetric shocks much in the same way – though on a smaller scale— as the federal budget in the US. For the corporate income tax, the Commission has recently advocated a harmonization of the tax basis, which could pave the way for a future Europeanization of at least part of it[8]. Even though the prospects for such a reform of the EU budget own resources may appear quite bleak in the present political context, a deeper reflection on such a move would be most welcome, especially at a time when the adhesion of new members, most of which are small and have relatively low business taxation and other production costs, so that tax competition may become fiercer[9].

8. For a more detailed analysis of various devices and ways of combining European and national taxations of corporate income, see Sterdyniak *et alii*, 1991, and EU Commission, 2002.

9. For more detailed arguments about tax competition and the size of countries, see Le Cacheux, 2000, and Laurent and Le Cacheux, 2004.

5. Concluding remarks

The current debate about the future of the EU budget has, so far, been cast in purely distributional terms: new members, who stand to gain from existing policies, mostly insist on prolonging past practices; members of the EU15, who all stand to lose, either because, like Germany or, even, France, their already large net contributions are likely to increase or, like Spain, because their net benefits will be drastically reduced. Net contributors tend to favor a small budget; net beneficiaries would like to increase its size; France is in the awkward position of advocating either a reduction in size, or a selective increase that would limit her own net contribution by preserving the large benefits from the CAP or a loosely targeted regional policy. The Commission, in an effort to conciliate these contradictory demands and because it is reaching the end of its term, has proposed a modest increase in overall size, along with a reshuffling of existing expenditures. The temptation to link these issues with the debate over the double-majority rule to be adopted in the future constitutional treaty even worsens the distributional bias.

As long as the EU budgetary debates are viewed as purely zero-sum games, it seems very unlikely that progress will be made towards a better use of European funds and other common tools. One way out of this deadlock has been proposed by the Sapir Report (2003), which rests on the assumption that agglomeration and promoting research and development will maximize overall economic growth in Europe, thus permitting the implementation of some, limited and precisely targeted redistribution. The underlying rationale is therefore the transposition at the EU level of the traditional conflict between efficiency and redistribution. An alternative hypothesis[10] would instead emphasize the positive-sum-game character of at least some common policies, leading to radically different conclusions about both the overall size of the budget and about the nature of common policies and expenditures.

10. An example of such an approach is discussed, with the help of macroeconomic simulations, in Le Cacheux, ed., 1996.

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