How to shift the EU’s spending priorities? The multi-annual financial framework 2007–13 in perspective
Joachim Schild

ABSTRACT  At the Lisbon European Council in 2000, heads of state and government made strong political commitments to invest in Europe’s future, in order to transform its economy into ‘the most competitive knowledge based economy in the world’ by 2010. To what extent were the Lisbon goals translated into a shift in spending priorities during the negotiations on the EU’s multi-annual financial framework (2007–13)? Could the stated competitiveness goals be underpinned by a reallocation of scarce financial resources in the EU’s budget? This paper starts with theoretical considerations on the odds of shifting financial priorities in the EU’s ‘consensus democracy’. Then it gives an overview of the slow pace of change to be found in the new financial perspective which is to be compared to earlier deals on the multi-annual budget since 1988. In order to explain this result, the political context and the sequence of decision-making is examined, looking at the respective roles of the Commission, the European Council, and the European Parliament.

KEY WORDS  EU budgetary politics; financial perspective; intergovernmental bargaining theory; joint decision trap; Lisbon goals; spending priorities.

INTRODUCTION

‘As it stands today, the EU budget is a historical relic. Expenditures, revenues and procedures are all inconsistent with the present and future state of EU integration’ (Sapir et al. 2003: 162). This harsh criticism led the authors of the quoted study, commissioned by the European Commission and known as the ‘Sapir Report’, to formulate a number of reform proposals. The key intention was to transform the European budget so that it could become a major instrument for the achievement of the Lisbon goals.

At the Lisbon European Council in 2000, the European Union (EU) set itself the objective of becoming ‘the most competitive knowledge based economy in the world’ by 2010. Heads of state and government made political commitments to increase research budgets and to invest in Europe’s future. Of course, the attainment of the Lisbon goals is primarily the responsibility of
the member states. But the question still remains: How can the stated competitiveness goals be underpinned by a reallocation of scarce financial resources in the EU's budget?

The decisions on the multi-annual budget had to be taken against the background of 'low-growth malaise' in the EU and the failure to meet the goals of the Lisbon agenda, especially its competitiveness goal. One of the key questions with regard to these thorny budget negotiations was the following: Would the EU succeed in transforming its budget into a 'Prodi/Barroso budget', emphasizing the competitiveness goals of the Lisbon agenda, after having had a 'de Gaulle budget' which almost exclusively financed the common agricultural policy (CAP) in the 1970s, and a 'Delors budget' (Lafan and Lindner 2005: 199) since the late 1980s, which channelled ever more money into cohesion policy and the structural funds?

A cursory look at the first analyses and comments on the budget deal struck in the early morning hours of 17 December 2005 points in the opposite direction: 'A prolongation of the status quo' (Becker 2006) or 'New budget, old dilemmas' (Begg and Heinemann 2006). In this article, I shall try to have a closer look at the balance between the reform ambition of some – the Commission, the European Parliament (EP), the British presidency – and the final results; at the balance of innovative versus status quo elements. The paper starts with some theoretical considerations on the odds of shifting financial priorities in the EU's 'consensus democracy'. Then it gives a broad overview of the pace of change which is to be compared to earlier deals on the multi-annual budget since 1988. In order to explain the results, the sequence of decision-making – concentrating on the expenditure side of the budget – is examined, looking at the respective roles of the Commission, the European Council, and the EP.

THEORETICAL CONSIDERATIONS AND EMPIRICAL INDICATORS

There are plenty of good reasons which lead us to expect that budgetary politics in the political system of the EU is status quo oriented and, at best, slow to change.

The EU can be described as a political system quite close to Arend Lijphart's ideal type of a consensus model of democracy (Lijphart 1999: 42–7). Consensus democracies perform strongly in accommodating very divergent interests of their citizens, social groups or constituent parts; but they certainly do not have the reputation of being particularly well suited for swift shifts of political and financial priorities in response to new challenges and changed economic circumstances.

In the field of budgetary politics, the consensus features of the EU’s political system are clearly visible. The most important forum for striking a deal in the process of negotiating the financial framework of the EU is the European Council (Lafan and Lindner 2005: 196). Heads of state and government have to broker a final political compromise after protracted bargaining in the
Council. These periodic strategic bargains on large financial packages are subject to the condition of unanimous decision-making. In a later stage of decision-making, the European Commission and the EP must be taken on board in order to sign an ‘Interinstitutional Agreement’ (IIA) between the Commission, the Council, and the EP. The IIA gives the political compromises of the European Council a binding force with respect to the overall amount of the budget and the distribution of resources among the different budget headings. Theoretically, the necessity of signing an IIA adds two further veto players to the process: the Commission and especially the EP, as the second branch of the EU’s budgetary authority.

A rational choice-oriented institutionalist interpretation of budgetary politics might point to the very high number of veto players – no less than 27 (25 member states, the Commission, and the EP) at the latest round of negotiations on the multi-annual budget. This decision-making framework seems ideally suited for resistance to change. It is also an ideal framework for defending vested interests, especially agricultural interests. Veto player analysis would then predict a small ‘win set’ and a high degree of policy stability (Tsebelis 2002). Budgetary politics in the framework of the EU’s financial perspective thus quite closely resembles the ‘joint decision trap’ as analysed by Fritz Scharpf (Scharpf 1988): the actors produce lowest common denominator decisions with widely undesired outcomes, at least from a European point of view, if one takes the financing of European public goods as the yardstick for evaluating the results of negotiations (Begg 2005: 17). Actors find themselves locked in a situation producing systematically suboptimal outcomes, heavily favouring the status quo, and seemingly unable to change the decision-making rules to overcome this situation.

A historical-institutionalist account of budgetary policy might point to the framing of single-point negotiations on the budget by the established practice of mid-term financial frameworks based on interinstitutional agreements, creating institutional and procedural path dependencies and preventing individual member states from leaving the table. Budgetary negotiations are seen as embedded in established institutional practices, behavioural norms and a procedural acquis (Laffan 2000; Lindner 2006). Not to sign an interinstitutional agreement on the mid-term budget and instead to return to the conflict-ridden annual budget negotiations of the 1970s and 1980s can be seen as running against the prevailing ‘logic of appropriateness’. This has important consequences for the ability of the EU to shift its expenditure priorities. The multi-annual financial perspectives are relatively rigid, and since 1993 spending priorities are fixed for no less than seven years. The price to pay for improving efficiency and reducing conflict in budgetary politics through a rule-bound and predictable procedure was to reduce flexibility and to introduce a status quo bias (Enderlein et al. 2005: 27).

Nevertheless, change does occur. It may even occur at a tremendous pace in a short period of time. Why and under which circumstances is change possible or even likely?
Five sources of policy change might be identified:

- Package deals between member states, linking the negotiations on the budget to a broader agenda of integrative steps.
- The policy environment: high economic growth rates and sound national budgetary situations allow not only for a higher EU budget but also for shifts in the structure of the budget owing to above-average growth rates of prioritized budget headings.
- Changes in the interests of individual member states.
- Changes in the configuration of member states’ interests.
- Strong institutional political leadership, especially an agenda-setting power of the Commission.

An intergovernmentalist or ‘exchange’ explanation of budgetary negotiations would point, first of all, to large package deals and the use of side-payments in their context as a possible tool for change. This tool has been widely used in the past, especially in negotiating the so-called Delors I and Delors II packages in 1988 and 1993. The structure and composition of the EU’s budget were changed quickly and profoundly, the share of structural funds within the overall budget rising from 15 per cent in 1988 to no less than 30 per cent in 1992 and reaching a peak in 1999 at 36 per cent of the budget. The major reason is to be found in the logic of side-payments. In the two cases of the Delors I and Delors II packages, the Commission took advantage of a favourable configuration of member state interests that provided it with a ‘window of opportunity’ for itself and a group of member states. The pursuit of the single European market project in the second half of the 1980s and of the historical project of building the economic and monetary union (EMU) at the beginning of the 1990s, high on the agenda of the economically most advanced member states, afforded the less advanced member states tremendous negotiating power. They obtained huge compensation payments, the doubling of structural fund resources from 1988 to 1992, and a further steep increase of structural funds as well as the creation of the cohesion fund in 1993 (Allen 2005: 217–22; Gerbet 1999: 435; Moravcsik 1998: 374).

The political economy of these changes was such that the increasing share of the structural funds and the cohesion fund could be financed by an overall increase in the budget, that is ‘on top’ and not at the expense of other budget headings such as the CAP. The financial burden was shifted to taxpayers, especially in those member states, such as Germany, which had to foot the bill.

Thus change in spending priorities seems most likely under two conditions: If there is a ‘big integration project’ highly prioritized by a critical mass of member states in a policy environment of a growing budget, when the shift in spending priorities is gradual in nature, without imposing net sacrifices for vested interests and creating the impression of a positive sum game. On the other hand, change is much less likely in a situation where national
finance ministers are keeping a tight hold on their governments’ purse strings owing to high deficits in their national budgets. In such a case, a zero-sum logic of budgetary decision-making is likely to prevail, creating clearly identifiable loser groups.

From an intergovernmental bargaining point of view, room for change in spending priorities also depends very much on changes in the political preferences of member states (which usually do not change quickly) and changes in the configuration of preferences. The latter might occur following enlargements of the EU, increasing the heterogeneity among member states in their level of prosperity and affecting the balance of power between net receivers and net contributors to the budget (Lindner 2006: 29).

Hence intergovernmental bargaining theory leads us to believe that quite favourable conditions must be met in order to shift spending priorities under the condition of unanimous decision-making. This is probably the case as long as calculations of net balances of budget flows are used by individual member states as a proxy variable for their ‘national interests’.

A neofunctionalist interpretation would point to the power of supranational institutions, especially the agenda-setting power of the Commission. Under favourable circumstances, the Commission might use a ‘policy window’ (Kingdon 1984) to press for change. This might be the case if the Commission can rely on the support of a transnational coalition of interests (Laffan 1997: 63–9, 103–6). Following this line of reasoning, the agenda-setting and negotiating skills of the Delors Commission are frequently cited in the literature in order to explain the setting-up of the first financial framework in 1988 and the steep increase in structural fund spending (Hooghe 1996; Laffan 1997: 63–9; Laffan 2000: 730–3).

But what exactly do we mean when we speak of a change in spending priorities? The following empirical indicators will be used in order to track changes to Lisbon-related spending priorities:

- The budget share of research and development (R&D) Expenditures. This can be seen as the most clear-cut expression of the ‘future-oriented nature’ of the budget.
- The planned evolution of so-called goal (1a) expenditures (‘Competitiveness for growth and employment’) which, according to the Commission, should translate the Lisbon goals in a newly introduced separate budget heading. This budget heading includes, amongst other things, R&D expenditures, funds for transport and energy, for education and training, and for a competitiveness and innovation programme. As R&D expenditures represent the main item in this budget heading (65 per cent of the total sum), it is close to the first indicator.
- Besides these quantitative indicators, I will look for qualitative changes in the ways the structural funds are to be spent and how the Commission will make sure that the Lisbon goals guide the selection of projects to be co-financed by the Community.
THE OVERALL PICTURE: HOW MUCH CHANGE?

Let us first look at long-term trends in the overall increase in the budget before turning to its structure. In order to get an impression of the political will to change the budget, we might compare the rate of change as reflected in the decisions on the financial perspectives since 1988. It seems better not to look at real spending in the past, but at the projected change of spending patterns at the time of decision-making in order to make a judgement on the willingness of political decision-makers to listen to the ‘winds of change’.

The first two multi-annual financial frameworks of the Community, the so-called Delors I and Delors II packages, contained a substantial increase in the maximum amount of own resources available at the Community level. Since 1999 and the ‘Agenda 2000’ package, however, ‘stabilisation of expenditure was the main concern of the member states during the negotiations’ (European Commission 2002: 81).

As an indicator for the pace of change, we can compare the average annual growth rate (in constant prices) of all financial perspectives up to now, as projected at the time of decision-making and expressed in the respective IIAs. See Table 1. It is quite clear that the new financial perspective marks a turning point with regard to budget growth rates. New political priorities are hard to finance in an ‘on-top’ manner when the average annual growth rate falls below 1 per cent in real terms, staying well below the projected gross national income (GNI) growth rate of 2.3 per cent. The question of how a slowly increasing Brussels pie is cut into slices becomes all the more important.

In order to have a more detailed picture of the amount of change, we can start by looking at the empirical indicator which should tap the ‘future-oriented’ nature of the budget in the most direct way. Figure 1 displays the ratio of R&D expenditures as a share of the global budget for the timespan 1968 to 2004, expressed in real payments, and 2005 to 2013, expressed in appropriations for commitments. It is evident from Figure 1 that the EU is

<table>
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<th>Delors I</th>
<th>Delors II</th>
<th>Agenda 2000</th>
<th>Agenda 2007</th>
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<tr>
<td>3.9 %</td>
<td>3.3 %</td>
<td>2.6 %</td>
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making an effort to bring the budget more in line with the Lisbon goals. The part of R&D expenditures as a share of the global budget will rise by 2.7 percentage points from 4.3 per cent in 2007 to 7 per cent in 2013, representing an increase of 75 per cent from 2006 to 2013 (in constant prices). Nonetheless, this remains well below the initial proposal of the Commission, which foresaw in increase of no less than 166 per cent for the same period (2006–13) to a share of 8.6 per cent of the budget in 2013). Our second empirical indicator, the overall share of the ‘Lisbon’ heading inside the financial perspective, displays indeed a growing segment for the years to come, rising from 7 per cent of the overall budget in 2007 to 10.2 per cent in 2013.

Change there is, but only of a slow and incremental nature. It does not in any way come close to the sweeping change introduced in the budget structure and its priorities over time reflected in the Delors I and Delors II packages. As the long-term evolution of the EU’s budget structure makes clear (see Figure 2), there were times in the past when profound changes in spending priorities could be agreed upon and were translated into the annual budgets. The question of why there was no serious effort to use the budget as a tool-kit for reforms becomes all the more important.

THE COMMISSION: AN AGENDA-SETTER WITH CLIPPED WINGS

The agenda-setting power of the Commission has been tightly constrained in this round of budgetary policy-making. The first major decision was taken in October 2002. During the final stage of the negotiations opening the way for Eastern enlargement, France and Germany found a compromise on CAP spend-
This bilateral agreement was endorsed, with little change, by the European Council of Brussels. France got its way in securing the financial interest of French farmers. As a consequence of this decision, the most important budget subheading was politically locked in until 2013. Shifting financial priorities in favour of the competitiveness goals of the Lisbon agenda without reversing this European Council decision could only mean redistribution among the other budget headings.

The second important constraint with regard to the agenda-setting power of the Commission was to be found in a joint letter from six member states, all net contributors to the EU budget, to the president of the Commission dating from December 2003. In this letter, Austria, France, Germany, the Netherlands, Sweden and the UK warned the Commission that they would not be prepared to accept a budget beyond the actual level of the EU’s expenditures of 1 per cent of the EU’s GNI. For the first time since the introduction of the multi-annual financial frameworks, a powerful group of countries did not even wait for the Commission to put its proposal on the table before publicly building coalitions and loudly stating their preferences.

After hot internal disputes (Steenblock and Hartwig: 2004: 85) the Commission took a rather cautious approach. In its proposal, published in February 2004, it anticipated the member states’ reluctance to increase the budget in an environment of sluggish growth rates by foreseeing average yearly spending commitments of 1.14 per cent of GNI and a lower growth rate of the budget than in the past. Furthermore, the Commission did not want to reopen the

Figure 2 Share of different policies in total EU spending 1958–2005 (percentage payments)

debate on CAP spending. In view of this rather conservative approach, the Parliament reproached the Commission for not playing its role of “honest broker” between the Parliament and the Council and for its ‘tendency to play in favour of the Council’.\textsuperscript{11}

Nevertheless, the Commission proposal contained a pronounced shift in the allocation of resources between the different budget headings ‘towards growth and employment with a focus on knowledge based activities such as research and innovation’.\textsuperscript{12} In particular, subheading (1a) ‘Competitiveness for growth and employment’, heading (3) ‘Citizenship, freedom, security and justice’, and heading (4) ‘The EU as a global partner’ foresaw important increases in spending (see Table 2). However, what looks at first glance like a bold proposal must be seen in the light of the aforementioned constraints on the negotiations. It was clear right from the start that the final result would lie somewhere between the Commission’s proposal and the 1 per cent limit set by the net contributors. It was also equally clear that the CAP heading would be almost completely exempted from downward adjustments and that the second largest budget item, cohesion policy, would have important defenders among the member states. The odds of deep cuts by the Council into the headings with the highest percentage increase in the Commission’s initial proposals were thus quite high.

The proposal nevertheless contained a number of innovative elements pointing towards the realization of the Lisbon goals. Most importantly, the Commission advocated some qualitative changes in cohesion policy. It made it clear that it would push towards the integration of the Lisbon goals with the national or regional development plans to be negotiated in the cohesion policy between itself and the member states. This push would be based on strategy papers to be adopted by the Council on the spending priorities for cohesion policy.

| Table 2 Shift in the allocation of resources between budget headings 2006–13 according to the Commission’s proposal from February 2004 (in constant 2004 prices) |
|---------------------------------|-----|-----|-----|
|                                | 2006 | 2013 | Difference % |
| 1 Sustainable growth           | 46,621 | 75,950 | 63 |
| (1a) Competitiveness for growth and employment | 8,791 | 25,825 | 194 |
| (1b) Cohesion for growth and employment | 37,830 | 50,125 | 33 |
| 2 Preservation and management of natural resources | 56,015 | 57,805 | 3 |
| of which: agriculture – market-related expenditure and direct payments | 43,735 | 42,293 | −3 |
| 3 Citizenship, freedom, security and justice | 2,342 | 4,455 | 90 |
| 4 the EU as a global partner    | 11,232 | 15,740 | 40 |

funds, eventually giving the Commission a lever to channel more money towards innovative industries or research instead of spending on infrastructure projects. Particularly in the second objective of the cohesion policy, the ‘regional competitiveness and employment’ goal, the Commission made it clear that ‘interventions would need to concentrate on a limited number of policy priorities linked to the Lisbon and Goteborg agenda.’ The ‘Lisbon rhetoric’ was skillfully used by the Commission in its institutional self-interest to push for a bigger budget and for tighter control of the member states’ cohesion policy.

But the ability of the Commission to set the agenda for the upcoming budget debates was narrowly circumscribed. The limited role of the Commission during the agenda 2007 negotiating process stands in distinct contrast to its earlier performance in contributing to a shift in political and financial priorities, especially in the 1988 and 1992 negotiations on the Delors I and Delors II packages.

**BARGAINING IN THE COUNCIL**

Within the Council, there were few advocates for change in the Lisbon goals. Such an advocacy role in favour of making the competitiveness of the EU the overriding goal would have found its expression in:

(a) calling into question the locking-in of the CAP budget up to 2013;
(b) a clearly expressed preference for high expenditures under budget heading (1a) ‘Competitiveness for growth and employment’;
(c) a preference for an enlarged budget, allowing for a higher share of Lisbon-related items in the budget without cutting back the absolute volume of CAP and cohesion policy funds.

It is no surprise that this last option found the greatest number of supporters, especially among the member states receiving net flows from the budget. During the negotiations in the Council, the member states held widely diverging views on the overall level of EU spending, ranging from strong support of the Commission’s proposal by many delegations to the position outlined by the six net contributors in their joint letter. In terms of appropriations for commitments, the Commission’s proposal suggested an average figure of 1.26 per cent of GNI, whereas the six net contributors made clear during the negotiations that their figure of 1 per cent of GNI did not refer to appropriations for spending but for commitments (usually substantially higher than appropriations for spending, let alone effective spending levels). Because of the joint ‘letter of the six’ in December 2003, the member states receiving net flows and pleading for a rising overall scope of the budget in an enlarged Union found themselves on the defensive right from the beginning.

Shifting financial priorities under the condition of a stable upper ceiling of expenditures (relative to GNI) and the balanced budget rule would have meant redistributing resources not only between budget headings but also between member states. The only way to avoid conflicts in redistribution...
would be to reallocate resources only at the margins, translating the growth-driven rise in the overall budget into differential growth rates for individual expenditure headings. During the earlier phases of the negotiating process, only Sweden pushed for bringing the CAP issue back on to the table (Becker 2005: 187). Great Britain raised the CAP issue too, but this was only done in the latest stages of the process in response to increased French political pressure to abolish the British budget rebate (as France is the member state bearing the greatest burden of financing this rebate). Tony Blair had accepted, grudgingly, the compromise on CAP spending in October 2002, and during the whole negotiating process, up to the first failure to come to an agreement in June 2005 under the presidency of Luxembourg, the British made no attempt to reopen the CAP issue (Mayhew 2005). The fervent plea of Tony Blair in favour of a future-oriented budget was not reflected in the behaviour of the British delegation at the negotiation table up to this point. The attacks on CAP spending during the British presidency served the double purpose of defending the British rebate against powerful opponents and of taking stock for the next financial perspective.

The compromise hammered out by the European Council in the night of 16–17 December 2005 was very close to the initial positions of the net contributing states:

- The own resources ceiling remained unchanged at 1.24 per cent of GNI.
- Overall spending in terms of appropriations for commitments was set at a level of 862.4 billion € (in constant 2004 prices) for the entire period from 2007 to 2013, representing 1.045 per cent of EU GNI. These figures translate beyond any doubt into a political victory for the net contributing states. In terms of spending commitments, always lower than commitments for appropriation, this comes close to their initial demand of 1 per cent.
- The funds included under the Lisbon heading (1a) 'Competitiveness for growth and employment') were to be increased from 8.250 million € in 2007 to 12.600 million € in 2013, which represents 7.5 per cent annual real growth compared to 2006, well below the growth rate proposed by the Commission.
- Inside this budget subheading, composed of five broad objectives – research and technological development, European networks, education and training, promoting competitiveness in a fully integrated single market, and the social policy agenda – the European Council favoured a clear priority for research funding that 'should therefore be increased such that by 2013 the resources available are around 75 per cent higher in real terms than in 2006'.
- With regard to the pursuit of the Lisbon goals using instruments of the EU’s cohesion policy, the European Council followed the basic concept of the Commission. It agreed that 60 per cent of the money to be spent under the ‘convergence objective’ and 75 per cent of the sums spent under the ‘regional competitiveness and employment objective’ should be spent...
according to criteria designed to ensure that the goals of the Lisbon agenda would be met by the programmes and projects funded through the structural funds and the cohesion fund. These criteria, however, only apply to the EU 15, and not to the new member states. This means that roughly 60 per cent of the resources available for cohesion policy in the EU 15 are to be spent according to Lisbon-related spending criteria that have to be defined by the Council based on a proposal from the Commission. As roughly 50 per cent of the resources dedicated to the EU’s cohesion policy will be going to the EU 15, this means in turn that at least 30 per cent of the entire sum of cohesion policy resources (adding up to 307.7 billion €) will be distributed using the Lisbon-related criteria for allocating scarce resources.

The overall picture conveyed by the European Council’s decisions is that of slow progress on expenditure. Just as many observers assumed before the end-game inside the European Council, R&D expenditures suffered the deepest cuts compared to the initial proposal of the Commission.

Of course, there is a certain emphasis on the Lisbon-related budget heading and especially on R&D spending. However, these high growth rates start from a low absolute level of spending. A thorough reorientation of priorities, as called for by the Sapir Report, would have led to quite different spending patterns (Begg and Heinemann 2006: 1).

THE PARLIAMENT: A POWERLESS VETO PLAYER?

The EP was a veto player in the negotiation process on the multi-annual financial framework. Its consent was necessary as it had to sign an IIA with the Council and the Commission in order to give a binding force to the political compromises on the multi-annual budget hammered out by the European Council. How did the EP use its veto power?

In order to strengthen its position, the Parliament set up a temporary committee – for the first time since the financial perspective came into existence – and adopted – equally for the first time – a comprehensive negotiation position in advance of the European Council’s final agreement on the budget.

The EP broadly supported the approach taken by the Commission in its initial proposal from February 2004. It welcomed the substantial increases in spending under the Lisbon heading, and in the two other fields singled out by the Commission as deserving additional funds in order to match the EU’s political priorities, namely Justice and Home Affairs and External Relations of the EU. Nevertheless, it proposed to reduce the Lisbon heading in the Commission’s proposal in order to shift 4 billion € Lisbon-related funds (mainly heading (1a)) to heading (3): Citizenship (1.3 billion €) and to heading (4) The EU as a global partner (2.7 billion €). It also advocated a gradual introduction of compulsory national co-financing of the CAP by the EU 15 member states which would have reduced the financial burden for the Community’s budget. However, the EP’s own proposal was close to the Commission’s with
regard to overall spending and the breakdown between the individual headings of the budget (see Table 3).

Following the European Council’s decision to inflict heavy cuts on the amount of money available for the political priorities stated by the Commission and the Parliament, the EP deplored ‘the unacceptable reduction in commitments in respect of competitiveness, growth and employment, despite the emphasis given by all the EU institutions to the Lisbon strategy and the cuts in relation to citizenship, freedom, security and justice and external actions’ and rejected the European Council’s agreement.

Despite its strong rhetoric, the EP was only marginally able to influence the final outcome. It raised the overall budget by 2 billion € to a level of 864 billion €, an increase of just 0.23 per cent compared to the European Council agreement of 17 December 2005. This small increase went mainly to the competitiveness or Lisbon heading.

The fact that the amount and distribution of the multi-annual budget, as agreed upon in the European Council, remained, by and large, unchanged does not really come as a surprise in the light of past developments (see Table 4).

Why is the influence of the EP on the final outcome of the negotiations so negligible? Usually, the EP is keen to use the leverage given to it by its veto right on the IIA to improve its procedural rights in the yearly budget battle with the Council (Becker 2005). Institutional self-interest prevails over policy interests. The EP might also find it difficult, internally, to balance the policy priorities of its members and its committees. Nevertheless, it had different policy and budgetary priorities from the Council (see Table 3).

The main reason for its lack of influence is to be found in the sequence of moves in this collective game. After the Commission’s initial proposal, decision-making shifts to the Council. When the European Council, after protracted and highly conflict-laden negotiations on thorny distributional issues, finally reaches agreement, it is extremely hard for the EP to reopen this package. The EP comes seriously into play only when negotiating the IIA with the Council and the Commission. During the 2005 round of negotiations, where the European Council only reached an agreement at the second attempt after the first failure of June 2005, the EP’s room for manoeuvre was extremely limited, all the more so as the time factor was running against its interests. The closer the start of a new period of the financial perspective without final agreement between the institutions, the greater the political pressures will be. This is a result of the complexity of the negotiations, where agreement between the institutions on the financial perspective is closely linked to the arena of decision-making on the legislative package, as it opens the way for adoption of the individual spending programmes. This explains the highly binding nature of the political compromise struck between the member states at European Council level (Becker 2005: 183). The EP could only take a hard line at the risk of a breakaway of the Members of the European Parliament (MEPs) from poorer member states which depend on the timely flow of regional aid.
## Table 3: Financial perspective 2004–13: initial proposals and final results

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<tbody>
<tr>
<td>1 Sustainable growth</td>
<td>458,015</td>
<td>459,035</td>
<td>379,739</td>
<td>382,139</td>
<td>−75,876</td>
<td>−16.6</td>
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<td>(1a) Competitiveness for growth and employment</td>
<td>121,685</td>
<td>120,563</td>
<td>72,120</td>
<td>74,098</td>
<td>−47,587</td>
<td>−39.1</td>
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<td>(1b) Cohesion for growth and employment</td>
<td>336,330</td>
<td>338,472</td>
<td>307,619</td>
<td>308,041</td>
<td>−28,289</td>
<td>−8.4</td>
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<tr>
<td>2 Preservation and management of natural resources</td>
<td>400,275</td>
<td>396,248</td>
<td>371,245</td>
<td>371,344</td>
<td>−28,931</td>
<td>−7.2</td>
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<td>of which: Agriculture – market support measures and direct aid payments</td>
<td>301,074</td>
<td>293,105</td>
<td>293,105</td>
<td>293,105</td>
<td>−7,969</td>
<td>−2.6</td>
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<td>3 Citizenship, freedom, security and justice</td>
<td>20,945</td>
<td>19,437</td>
<td>10,270</td>
<td>10,770</td>
<td>−10,175</td>
<td>−48.6</td>
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<td>4 The EU as global partner</td>
<td>87,890</td>
<td>70,697</td>
<td>50,010</td>
<td>49,463</td>
<td>−38,427</td>
<td>−43.7</td>
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<td>5 Administration</td>
<td>57,670</td>
<td>28,620&lt;sup&gt;19&lt;/sup&gt;</td>
<td>50,300</td>
<td>49,800</td>
<td>−7,870</td>
<td>−13.6</td>
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<tr>
<td>6 Compensation (Bulgaria, Romania)</td>
<td>240</td>
<td>800</td>
<td>800</td>
<td>800</td>
<td>560</td>
<td>233.3</td>
</tr>
<tr>
<td>Total commitment appropriations in % of GNI</td>
<td>1,025,035</td>
<td>974,837</td>
<td>862,364</td>
<td>864,316</td>
<td>160,719</td>
<td>−15.7</td>
</tr>
</tbody>
</table>

Sources: Cf. notes 7, 10, 17 and 20 (own computation).
In the past, changes in overall levels of the budget and in spending priorities were possible when budgetary decision-making was linked to major integration projects, and when net contributors to the budget were willing to accept side-payments in order to advance their interests in non-budgetary policy fields (single market in 1988, monetary union in 1992). The experience of the negotiations on the financial framework 2007–13 shows, ex negativo, the strength of the side-payment argument. In this case, there was no major integrative hurdle to be overcome and, accordingly, the net contributors were less willing to accommodate the interests of poorer member states. This finding is in line with an intergovernmentalist or ‘exchange’ explanation of budgetary negotiations.

Another lesson is that changes in individual member states’ preferences, and especially the changing configuration of interests in the European Council, have huge repercussions on both the climate and the result of the negotiations. Germany was less willing than ever to foot the bill for a growing budget (Maurer et al. 2004), owing to the consequences of reunification for the national budget and owing to her failure, during four years (2002–05), to comply with the deficit criteria of the Stability and Growth Pact.

Overall, the balance of power between net contributors and net recipients among the member states has shifted profoundly. Until 1988 only Germany and the UK were net contributors to the budget, but already by the mid-1990s, with the accession of Austria, Finland and Sweden, the majority of member states were net contributors. Of course, this situation changed again with the accession of ten new member states, most of them net recipients. However, the existence of a powerful and influential coalition of net contributors profoundly changed the configuration of member states’ interests underlying this round of budget negotiations. Hence, a rationalist, interest-based and intergovernmentalist approach is very powerful in accounting for the final outcome of the negotiations, at least in terms of overall budget size.

With regard to spending priorities, the negotiations leading to the financial framework 2007–13 have clearly shown that ‘competitiveness’, being a somewhat

<table>
<thead>
<tr>
<th>European Council</th>
<th>Interinstitutional Agreement</th>
<th>Difference</th>
</tr>
</thead>
<tbody>
<tr>
<td>Delors II package (1993–99)</td>
<td>530.5</td>
<td>528.9</td>
</tr>
<tr>
<td>Agenda 2000 (2000–06)</td>
<td>702.8</td>
<td>704.2</td>
</tr>
<tr>
<td>Agenda 2007 (2007–13)</td>
<td>862.4</td>
<td>864.3</td>
</tr>
</tbody>
</table>

Sources: Cf. Table 1.
diffuse goal, does not have a strong lobby inside the EU’s decision-making process. As the group of potential ‘Lisbon budget’ winners is quite large and diffuse and as the potential losers of a shift in priorities are more concentrated and politically more vociferous, the Commission was not able to build a powerful coalition of societal actors and interest groups to push for a change in spending priorities. The unpredictability of the distributive impact of Lisbon-related expenditures – for example, in the case of research expenditure, where research teams have to apply competitively for EU funding – is another aspect of the explanation. Member states, following a logic of net flows from the budget, were more reluctant to increase this budget heading at the expense of others, where consequences in terms of net flows were more predictable.

The Commission’s main success in framing the budgetary debates in terms of the competitiveness goal of the Lisbon agenda was to gain better control over member state cohesion policy. But this detail in a complex overall picture does not strongly support neofunctionalist claims.

With regard to the funding of the global role of the Union, the lack of a powerful lobby inside the EU might explain the huge difference between the initial proposal of the Commission (heading (4): ‘The EU as a global partner’) and the final result (see Table 3). Vested interests inside the EU prevail over potential beneficiaries in third countries.

Another lesson is the importance of path dependencies as emphasized by historical institutionalists: cases in point are the British rebate and extra funds for cohesion policy for individual countries and regions without any economic rationale. Special arrangements like those in favour of thinly populated regions in wealthy countries such as Sweden, Finland and Austria are the political price for reaching an agreement under unanimity conditions.

Discontent with the current structure of the budget found its expression in a revision clause in the European Council’s conclusion of December 2005 which was actively supported by Sweden, Great Britain and the EP. In 2008–09, there will be a full, wide ranging review covering all aspects of EU spending, including the CAP based on a Commission report. The Commission started a broad consultation process in September 2007 to launch this debate in order to prepare the negotiations on the next financial framework 2014–20. Are there any reasons to believe that the upcoming round of negotiations might be more successful than the last in shifting spending priorities towards a Lisbon-oriented budget, given an even higher number of veto players (because of the accession of Bulgaria and Romania) and unchanged decision-making rules?

Two potential sources of change may be identified: a possible change in the policy environment and a change in member state preferences. The tremendous and potentially long-lasting increase in agricultural commodity prices on the world market clearly changes the policy environment for the agenda 2014 negotiations, and could open a window of opportunity for reducing agricultural subsidies. The odds of CAP reform might be improved by the fact that France’s economic benefits from this policy will be more and more reduced after the phasing-in of the new member states into the CAP framework of direct
payments. Thus, French willingness to exchange a downsizing of CAP expenditures against a further reduction of the British rebate might grow. And a sensible improvement in the situation regarding national budgets might relax constraints on the revenue side of the European budget.

Only these combined changes in the policy environment and in member state preferences are likely to provide the necessary (albeit not sufficient) conditions for closing the huge gap between Lisbon rhetoric and the structure of the EU’s budget.

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**NOTES**

2 Real past R&D expenditures, commitments for appropriations in the 7th framework programme for research and technological development running from 2007 to 2013, based on the final compromise on the financial perspective from May 2006.
3 The figures for the global budget used to calculate this share do not include the budget of the European Development Fund.
7 Interinstitutional Agreement between the European Parliament, the Council and the Commission on budgetary discipline and sound financial management, *Official
REFERENCES


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