Multiannual Framework Negotiations and the Missed Opportunity of the Eurozone Crisis[1]

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Abstract

In January 2014 the EU will start to finance its activities under a new Multiannual Financial Framework (MFF). Prior and during its negotiations, many agreed that a reform was needed but it was obvious that a budgetary reform would be a major challenge for the EU and its Member States. The eurozone debt crisis provided an opportunity to improve the stabilization capacity of the EU budget and possibly also for a more general transformation of its expenditures but that failed to materialize. We provide an analysis of a reform scenario and evaluate how the EU's institutions and Member States utilized their 'political power' in order to secure favourable negotiations outcomes in the context of the new budgetary framework negotiations.

Most of the EU's policies are implemented by her Member States, using their own budgets. The EU budget finances issues that the Member States cannot fund on their own or which they agreed that they can fund more economically by pooling their resources through the EU budget. The present EU budget is small, 1.01% of EU gross national income (GNI).[3] The criticism of the current state of the EU budget has been long, widespread and increasing. The 2003 An Agenda for a Growing Europe summarised the most pressing problems of the current situation in the EU and the position of individual Member States toward the size, role and level of redistribution of EU budget as follows:

> 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 … The procedure for adopting the EU Financial Perspectives … is driven by narrow national calculations of self-interest, bolstered by unanimity voting. For these reasons, the successive negotiations to renew the Financial Perspectives for a five or seven-year period have always followed the line of least resistance, which consists of modifying, at the margin only, the financial allocations of the previous period. As a result, the current budget is more the expression of different deals and attempts by governments to claw back in receipts as much of their contribution as possible (juste retour …!)[4] than a coherent set of measures aimed at pursuing EU objectives (Sapir 2003: 162).

It, thus, complains not only about the policies the budget finances but also the way it is negotiated and adopted.

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[3] 2011 budget, PA payment appropriations.
[4] *Juste retour* refers to a principle when member states receive approximately as much as they pay into the budget.

The recent financial and economic crisis neglected another weakness of low size of EU budget in comparison with fully flagged monetary unions and federal states – the non-existence of stabilization function of the budget. The crisis in the EU developed into a debt crisis in the so called peripheral countries of the eurozone (Greece, Spain, Portugal, Italy and Ireland). The need for existence of a federal budget in a monetary union is not a new idea. Already in 1970s, the so called MacDougal committee (1977) suggested that a federal budget of the size of 5-7% of EU GDP would be appropriate to support smooth functioning of a monetary union. In the 1990s, some European economists such as Paul de Grauwe (1999; 2013) or Beetsma and Bovenberg (1998) further highlighted the need of a federal budget for the eurozone but the euro came into being in 1999 without having been supported by any increase in the size or scope of the EU budget.

In our paper we wish the analyze two issues – the size of the budget for eurozone and the bargaining skills and positions of the EU's institutions and Member States, and how their 'political powers' are utilized. We show that while there seems to be a growing consensus that the EU budget needs a significant reform and while there even seems to some level of consensus on the form of the reform, the probability of such reform is less certain. Path dependency, political and economic conditions, and rising disillusion with the project of European integration due to eurozone crisis seem to hinder such development.

Financial Framework Negotiations

The Council is still considered to be the key institution in the whole process of MFF negotiations, which have so far been dominated by national rather than communal interests (Rant and Mrak, 2010: 348) MFF negotiations represent intergovernmental negotiations, so called grand bargains, therefore, are different from daily decision making processes. Among the Member States there is a pressure to come to some agreement and no-one wishes to see the negotiations collapse. A crucial role is played by the European Council but also the presidency and the Council system. Negotiating the budget framework dates back to 1988 and is crucial in determining EU commitments for periods of seven years. They set the medium and long term goals of integration. Originally submitted by the Commission, the proposal is discussed in the Council and formally adopted by the European Parliament. In the Council, most negotiations take place in the General Affairs and External Relations Council and – even though to lesser extent – in the Economic and Financial Affairs Council (EcoFin). Then, the European Council has to approve it unanimously followed by an inter-institutional agreement among the Commission, Council and Parliament. The EU budget gives substance to European integration in both widening and deepening and reflects relations among EU Member States and the institutional setting. It has a geographical (regions) and sectoral (policies) dimensions (Blavoukos and Pagoulatos, 2011: 565, 566).

The MFF packages consist of three parts, MFF regulation, own resources and sector specific acts. Each part has different rules of negotiations. MFF regulations have to get unanimous consent from the Council after consent of the European Parliament, which approves or rejects but cannot amend. Own resources are covered by five legislative acts, the basic one adopted by Council's unanimous vote and the implementing ones by qualified majority vote (QMV). Parliament must give consent to the implementing one and an opinion on the other four. Sector specific acts are adopted by Council and Parliament under co-decision procedure. During the negotiations not only how much each state will pay and receive is decided but they also specify programmes on which money will be spent for at least five years. It establishes ceilings of maximum amounts that can be spent each year on each area – known as headings. It also establishes the total maximum ceiling. These ceilings are not objectives so the actual annual budgets are usually lower except for Cohesion policy where the ceiling is considered an objective. Most of the changes to the proposal and thus also negotiations occur in the Council where national governments negotiate how much they have to contribute to and how much they will receive from the EU budget. In takes place on four different levels – technical experts in working groups, ambassadors in COREPER, ministers in the Council and Heads of State in the European Council. The Council also keeps a dialogue with the Parliament.

The Commission presented its proposal at the meeting of EU Foreign Affairs Ministers on June 29th 2011, the first formal exchange took place on September 12h 2011 during the Polish presidency, and it was first on the agenda of the General Affairs Council in March 2012 and of the heads of states in June 2012 at the European Council summit. The first six months under Polish presidency were dedicated to reading and analysis, the next six months under Danish presidency to discussion and the conclusion was expected from the last six months of 2012 under the presidency of Cyprus. After the Council meeting in July, Cyprus held an informal meeting in August, which aimed at becoming the "moment of truth" (Euractiv, 2012). In its aftermath, the deputy minister for European affairs identified the main issues of conflict as "level of spending and content under each chapter … as well as … new revenue base for the EU" (Evripidou, 2012). The presidency also stated that the amount proposed would "have to be adjusted downward" while the EP claimed to block any agreement if spending was cut (Kovacheva, 2012). In mid-November 2012 President van Rompuy presented a modified proposal with significant cuts of 75 billion euro, mostly for agricultural (CAP) and regional policies. The proposed cuts by both the Cyprus Presidency and van Rompuy were met with uneasiness in all Member States, the Commission and the Parliament. The European Council negotiations in November failed and were re-launched and concluded in February 2013 under the Irish presidency. The next step was the approval of the European Parliament.

During the negotiations, as usual two main groups emerged, net recipients against net contributors. These were further fragmented. We had those who received most payments from structural and cohesion funds (Greece, Poland, Estonia, Latvia, Lithuania, Hungary, Slovakia) and those who received most payments from CAP (Latvia, Poland, Spain, Slovakia, Portugal, Estonia, France, Slovenia). Some countries favoured a reform of the CAP, particularly moving more resources away from direct payments towards rural development (Czech Republic, Denmark, Netherlands, Sweden, UK, Italy, Malta). In case of cohesion policy, many countries wished to see support only for the poorest regions disrespectful of the country, others wanted to preserve current situation when every region could receive some money. There was also a discussion on the reform of the revenue side of the budget. Most Member States would agree to eliminate the VAT source but there was disagreement on whether to rely on the GNI contribution only and even more so whether to introduce some kind of EU tax, namely an EU financial transaction tax (FTT).[5]

The nature of MFF negotiations involves high politics, zero-sum game expectations and strong national interest focus. Rant and Mrak (2010) identify several factors that need to be taken into account when considering a reform of the budget. The Council is THE most important institution in budget negotiations and it is dominated by national interest. Different items in the budget have different weights with the domestic public and the governments can be tied by strong domestic lobbies' influence, domestic decision making structures (for example federalism, coalition governments or strong parliamentary control). The final balance is then carefully followed by the media. The result is highly visible and followed by national

[5] In October 2012, the agreement was finally reached and enhanced cooperation on FTT was agreed. In a formal letter to the Commission, seven countries expressed their support,
Germany, France, Austria, Portugal, Belgium, Slovenia and Greece, later joined by Italy, Spain and Slovakia. Thus, the minimum of nine countries was met and in October the Commission submitted a proposal to the Council (European Commission, 2012).

electorate which expects net benefit. Solidarity is limited. Countries' power depends a lot on their economic power rather than just number of votes in the Council.

Finally, the structure of expenditures highly favours old Member States, who receive almost 50% of cohesion and 80% of agricultural policies funding, i.e. despite general perception, most of the redistribution takes place among the wealthy, which makes the poorer states particularly sensitive to their net benefit situation (Rant and Mrak, 2010: 365-366). Given that net balances are easy to calculate and we can assume from the conduct of previous negotiations that the basic national interest is to maximise net balances[6], the motivations of the actors are clear to their partners. Given the need to present the position as a one in favour of the common good, we often see two basic references – the net contributors refer to the previously agreed need to reform public spending in their national environments and link national budgets to EU budget. The cohesion friends then refer to the principle of solidarity and the need to help poor regions. Where the system of *juste retour* dominates, the public expects returns and a return with a positive account. The statements of most Member States are contradictory in terms of expectations and payments. While demanding fewer expenses, they request more or less equal CAP spending, generous structural funds and improving R&D, innovation and competitiveness. Thus, it often happens that most countries who call for less budget also expect more spending in particular headings important to them.

Alliances based on socioeconomic convergence/divergence are very important in case of EU budget negotiations. In conventional MFF, the Member States create alliances when presenting positions or defending them in the Council to put pressure and convince others. Yet, the composition of the alliances and their positions are subject to change. Their proposals mostly represent attempts to demonstrate common position and strength vis-à-vis the other actors. Kölling (2006) refers to them as process coalitions which "served to clarify standpoints and the existing balance of power" (9). In the end, all national delegations stand alone and are more than often willing to accept side payments for softening their individual positions. Common positions are tabled especially in early days of negotiations, but gradually individual strategies, preferences and interests prevail.

MFF negotiations are highly visible and politically sensitive, they are "high decibel … vested with considerable political drama and last-minute agreement" (Laffan, 2010: 725). Despite the relatively small size of the EU budget, the negotiations are particularly conflictual because of their significant redistributional dimension – almost 80% of the budget. The Member States avoid reform for as long as the unexpected costs are hard to predict and perceived as high. Following the path dependency argument, very little change could be expected. If we apply the concept of "punctuated equilibrium", which assumes that status quo prevails until a rapid change takes place, then we need to determine whether of point of radical change has been or will be achieved to be able to implement a true reform of the budget. We can assume in the same line of thought that if the process proves to be a "lengthy and complex trial and error process" (Finke et al, 2012: 1). the need to change it will become more pressing and obvious even to those who traditionally oppose it and it will give advantage to the pro-reform actors able to control the process. It will be their propositions that will determine the future shape of the reform.

[6] In the previous negotiations for 2007-13 framework, six main contributors, Germany, France, UK, Netherlands, Austria and Sweden, requested budget restrictions which the Commission's proposal ignored, and demanded relative expenditure level to be fixed at 1.14% of EU GNI (they demanded 1%, the previous framework worked with 1.08%). The final outcome of the negotiations scaled down to the 1% as demanded by the Six. Also, the expenditures went against its proposal – away from competitiveness and internal policies towards agricultural and cohesion policies. This indicates a strong prevalence of national over communal interests where the individual Member States try to maximize their gains as these are the most visible results of the negotiations to their domestic audiences "since they are easy to explain to the public and carry implications for national fiscal policies" (Rant and Mrak, 2010: 350-351, 352).

The EU budget reform seemed very unlikely but many unlikely reforms in the past got through - such as the Lisbon treaty, which even though modified, the main – and often quite controversial – elements remained in place. We argue that “as long as the majority of Europe’s political leaders can agree on reform they will find strategies to realize it” because of their interest to do so and not based on the lowest common denominator or a set of common norms (Finke et al, 2012: 9). In the situation when a reform is proposed, the actors evaluate it by comparing it with the current state. Thus, if the situation becomes dire, the proposal for reform is a welcomed way out but it needs to be an improvement when compared with the current state for a majority of actors. The other actors, most resistant to change as they benefit most from the current state (which can also be the inability to agree as it undermines the credibility of the EU) will bend in when consensus majority is reached and the cost of being the odd one out becomes too high. A symbolic sacrifice is often sufficient to make them join the reform without ‘losing a face’. Thus, when making a reaction, they take into consideration status quo, (expectations of) other actors reactions and expected domestic consequences especially those important for the pursuit of their domestic interests, i.e. political parties and voters (Konig and Finke, 2012: 105).

Much depends on the skill of the main negotiator or mediator and their ability of strategic leadership to control the agenda. Timing is also crucial. The enlargement fatigue, the legacy of the Lisbon treaty lengthy adoption process, the financial crisis and the ongoing eurozone crisis presented a specific environment, which could have become a critical moment for change because national governments could present the budgetary reform to the media as a necessary step to avoid further costs. As Laffan (2000) says, “while there is a high level of path dependency in institutional development, institutional process may be transformed when a critical moment is transformed into a critical juncture” (727) based on the argument of Bulmer and Burch that specific events can create critical moments which turn into critical junctures if taken advantage of and a “institutional development moves on to a new trajectory or pathway at which institutional development moves on to a new trajectory” (in Laffan, 2000: 727). Timing, strong leadership authority, together with specific developments in some Member States could have grasped the momentum but they did not so the reform has to wait for another, more suitable, moment. In the end it is inevitable as problems are not solved but pushed into the future. Each time the reform fails, its need becomes more pressing in the future.

Rant and Mrak (2010) saw only two political solutions that could lead to a radical change in the budget – strong external pressure or institutional reform strengthening the Commission and the Parliament in the framework negotiations. They, however, acknowledged that the Lisbon treaty exercise made the latter rather improbable, which left us with some form of external force. The crisis and fiscal problems even in the wealthiest EU countries caused a lot of scepticism about the EU budget and lowered the will to comply with solidarity especially across the eurozone countries whose public felt anxious after the bailouts for Greece. Anti-EU sentiments grew and anti—EU populism was strong. The eurozone crisis created additional conflict in the negotiations due to the Member States’ unwillingness to pay more into the EU budget while requesting more payments and more flexibility. The failure to agree, the difficulty of the negotiations, the significant increase in extreme positions, and the role of the European parliament were all crucial for the outcome of the negotiations.

European Commission and European Parliament towards the MFF 2014-2020

According to the European Commission, the budget lacked flexibility to respond to “political imperatives and changing circumstances.” The 2010 EU Budget Review mentioned the economic crisis, which “underlined the interdependence of the EU's economies and the need to strengthen common rules.” Possible mechanisms for stabilising European economy were "tightly constrained by the ceiling of own resources." It criticised the 2007-13 framework structure due to its focus on net balances, which "was given priority over measures designed to improve performance" and did not give primary consideration to European dimension. Consequently, "the 'juste retour' debate ... had a negative impact on the quality of delivery and reduced the EU added value" (EUR-Lex, 2010). The EU added value defined as "value resulting from an EU intervention which is additional to the value that would have been otherwise created by Member State action alone,“ was again emphasised in the Commission's proposal published in June 2011 and is also advocated by the European Parliament for whom it "should also contain a visionary aspect" (European Commission, 2011).

The European Parliament was also supportive of a change and issued a challenge to the Member States, who wanted to freeze the EU's 2014–2020 budget: it requested that these countries spelled out which priorities they would drop as a consequence of the imposed ceiling. MEPs felt that freezing future budgets at the 2013 level was "not a viable option" (EP, 2011). If all the objectives and policies agreed for the EU were to be completed, a minimum increase of 5% was needed compared to the 2013 budget. This would mean that the EU budget would be roughly 1.11% of the EU's total GNI, compared to the 1.06% expected for 2013. The Parliament feared that budget restrictions could jeopardise the already agreed boost for research and innovation (from today's 1.9% of GDP to 3%) as well as investment in infrastructure, foreign policy and enlargement.

MEPs also criticised the current funding system, which relied almost entirely on national contributions and became extremely complex. The EU Treaty says that the EU-budget "shall be financed wholly from own resources" (European Parliament, 2011). They argued that the current funding method placed disproportionate emphasis on net balances between the Member States, contradicting the principle of the EU solidarity, diluting the European common interest, and largely ignoring the advantages of financing policies at the EU level. A system of actual own resources would be "fairer, more transparent, simpler and equitable", said MEPs, whilst stressing that a budget reform does not necessarily have to affect the size of the budget and would not increase the overall tax burden on citizens. They also called for an end to the "rebates, exceptions and correction mechanisms"[7] that have accumulated within the current system (European Parliament, 2011).

According to the European Parliament, another important problem with the current MFF was the lack of flexibility it allowed within annual budgets. If something new or unexpected came up, it was hard to adapt the budget to accommodate the new needs. This was fully consistent with the position of the European Commission that used several examples to show the inability of the EU budget to react to unexpected events including economic crises or changing demands in major European projects such as Galileo. MEPs therefore wanted to see a global MFF margin created, consisting of unused margins, de-committed, and unused appropriations from the previous year(s).

Final Outlook of the MFF Proposal and What Next?

The final agreement among the Member States was reached in February 2013 during lengthy and complicated negotiations. The talks started with a six hour delay due to extended bilateral talks and smaller meetings. The Italian Prime Minister held up the talks because of the need to deliver a good deal prior to an election in late February, previously complaining

[7] Apart from the British rebate, also Austria, Germany, the Netherlands and Sweden have a rebate on the British rebate, they also have lower VAT and national income contributions even though these are lowered only temporarily. The Dutch also benefit from keeping larger share of customs collected in Rotterdam (Peet and Tindale 2012).

that Italy was the largest contributor in 2011, while many other Member States presented last minute veto threats until minor concessions were granted (Netherlands, Czech Republic, Austria, Romania, Bulgaria) (Pop, 2013a). The hold-up happened despite efforts to pre-negotiate the outcome by president van Rompuy and also German Chancellor Angela Merkel, who prior to the February Council met with Italian PM, Mario Montti, Spanish PM, Mariano Rajoy, and French president, Francois Hollande. Hollande signalled his will to agree to more cuts if they did not impede economic growth (Pop 2013b) and declared support for increased structural funds. Hollande was under a lot of domestic pressure: all time low domestic popularity, high unemployment and slow economy at the end of 2012, only saved by the French intervention in Mali, which pushed up his popularity rating. Merkel prior to the meeting with Hollande and despite the German austerity position towards the EU budget declared that the funds allocated to the EU budget were rather small, indicating that she was prepared to play the role of a mediator between the two main groups in the negotiations. As a result, the final outcome was closest to German demands – expenses only slightly higher than what the UK, Netherlands and Sweden demanded. While these three countries cared most about the overall ceilings, the other Member States were more interested in individual headings, which would determine their final net position. As expected, Merkel turned out to be the deal broker, coming to an agreement by advocating austerity and pro-growth measures (Vogel, 2013b).

After 18 hours of talks, the EU Member States approved the following structure of the EU budget for the years 2014-2020. The maximum expenditure was set to €959.99 billion (in 2011 prices) in commitments, i.e. 1% of the EU's GNI for 28 Member States, which means real terms reduction of 3.4% compared with the 2007-2013 framework and the first time ever reduction in overall expenditure compared to previous MFF. The reduction was justified by reflecting "the consolidation of public finances at national level" (European Council, 2013). The ceiling for overall payments was set to €908.4 billion (2007-2013 was €942.78).

The CAP funds were to be cut from €421 billion to €373.18 billion and Cohesion funds to be cut from €355 billion to €325.15 billion. Poorer regions were to receive more than in the 2007-13 period and a new youth employment initiative was created. CAP and Cohesion, also known as the "backward looking policies" (Vogel 2013b), saw biggest cuts, 17.5% and 8.4% respectively, but still receive by far the largest sums. More money was earmarked for "competitiveness for growth and jobs", increase from €91 billion to €125.61 billion (up by 37% compared with MFF 2007-2013), even though still substantially less than proposed by the Commission or even van Rompuy in November 2012 and still much less than the overall ceiling for CAP and Cohesion. More money was also allocated for Horizon 2020 and "Erasmus for all" programmes. One of the "victims" was the Commission's "flagship" Connecting Europe plan (proposed 50 billion, earmarked 29.3 billion, still 50% increase from current MFF). Within the €29 billion was €23 billion for transport, €5 billion for energy and € 1 billion for internet. Other initiatives such as Gallileo, ITER, and GMES, got total €13 billion allocated (Kirk, 2013). Security and citizenship was allocated €15.69 billion for migration, asylum, external borders and internal security. Global Europe received €58.7 billion. Additionally, administration expenses were set at €61.63 billion. This decrease will mostly affect salaries of the EU employees. As a result, staff will be reduced by 5% and EU employees will work more hours for same money with salaries frozen for 2 years. The savings in administrative costs became an ideological issue for some countries (Sweden, UK, Netherlands) (Mahony, 2013b) and the EP did not question it. Finally, the European Development Fund is to receive €26.98 billion. As for national payment reductions, the British rebate is to be maintained, Austria, Denmark, the Netherlands and Sweden will have the reduction of their national GNI contributions. The savings were to be found in some victim areas including

Much of the deal is believed to have been agreed prior to the summit when the less competitive economies including France agreed to lower the ceiling on spending in return for less cuts for CAP and structural funds. Thus, one of the reason in finding a deal was in "horse-trading" over relatively small amounts (small sweeteners) (Mahony, 2013b), confirming the established notion of every country has to bring something home to declare "victory". In order to add somewhere, they take from elsewhere, that is from lines that do not have strong ideological defenders in favour of lines that are more politically rewarding in the domestic electorate. France will receive €200 million for its new overseas territory, island Mayotte; Baltic states will received compensation for low per-hectare subsidies; Northern Ireland will receive money for its peace projects; Lithuania, Slovakia and Bulgaria got more funding for nuclear plant decommissioning; Hungary extra subsidy of €1.56 billion and Czech Republic €900 million in structural funds; Italy, France, Spain, Slovakia, Portugal and Belgium received larger shares of structural funds due to high unemployment; Spain would also benefit from youth unemployment fund, France from extra farm subsidies; Austria kept its rebate even though only of €60 million, Denmark received a rebate it was not entitled to before. As the overall expenses were reduced, this policy of rewarding Member States for support displays the attitude of "robbing of Peter to pay Paul" (Mahony, 2013a) The chair of the EU budget committee, Alain Lamassoure, called the EU budget negotiators "a group of Margaret Thatchers, each one wanting their money back" (quoted in Pisano, 2013), the Italian PM called the meeting "orgy of cuts" (Bydžovská, 2013) and Czech foreign minister said it was based on the saying "accept when they are giving, scream when they are taking" (Euroskop, 2013).

The last issue to address was how to present the agreed deal to the European Parliament, which threatened to veto any cuts to the original proposal of the Commission. The point of the negotiations was therefore to also prepare a proposal that would not antagonize the EP too much. Yet, many MEPs highlighted the Council's narrow focus on national interests noting that the only person speaking up for Europe was president van Rompuy (Alain Lamassoure in Fox, 2013a). EP President Martin Schultz defined the deal made at the European Council as "the most backward proposal" and the "beginning rather than end of the process" (Fox, 2013b). The clear EP's rejection of the deal in its March session (506 MEPs in favour, 161 against, 23 abstaining) did not, however, question the overall ceiling, just its objectives. The Parliament requested that the Member States provided €14 billion to cover previous unpaid payments, demanded more flexibility for re-allocation of unspent funds, asked for Commission's review in the middle of the MFF if adjustments would be required due to different economic conditions and asked for a new own resource, referring to the FTT. The EP President commented on the vote with saying that the EP would not "accept the proposal from the member states unless there is movement on all these issues" (Vogel and Keating, 2013) even though the Irish Europe minister, Lucinda Creighton, considered this only a strategic move of the EP as it did not want to give up the fight but also did not want to block the budget (Vogel and Keating, 2013) Thus, the amendment of the 2013 budget and new MFF were negotiated together where the latter would renegotiate the ceilings but focus on flexibility, revision clause, own resources and unity of the budget. The EP's less radical stance was apparent already prior to the March vote indicating that many MEPs felt or were under pressure from their countries not to destroy the deal that was so hard to make (Vogel, 2013a).

Yet, the various moves and statements criticising the budget structure indicated the Parliament's will to be taken seriously. Martin Schultz is determined to make the EP a venue for important European debates. This resolution was very clear in his February announcement that the MEPs would hold a secret ballot on the MFF proposal even though in the end this procedure was called off, which probably had a lot to do with the fear of the German MEPs in the European People's Party to publicly oppose a deal struck for a large account on German terms prior to the national election. Together with the EP's increased role in the Lisbon Treaty, it threatened to complicate the ratification process of the MFF. The Parliament was a delicate position – rejecting the February deal would jeopardise many EU programmes including the ones to fight economic downturn and approving it deemed the Parliament irrelevant in future budgetary negotiations because the MEPs felt that they were being given expenditure ceilings as fait accompli. The Parliament faced similar situation in the 1980s, when it chose to use the newly acquired strength to reinforce its situation vis-à-vis the Council. For some, the European Council put itself in this position by first approving increased EP powers in the Lisbon Treaty and second by including details of budget spending in its negotiations instead of leaving that for the negotiations in the sectoral Councils which would not require the consent of the Parliament (European Voice, 2013).

Our Proposal for EU Budget Reform – Financial Perspective 2014 – 2020

The size of the EU budget which is growing in absolute terms is fixed in its relative size and there is no long term support to increase it significantly above the 1% of EU GNI despite the support from the European Commission and the European Parliament. However, the recent problem of some eurozone countries re-emphasized the need to seriously discuss the ability of EU budget to play a stabilizing role as recommended by MacDougal report back in 1977. The MacDougal report (1977) and Sapir report (2003) were not isolated attempts to seriously discuss the increase of relative size of the budget of EU and the reform of its revenue and expenditure sides. The contributions to the reform debate could be divided into three main groups. The first group of studies concentrated on the effectiveness of Common agriculture policy (CAP) and Cohesion policy, arguing for significant decrease of expenditures on CAP (or even its re-nationalisation) and for significant concentration of structural and cohesion policies only to the poorest regions and member states (Thurston, 2005; Nicoladies - Talsma, 2005; Ferrer, 2007; Gross, 2008; European Commission, 2008). The second group of studies contributed to the debate with an analysis of the relative size of the EU budget and the design of genuine own resources in the form of some European tax(es) (Le Cacheux 2007; Begg 2005; Cattoir 2004). The third group of studies appeared as a reaction to ongoing eurozone crisis, searching for options to increase the eurozone's fiscal capacity while creating an adequate federal budget with a stabilization capacity for a fully functioning monetary union (Delpla J and Von Weizsäcker J, 2010; Bordo-Markiewizc 2011; Begg, 2011; Hallerberg, 2011; Wolff, 2012; Pisani-Ferry et.al, 2013).

Given the above mentioned directions of possible reform of EU budget, the negotiations of the 2014-2020 Multiannual Financial Framework (MFF) offered several opportunities and challenges. Firstly, given the very negative effects of the eurozone crisis, the discussion should have moved from the technical (bureaucratic) point of view to the political one. Most of the former and recent discussions about the EU budget reform had just a technical dimension, i.e. how to move resources between different headings without increasing the size of EU budget and revenues or even how to receive the same results with a lower budget. Given the degree of economic integration (existence of common currency), the discussion required stronger policy oriented tendency and also reflection of the eurozone problems.

Secondly, given the negotiation process of the future Multiannual Financial Framework (MFF) and the role of EU Council, a serious discussion on the ability of the Member States to agree on a significantly higher ceiling for the EU budget revenues was in place rather than just protecting their net balances and national interests to receive as much as possible in net transfers from the EU budget. The size of the EU budget is not sufficient to provide insurance against negative asymmetric shocks in the eurozone. The representatives of

EU member countries could have opened a political debate on the options for strengthening the euro-area's fiscal capacity.

Thirdly, given the size of the already agreed funds which were to be provided to the indebted members of the eurozone, there was a good opportunity to either include those funds into the EU budget framework or to create an autonomous budget for the eurozone member countries. Such a political decision could increase the stabilization capacity of the EU budget and make it more relevant to given stage of economic and political integration which the EU had reached after the Maastricht Treaty.

Policy makers were to decide between Scylla and Charybdis - either strengthen the principle of solidarity via an increased size of the EU budget with all potential positive but also negative consequences (such as long-term redistribution of resources, i.e. taxes, to "problematic" countries and possible creation of a new "Mezzogiorno"); or respect the recent status quo and continue making technical changes inside the recent structure of budget without any significant move towards a budget which would fit the given stage of economic and political integration. With the new policies and responsibilities in place, the latter option – as seen with the 2012 and 2013 budgets – runs the danger of failing to provide adequate resources to meet the EU's commitments. The lack of willingness to discuss possible federalization of the EU budget leads to the situation when further economic and political integration is limited by an insufficient size of the common budget.

The reform of the European Union budget presents an opportunity for a modification of income, expenditures, and the size of the budget itself. Reform proposals at both expenditure and revenue sides are necessary. Whereas the door leading to the existing expenditure reform was already opened and discussed intensively across the EU, the gap in the door offering possibilities of changes in the budget income and the door protecting the size of the budget are very small. Although it would be suitable to implement changes in all the areas at the same time and in an interconnected context, particularly expenditure changes can most likely be expected. The reason lies in positive theory of public finance, which stresses role of personal interests of politicians, various pressure groups or aversion of politicians as well as EU Commission officials to big changes and following path dependency instead, making only incremental steps in a new direction.

Whereas Member States could agree with an increase of the common budget expenditures for research and development, trans-European networks or external border protection, some elements of the future EU budget reform – the expenditure side - are much more controversial such as joint expenditures for development aid, defence, stabilisation policy and common agricultural policy. A change of the funding of the common agricultural policy has been widely discussed for many years and most EU countries agree on the need to release EU budget funds allocated to CAP for other purposes. It can therefore be considered as the most realistic although there will surely be animated discussions between the proponents of exclusive and generous funding of CAP from the EU budget and its opponents. Pressure groups have always been very effective in assertion of their interests concerning this policy, which together with the path dependency argument might lead to only gradual move to national co-financing of the market related expenditures and direct aids since 2014.

Also the proposal to increase the role of the EU budget in the financing of development aid is not entirely unrealistic as it has its proponents in both the European Parliament and Commission and in addition, it offers substantial advantages due to the reduction and simplification of aid administration, better coordination, economy of scale and synergy effects of the joint use of the development funds. Pressure for a lower degree of transfer of development aid funding to the EU budget can be expected. As regards the proposal for the joint funding of EU defence, it is in this policy that, besides the internalization of externalities, there is the biggest potential of economies of scale, and it would certainly be worth of at least open discussions of the joint funding of relatively less sensitive military expenditures related to military equipment procurement and military research and development. Participation on financing of these expenditures can be acceptable also for the EU neutral states since it does not bind them to participate in any common military operation. The focus on foreign policy, especially its neighbourhood policy dimension, has been accentuated by the effects of the Arab spring. Related to that is the issue of migration and preservation of Schengen zone through strengthening external borders.

The EU stabilisation policy could be based on the European Unemployment Fund that would provide financial assistance in the form of specific-purpose subsidy requiring co-financing to Member States whose regions are hit by unemployment higher than the EU average. Establishing this instrument, which is discussed also in works of many authors (see MacDougall, 1977; Dullien and Schwarzer, 2007; ECORYS, CPB and IFO, 2008) might face opposition from Member States' governments since it touches their national employment policies that are still considered as highly sensitive matter. On the other hand, this instrument would not involve any harmonisation of these policies; it would just provide assistance to national budgets to ease the fiscal burden connected with payments of higher unemployment benefits. Nevertheless, if this instrument is unacceptable for national governments, they could possibly agree on at least increasing the scope of the current European Globalisation Adjustment Fund.

In the end, there can be a completely different reason that will make the proposed changes of the EU budget expenditures unrealistic – its size. The higher size of the post-reform budget in terms of EU27 GDP, will surely lead to resolute rejection in number of countries, as the mantra of many European governments in relation to the EU budget has been 1 % of GNI. Although it is only about a transfer of expenditures from the national level to the supranational level that would not mean an absolute increase in public expenditures but only their centralization aiming at a reduction of the total volume of expenditures due to better coordination and reduction of duplicate expenditures, from the Member States' perspective such a change would primarily mean a transfer of powers and sovereignty from national to EU institutions.

It might therefore be expected that the limit will be set close to 1 % GNI and the discussion on structure and size of individual expenditure items will be based on that. The reformed EU budget expenditures will consequently reflect either an increase in the European Union competences or will only be a result of allocation transfers between the current policies. In such a case, development aid and defence policy in the proposed extent would probably not appear among expenditures (in the case of development aid only to a limited extent or possibly also with the incorporation of the European Development Fund expenditures). In any case, it still enables the implementation of all the other expenditure changes towards a modern supranational budget that will perform allocation, redistribution and stabilization functions and support the competitiveness of the European Union by funding expenditures with European added value. Finally, one more important factor will be stressed in the EU budget reform discussions: impact of the reforms on the budgetary balances of Member States.

Given the size of the EU budget and the size of European stabilization mechanism, we can calculate what would be the new ceiling for the EU budget revenues in the financial perspectives starting in 2014. The estimated volume of financial instruments already used or reserved for help to indebted countries until June 2013 within ESMS and ESFS and after June 2013 within ESM is equal to 1.5 % of EU GNI. If we include those instruments inside the EU budget with the aim of improving its stabilization function, the EU budget ceiling for revenues will rise up to 2.5% of EU GNI, in other words, it will increase accordingly the ceiling given by the decision of the EU Council for financial perspective 2007–2013 by 150%.

Conclusion

Even though Council President van Rompuy called the proposal “balanced and growth-oriented” based on “sense of collective responsibility from Europe’s leaders” and labelling it as “future-oriented”, “realistic”, and “driven by pressing concerns” (European Council, 2013) it failed to indicate a will to move away from juste retour to a more Europe-oriented budget plan. The eurozone debt crisis could have been used as an opportunity to improve stabilization capacity of the EU budget but for the time being, this window closed because a majority of Member States in the negotiations continued to focus on national interests and their net benefit even though hiding behind European interest rhetoric, which allowed to manoeuvre through the negotiations. The current crisis provided the pro-reform actors with extra leverage but agreeing on the need to reform did not mean knowing or agreeing what and how to reform. Change was possible if main three actors’ positions opened to the following: CAP reform possible under Hollande in exchange for Britain agreeing to end the rebate and Germany allowing more spending but on the previously declared but neglected categories, i.e research and development, education, energy, climate change. Another chance was facing very difficult negotiations; just like the crises in the 1980s led to a significant reform, so we were facing another opportunity here – make the negotiations so hard that the “game” would have to change because the actors would not want to go through it again. Such situations did not materialise and so the reform potential was missed.

Taking in account the dynamics of eurozone crisis and reactions of EU and eurozone institutions there are two potential strategies for future reform of EU budget. The first one is to move the whole EU more closer to final stage of integration – political union (fiscal union) and in line with this to increase significantly the size EU budget. The second one follows the two speed Europe development. There will then be space for two budgets strategy. One budget in recent form will be for the whole EU providing mainly allocate and redistributive function mainly through structural and cohesion policy complemented by increased expenditures on research, development and pro-growth incentives. The second – eurozone budget - providing the stabilization function for countries which are hit by asymmetric shocks. The eurozone budget then will be created based on political decision of eurozone member countries to follow the path of closer cooperation in fiscal area which was already started by implementing fiscal pact and decision to complete banking union.

However there is a significant assumption for both strategies. Both strategies towards reforms of the spending programmes and increasing the size of EU budget will depend on the willingness of citizens to allocate additional tasks to the EU and thus may only be realised as a consequence of changes in the degree of political integration. As Padoa-Schioppa (2002) puts it: “There can be no doubt that it would be a good thing, for the Union, to have more room for manoeuvre in the area of budgetary policy. But it is also my belief that this can only come as a natural consequence of political union. No country has ever adopted a large budget just in an effort to obtain more instruments for economic policy. Historically, the size of the budgets grew because the functions attributed to the Union grew.” Even by increasing the EU budget by 150% up to 2.5% of EU GNI, it will be still significantly lower than comparable federal budgets and even marginal proportionally given the redistribution within national budgets. The eurozone debt crisis could be used as an opportunity to improve stabilization capacity of the EU budget.

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