

Chapter 9

Expenditure Policies

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The capacity of the EU to distribute resources through taxation and public spending is limited. The EU budget constitutes about 1 per cent of total EU GDP. However, for member states, farmers, regions, private organizations or individual citizens who receive money from the EU budget, the absolute sums involved are considerable, and someone somewhere in the EU pays for this. To help understand how EU expenditure policies are made, and who gets what and why, we shall first look at some general theories of public finances and redistribution.

Theories of Public Expenditure and Redistribution

The traditional explanation for the development of public expenditure is normative: to achieve greater equality (e.g. Marshall, 1950; Rawls, 1971). The theory of 'fiscal federalism' is also primarily normative (Oates, 1972, 1999). According to this theory, because the lower levels of government are constrained in respect of macro-economic policy-making (since monetary policy is centralized), the central (federal) government should be responsible for macro-economic stabilization, for example by using the central budget to alleviate demand shocks (see Chapter 10). Fiscal federalism suggests, meanwhile, that local governments should be responsible for providing local public services and redistributing incomes within their jurisdiction, following the political preferences of their constituents. If the central government were to take over redistributive functions

from the local governments, the general level of welfare would be reduced as the central government would replace tailor-made policies with a single, uniform level of expenditure (cf. Weingast, 1995). Nevertheless, decentralized public expenditure can lead to negative externalities (such as the consumption of public goods in one locality by people living in another locality) and tax competition between welfare regimes (to attract investment) (Break, 1967). Fiscal decentralization also means that the burden of providing public services falls disproportionately on poorer localities. Consequently, in most multilevel systems of government, funds from the central government budget are used to reduce regional inequality as well as individual income inequality.

The growth of public spending policies can also be explained by positive theories (Mueller, 1989: 445–65). Majority decision-making in a democracy should result in the transfer of resources from the minority to the majority. One might expect that because there are more citizens on low incomes than on high incomes, governments would pursue progressive taxation and welfare programmes for the poor (Meltzer and Richard, 1981). Because the median voter in a democratic system is considerably poorer than the average member of the wealthy elite in a non-democratic system, democratic systems tend to have higher taxes and higher levels of public spending than do non-democratic polities (Acemoglu and Robinson, 2001; Boix, 2003). Nevertheless, because the pivotal voter (in the key electoral constituencies) is often considerably better off than the person with the median level of income – particularly in countries where voter turnout is low – political parties often advocate expenditure programmes that disproportionately benefit higher income groups than the average citizen (Stigler, 1970; Tullock, 1971).

Furthermore, when voting on budgetary packages, it is easier for legislators to increase the size of government spending than to reduce it. If government spending remains stable, a change in the structure of public expenditure will mean that some social groups will gain at the expense of others. However, if the budget is increased, benefits can be distributed in such a way that everyone gains at least something. For example, legislators from rural constituencies can vote for welfare programmes for the urban poor, in return for legislators from inner cities voting for welfare programmes for farmers. This 'vote trading' can lead to the expansion of public expenditure, and an increase in public deficits (cf. Weingast et al., 1981).

However, budgetary expansion can be restricted by institutional mechanisms. First, a balanced-budget rule prevents expenditure from being increased without simultaneously raising revenue. If revenue cannot be increased, changes in the budget can only occur by removing expenditure from one programme (group

of citizens) and giving it to another. Second, if the budget has to be adopted by unanimity, any decision-maker can veto a proposed change that redistributes resources away from their supporters. As a result of these two institutional constraints – both of which exist in the adoption of the EU's multiannual budget – all decision-makers can demand that contributions made by their supporters to the budget are exactly equal to the compensation they receive. This compensation (side-payment) can take two forms: direct benefits from expenditure programmes, or indirect benefits from non-expenditure programmes, such as other policy areas.

Finally, according to Olson's (1965) theory of collective action (see Chapter 7), different interest groups have different incentives to organize to secure benefits from government. For some public spending programmes, such as tariffs or subsidies, the benefits tend to be concentrated (e.g. on particular sectors), whereas the costs (e.g. to taxpayers) are diffuse. Also, because of a lack of resources and information, some groups (such as low-income citizens) tend to be underrepresented in the policy process, whereas other groups (such as pensioners) tend to be more powerful. Hence, public expenditure programmes often benefit some concentrated minorities and well-organized groups at the expense of diffuse and less well-organized groups.

In short, public expenditure is a core responsibility of government, and has traditionally been used in liberal democracies to redistribute resources from richer citizens to poorer citizens and to deliver universal public goods. But, often, liberal democracies redistribute less than the level preferred by the average (median) citizen. This is usually because of the way institutions shape budgetary policy outcomes and a result of differential access to power of different societal groups.

The Budget of the European Union

The Treaty of Rome originally established an annual budget. However, due to uncertainty on both the revenue and expenditure side, and growing multiannual spending commitments as a result of new policies and intergovernmental bargains, since 1988 the EU has operated through multiannual financial perspectives. These packages set the general levels of expenditure for each main budgetary category as well as the overall ceiling of the budget relative to the GNP of the EU member states and the structure of revenues. Within these multiannual financial frameworks (MFFs), the precise amounts of revenue and expenditure are agreed in an annual budgetary cycle. The most recent MFF runs from 2021 to 2027.

Revenue and Expenditure

On the revenue side, the main EU budget is funded through the three 'own resources':

- *Agriculture levies and customs duties*: these are charges on imports of agricultural products, under the Common Agricultural Policy (CAP), as well as common customs tariffs and other duties on imports from non-EU countries.
- *Value-added tax (VAT)*: a harmonized rate is applied in all member states, and this should not exceed 1 per cent of EU GNP.
- *GNI-based own resource*: based on the Gross National Income (GNI) of the member states, this covers the difference between planned expenditure and the amount yielded from the other two resources.

In adopting the 2021–7 MFF, the EU agreed to add a new own resource: *the plastic own resource*, which is in effect an 'EU tax' on non-recycled plastic packaging waste. Revenue from this resource started to be raised in 2021. This new resource is not likely to generate significant revenues.

The Commission is committed to developing proposals for several other new own resources. Current proposals include a *Carbon Border Adjustment Mechanism* (CABM), which would be a tax on imports from third countries who do not have a system of carbon pricing; a *digital levy*, which would be designed to compensate for the perceived inadequacies of corporate tax rules for taxing digital enterprises; an *EU Emissions Trading System (ETS)-based own resource*, where companies can trade carbon emissions, and the EU would impose a small levy on these transactions; and possibly a *financial transaction tax* payable directly to the EU. While it might be unlikely that the EU adopts all of these ideas in the coming years, there is significant political pressure in support of each of them, and in particular the CABM, given the EU and the member states' net zero emissions targets, and the public support for these targets, and given that similar mechanisms already exist in other markets, most notably in California.

As Figure 9.1 shows, the balance between the three original sources of revenue has changed considerably since 1980. The Council established the first two resources in 1970, to replace the old system of financing the EU by direct contributions from the member states, based on their relative GNI. The member states expected that import levies and VAT would be sufficient to cover EU expenditure. However, as the EU became a net exporter in the 1980s, revenues from agricultural and other import duties fell. Also, in the early 1990s the EU budget grew as a percentage of EU GNP. In response, the Commission proposed the reintroduction of GNI-based contributions by national governments. This is calculated on

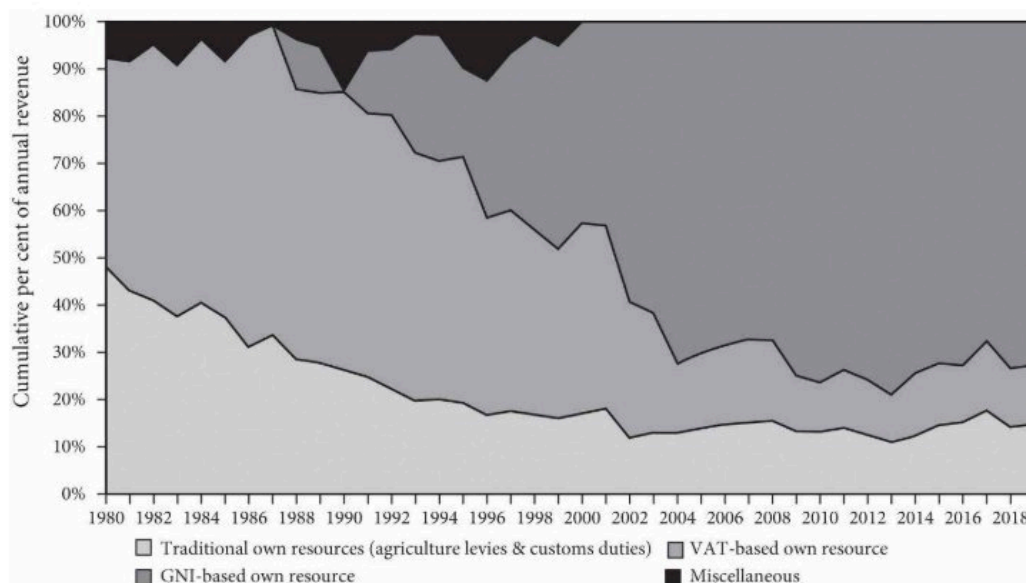


Figure 9.1 Relative composition of the EU's revenue sources, 1980–2019

Source: Annual budget reports of the European Commission.

an annual basis to cover the shortfall in revenues from import levies and the VAT levy, and now makes up just over 70 per cent of revenues.

On the expenditure side, the composition of EU expenditure has also changed dramatically since the 1980s, as Figure 9.2 shows. The two main areas of expenditure categories are agricultural support, via the Common Agricultural Policy (CAP), and economic, social and regional 'cohesion', via the various structural funds. Expenditure under the CAP declined from almost 70 per cent of the EU budget in 1980 to under 30 per cent in 2020, while expenditure on cohesion policies increased from 11 per cent of the budget in 1980 to just over 45 per cent. So, agriculture and cohesion policies today account for about 75 per cent of the EU budget. The remainder of the budget is divided between internal policies (mostly research and development), external policies (mostly humanitarian and development aid) and the administrative costs of running the EU institutions.

Table 9.1 shows the amounts allocated to the main budget headings, and some of the key sub-headings, in the 2021–7 MFF. The total 2014–20 MFF budget is worth over €1 trillion over seven years. The budget headings are not as transparent as they could be. In particular, agricultural subsidies are contained within the 'natural resources and environment' heading alongside several other policies (such as the environmental protection), while cohesion spending is contained under the heading 'cohesion, resilience and values' along with several other internal policies (such as the Erasmus+ educational exchange programme).

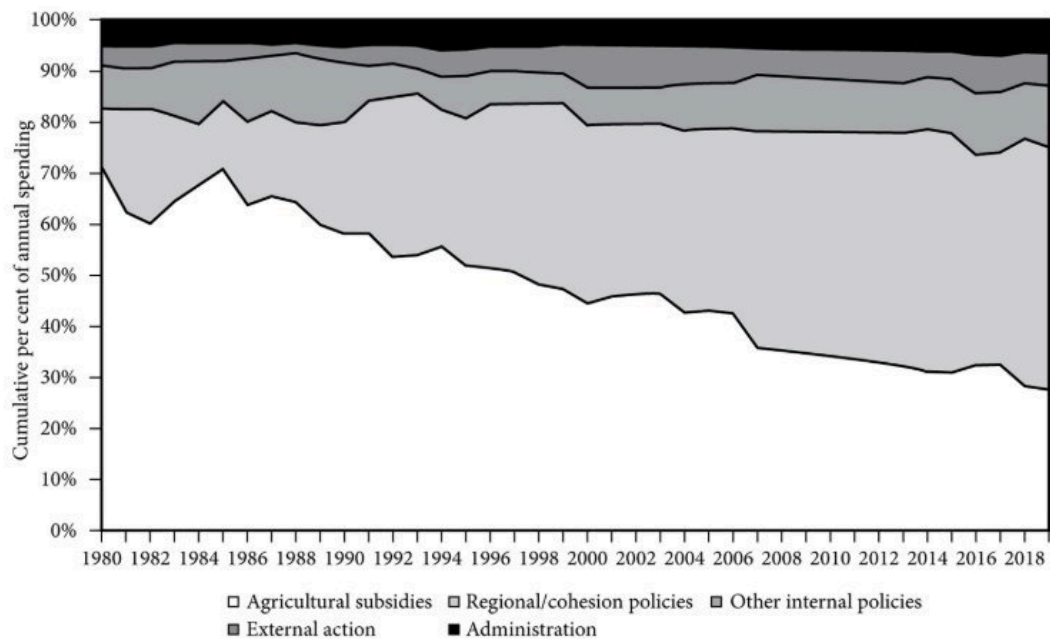


Figure 9.2 Relative composition of EU expenditure, 1980–2019

Source: Annual budget reports of the European Commission.

Table 9.1 EU multiannual budget, 2021–7

Commitments within the Multiannual Financial Framework	billion. EUR	%
1. Single Market, Innovation and Digital	149.5	12.3
2. Cohesion, Resilience and Values	426.7	35.2
Regional development and cohesion	274.3	22.7
Investing in people, social cohesion and values	130.7	10.1
3. Natural Resources and Environment	401.0	33.1
Agriculture and maritime policy	385.8	31.9
4. Migration and Border Management	25.7	2.1
5. Security and Defence	14.9	1.2
6. Neighbourhood and the World	110.6	9.1
7. European Public Administration	82.5	6.8
Total commitments	1,210.9	
Additional allocation under the Next Generation EU recovery fund	806.9	

Note: At current prices

Source: EU Commission.

In addition, alongside the MFFs, in response to the Covid-19 pandemic, the EU member states agreed in 2020 to the Next Generation Europe (NGEU) recovery fund, worth over €800m over three years (2021–3). Unlike the MFF, the NGEU operates through a series of grants as well as loans. Perhaps more significantly, the NGEU fund will also be financed by European sovereign bonds. This aspect of the NGEU is a major development in EU public finances, as for the first time the EU will be borrowing money on international finance markets, rather than relying on the ‘own resources’, to raise revenues to support EU expenditure. This is limited to the particular NGEU programme, and for a limited three-year period. Nevertheless, now that the EU has crossed this particular Rubicon, there will be pressure for the EU to use bonds to fund future expenditure projects.

The Adoption of the Budget: The Power of the Purse

A traditional function of parliaments is to control the purse strings, and the European Parliament acquired a limited budgetary role through reforms to the annual budgetary procedure in 1970 and 1975.

Until the Lisbon Treaty, there was a distinction between ‘compulsory’ and ‘non-compulsory’ expenditure. The Council had the final say on ‘compulsory expenditure’, expenditure that was necessary under the treaties. This was mostly expenditure on the CAP and the small amount of expenditure arising from international agreements. The Council and the European Parliament together had the final say on non-compulsory expenditure, which included the annual expenditure on economic and social cohesion and most expenditure on other internal policies, such as research, education and financial support for European-level interest groups. The Lisbon Treaty removed the distinction between compulsory and non-compulsory expenditure, and thus increased the European Parliament’s influence over the annual budget.

The annual budgetary procedure can be simplified as follows (Benedetto and Høyland, 2007; Crombez and Høyland, 2015). The Commission proposes an annual budget, within the guidelines of the MFF. The Council then adopts or amends the proposed budget by QMV and forwards it to the European Parliament. Unless an absolute majority of MEPs amends the budget, the Council version of the text is adopted. If the Parliament does amend the budget, a qualified majority in the Council must accept all the Parliament’s amendments, otherwise a conciliation committee is convened (see Chapter 3 on the composition of conciliation). In the conciliation committee, a simple majority in the Parliament and QMV in the Council is required to adopt the budget. If there is no agreement at this stage, the budget fails and the Commission must submit a new proposal.

The annual budget is prepared by the Budget DG in the Commission, and is negotiated by the members of the Budget Committee in the European Parliament, the Budget Committee of the Committee of Permanent Representatives (COREPER) and the Budget Council (consisting of junior ministers from the national finance ministries).

In contrast to the annual budgetary procedure, the European Parliament only has a veto power over the MFF at the end of the negotiations. The multiannual budgets are mainly adopted via intergovernmental bargaining between the member states' Finance ministers (in ECOFIN) and the heads of government (in the European Council). Consequently, while the European Parliament may be powerful when it comes to shaping regulations and rules in the single market, its direct redistributive capacity is weak compared with that of national parliaments in Europe or the US Congress.

The Common Agricultural Policy

Agriculture may seem a minor issue compared with foreign affairs or the state of the economy. However, for most of the EU's history the CAP has been the largest item of EU expenditure, was the first genuinely supranational policy of the EU, several member states maintain a romantic attachment to rural society, and the public is increasingly concerned about food safety and animal rights as well as the environmental impact of agricultural policies. As a result, the political stakes are high when it comes to the making and reform of the CAP.

Operation and Reform of the CAP

The Rome Treaty set out several objectives for the CAP: to increase *agricultural productivity*, particularly by promoting technical progress; to ensure a *fair standard of living for farmers*; and to *stabilize prices and supply* to consumers. The governments then agreed three mechanisms to achieve these objectives: (1) *protection against low internal prices*, by buying surplus goods from farmers when prices fall below an agreed guarantee price in the European market; (2) *protection against low import prices*, through import quotas and levies on imported agricultural goods when the world price falls below an agreed price; and (3) *subsidies to achieve a low export price*, through refunds for the export of agricultural goods when the world price falls below an agreed price. The result was a system of indirect income support for farmers, paid for by European taxpayers through the EU budget, and by European consumers through the higher prices charged on imported agricultural goods.

When the CAP was set up, Europe was not self-sufficient in most agricultural goods. However, as agricultural production stabilized and Europe became a net exporter of agricultural goods, the CAP price-support mechanism created several problems:

- guaranteed prices encouraged overproduction and production grew faster than demand;
- surpluses had to be stored, thus imposing an additional cost on the CAP budget;
- environmental degradation from over-intensive farming and excessive use of pesticides and artificial fertilizers;
- the bulk of revenues went to larger farms (who earned more because they produced more), while smaller farms were in most need of support;
- import quotas and levies led to trade disputes and prevented the development of global free trade in agricultural goods; and
- export subsidies depressed world prices, distorting agriculture markets in the Third World, thus contributing to global development problems.

The original goals of the CAP had been fulfilled, in that the EU quickly became self-sufficient in agricultural products and agricultural goods could be supplied at cheap prices to consumers. However, price subsidies had made some farmers better off than many other social groups. Moreover, agricultural markets no longer needed to be stabilized and although the CAP consumed ever-greater resources, its utility to EU taxpayers and small farmers had fallen and its distortion of global agriculture markets increased. Consequently, by the early 1990s the CAP was no longer sustainable in its original form. Consumer and environmental groups, several EU governments and a number of foreign governments, especially in the developing world, demanded reform.

In response to these problems, there have been four major reforms of the CAP. The first was in 1992. This reform involved price cuts, particularly in the cereals and beef sectors, a system of direct income support for farmers to compensate for the reduction in price subsidies, a 'set-aside scheme' whereby farmers were paid to leave their land fallow instead of growing crops that would have to be bought by the EU, and aid programmes to promote rural development and environmentally friendly agriculture.

The second reform was in 1999. This time, the price cuts on cereals and beef were extended to other sectors, including milk, olive oil and wine. The reform also changed the guiding principle of the CAP from price support for agricultural products to income support for farmers. Furthermore, the reform strengthened

the non-welfare objectives of the policy, such as environmental protection, food safety and animal welfare.

The third reform, in 2003, set out a new set of objectives for the CAP: stronger links between European agriculture and global markets, preparing for EU enlargement, better conservation of the environment and product quality, and making the CAP more compatible with the demands of third countries. These reforms led to a 'decoupling' of agricultural subsidies from production volumes. The policy now centred around a 'single farm payment', which was based on guaranteeing income stability, rural development, environmental protection and public health. Prices would now be set by local and global markets, which enabled the EU to comply with WTO rules.

Finally, in 2013, ahead of the 2014–20 MFF, the CAP was reframed again, this time around three objectives: *economic*, strengthening the competitiveness of the farming sector; *environmental*, promoting sustainable management of natural resources and climate action; and *territorial*, providing support for jobs and economic growth in rural areas. In addition, the single farm payments were replaced by a series of ('targeted') financial instruments with separate objectives: a basic payment; a greening payment for environmental public goods; an additional payment for young farmers; a 'redistributive payment', for additional support for the first hectares of farmland; additional income support in areas with specific natural constraints; aid coupled to production; and a simplified system for small farms.

As a result of these reforms, despite the complexity of the policy and the new payments mechanisms, prices and the supply of agricultural goods in the EU are increasingly set by the free market, and the subsidies to farmers are now mainly related to environmental protection, rural development and supporting small farms, rather than supporting agricultural production. On other words, this 'new CAP' goes quite a long way towards addressing some of the potential negative externalities resulting from agricultural production and subsidies, such as depressing global market prices, environmental destruction, rural underdevelopment, animal welfare, and food quality and safety. Nevertheless, agriculture remains one of the main sectors of production in the EU that is still subsidized by taxpayers.

Making Agricultural Policy: Breaking the Iron Triangle

The standard view of agricultural policy in the EU is that the policy was made by an 'iron triangle' of agriculture ministers, agriculture officials in the Commission and European-level farming interests (e.g. Daugbjerg, 1999; Pappi and Henning, 1999).

First, the Agriculture Council is the central decision-making body. Until the Lisbon Treaty, the part played by the European Parliament in the CAP was limited, as CAP legislation was passed under the consultation procedure (see Chapter 3). Agriculture ministers also tend to be from political parties that are supported by farmers and/or represent rural regions. Also, the work of the Agriculture Council is supported by the Special Committee of Agriculture (SCA) rather than the usual Committee of Permanent Representatives (COREPER), and the SCA is staffed by officials from national agriculture ministries, whereas the members of COREPER are career diplomats.

Finance ministers, who are generally more in favour than agriculture ministers of reining-in agricultural subsidies, only intervene whenever there are major questions on the financing of the CAP, and the heads of government in the European Council are usually only called into play to negotiate the major reform packages. There are often disputes between agriculture and finance ministers.

Second, agricultural interests have traditionally been protected by the Agriculture and Rural Development Directorate-General in the Commission. The Agriculture and Rural Development DG is the largest DG in the Commission and officials from the main farming member states hold many of the senior positions in the DG. Also, the day-to-day management of the CAP is undertaken by the network of agriculture, veterinary and food safety committees around the Commission, and these committees are staffed by national experts and representatives, most of whom are nominated by national agriculture ministries.

Third, farming interests are strongly represented at the national and European levels (Keeler, 1996). In most member states, the close relationship between national farmers' associations and agriculture ministries ensures that farmers play a central role in the making of national agriculture policies. At the European level, the Committee of Professional Agricultural Organizations (COPA) is one of the most well-resourced, well-staffed and well-organized of all the supranational sectoral associations, representing sixty organizations from the twenty-seven EU member states as well as thirty-six organizations from other European countries who have particular interests in the operation of the CAP, such as Norway, Switzerland and Turkey (see Chapter 7).

Each element of this triangle has a vested interest in defending the interests of the others: subsidies to farmers, the centrality of the CAP in the EU decision-making process for the Agriculture and Rural Development DG, and the protection of domestic supporters of the agriculture ministers. In contrast, there are few incentives for consumers to mobilize to attempt to break the iron triangle, as the cost of the CAP to each individual consumer or taxpayer is less than the cost of organizing an anti-CAP campaign (Nedergaard, 1995).

Nevertheless, the iron triangle is not as strong as it once was, and this in part explains how and why the CAP has been gradually transformed into a programme that goes well beyond financial support for farmers. First, social, economic and political changes in Europe have reduced the power of agricultural interests. There has been a dramatic change in the status of agriculture in national economies since the 1970s. For example, the share of agriculture as a percentage of the labour force of the member states declined from over 20 per cent in some member states in 1970 to less than 10 per cent in all but seven member states today (only Portugal, Greece, Poland, Romania, Latvia, Lithuania and Estonia). In most member states, the number of people employed in agriculture today is less than one-third of the 1970 level. Moreover, income from agriculture accounts for less than 5 per cent of GDP in all EU states except Romania and Bulgaria.

Furthermore, active farmers comprise less than 5 per cent of the electorate in most member states. This has forced many agricultural parties, and parties with traditional support in rural areas, such as Christian democrats in continental Europe and centre parties in Scandinavia, to appeal to urban middle-class voters, who are the ones paying for the CAP. Voters with a 'strong agricultural attribute' – including farmers, retired farmers, spouses of farmers, voting-age children of farmers and former farmers in other occupations – may still constitute a significant proportion of the electorate in some member states. Placed between the middle class and the urban working class, this constituency can be pivotal in determining electoral outcomes. But, in the late 1990s and throughout the 2000s, green party secured cabinet seats in government in several member states, which has led to significant changes of the preferences of many governments towards the CAP.

Second, international pressures created new incentives for the CAP to be reformed. These began with the negotiations in the Uruguay Round of the General Agreement on Tariffs and Trade (GATT) in the late 1980s and continued with the establishment of the World Trade Organization (WTO) in 1995. Without reform of agricultural subsidies in Europe, the WTO could not have been established. Many of the non-EU signatories of WTO were not prepared to support the EU's trade liberalization agenda while the EU continued to subsidize the export of agricultural products to their domestic markets. The WTO agreement was finally signed in 1994 only after EU trade ministers promised to reform the CAP as part of the deal (Patterson, 1997).

A similar situation existed at the end of the 1990s, with the prospective enlargement of the EU to the countries of Central and East Europe. One consequence of enlargement was a 50 per cent increase in agricultural land in the EU

and a 100 per cent increase in agricultural labour. Even with a move away from price support of agricultural production to direct income support of farmers, EU enlargement would have led to a dramatic increase in the cost of the CAP without reform (Daugbjerg and Swinbank, 2004). The new member states were unlikely to stand as a single bloc on agricultural issues, though, because the structure of agriculture and the relationship between agricultural interests, political parties and bureaucrats varied among these states (Sharman, 2003).

Agriculture ministers and COPA may have preferred to delay enlargement to protect their interests, but this decision was out of their hands. Also, once international trade issues and enlargement became associated with reform of the CAP, an 'issue linkage' was established, which created incentives for non-agricultural industrial interests to lobby against the CAP (Coleman and Tangermann, 1999). For many industrial sectors, the benefits reaped from global trade liberalization and EU enlargement were greater than the costs of mobilizing to break the grip of the farming lobby at the national and European levels. Hence, the interest groups that supported the CAP began to be outnumbered by groups that recognized that failing to reform the CAP jeopardized their policy goals elsewhere. Furthermore, as the EU Council only needed QMV to adopt CAP reform, reluctant member state governments, such as the French and the Portuguese, were unable to block reforms (Daugbjerg and Swinbank, 2007).

With the Lisbon Treaty, the European Parliament became a player in the CAP. The extension of the ordinary legislative procedure to the CAP has meant that the European Parliament now has a say on all CAP legislation. Agricultural interests have not been as dominant in the European Parliament as they have been in the Council, and the European Parliament has a history of promoting consumer rather than producer interests. In particular, the 'pro-environment' majority in the European Parliament has meant support for animal rights legislation and a growing emphasis on environmentally sustainable agricultural production. In fact, the 'new CAP' – with the shift away from subsidizing production to supporting environmental objectives and rural development – is exactly in the policy direction supported by the 'green-left' bloc in the European Parliament of S&D, ALDE/Renew Europe and G/EFA. Finally, in 2018, the Commission made legislative proposals outlining the 'future of the common agriculture policy'. In line with the ambitious New Green Deal, see Chapter 8, the proposals focused on securing a fair deal and a stable economic future for farmers, setting higher ambitions for environmental and climate action, and safeguarding agriculture's position at the heart of Europe's society. Although these proposals were planned for the 2021–7 MFF, difficult negotiations in the Council and the Parliament, meant that the start-date for the 'future of CAP' was put on hold.

Cohesion Policy

Under the EU treaty, one of the central aims of the EU is to promote 'economic and social cohesion' – that is, to reduce disparities between different regions and social groups across Europe. This is a classic normative redistributive goal. To this end, an ever-larger proportion of the EU budget has been transferred to poorer and less-developed regions. However, the extent to which cohesion policy is a genuine welfare policy and how much it has been able to reduce social and economic disparities in Europe are open to question.

Operation of the Policy

The EU has five structural funds with slightly different foci, in chronological order of their creation:

- the European Social Fund (ESF), established in 1960, focuses on improving education and employment opportunities, and has €99 billion allocated to it in the 2021–7 budget;
- the European Agricultural Fund for Rural Development (EAFRD), established as part of the CAP in 1962, has a budget of €87 billion in 2020–7;
- the European Regional Development Fund (ERDF), set up in 1975, now focuses on regional competitiveness and employment, and has €274 billion allocated to it in 2020–7;
- the Cohesion Fund (CF), established in 1993, is targeted at member states whose Gross National Income is below 90 per cent of the EU average, and has a budget of €48 billion in 2021–7; and
- the European Maritime, Fisheries and Aquaculture Fund (EMFAF), set up in 1994, supports countries and regions transition from fisheries, and has a budget of €6 billion in 2021–7.

Since 1988, the delivery of the structural funds has been based around four main principles:

- *Additionality*: the member states cannot use EU resources to reduce national spending on regional development, so EU resources go directly to regions or managing authorities rather than to national treasuries.
- *Partnership*: the policy operates through close co-operation between the Commission, national governments and regional authorities (which in some states had to be created for the purpose) in the process that runs from the preparation of projects to the implementation and monitoring of expenditure.

- *Programming*: funding is delivered through multiannual development programmes.
- *Concentration*: EU assistance measures are concentrated in a series of priority objectives.

The structural funds have been reformed with every new multiannual framework programme. In the 2021–7 programme, the EU adopted five investment priorities:

- 1 a *smarter Europe*, through innovation, digitization, economic transformation and support to small- and medium-sized businesses;
- 2 a *greener, carbon free Europe*, implementing the Paris Agreement and investing in energy transition, renewables and the fight against climate change;
- 3 a *more connected Europe*, with strategic transport and digital networks;
- 4 a *more social Europe*, supporting quality employment, education, skills, social inclusion and equal access to health care; and
- 5 a *Europe closer to citizens*, by supporting locally led development strategies and sustainable urban development across the EU.

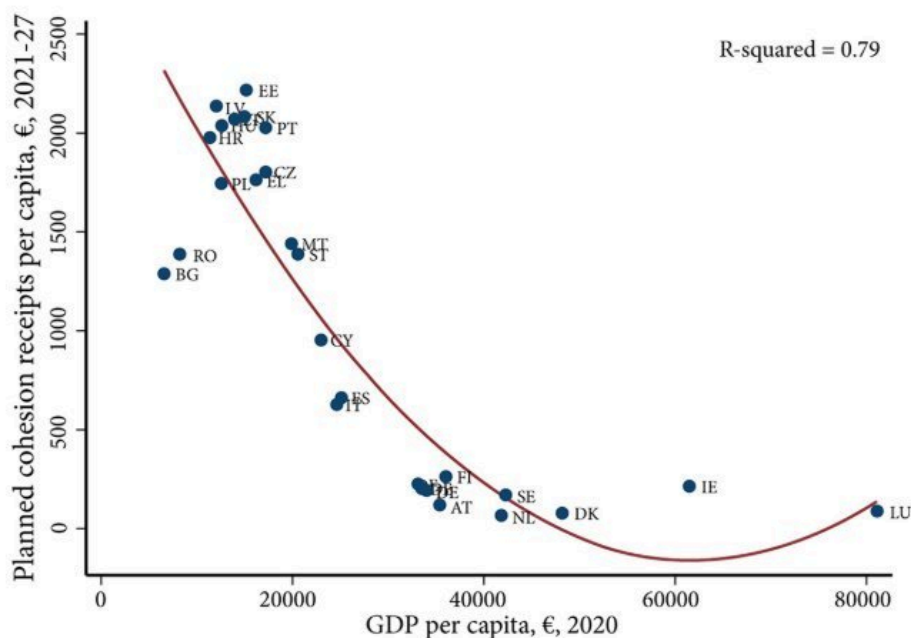


Figure 9.3 GDP per capita and planned receipts from cohesion policy, 2021–7

Source: Calculated from EU Commission and Eurostat data, at 2018 prices and populations in 2020. The fitted line is a quadratic model. The R-squared is the result of a model with only GDP per capita entered as a linear and a quadratic term.

These goals cannot be achieved by the EU structural funds alone, as they require co-ordinated action by all the member states to deliver them. Hence, the structural funds of the EU are meant to encourage and support the actions of domestic expenditure policies, to secure a set of development goals agreed collectively by the EU member state governments. That said, the allocation method for the funds is still mainly based on GDP per capita, although with some new criteria are added, on youth unemployment, low education level, climate change, and the reception and integration of migrants. As a result, as Figure 9.2 shows, most EU 'cohesion policy' spending goes to the member states with lower GDP per capita – although Romania and Bulgaria receive less funds per capita than some more wealthy states (per capita) in Central and Eastern Europe. Also, each of the richer member states receives some cohesion funds, as they also have some lower income areas or regions in industrial decline – hence, a quadratic model fits the relationship between GDP per capita and cohesion receipts per capita better than a linear model. In absolute terms, though, Poland is by far the largest beneficiary of cohesion funds, receiving about 20 per cent of the total budget. The next highest in absolute terms are Italy and Spain, which each receive about 10 per cent of the total budget.

Impact: A Supply-Side Policy with Uncertain Convergence Implications

In policy terms, ever since its original conception, EU cohesion policy has combined conscious redistribution from richer to poorer regions together with strategic investments to improve the efficiency of the single market (cf. Behrens and Smyrl, 1999; De Rynck and McAleavey, 2001). The structural funds budgets lead to significant fiscal transfers from taxpayers in the North to the poorer counties in the East and South. For the main recipient regions, revenues from cohesion policies amount to 3 to 5 per cent of regional GDP. In other words, there is a certain amount of 'fiscal federalism', whereby fiscal transfers are made between territorial units through a central budget.

However, as Figure 9.3 shows, it is not only the poor member states who benefit from the cohesion policies. Over 50 per cent of EU citizens live in regions covered by the regional-based objectives. This is a result of the design of the policy. The policy is primarily a regional policy, whereby transfers are made at the sub-state level, rather than pure fiscal federalism, which would involve transfers between member states. Also, the objectives are designed in such a way that every member state can claim to have a region which qualifies for aid. When measured at the level of the member states, cohesion policy is as much about

guaranteeing that everyone has something to 'bring home from Brussels' as it is about improving the living standards of the poorest member states.

Furthermore, in the way EU cohesion policy is delivered, most of the expenditure is aimed at supply-side investments to promote growth and employment rather than demand-side income support. If it were a classic 'welfare policy', EU subsidies would be given directly to low-income families or individuals, to spend as they see fit. Such a policy would increase the spending power of low-income groups, and hence the demand for goods and services in the single market. In contrast, cohesion resources are primarily spent on infrastructure projects, such as transport, telecommunications and education facilities, as well as investments into small and medium-sized enterprises. This increases the efficient supply of the factors of production (land, labour and capital), and as a result improves the competitiveness (and comparative advantage) of recipient regions in the single market (Martin and Rogers, 1996). In other words, the main aim of EU cohesion policies has been to facilitate convergence between regional economies rather than between individual citizens' incomes (cf. Anderson, 1995, Bufacchi and Garmise, 1995).

The extent to which cohesion policies have reduced social and economic disparities is uncertain. At a theoretical level, there is a debate between convergence and divergence theories of regional growth (Leonardi, 1993). On the one hand, convergence in regional incomes may occur naturally in a free market, as capital flows to where land and labour are cheapest (see for example Krugman, 1991). On the other hand, economic integration in a free market could lead to regional divergence as capital flows from the periphery, where infrastructure is weak and demand is low, to the core, where infrastructure is plentiful and there is a high return on investment (Myrdal, 1957).

At an empirical level, there was considerable research on the effect of EU regional policies after the structural funds were doubled in the late 1980s and early 1990s. For example, in terms of per capita GDP, Leonardi (1993, 1995) found that if convergence was measured as the average deviation from the mean for all regions, between 1960 and 1992 there was considerable convergence in terms of per capita GDP. Because Leonardi accepts the divergence theory, he concluded that this convergence must have been due to the cohesion policies. In contrast, Fagerberg and Verspagen (1996) found that the expenditure may have actually increased disparities in certain important economic variables, such as access to research and development resources, while Rodríguez-Pose (1998) found that variations in social conditions and social infrastructure were key factors in determining variations in regional economic performance, and hence whether regions could effectively use EU resources to foster economic

growth. Part of the challenge for empirical research on the effect of EU cohesion policies is that it is difficult to identify what the economic performance of a region would be in the absence of EU cohesion spending, or other support from national, regional or local governments. Nevertheless, to overcome this challenge, Pellegrini et al. (2013) compared regions (between 1994 and 2006) just below and above the eligibility threshold (75 per cent of average EU GDP per capita), and found that regions just below this threshold (who received EU cohesion funds) increased their GDP by about 0.6–0.9 percentage points per year faster than regions just above this threshold (who did not receive EU cohesion funds). They hence conclude that, on average, EU cohesion funds have had a positive effect on economic growth of the poorest regions in Europe.

Making Cohesion Policy: Commission, Governments and Regions

As with the CAP, EU cohesion policy is made through a triangular interaction between the main legislative body (the Council), the main executive actors in the Commission and private interests (the regional authorities). However, unlike the CAP, these three actors do not have mutually reinforcing interests. This produces two competing policy logics rather than a unified iron-triangle: intergovernmental bargaining in the Council on the basis of national costs and benefits, versus strategic behaviour by the Commission and the regions to undermine the autonomy of the national governments.

The volume of resources available through the structural funds, plus which member states should gain the most and which regions qualify for support, is decided by the governments in the Council. Also, the implementation of the expenditure relies on national regional development plans negotiated between the Commission and the national governments, with significant input by the regional authorities concerned. Implementation of the programmes is then supervised by monitoring committees which are made up of representatives of the regions, the national governments and the Commission.

However, the member states are not in full control of cohesion policy as the four principles constrain the autonomy of national governments. For example, the principle of 'additionality' has forced several member states to alter their accounting practices for managing the distribution of regional funds, and the principle of 'partnership' has enabled the Commission to bypass national governments and negotiate directly with representatives from the regions on the preparation and implementation of projects and encouraged several member states to set up new regional authorities. The Commission has also deliberately developed

expenditure and programmes to address European-wide concerns rather than national concerns, and programmes that are initiated by the Commission rather than the member states.

Linked to the principle of partnership, representatives of subnational authorities have sought to influence EU cohesion policies directly. There are approximately 200 offices of regions and local authorities in Brussels (see Chapter 7), many of which have established direct informal contacts with the Regional and Urban Policy DG. Senior officials in this directorate-general tend to come from regions that receive substantial resources under the structural funds, and are consequently connected to networks of subnational elites (cf. Ansell et al., 1997). Moreover, the Maastricht Treaty established the Committee of the Regions, which provides the representatives of subnational authorities and assemblies with a formal consultation role in the making and implementation of regional policy (much like that of the European Parliament under the consultation procedure) and has institutionalized transnational contacts between governmental authorities below the level of the state.

The access to and influence of regions in the EU policy process vary considerably among the member states. In general, the regions in federal states such as Germany and Belgium, and regions with strong identities, as in parts of Spain, Italy, France and the UK, tend to have the most influence in Brussels. Nevertheless, several authors claimed that EU regional policies contributed to decentralization and devolution processes in states in the 1980s and 1990s, and in particular where there were no regional-level public authorities, as in France, the UK, Portugal, Ireland and Greece (Keating and Jones, 1995; Balme and Jouve, 1996; Ioakimidis, 1996; Hooghe, 1996b; Nanetti, 1996).

In addition, local political structures within the member states have shaped structural fund allocations. For example, there is evidence that the partisan composition of the regional authorities matters for the allocation of structural funds (Kemmerling and Bodenstein, 2006; Bouvet and Dall'Erba, 2010). Dellmuth and Stoffel (2012) find that electoral incentives of local politicians influenced how structural funds were distributed by German local governments in the 2000–6 period. And, Charron (2016) found that regions with greater regional autonomy as well as records of better quality government were more able to secure resources from the structural funds in the 2007–13 period than less autonomous and less well-governed regions.

The EU may be some way from being a 'Europe of regions', where regions replace nation-states as the main territorial unit of the EU political system. Nevertheless, cohesion policies have pushed the EU towards a 'Europe *with* the regions' (Hooghe and Marks, 1996). Regions are active players in the EU

policy-making process, alongside national governments and the Commission, and the redistribution of resources directly to subnational territorial units is an integral part of the EU political system.

Other Expenditure Policies

Table 9.2 shows the breakdown of planned expenditure on other policies (not on agriculture or cohesion) in the 2021–7 multiannual budget. The two largest items of expenditure here are research and neighbourhood/development policy, which together make up about 50 percent of budget, with most of the remaining funds going to education, the European Space Programme, transport, and migration and border management.

Table 9.2 Planned expenditure on other policies, 2021–7

Policy area	Budget for 2021-7, 2018 prices (€mil.)	% of EU budget	% of other policies
Research and Innovation			
Research (Horizon Europe + Euratom + ITER)	83,159	7.74	27.94
European strategic instruments			
Connecting Europe Facility - Transport	11,384	1.06	3.82
Connecting Europe Facility - Energy	5,180	0.48	1.74
Connecting Europe Facility - Digital	1,832	0.17	0.62
Digital Europe Programme	6,761	0.63	2.27
InvestEU fund	2,800	0.26	0.94
Single Market			
Single Market Programme	3,735	0.35	1.25
Co-operation on taxation and customs	1,082	0.10	0.36
Anti-Fraud Programme	161	0.01	0.05
Space			
European Space Programme	13,202	1.23	4.44

Recovery and Resilience (not covered by NGEU)

Health policy co-operation (EU4Health)	2,170	0.20	0.73
Union Civil Protection Mechanism (rescEU)	1,106	0.10	0.37
Recovery and Resilience Facility	767	0.07	0.26

Investing in People, Social Cohesion and Values (not covered by cohesion funds)

Education (Erasmus+)	21,708	2.02	7.29
Creative Europe	1,642	0.15	0.55
European Solidarity Corps	895	0.08	0.30
Justice, Rights and Values	841	0.08	0.28

Agriculture and Maritime Policy (not covered by agricultural support)

European Maritime, Fisheries and Aquaculture fund	5,430	0.51	1.82
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Environment and Climate Action

Just Transition Fund	7,500	0.70	2.52
Programme for Environment and Climate Action (LIFE)	4,812	0.45	1.62

Migration and Border Management

Asylum, Migration and Integration Fund	8,705	0.81	2.92
Integrated Border Management Fund	5,505	0.51	1.85

Security and Defence

Internal Security Fund	1,705	0.16	0.57
Nuclear safety and decommissioning	1,045	0.10	0.35
European Defence Fund	7,014	0.65	2.36
Military Mobility	1,500	0.14	0.50

Neighbourhood and the World

Neighbourhood, Development and International Co-operation	70,800	6.59	23.79
Humanitarian Aid	10,260	0.96	3.45
Common Foreign and Security Policy	2,375	0.22	0.80
Pre-Accession Assistance	12,565	1.17	4.22
Total	297,641	27.71	
Total EU budget	1,074,300		

Source: EU Commission. Amounts exclude expenditure on Decentralized Agencies.

Research

EU expenditure on research took off in the 1980s, primarily because of concerns that Europe was falling behind the level of technological development in the United States and Japan. In 1982, the Commission and the 'big-twelve' European high-technology firms (including Philips, Siemens, Thomson and Olivetti) persuaded the governments to agree to the ESPRIT programme (European Strategic Programme for Research and Development in Information Technologies) (cf. Sandholtz, 1992). The success of ESPRIT enabled the Commission to secure funding for a number of parallel programmes. In the 2021–7 framework programme, the budget for research, mainly through the Horizon Europe programme, increased to a massive €83 billion over the seven-year period (at 2018 prices), with an additional €5 billion allocated to research in the Next Generation Europe package.

The funds for these programmes go to an agreed set of research categories and academic and private researchers bid for funding. In terms of the disciplines covered, the Horizon Europe programme provides resources mainly in the following areas: digital, industry and space (€15.3 billion); climate, energy and mobility (€15.1 billion); food, bioeconomy, natural resources, agriculture and environment (€9.0 billion); health (€8.2 billion); culture, creativity and inclusive societies (€2.3 billion); and civil security for society (€1.6 billion).

The total amount of resources spent on research and the amount for each category are set via Commission-Council-European Parliament negotiations. The research framework programmes are adopted under the co-decision/ordinary legislative procedure. In the Council, the governments seek to ensure funding for areas of research in which their own universities, public

institutions and firms have a particular interest. For example, Germany and France are home to Europe's leading biotechnology firms, have consistently argued that investment in biotechnology research is essential if Europe is to remain competitive with the United States, China and India. Nevertheless, governments are also careful to restrain the EU budget in this area, and usually reduce the amounts proposed by the Commission. The European Parliament, in contrast, usually reinstates the amounts proposed by the Commission, but also tries to spread resources more evenly across the EU, rather than allowing the member states with the best universities (such as the Germany, France, the Netherlands and Sweden) to gain too large a share of research spending.

Nevertheless, the role of the Commission in the allocation of research funds has reduced over time. In particular, the European Research Council (ERC) was established in 2005, modelled in part on the National Science Foundation in the United States and the various funding bodies in the EU member states. The ERC grants funds to individual and teams of researchers on a competitive basis, via a system of international peer-review, with a focus on excellence. The ERC was a significant break from the traditional method of allocating EU research funds via programmes controlled by the Commission. Also, the ERC budget was increased significantly, from €7.5 billion in the 2007–13 multiannual budget, to €13 billion in the 2014–20 budget, to €16 billion in the 2021–7 budget. Then, alongside the ERC, in 2021, the EU created the European Innovation Council (EIC), with a budget of €10.6 billion to support connections between research and economic innovation and growth.

Other Spending Policies

One of the other main area of EU expenditure has been promoting social integration in Europe. For example, the EU spends about €3 billion each year on educational exchanges, cross-border vocational training schemes and co-operation on youth policies. A major part of this funding goes to the Erasmus+ programme, which has enabled a significant proportion of university students (the future European intellectual and professional elite) to study in another member state. And in 2019, the EU launched the 'European Universities Initiative', to build alliances between groups of universities across Europe, to promote student and academic exchanges, and joint teaching and research programmes.

As Brigid Laffan (1997: 129–30) pointed out in the late 1990s: 'many obscure budgetary lines are used to create an embryonic civil society that is transnational

in nature and to counteract the excessive representation of producer groups in the Union's governance structures'. For example, the EU funds the 'social dialogue' between European-level labour and employers' peak associations, and the activities of the European associations representing consumers and environmental groups (see Chapter 7). Several member states have questioned this use of EU resources, but the Commission argues that the funds are essential to establish a balanced policy community in Brussels, where public and private interests have equal access to decision-makers. Similarly, the European Parliament has used its budgetary powers to secure funds for groups with close political links to the political groups or individual MEPs.

In sum, the primary justification for EU expenditure on research, space, infrastructure and culture is not the redistribution of resources from rich to poor. These policies are mainly supply-side measures to foster growth and employment. On the one hand, they enable resources to be used more productively within the EU, and hence complement the goals of cohesion policy. On the other hand, they aim to increase EU competitiveness *vis-à-vis* the United States and Asia. However, a by-product of EU expenditure on research is the creation of a supranational technocracy around the Commission. As a result, EU research policy also involves a redistribution of resources from taxpayers to the scientific community. Similarly, expenditure on civil society measures and social integration can be understood as redistribution from taxpayers to NGOs in Brussels and cultural and social interests in the member states.

Explaining EU Expenditure Policies

There are three interrelated questions about EU expenditure policies that need to be addressed:

- Why does the EU tax and spend to the amount that it does – in particular, why is the EU budget so small?
- Why is the bulk of expenditure in two main areas – agriculture and cohesion policy – and what explains the decline of agriculture and the rise of cohesion spending?
- Why are some individuals, regions and member states net winners, while others are net losers?

When answering these questions, academic analyses have focused on two main explanations: intergovernmental bargaining and supranational politics.

Intergovernmental Bargaining: National Cost-Benefit Calculations

The design of the EU budget is a product of a series of intergovernmental bargains between the governments (e.g. Carrubba, 1997; Webber, 1999; Rodden, 2002; Mattila, 2006; Blavoukas and Pagoulatos, 2011; Hagemann, 2012). One way of thinking about this is that the EU budget is an equilibrium outcome of a bargaining game between the governments, in which each government is willing to pay into/take out of the budget exactly how much it believes it will gain/lose from the EU's non-spending policies (such as the single market and monetary union). As a result, changes in the expenditure policies of the EU, and particularly expansions of the budget and increases in spending on the main policy areas, occur because the losers from the process of economic integration and regulation demand fiscal compensation (Pollack, 1995: 363–73; cf. Moravcsik, 1993, 1998). Equally, cuts in EU expenditure, particularly on the CAP, proceed only if those states which benefit most from the budget – such as France in the case of the CAP – can be 'bought off' with other policies. If other policy benefits are not available, reform is virtually impossible (cf. Akrill, 2000b; Sheingate, 2000). In addition, the holders of the Council presidency at the time of the multiannual framework programme negotiations tend to be able to use their proposal power to secure a larger share of the budget (Aksoy, 2010).

From this intergovernmental bargaining perspective, the CAP was originally set up in the Treaty of Rome to support French farmers in return for German access to French industrial markets. Similarly, the ERDF was established as part of the package that secured British and Irish accession to the EU. In the Single European Act, the doubling of the structural funds in 1988 was explicitly linked to the completion of the single market, which Spain, Ireland, Greece and Portugal argued would primarily benefit the core economies of the EU at the expense of those on the periphery. And, in the Maastricht Treaty, the cohesion fund was Spain's price for supporting a German-oriented design of economic and monetary union.

Citi (2015) analysed three key factors behind the changing relative sizes of the key expenditure categories in the EU budget between 1979 and 2013: the changing ideological preferences of the governments, the ability of governments to form winning coalitions (based on their bargaining power under QMV, which is used to adopt the annual budget) and the enlargement of the EU to poorer 'cohesion' countries (in the 1980s and then in the 2000s). For example, he found that when the Council shifted to the left (in the late 1990s), the EU budget increased, and when it moved to the right (in the 2000s) it reduced. Also, enlargement to the cohesion states led to a significant change in the allocation of resources, away from agricultural spending to cohesion spending.

Other factors also play a part. For example, if a member state is a net exporter to the rest of the EU, its industries will be able to secure new markets as a result of the single market. Conversely, if a state is net importer from the other member states, its production will be predominantly for the national market and its industries will suffer under competitive pressure from importers as a result of trade liberalization. Figure 9.4 consequently shows that in the four multiannual budgets between 1993 and 2020, the more a member state was a net importer from the rest of the EU when the programmes were adopted (in 1992, 1999, 2006 and 2013, respectively), the more the member state received from the EU budget, while the more a member state was a net exporter to the rest of the EU, the more it was willing to pay into the budget – with the notable exception of Ireland in the 1993–9 and 2000–6 periods, which was a large net exporter and a large budget recipient. Nevertheless, as shown by the R-squared statistics (which measures the proportion of the variance in the dependent variable explained by the independent variable) across the four periods (0.60 for 1993–9, 0.40 for 2000–6, 0.28 for 2007–13, and 0.05 for 2014–20), the power of this instrumental cost-benefit explanation of EU expenditure has declined over time.

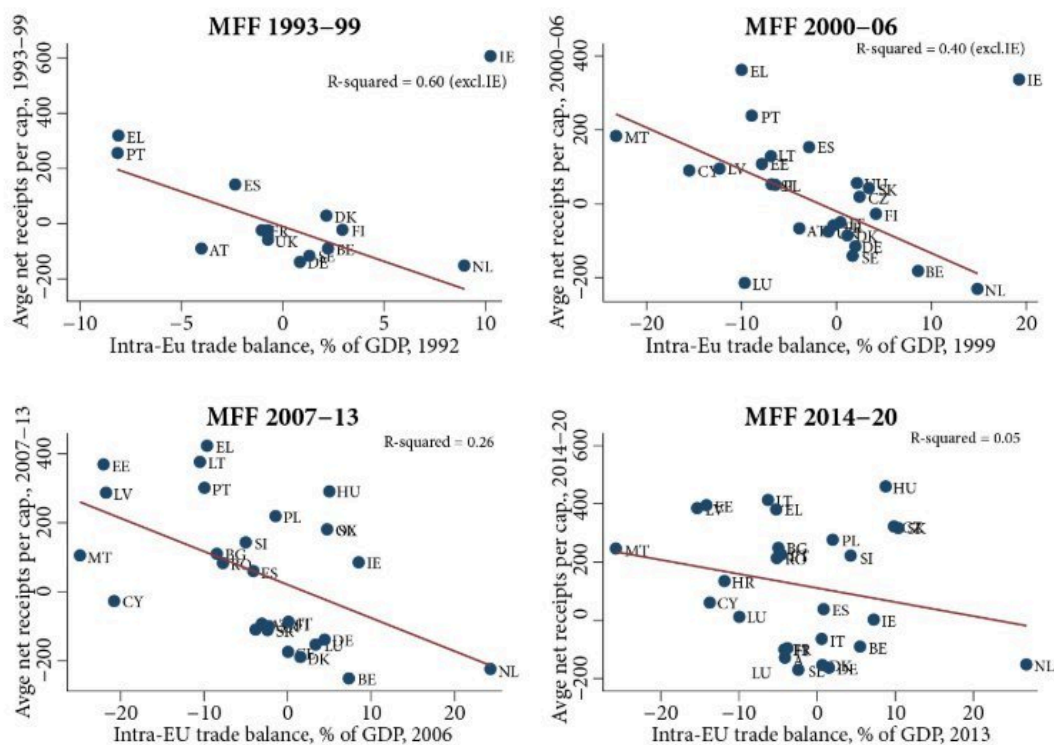


Figure 9.4 EU trade balances and net budgetary contributions

Source: Calculated from Commission annual budget reports and Eurostat data.

A starkly contrasting explanation of the EU budget outcomes is presented in Figure 9.5. Here, the focus is on a solidarity-based explanation: that resources are primarily transferred from richer to poorer states (e.g. De La Fuente and Domenech, 2001). The GDP per capita of a member state explains a significant amount of who got what under both the same four multiannual budgets. The big outliers in the earlier periods are Ireland and Greece, who are significantly 'above the line'. This result can be explained in part by the bargaining power of these states in budgetary negotiations (Rodden, 2002; Mattila, 2006). Because MFFs require unanimous agreement between all the governments, every state has equal bargaining power, regardless of how small they are. This means that any state which is a major net recipient under an existing budget can threaten to block agreement unless it continues to receive funds from the EU. Ireland and Greece were major recipients of EU cohesion funds in the 1993–9 deal. As a result, when negotiating the new agreement, they were able to secure benefits which exceeded how much these two states reasonably could have expected to receive given their GDP per capita or how well they do, in terms of trade balances, in the single market. Hence, despite Ireland's dramatic increase in per capita GDP in the 1990s, which should have made it a net contributor rather

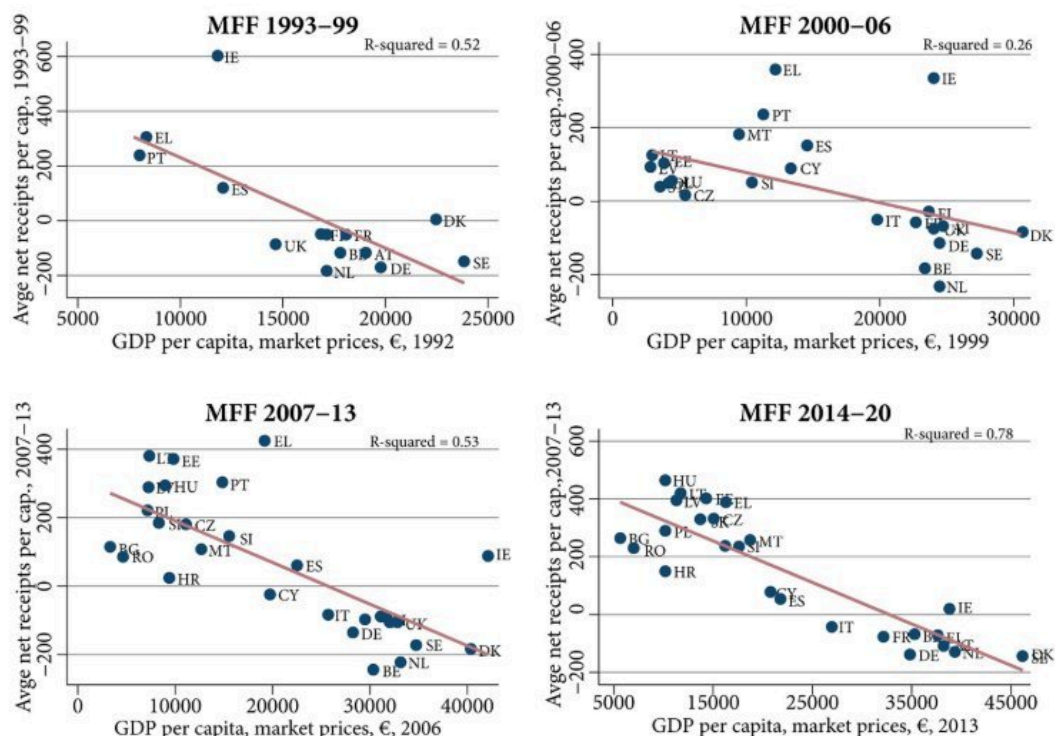


Figure 9.5 Solidarity and net budgetary contributions

Source: Calculated from Commission annual budget reports and Eurostat data. Regression lines and R-squared calculations exclude Luxembourg.

than a recipient, Ireland was able to maintain many of its cohesion and agricultural subsidies. Ireland's net receipts from the budget per capita declined in the 2007–13 budget, but nonetheless still received significantly above the average, and it was not until the 2014–20 budget that Ireland's net receipts per capita reflected Ireland's GDP per capita.

Interestingly, while the power of the (single market income/trade) cost-benefit explanation reduced over these four periods, the power of the solidarity-based explanation initially declined and then has risen significantly. GDP per capita was a good predictor of budgetary receipts per capita before Eastern Enlargement (with an R-squared of 0.52 for 1993–9). The first post-enlargement budget (2000–6) preserved many of the benefits that the old 'cohesion states' (Italy, Spain, Portugal, Greece and Ireland) had secured, at the expense of the poorer new member states, which meant that overall, GDP per capita was not such a good predictor of net receipts per capita in this period (with an R-squared of 0.26). Nevertheless, since then, GDP per capita has increasingly correlated with net receipts per capita (with an R-squared of 0.53 for the 2007–13 budget, and then an R-squared on 0.78 for the 2014–20 budget). In other words, these simple correlations suggest that EU expenditure has shifted over time, from a vehicle for delivering 'side-payments' to member states who do not benefit sufficiently from the single market and/or the Euro, to a 'welfare policy' for redistributing wealth from richer countries to poorer countries. In fact, looking across the 1979–2014 period, Citi and Justesen (2020) find that changes in annual net distributional balances from the EU between the member states broadly reflect changes in the EU member states' economic positions, and in particular changing levels of income inequality and unemployment. From this perspective, the EU budget has operated to reduce economic disparities both between and within the EU member states.

Nevertheless, a slightly different intergovernmental dynamic played out in the negotiation of the 2021–7 budget and the Next Generation EU 'recovery fund'. The member states agreed that the EU needed a new financial instrument to support member states whose economies were most affected by the Covid-19 pandemic. France, Italy, Spain, Belgium, Greece, Portugal, Ireland, Slovenia and Luxemburg supported a proposal to allow the EU to issue joint public debt (bonds) for the first time. This plan was opposed by Germany and a ground of states who became known as the 'frugal four': Austria, Sweden, the Netherlands and Denmark. Eventually a Franco-German deal was struck, which formed the basis of the plan the Commission eventually proposed: of a fund with €750 billion (at 2020 prices), which would combine grants and loans, would be funded by EU bonds, and would be integrated into the multiannual EU financial framework.

Supranational Politics: Private Interests, Policy Entrepreneurship and Institutional Rules

The main alternative explanation to the intergovernmental view focuses on the role of interest groups, the Commission and decision-making rules in shaping EU expenditure policies.

Starting with interest groups, the benefits of EU expenditure policies are reaped at the individual level or by groups at a substate level. The benefits accruing to individual farmers under the CAP, individual recipient regions under cohesion policies and individual scientists under EU research policy are far greater than the costs to individual taxpayers in the EU. As a result, farmers have a powerful lobbying voice in Brussels (through COPA), and have campaigned continuously against reform of the CAP. Similarly, a key determinant of whether a regional authority set up an office in Brussels in the 1990s was whether it qualified for support under the main objectives of the EU's regional policies (cf. Keating and Jones, 1995; Marks et al., 1996). However, some of the poorer and peripheral regions lack the bureaucratic capacity to lobby effectively in Brussels, and hence make the most of their opportunities to form 'partnerships' with the Commission (Bailey and De Propriis, 2002). Non-European multinational firms have been able to secure participation research and development programmes through continued lobbying of the Commission and member state governments (Wyatt-Walker, 1995). Also, private consultants and lobbying firms in Brussels sell advice to numerous private and public interest groups on securing a grant from the EU budget (Laffan, 1997: 90–3).

Furthermore, the expenditure game is not simply a battle between governments or interest groups. As the referee of this game, the Commission can use its agenda-setting powers to shape policy outcomes and promote its institutional interests (Peters, 1992, 1994; Garrett and Tsebelis, 1996; Pollack, 1997). In the everyday bargaining process of EU politics, to secure the approval of its policy proposals by the Council and the European Parliament, the Commission has an incentive to support key governments and influential societal groups and private interests. The Commission has played a central role in shaping the two sets of CAP reforms as well as the development of cohesion and research policies (e.g. Coleman, 1998; Skogstad, 1998; Daugbjerg, 2003). For example, during the 1993 negotiations on reform of the structural funds the Commission successfully achieved a more substantial package of funds for the regions than most governments had in mind at the beginning of the negotiations (Hooghe, 1996a; Marks, 1996).

Finally, the decision-making governing expenditure policies have made a difference. The annual budgetary procedure provides for QMV in the Council.

QMV gives the Commission more agenda-setting power than unanimity (see Chapter 3). As a result, within the overall constraints of the MFF, this has enabled the Commission to have a significant influence over policy outcomes. In contrast, where the European Parliament is concerned, the adoption of the annual budget by a version of the co-decision procedure has enabled the European Parliament to influence the shape of the budget although attempts by the Parliament to increase the overall size of the annual budget have been largely unsuccessful (Benedetto, 2013). Nevertheless, under the multiannual budget procedure established by the Lisbon Treaty, the European Parliament has the power to veto the overall framework programme package, which enabled the European Parliament to extract some significant concessions from the member states in 2013 (Benedetto, 2019).

Furthermore, the strict 'balanced-budget' rule – whereby EU expenditure must not exceed EU income – places a significant institutional constraint on the evolution of EU budgetary policies. Having to reach an agreement without such a rule would probably lead to a rapid expansion of the EU budget, as each member state would come to the table with a separate demand – rather like every cabinet ministers asking the finance minister for funds for their particular projects, which has led to budgetary expansion in many countries. When there is a tight fiscal constraint, competing budgetary claims have to be balanced in some way. For example, Akrill (2000a) points out that the balanced-budget rule and the expenditure ceiling of 1 per cent of EU GNP forced the member states to accept CAP reform in the early 1990s. Without the budgetary ceiling, it would have been easier for the member states to allow agriculture spending to continue to rise than to face up to the need for reform.

Conclusion: A Set of Redistributive Bargains

As in other democratic political systems, the dominant outcome of EU public expenditure policies is redistribution. This is an inevitable product of political bargaining in a democratic polity. Once redistributive policies are adopted they are difficult to reform. Redistribution creates entrenched interests that are willing to spend resources to protect their subsidies. The CAP would be easier to reform if it were purely about price stability, as would cohesion policy if it were purely about infrastructure investment. The fact that these policies were originally set up as welfare policies for farmers and regions, respectively, means that it has been difficult to secure fundamental reforms, particularly given the need for unanimity between the member states to agree the multiannual budgets. That said, the net

contributor states have mobilized, and have managed to enforce a budget which has remained at just above 1 per cent of EU GDP, against pressure from the Commission and many of the poorer states for significant increases.

The result is a set of redistributive bargains: between the larger economies and the smaller economies, as well as between the net recipient states and groups and the net contributor states and taxpayers. But, three major external shocks have transformed EU expenditure policies. First, the enlargement of the EU to Central and Eastern Europe has meant the addition of a large number of poorer countries with significant agricultural sectors. Second, the great recession of 2008–10 and the resulting sovereign debt crisis have meant that governments have been reluctant to allow the EU budget to expand while national budgets have been contracting. Third, the Covid-19 pandemic and the resulting economic shock enabled the member states to allow the EU to borrow money on global markets to fund expenditure alongside the EU budget, to support the member states worst hit by the pandemic. As a result, these shocks have gradually reshaped EU spending, away from agricultural price support towards redistribution from richer to poor member states as well as a set of supply-side policies, such as infrastructure and research spending, to increase the efficiency, productivity and competitiveness of the EU economy.

