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How to blow a trillion euros
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The start of two years of argument over the European Union budget

ROMANO PRODI, president of the European Commission, may not be the most articulate of men, but he has a wonderful range of facial expressions. Discuss the size of the European Union budget with him, and his face crumples into a picture of exaggerated despair. For if, like Mr Prodi, you harbour a not-so-secret ambition that the commission should one day turn into a genuine European government, the ceiling on its budget of 1.27% of the EU's GDP is pathetically inadequate (and, at present, the budget is well below the ceiling). How can the Union turn itself into a superstate on less than €120 billion ($150 billion) a year?

Even worse, from Mr Prodi’s point of view, is the attitude of many EU member governments. Far from boosting the commission's spending power, they are intent on cutting it back. The six biggest net contributors to the budget—Germany, Britain, France, the Netherlands, Sweden and Austria—recently signed a letter demanding a budget of just 1% of GDP. On February 10th the commission will fire back, by issuing its own proposals for the next budgetary period, covering the years 2007 to 2013. It will suggest a budget equivalent to 1.24% of GDP. The difference may sound trifling. But add the seven years together and factor in growth and inflation, and the commission is actually proposing to spend the serious sum of over a trillion euros, some €250 billion more than the tight-wads would like.

It does not help Mr Prodi’s argument that so much EU spending goes on projects that are wasteful, counter-productive and—as repeated reports from the Court of Auditors have shown—often fraudulent. The commission is proposing that, even by 2011, over a third of the budget should still go on subsidising farmers. Another third is to be set aside for aid to poorer European regions—subsidies characterised in a recent World Bank report as “ineffective, based on incorrect or at least unsubstantiated economic theory, badly designed, poorly carried out and in most cases a source of wrong incentives”. As much as 6% will go on administration, four times what is earmarked for policies under the heading of “freedom, security and justice”.

If Mr Prodi were ever to commit the mistake of saying what he actually thinks, he would surely admit that these spending priorities are stupid. Indeed, a recent report that he himself commissioned from a group of economic experts, headed by André Sapir, a Belgian academic, says as much. The Sapir report said the EU budget was an “historical relic” because of its emphasis on outdated and irrelevant policies such as farm subsidies, and called for “a major cut in agricultural spending” to finance newer priorities such as education and research.
Great in theory. But Mr Prodi knows that any proposal to cut agricultural subsidies would be dead on arrival, killed instantly by the biggest beneficiaries, notably France. The eminently sensible suggestion in the Sapir report that aid to poorer regions should in future go above all to the eight ex-communist central European countries joining the EU in May will also not be endorsed by the commission. Instead, Michel Barnier, the commissioner for the regions, proposes to split regional aid 50:50 between new and existing members. The argument for this is purely political. The new seven-year budget has to be approved unanimously. The commission knows this means buying off countries and regions that do well out of regional aid today—notably Spain, Greece, eastern Germany and southern Italy.

Mr Barnier's plans for regional aid underline two fundamental truths about the EU's budget-making process. The first is that the fate of the budget ultimately lies in the hands of the 25 governments that do the bargaining. The commission is merely firing the starting-gun for a two-year haggle. The second is that the underlying tension in this budget round will be between the mostly poor new members, which will surely all be net beneficiaries from the budget, and the mostly rich existing members, which will mostly end up losing from it.

The paymaster calls the tune, at last

Even in normal times, EU budget negotiations are formidably tricky. But these are not normal times. Over the past year, the Union has been split by a series of bitter political disputes. There was the row over Iraq, which pitted Britain, Spain, Italy and much of central Europe against an "old Europe" led by France and Germany. Then there was the failure to agree on a new EU constitution last month, when once again Poland and Spain were pitted against France and Germany. The Germans have recently been dropping none-too-subtle hints that the Poles and the Spaniards cannot expect more big cheques from Germany if they keep on blocking the constitution.

The determination in Berlin that EU spending must be restrained has been stiffened by the commission's launch of a lawsuit at the European Court of Justice to force France and Germany to cut their budget deficits so as to comply with the stability and growth pact. The Germans think it is cheeky of the commission to demand painful cuts in domestic spending, while at the same time asking for a rise in the subsidies that they, as the Union's paymasters, transfer to everybody else.

Beyond the disputes over this or that line in the budget proposals lies an unpleasant reality. Several years of lousy economic growth have dented both the confidence and the generosity of the Union's richest countries—especially Germany. Loukas Tsoukalis, author of a recent book on the EU, says that "in the old days you would have solved the constitutional impasse just by writing the Poles a large cheque. But you can't do that any more." In the old days, there were also bitter fights over the EU budget (remember Margaret Thatcher). But they often had a slightly ritualistic quality and always got settled in the end, usually at three in the morning at a summit of bleary-eyed leaders, with Germany footing much of the bill. Such a happy outcome is no longer guaranteed.