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ANALYSIS

The community budget and the Lisbon Strategy: a crisis in terms of growth or meaning?

Discussions relating to the financial framework of the European Union for the "2007-2013 Period" have led some analysts to call into question once again the structure of the Community budget, considering it to be excessively directed towards solidarity expenditure (CAP, Structural Funds) and insufficiently directed towards the "economic expenditure for the future" (education, R&D, etc.) that the Lisbon Strategy seeks to increase. This calling into question has potentially strong repercussions for France to the extent that our country is the main beneficiary of the Common Agricultural Policy (nearly 10 billion euros per year, i.e. 23% of the total) and the sixth beneficiary of the regional policy (16 billion euros between 2000 and 2006, i.e. 7% of the total).

Though the financial framework adopted in May 2006[1] already bears the hallmarks of a desire to "Lisbonise" Community finances, it has not drastically changed the structure of the EU budget. The controversies that its genesis gave rise to, on the other hand, have contributed to obscuring the nature and aims of this budget. In this context, clarification would appear inevitable, and all the more so since the agreement on the "2007-2013 financial framework" provides for European institutions reopening the debate in "2008-2009". Recent declarations by the European Commissioner responsible for the budget[2] indicate that serious thinking is now being initiated at a Community level and the European Commission should present a "specification chart" before the end of 2006.

Provided it is based on an interpretation guide that lists all national and Community public expenses, this clarification could facilitate a better understanding of the links between the EU budget and the Lisbon Strategy.

The drive to adapt the "2007-2013 financial framework" to the priorities of the Lisbon Strategy has led to a structure reform that remains fairly limited in scope

The drive to adapt the EU budget structure to the objectives and priorities of the Lisbon Strategy will not have a major effect on the next European budget. An adaptation of the Community financial framework has indeed taken place, but it was carried out on the basis of reorganisations of limited scope between the different sections of the budget and within those different sections.

The reorganisation between the sections does not call into question the balances for the period 2000-2006

A comparison of European interinstitutional trade-offs in 2007-2013 and 2000-2006 shows:

- sizeable developments if one sticks to the growth rates for the different budgetary masses between 2006 and 2013: "competitiveness": +69%; "cohesion": +20%; "natural resources/agriculture": -8%;
- a significant increase in the share allocated to expenditure in the "competitiveness" section, which will exceed 10% of the budget in 2013 (as against 6.6% in 2006);
- but still limited reorganisations between the sections, since "cohesion" and "natural resources/agriculture" expenditures continue to predominate greatly (78.6%, against 83%).

[1] The Interinstitutional Agreement on the 2007-2013 financial framework was adopted on 17 May 2006 and makes provision for 864,316 million euros of commitment appropriations for the whole period, i.e. 1.05% of the EU's GDP (see JOUEC 139/2 of 14.06.06).

[2] Dalia Grybauzkaité recently emphasised the "vital necessity" of "reforming European finances" to promote "economic competitiveness" more (see http://ec.europa.eu/commission_barroso/grybauskaite/speeches/FP_Krynica_05092006.pdf).

Table 1 – Community budget structure: share of different sections (commitment appropriations)

Budgetary sections (in percentage of total – 2004 prices)	2000-2006 average*	2006**	2007-2013 average	2013
1a Competitiveness (education, R&D, transport, etc.)	6.1% ***	6.6%	8.6%	10.2%
1b Cohesion (Structural and Cohesion Funds)	38.4%	32.1%	35.6%	35.7%
2 Natural resources (CAP, rural, fishing, environment)	44.5%	47.4%	43.0%	40.2%
3 Citizenship, freedom, security, justice	0.8%	0.9%	1.2%	1.5%
4 EU, global player (EDF excluded)	4.5%	6.5% ****	5.7%	6.3%
5 Administration	5.1%	5.6%	5.7%	6.0%
6 Reserves	0.005%	0.003%	-----	-----
7 Compensation	0.5%	0.9%	0.1%	0%

(*) These amounts include corrections made for inflation (2000-2006 financial prospects calculated in 2004 prices) and budgetary adjustments resulting from the *membership* of 10 new countries in 2004.
(**) These percentages refer back to those issued by the European Commissionner for budget Dalia Grybauzkaité
(***) Since Sections 1a and 3 are new, the figure-based comparison with the overall 2000-2006 budget provides orders of magnitude as a rough guide.
(****) Please note that this sum includes the so-called "pre-membership" expenditure, estimated at 3,455 million euros for 2006.
Sources: European Commission, JOUE, Centre d'analyse stratégique calculations (figures rounded off)

Reorganisations within these two main budgetary sections translate reorientations that remain limited

The objective of redirecting Community financing in support of the Lisbon Strategy has also been pursued within these two major socio-economic sections of the EU budget.

The desire for the internal reorganisation of Community financing has led to a reform of structural policy and cohesion. The first objective of this policy is still to ensure economic and social "convergence" within the EU (it concentrates 81.5% of the overall budget for Structural Funds). But its second objective, which will benefit from 15.9% of Structural Funds[3], is henceforth to support "regional competitiveness and employment", notably by financing training operations or innovative projects. Furthermore, this new "Objective 2" is intended indiscriminately for all EU regions that are not eligible for Objective 1 (no previous "zoning"), in such a way as to favour, first and foremost, the quality of development projects proposed in relation with the objectives of the Lisbon Strategy.

The desire for the internal reorganisation of Community financing has also led to the creation of a new European Agricultural Fund for Rural Development (EAFRD) which will mobilise 18.8% of "Section 2" resources. The EAFRD, which replaces the old European Agricultural Guidance and Guarantee Fund (EAGGF) –and which is not considered as a Structural Fund – is called upon to support the development of rural areas more directly. One of its three objectives is to promote "improving the competitiveness of agriculture and forestry by supporting restructuring, development and innovation"[4].

In total (and despite the changes implemented) three quarters of Community financing for the 2007-2013 period will benefit areas that are behind in development (Structural Funds – Objective 1) and the agricultural and rural sector. For some analysts, this structure does not sufficiently take into account the priority given to the Lisbon Strategy at a European level. But this type of analysis seems to proceed from an over-restrictive vision of this strategy which, in particular, chooses to overlook the contribution of "Community redistribution expenditure" to pursuing the objectives stated at Lisbon.

However, Community redistribution expenditure – which is a majority part of the EU budget – does contribute to implementing the Lisbon Strategy

In assessing the link between the Lisbon Strategy, the Community budget and its redistribution expenditure, two factors must be taken into account:

- In its aim, this expenditure also contributes to implementing the Lisbon Strategy, which cannot be reduced solely to an economic dimension;
- In its content, the "redistribution expenditure" supports projects and measures (training, R&D, etc.) that promote competitiveness, growth and employment.

Community redistribution expenditure also contributes to the social and economic objectives stated at Lisbon

The structure of the Community budget is the expression of a redistributive logic that is both political and social. It is, of course, always possible to call into question the political dimension of this redistributive logic, on the pretext that it responds to a succession of financial compromises between states (the ERDF, for example, was created to enable the United Kingdom to receive part of Community expenses).

[3] The new "Objective 3" is devoted to regional cooperation projects and has been allocated 2.52% of the overall budget.
[4] See regulation 1698/2005 of the Council, creating the EAFRD, JOUE L277/9 of 21.10.05.

From a functional point of view, the structure of the EU budget reflects – above all – a drive to provide social support for European economic integration. The creation of the CAP is thus linked to the setting up of the customs union: without protectionism, European agriculture would have had difficulty developing; without centralised management, the national distribution of agricultural customs duty and other public aid could have given rise to the distortion of competition. The sum total of Structural Funds was doubled in 1988, then increased again by nearly 50% in 1993 to face up to the membership of southern Europe countries, then to facilitate their adaptation to the Single Market. As for the Cohesion Fund, this was created to help southern countries and Ireland move over to the euro. As such, the Community budget's foremost purpose is to contribute to maintaining the EU's social cohesion by correcting the potentially inegalitarian effects of market dynamics that are both internal (the progressive creation of a Single Market) and external (the EU's openness to trade).

Table 2 – 2007-2013 Community financing devoted to measures and projects for training, R&D, etc.

2004 Price	Share allocated to "Lisbon projects"	Planned expenditure (millions of euros)	Share of EU budget	Share of EU's economic and social expenditure (Sections 1 and 2)
Section "1a"	100%	74,098	8.6%	9.8%
Section "1b" (Structural Funds)	50%	154,020.5	17.8%	20.4%
EAFRD (in Section 2)	"at least 10%"	6,975	0.8%	0.9%
Total	----	235,093.5	27.2%	32.1%

Sources: European Commission, JOUE, Centre d'analyse stratégique calculations (figures rounded off)

Recalling this historical and functional evidence does not lead to the conclusion that the EU budget is ill-adapted to the objectives of the Lisbon Strategy. In effect, the latter closely combines social and economic objectives and seeks to strengthen EU competitiveness and cohesion on the basis of a mixed approach. It is often emphasised that this mixed approach symbolises the European development model as compared to those of its American and Asian competitors. In this context, the large share of the EU budget constituted by redistribution expenditure is not antagonistic to the principle of promoting the Lisbon Strategy.

The projects to improve human capital, R&D and innovation are not only financed by the competitiveness" section of the EU budget

For the 2007-2013 period, the part played by Structural Funds will be "targeted on EU priorities with regard to competitiveness and job creation"[5], that is, on expenditure that conforms to the "2005-2008 guidelines adopted in the framework of the Lisbon Strategy"[6]. As such, the aim of this expenditure is to gather together at least 60% of the planned financing for the "convergence" Objective and 75% of the planned financing for the "competitiveness" Objective[7]. During the 2000-2006 period, "about half" of projects financed by Structural Funds have already "contributed directly to the objectives set in terms of growth and employment"[8].

The financing allocated to the EAFRD should benefit measures to improve competitiveness in the agricultural and forestry sectors by "at least 10%" (and at best 60%): in particular, these measures aim to "improve understanding and strengthen human capital" and to "restructure and develop physical capital and innovation"[9].

When taking structural and agricultural expenditure into account, it can be observed that the "Lisbonisation" of the EU budget goes way beyond "Section 1a" alone. Even on the basis of low hypotheses for the 2007-2013 period (50% of Structural Funds and only 10% of the EAFRD), the share of Community financing benefiting from measures and projects that conform with Lisbon Strategy priorities should amount to more than a quarter of the EU budget, and even nearly a third if one sticks to economic and social expenditure alone.

Considering the means granted to promoting the Lisbon Strategy should lead to reliance on an aggregated vision of European public financing

Beyond discussions of the characteristics of this or that expense, calls to adapt the EU budget to Lisbon Strategy priorities appear partial if they only take Community financing into account. By its very nature, the Lisbon Strategy should, in effect, lead to developing an integrating vision at Community and national level: based on an "Open Method of Coordination", it mobilises first and foremost the EU states and fixes objectives that, for the most part, can only be achieved by national actions. The implementation of the Lisbon Strategy depends on a "Community programme", of which the definition of the "2007-2013 financial framework" was part, but also – and above all – on "national reform programmes" applied by the 25 governments. That being the case, evaluating the adequacy of pubic budgetary efforts in relation to the objectives of the Lisbon Strategy should logically encourage reliance on an aggregated vision of European expenditure.

[5] See Article 9.3 of the new general regulation on Structural Funds, JOUE, 31.07.06.
[6] This expenditure mainly concerns R&D, innovation, company spirit; the information society; transport and energy; training adaptation and integration of human resources (see Appendix 4 of the new general regulation on Structural Funds).
[7] These figure-based objectives, however, do not concern new member countries who will receive half of Structural Funds.
[8] See European Union, 2005 Financial Report, OOPEC 2006.
[9] For a complete list of these measures, see Title IV of the regulation creating the EAFRD, op. cit.

Through an aggregated vision of European public expenditure, it can be observed that the structure of this expenditure is in general conformity with Lisbon Strategy priorities

It is by reasoning in aggregated terms that one can evaluate the adequacy of European public financing in relation to Lisbon Strategy priorities, not by only taking into account the Community budget. This necessity is, for example, even more obvious when it comes to R&D, since the objective of 3% of GDP fixed at Lisbon directly concerns member states (and even their companies, for 2/3 of this outlay).

By relying on this aggregated vision, one can observe that the present hierarchy of European public financing corresponds more or less to the priorities established by the EU: in fact, agriculture benefits from a level of public spending that is much lower than that granted to R&D and education. Such an observation does not, of course, exclude subsequent adjustments, but it helps one put into perspective the criticisms to which the Community budget has fallen victim.

An aggregated vision of European public expenditure may usefully feed into the forthcoming debate on the correct level of financing for Lisbon Strategy priorities

Promoting such an aggregated vision of European public expenditure helps both widen and deepen the debate on financing the social and economic priorities identified by the Lisbon Strategy.

Table 3 – Aggregated public expenditure for agriculture, R&D and education

2005	Community budget (as a percentage of GDP)	National budgets (as a percentage of GDP)	EU Total (as a percentage of GDP)
Agriculture	0.39%*	0.16%**	0.55%
R&D	0.04%	0.63%	0.677%
Education / Training	0.007%***	5.24%****	5.25%

(*) This amount, like the following, corresponds to expenditure that was actually carried out by the EU in 2005.
(**) The national public expenditures for agriculture taken into account are those that are considered as state aid by the European Commission. Public education expenditures in the agricultural sector are not included.
(***) Here, the estimated amount corresponds solely to "education and training" expenditure, which in 2005 represented approximately 74% of the "education and culture" item.
(****) 2005 public education expenditure for EU countries fluctuated between 2.7% (Greece) and 7.9% (Denmark) of GDP (France: 6,2%).
Sources: European Commission, JOUE, Centre d'Analyse Stratégique calculations (figures rounded off)

In the light of the results, some will – for example – deem it preferable to concentrate certain financing more at Community level to make good use of a "lever effect": this prospect will appear even more desirable to them since the Lisbon Strategy counts to a great extent on the endogenous growth resulting from the accumulation of human, technical and physical capital and the externalities that ensue. Such a possibility will be brought up for R&D in particular, to strengthen cooperation between researchers and encourage the dissemination of their results. Conversely, there might be some question of renationalising – albeit partially – the financing of certain Community policies.

On the other hand, there will be those who stress that the "lever effect" remains limited in practice. They will insist on the importance of the Community budget's redistributive functions, which is even stronger in an EU of 25 with increased social and economic heterogeneousness. Lastly, they will wonder about the possibility and necessity of transforming a budget based on a logic of redistribution – benefiting precise areas and sectors – into a budget of intervention, supporting production factors as a matter of priority.

In all events and circumstances, this discussion will have to take into account the political, legal and technical context in which public expenditure is carried out: thus, Community management of public aid to farmers will proceed from a concern to avoid the distortion of competition between states as much as from its direct links with common trade policy (fixing and redistributing agricultural customs duty). It will have to rely on an aggregated vision which could be extended beyond the Lisbon Strategy to integrate all expenditure that is covered by a joint policy (e.g. as regards security and defence).

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