

## No. 179 EU Budget Reform: How to Spend It\*

What does the EU actually do with all of the money at its disposal? If you ask the ‘man on the street’ you get the following answer: most of the money goes to agricultural subsidies. Some people may also recall building site boards that refer to financial support from the EU’s regional and structural policy.

Public perception is actually spot on in this case, as most of the EU budget is spent on precisely these two areas. Between 2014 and 2020 EU expenditure will total €960 billion, or annual spending of roughly €137 billion per year. 29 percent of this sum will be spent on agricultural subsidies and 34 percent will go to regional structural policy projects.

Agricultural subsidies are widely recognised as flawed, but what about regional and structural policy? One could assume that this policy aims to foster the economic development of poorer member states. However, that only accounts for part of the money. Large amounts are also used to fund projects in prosperous member states such as, for example, the construction of a visitor center on the historical battlefield in Lower Saxony’s Kalkriese. The Roman general Varus and his legions suffered a crushing defeat at the hands of the Teutons on this battlefield 2,000 years ago and the EU contributed €1.5 million to the construction of the visitor centre. Another example is a project to develop economic and social structures in the north of Dortmund. Here the EU invested €10 million in the construction of neighbourhood centres and in improving a dilapidated marketplace. In Pforzheim, a city in one of the wealthiest regions in Germany, an indoor swimming pool, which was converted into a creative centre for entrepreneurs, with hypermodern office spaces, received €3.2 million in EU funding. And the list goes on and on.

What is to be made of these projects? Converting indoor swimming pools into office space or improving run-down marketplaces may make sense, but the real question is: why is the EU funding these things? The EU should only get involved when broader European interests are at stake. The economic catching-up process in Bulgaria, for example, falls into this category. The improvement of marketplaces and the conversion of indoor swimming pools in rich member states most definitely do not. Such projects are the remit of local municipalities, not the EU.

The EU’s involvement in such cases is harmful in many ways. Firstly, this kind of project violates the subsidiarity principle. The EU should only get involved in cases where local or national politics cannot take on tasks, or only at a higher cost. If the EU participates in projects of local or regional importance (in prosperous states), then it is merely creating added bureaucracy, not value. Rather than adding value, it reduces value. Secondly, the EU’s involvement in regional projects means that it is underfunding areas in which more European action would lead to efficiency gains all round. These areas include protecting the EU’s external borders, dealing with refugee migration and military procurement.

Why is the EU spending money on indoor pools in Pforzheim while complaining that it has no money to protect its borders? In negotiations over the structuring of EU expenditure it is rational for every national government to attract as much money as possible to its own country – even if the EU’s participation does no more than raise administrative costs. The net balance, or the difference between contributions made to the EU budget and the EU money that flows back into a country is often taken as a measure of the EU’s value to that country. Such benchmarks, however, overlook the fact that the real goal of the EU budget is to finance policies that are in the interest of Europe as a whole. The EU needs to earmark as much funding as possible for measures that create European added value right at the beginning of the budget process. Agriculture expenditure, by contrast, should continue to fall – and funding for regional policy should be limited to the poorest member states.

Politicians in Brussels often complain that the EU budget, which amounts to only one percent of the EU's economic output, is too small to cope with the challenges ahead. That isn't true. They simply need to use the funds at their disposal more effectively.

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