

Course: GV251

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## **LT Week 5: The EU Budget and Redistributive Policies**

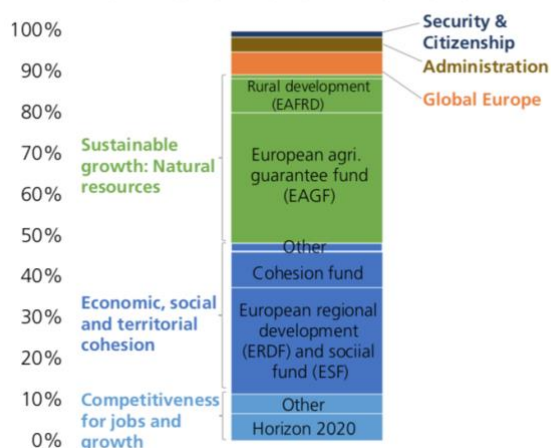
## PART I) The politics of the EU budget

### (a) What are the main functions that the EU's expenditure fulfils?

*In thinking about your answer, you may consider the extent to which the EU's expenditure fulfils the following functions: allocation, macroeconomic stabilisation, redistribution, administration (see Iain Begg's lecture for an analysis of the first three). You can also draw inspiration from the chart below.*

**Chart 2. EU spending 2015**

% of total spending, by category and largest programmes



Source: House of Commons, "A Guide to the EU budget", Briefing Paper 06455, 21/12/18, available at: <https://researchbriefings.parliament.uk/ResearchBriefing/Summary/SN06455>

### (b) Why do some member-states benefit more from the EU budget than others?

*Some useful concepts: side-payments, solidarity, path dependence, 'juste retour'*

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### (c) Is it possible to reconcile Mattila's (2006) finding that small member-states benefit disproportionately from the EU budget with Moravcsik's (1993) insight that "large, prosperous, relatively self-sufficient countries tend to wield the most influence" in EU politics?

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### (d) "The EU budget negotiations are subject to a strong status quo bias." (Iain Begg). Why might this be the case?

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## **PART II) The Common Agricultural Policy (CAP)**

Please discuss the questions below, drawing from the readings and your general knowledge about the CAP, as well as the materials provided in Appendices A and B.

**(a) *Creation:* Why does the EU have a Common Agricultural Policy?**

**(b) *Reform:* (i) Why is the CAP difficult to reform? (ii) Why has the CAP nevertheless been reformed so substantially since the 1990s?**

**(c) *Evaluation:* What are the pros and cons of the CAP? Should the EU continue to have a Common Agricultural Policy, or should the CAP budget rather be used to achieve alternative policy aims?**

### **PART III) Regional policy**

Please think about the questions below, drawing from the readings and your general knowledge about the EU's regional policy, as well as the materials in Appendix C.

#### **(a) Why does the EU have a Cohesion Policy?**

Key concepts: redistribution, structural adjustment, side-payments, supply-side policies, competitiveness

#### **(b) Should the receipt of EU regional funds become conditional on particular actions by the beneficiary member-states, such as the acceptance of refugees?**

## Appendix A: The making and the aims of the CAP

### a) Excerpts from Moravcsik's "Choice for Europe" (1998):

"[Before the Treaty of Rome], the bulk of French industry remained skeptical [of liberalization within a Common Market]. The textile, steel, and mechanical engineering associations, as well as particularly vocal cotton producers, public utilities, and metal finishers, faced strong competition with the Six [i.e. the original signatories of the Treaty of Rome]. (...) [As a result], the strongly positive position of agriculture was decisive. Agriculture accounted for a higher share of employment (25%) in France than in any other of the Six except Italy. (...) The most consistent goal of postwar French governments, regardless of their geopolitical aims, was **the development of export markets in France's largest sector of comparative advantage, agriculture.**" (p. 108-113)

"**Postwar German industry and government pursued a deliberate strategy of export-led growth.** World War II truncated German markets, forcing its heavy industry, highly concentrated and disproportionately significant within the German economy, to export in order to realize modern economies of scale. (...) [On the other hand], German agriculture consistently sought to maintain high support prices behind protective barriers, which led to intense skepticism regarding cooperation with France. Postwar division had left West Germany with relatively small and inefficient farms, except in a few areas of meat production, forcing it to become a massive net importer." (p. 95-98)

### b) Excerpts from a 2017 brochure by the Commission on CAP:

#### Why we need a common agricultural policy

##### Challenges for agriculture for over 50 years

Launched in 1962, the EU's common agricultural policy (CAP) is a partnership between agriculture and society and between Europe and its farmers. Its main aims are:

- to improve agricultural productivity, so that consumers have a stable supply of affordable food;
- to ensure that EU farmers can make a reasonable living.

Now, more than 50 years later, the EU has to address more challenges:

- ensuring viable food production that will contribute to feeding the world's population, which is expected to rise considerably in the future;
- climate change and sustainable management of natural resources;
- looking after the countryside across the EU and keeping the rural economy alive.

##### The CAP is about our food

Thanks to the CAP, Europe's citizens enjoy food security. As a society, we can be sure that our farmers produce the food we need.

##### The common agricultural policy is about our countryside

Farming is not just about food. It is about rural communities and the people who live in them. It is about our countryside and its precious natural resources.

In all EU Member States, farmers keep the countryside alive and maintain the rural way of life. If there were no farms or farmers, our hamlets, villages and market towns would be profoundly affected — for the worse.

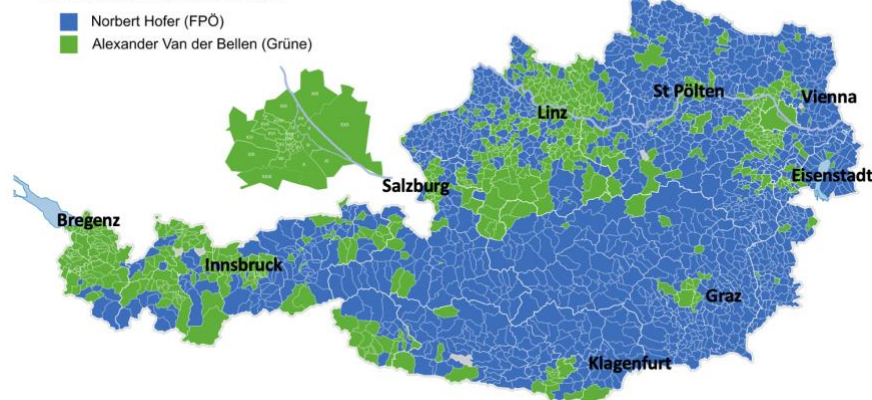
##### The common agricultural policy is about our environment

Farmers manage the countryside for the benefit of us all. They supply public goods — the most important of which is the good care and maintenance of our soils, our landscapes and our biodiversity. The market does not pay for these public goods. To remunerate farmers for this service to society as a whole, the EU provides farmers with income support.

Source: <https://publications.europa.eu/en/publication-detail/-/publication/f08f5f20-ef62-11e6-8a35-01aa75ed71a1/language-en/format-PDF/source-search>

### c) Results of the 2016 Austrian Presidential election:

Ergebnisse der Bundespräsidentenwahl am 4. Dezember 2016 (Wiederholung der 2. Runde):  
Mehrheiten in den Gemeinden



## Appendix B: Reforming the CAP

### a) CAP reform over time:

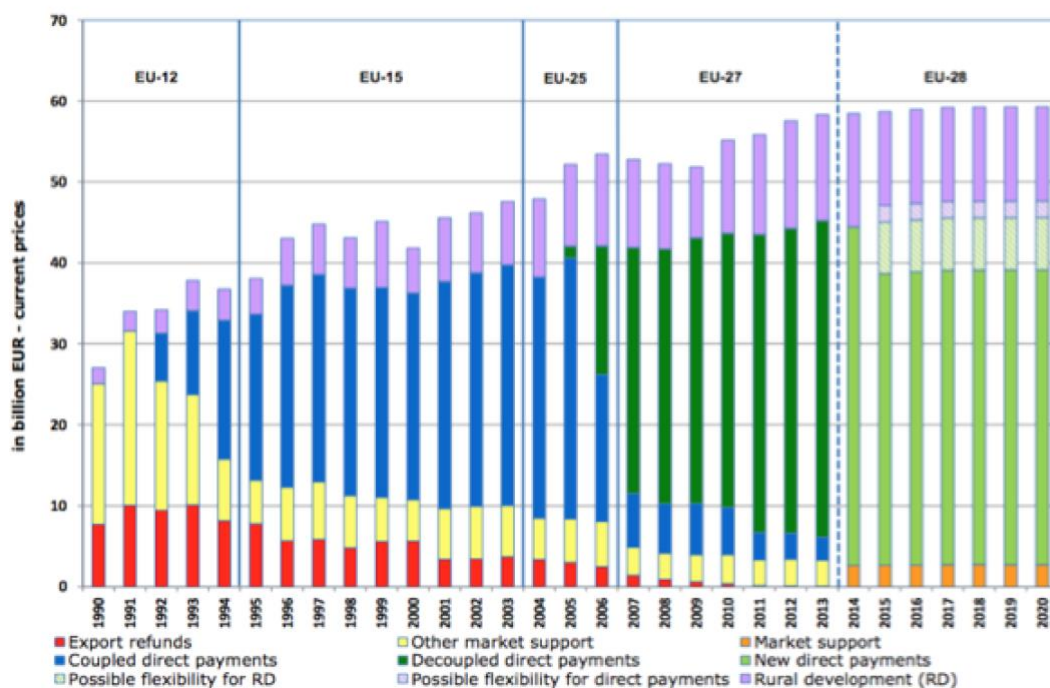
#### 4. EVOLUTION OF POLICY AND SPENDING

The radical change in the orientation of the CAP is demonstrated by the evolution of expenditure, echoing the policy shift since 1992<sup>3</sup>, away from product based support towards producer support and considerations for the environment (chart 2).

In 1992 market management represented over 90% of total CAP expenditure, driven by export refunds and intervention purchases. By the end of 2013 it dropped to just 5% as market intervention has become a safety net tool for times of crisis and direct payments are the major source of support; 94% of which are decoupled from production.

*NB: Whereas “market support” mainly refers to price support for products, “income support” refers to direct payments to farmers. “Coupled direct payments” are linked to the quantity of production, while “decoupled payments” are given to farmers regardless of how much they produce during a given year. “Rural development” is the so-called second pillar of CAP, and includes measures that aim to improve agricultural productivity as well as to achieve other non-economic objectives (e.g. protect the environment)*

**Chart 2** The path of CAP expenditure by calendar year (in current prices)



Source: DG Agriculture and Rural Development

Source: [https://ec.europa.eu/agriculture/sites/agriculture/files/policy-perspectives/policy-briefs/05\\_en.pdf](https://ec.europa.eu/agriculture/sites/agriculture/files/policy-perspectives/policy-briefs/05_en.pdf)

### b) Excerpt from Itçaina et al.’s “Varietals of Capitalism” (2016):

NB: The excerpt is about a major reform in the EU’s wine policy that took place in 2008. The reform removed subsidies to wine-producers for sending their surplus wine for distillation into industrial alcohol, and partially replaced these distillation subsidies with a smaller sum of subsidies for the modernization of vineyards.

➔ “The reform was promoted publicly by the Commission using value-laden language that highlighted it as a European imperative in order to end wasteful EU spending but also to revitalize a crucial industry that was being challenged by globalization.” (p. 126)



## Appendix C: The making and the aims of the EU's regional policy

### **a) Excerpts from Leonardi's "Cohesion Policy in the EU" (2005):**

"On the one hand, [Cohesion] policy was necessary for the purpose of helping to adjust the regional economies to the exigencies of open market competition. In this context, the cohesion policy was conceived as a form of 'shock absorber' to manage the impact of the Single Market. On the other hand, the policy was also used to reduce the differences in regional well-being that existed between core and peripheral regions and to help the latter catch-up with the more developed areas." (p. 4)

"The thesis of this volume is that cohesion ultimately represents **a political goal tied to the pursuit of a more egalitarian and just society** capable of creating opportunities for all EU citizens, no matter where they live." (p. 8)

### **b) Excerpt from Moravcsik's "Choice for Europe" (1998):**

"One final provision essential to the passage of the internal market program was the expansion of 'structural funds' – infrastructural funding for poorer regions of the Community. This so-called convergence policy was necessary not because it was an essential element of economic liberalization, as the Commission at times claimed, but because it was **the political price of support** from Greece, Ireland, and Italy, and later Spain and Portugal." (p. 367)

### **c) Example of a project funded by the Structural Funds (Leader programme):**

#### **(b) Rejuvenating reed and sedge harvesting in the Norfolk Broads (UK)**

<b>Region, district:</b>	Norfolk
<b>Name of the LAG:</b>	Broads & Rivers
<b>Total project cost:</b>	EUR 172 425
<b>EU-funded element:</b>	EUR 58 820
<b>Other public funds:</b>	EUR 113 605

A key feature of the Norfolk Broads' landscape is the large expanse of reed and sedge beds that borders its famous waterways. Conservationists regard such wetlands as an internationally important habitat, home to rare plants and animals. Conservation of these areas is dependent upon periodic cutting of the reed and sedge. This has traditionally been harvested commercially to provide raw materials for thatching, thus ensuring a link between the area's built heritage and its natural environment.

Despite modernisation, the Broads' reed and sedge industry has been in severe difficulty, caused in part by imports and consequent low prices. Existing reed and sedge cutters have been unable to replace essential machinery whilst the industry has failed to attract newcomers to replace those who retire. A 2002 study identified no more than 20 commercial cutters, with very few of these under 30 years of age and several approaching (or beyond) retirement age. Morale was low, with several cutters mistrusting conservation organisations for seemingly favouring reed bed management by volunteers.

Source: [https://ec.europa.eu/agriculture/sites/agriculture/files/publi/fact/leader/2006\\_en.pdf](https://ec.europa.eu/agriculture/sites/agriculture/files/publi/fact/leader/2006_en.pdf)

Leader+ funding provided training and is restoring new areas of neglected reed bed. This creates opportunities for new businesses whilst increasing the efficiency and income of existing ones, for example by providing new machinery, but also by improving LAG members' earning potential outside the reed and sedge cutting seasons. There have been less tangible benefits, such as the formation of an association that has made it easier for conservation organisations and others to seek the views of reed and sedge cutting businesses as a group on issues such as the targeting of reed bed restoration and design of flood alleviation works.

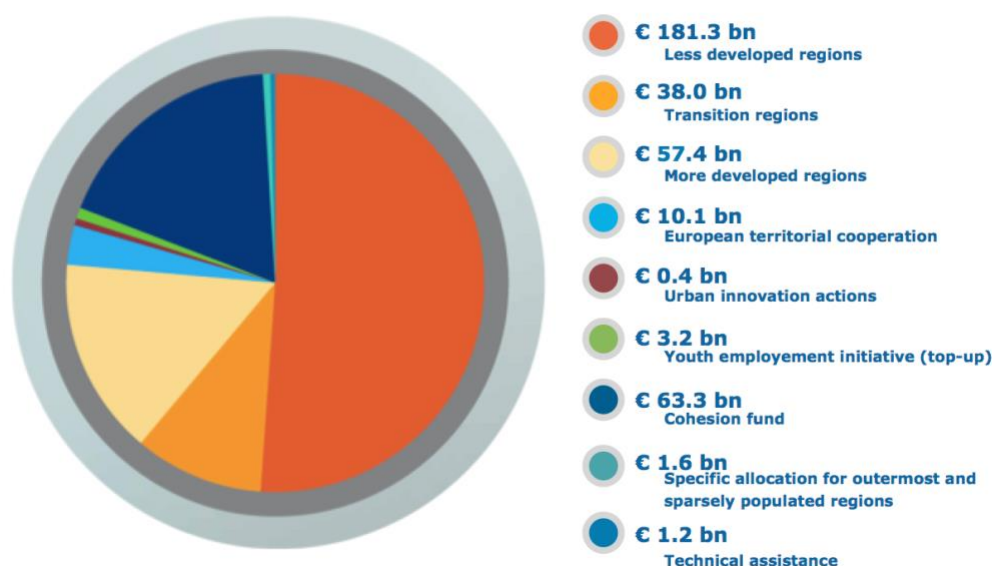
A first project succeeded in halting the decline of the local reed and sedge cutting industry and greatly increased confidence and optimism. A second project addresses the longer term needs of the industry by attracting and supporting new entrants, raising the efficiency and incomes of existing businesses and improving the promotion of the Broads' reed and sedge.

Reed bed at Hickling Norfolk Broads United Kingdom



### **d) Use of Cohesion Policy funds during the MFF 2014-2020:**

## Cohesion Policy Funding 2014-2020 (€ 356.5 bn)



Source: European Commission

### e) Should the disbursement of EU structural funds become conditional?

## Austria threatens EU funding cuts over Hungary's hard line on refugees (8/3/17)

Austria has warned that net contributors to the EU budget will refuse to continue paying unless beneficiaries in central [Europe](#) take their quota of refugees.

Austria's chancellor, Christian Kern, said he would raise the issue of cutting EU contributions to countries such as Hungary and Poland at an EU summit this week.

Hungary has taken a hard line against refugees and on Tuesday passed a law [to force all asylum seekers into detention camps](#) while they wait for their cases to be heard. The country's prime minister, Viktor Orbán, welcomed the move in a speech to border guards in which he called migration "a Trojan horse for terrorism".

Kern told Die Welt: "The money from the EU budget must also be spread more equitably among the member countries in the future. If countries continue to avoid resolving the issue of migration, or tax dumping at the expense of their neighbours, they will not be able to receive net new payments of billions from Brussels."

He said some countries expected solidarity on economic development, security interests or sanctions against Russia but refused it on other issues. "Selective solidarity should in the future also lead to selective payments among the net payers. Solidarity is not a one-way street," he said.

So far 13,500 refugees have been redistributed under an EU scheme. Poland has not yet accepted a single migrant out of its allocated 6,182 and is the largest net recipient from the EU budget, at €9.5bn. It is followed in the region by the Czech Republic (€5.7bn), Romania (€5.2bn) and Hungary (€4.6bn).

As many as 98,000 refugees are due to be distributed by September.

The issue of EU budget contributions is becoming more politically controversial in the wake of the decision of the UK, a net contributor, to leave the EU. Kern said the absence of UK contributions after Brexit would require efficiency savings to stop the sums paid by remaining member states from rising.

Source: <https://www.theguardian.com/world/2017/mar/08/austria-calls-for-less-funding-for-eu-countries-refusing-refugees>