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The Europeanisation of national budgeting in the United Kingdom and France: a study of governmental processes.

by
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Abstract

European Union membership affects budgetary practices in Britain and France much more than the conventional literature acknowledges. Budgetary Europeanisation, defined as the process of adaptation of budgetary processes to EU pressures, involves not merely the compliance of budgetary aggregates to EU guidelines but mainly changes in bureaucratic practices, methods and strategies. Budgetary institutions have become hybrid because of the growing entanglement of national and EU budgetary procedures; therefore the conventional national approach to budgeting is outdated. The impact on budgeting is greater on spending than on taxing because unanimous voting safeguards national governments' sovereignty on taxation.

The thesis isolates various pressures which contribute to budgetary Europeanisation (competition, substitution, regulation, lobbying and demand by Member States). It explains strategic differences between Britain and France. The Euro-PES mechanism and the Fontainebleau agreement in the UK explain the non-maximisation strategy of British administration, which contrasts to the French, based on the '*principe de constance*' and sectoral rates-of-return.

The thesis compares the processes of adaptation of bureaucratic mechanisms to the consequences of EU membership in different policy domains (Agriculture, Transport and Health). It concludes that the degree of adaptation of EU pressures is higher when national bureaucrats often interact with international actors because they are better able to influence decisions at EU level (a major difference between Transport and Health). It confirms the link between budgetary Europeanisation and the amount of EU finance in departments' budgets, but it shows that this link is a secondary explanation of differences in degrees of Europeanisation.

Finally, the thesis shows how EU programmes promoted shifts in national decision-making, with greater effect on the processes of decision-making than on the substance of policy. This analysis suggests that national administrations retain a large margin of manoeuvre both in policy-making and in finance, and through their participation in the EU budgetary process.

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Abbreviations

AEIF	Association Européenne pour l'Interopérabilité Ferroviaire
Bercy	Direction du Budget before 1994
BR	British Rail
CAP	Common Agricultural Policy
CEC	Commission of the European Communities
CFS	Centrally Financed Services
CESP	Common External and Security Policy
CNAM	Caisse Nationale d'Assurance Maladie
CNRS	Centre National pour la Recherche Scientifique
CO	Cabinet Office
CTP	Common Transport Policy
CTRL	Channel Tunnel Rail Link
DB	Direction du Budget
DGS	Direction Générale de la Santé
DOH	Department of Health
DOM	Département d'Outre-Mer
DTp	Department of Transport
EAGGF	European Agricultural Guidance and Guarantee Fund
EC	European Community
ECIS	European Centre for Infrastructure Studies
ECJ	European Court of Justice
Eco-Fin	European Council of Ministers of Economy and Finance
ECU	European Currency Unit
EIB	European Investment Bank
EMU	Economic and Monetary Union
ERDF	European Regional Development Fund
ESC	Economic and Social Council
EU	European Union
Euro-PES	European Public Expenditure Survey
FCO	Foreign and Commonwealth Office
FIF	Fédération des Industries Ferroviaires
FNPEIS	Fonds National de Prévention, d'Education et d'Information sur la Santé
GDP	Gross Domestic Product
INSERM	Institut National de la Santé et de la Recherche Médicale
IRF	International Road Association
MAFF	Ministry of Agriculture, Fisheries and Food
Matignon	The French Prime Minister's Office
MT	Ministère des Transports
NHS	National Health Service
NPM	New Public Management
OFCE	Office Français du Commerce Extérieur
P & T	Poste et Télécommunications

PBKAL	Paris-Brussels-Köhln-Amsterdam-Luxembourg
PES	Public Expenditure Survey
PFI	Private Finance Initiative
PFO	Principal Finance Officer
PPB	Planning, Programming and Budgeting
PSBR	Public Sector Borrowing Requirement
RCB	Rationalisation des Choix Budgétaires
Rivoli	Direction du Budget since 1994
SEA	Single European Act
SGCI	Secrétariat Général pour la Coordination Interministérielle
SNCB	Société Nationale des Chemins de Fer Belges
SNCF	Société Nationale des Chemins de Fer Français
TENs	Trans-European Networks
TGV	Train à Grande Vitesse
UIC	Union Internationale des Chemins de Fer
UNIFE	Union des Industries Ferroviaires Européennes
VAT	Value Added Tax
WHO	World Health Organisation

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Introduction

The genesis of the thesis contains a paradox. A large number of scholars and politicians have argued that national budgetary policies, in particular fiscal policies, should be strongly coordinated throughout the EU because of the strong links between monetary and budgetary policies, and because the EU budget is too small to act as an automatic stabiliser in the case of asymmetric shocks. Therefore, one could expect the existing literature to describe how the growing coordination of national budgetary decision processes between EU national governments has changed existing budgetary institutions. However, the literature does not emphasise EU-related changes in national decision-making processes, and budgeting[1] has not been described as a part of the European integration process in academic research to date or in government discourse for three reasons. First, economic arguments support the view that national autonomy in the use of budgetary policy is especially needed given the postulated loss of other classical instruments of macroeconomic policy regulation (monetary and exchange rate policies) in the third stage of EMU. Second, political arguments underline that governments are sovereign in their decisions to tax and set expenditure plans because Member States are not willing to 'pool' such decision-making power at the EU level. Third, at the institutional level, the European Union has no overall responsibility for the management of national budgets and, in the limited cases where

[1] The term 'budget' is not used as in Britain (i.e. referring to taxation exclusively), but in the American and the French ways where 'budget' refers to both tax and expenditure plans. Except in specific cases where a comparative approach required that taxes and expenditure should be analysed at general government level, the 'budget' refers to the central government budget document. 'Budgeting' is defined as the process of making budgetary decisions.

Member States have entrusted the EU with some regulatory power (e.g. VAT, excise duties), national sovereignty remains protected by unanimous voting. The silence of theoretical and empirical research tends to support the official discourse according to which national budgeting is not affected by membership of the European Union.

The thesis questions the validity of the proposition that EU membership has no or little consequence for recent changes in national budgeting. The objective is to challenge the prevailing view that national budgeting is a process only internal to national governments, which may be fully explained by national variables such as interministerial bargaining or national budgetary mechanisms. In most conventional work on budgeting, budgetary decision-making is described as a bargaining process between national actors (spending ministries, Finance Ministry, Parliament) according to national procedures (legal rules and conventions) at the national level. This conventional work maintains that national governments exercise control over the budgetary process and are sovereign in their decisions to tax and set expenditure plans. This 'national' view on national budgeting is contrasted with the proposition that national budgeting cannot be fully understood if European factors are excluded. The latter suggests that integration in the European Union has promoted changes in national budgetary institutions, decision-making and outcomes which cannot be adequately explained if European variables are excluded. It assesses the extent to which national budgeting has been affected by the introduction of EU institutions and the process of European integration.

The thesis uses empirical support to identify changes in national budgeting and to evaluate whether these changes have occurred because of EU membership. Empirical generalisation is then used to demonstrate that European factors must be introduced into the study of national budgeting. The empirical method raises two types of difficulty. First, the variables of budgetary change are numerous and non-exclusive because budgeting may be studied from a variety of perspectives, including accounting, public administration, economics and political science. The thesis selects several approaches to budgeting as complementary cases for the study of shifts in budgeting, whose conclusions are then contrasted. The second problem consists in isolating changes related to integration in the European Union from those occurring throughout the world and unrelated to EU membership, such as New Public Management.

Chapter 1 emphasises that the existing literature underestimates the importance of European variables in explaining the functioning of and changes in national budgeting. It explains the hypothesis, issues and methods used in the thesis and discusses the main theoretical tools used in the forthcoming chapters.

Chapter 2 focuses on EU-related changes in taxation to determine the scope for independent fiscal policy possessed by EU Member States. Chapter 2 compares two competing propositions and argues that, while economic competition and regulation set constraints on Member States' taxes, national sovereignty remains protected by EU institutions (e.g. voting procedures).

The objective of chapter 3 is to identify how EU membership influences national budgetary institutions. It discusses two competing propositions explaining how and why budgetary institutions change because of the European Union, and emphasises an "hybridisation" process.

Chapter 4 discusses the impact on the strategies of national civil servants of national budgetary institutions that administer the financial relations between national and European institutions.

The three subsequent chapters focus on groups of actors, their strategies and their participation in European decision-making processes. Each chapter concentrates on decision-making for the allocation of EU credits in one spending ministry. The three departments (Agriculture in chapter 5, Transport in chapter 6 and Health in chapter 7) were selected because the sectors in which they operate stand at different degrees in the European integration process. The thesis emphasises similar patterns of adaptation to the consequences of EU membership in different policy domains. Agriculture is conventionally considered the sector most exposed to European Union influences, Health the least, while Transport lies in-between the two.

The concluding chapter pulls together the various conclusions of the different approaches. It measures the extent to which, and how, European Union membership has modified national budgetary sovereignty, and looks forward to the impact of EMU.

Chapter 1

Introducing European variables in the study of public budgeting in the United Kingdom and France

1.1. The understatement of EU variables in the study of national budgeting

The impact of EU membership on national budgeting has been largely understated in the existing political science literature. Most of the conventional work on national budgetary processes does not introduce European Union variables in the description of national budgeting. Many authors do not mention any impact of EU membership on national budgeting, which is approached as an "internal process"[1] fairly isolated from the EU. Heclo and Wildavsky consider budgeting as the essence of British central government and relationships within Whitehall, not involving relationships between central government and the European Union. Their study of budgeting aimed at disclosing internal factors in policy-making, as reflected in the presentation of the targets of the book:

> "Our first aim is to describe the expenditure process as it actually operates in British central government ... Our second aim it to use the expenditure process as a spotlight for illuminating the characteristic practices of British central government ... It tells us how politicians and civil servants co-operate, bargain and fight - both among themselves and between each other. It tells much about cabinet government, professional administration, parliamentary democracy and a host of other traditionally, and usually formally, understood doctrines. In short, the expenditure process is an immense window into the reality of British political administration."[2]

[1] Lord, Guy (1973) *French budgetary process* (Berkeley: University of California Press) : x.
[2] Heclo, Hugh and Wildavsky, Aaron (1981) *The private government of public money: community and policy inside British politics* (London: Macmillan) : lxi-lxii.

Although the budgetary literature adopts different theoretical approaches and uses various variables (e.g. bureaucrats, institutions, aids to calculation), the national focus on budgeting has rarely been challenged and non-national variables have been largely excluded. For instance, authors focusing on the impact of budgetary procedures (e.g. supply procedure[3], formal stages for drawing up the budget document[4], planning[5]) do not describe how national institutions are affected by EU membership and how EU institutions create new constraints at the national level. Authors focusing on the role of certain actors in the budgetary process, such as the Directeur du Budget or the Principal Finance Officer, do not consider the possibility that these actors may be influenced by their interactions with their EU counterparts. Similarly, the potential influence of the EU or the OECD in the use or introduction of aids to calculation such as cash planning in the UK[6], *Rationalisation des Choix Budgétaires* in France[7], zero-base budgeting or Planning, Programming and Budgeting[8], is neglected by these authors. In most conventional work on budgeting decision-making is described as bargaining between national actors (spending ministries, Finance Ministry, Parliament) according to national procedures (legal rules and conventions) at the national level. The EU is not considered an actor in the budgetary processes[9] nor an arena for decision-making.

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[3] Premchand, A. and Burkhead, Jesse (eds) (1984), *Comparative International Budgeting and Finance* (London: Transaction books) : 119-120.
[4] Rivoli, Jean (1969), *Le budget de l'Etat* (Paris: Le Seuil) : 20-59.
[5] Hall, Peter (1986), *Governing the economy - The politics of state intervention in Britain and France* (Cambridge: Polity press): 171-215.
[6] Pliatzky, Leo (1989), *The Treasury under Mrs. Thatcher* (Oxford: Blackwell).
[7] Institut Français des Sciences Administratives (1988), *Le budget de l'Etat* (Paris: Economica) : 13, 25-26.
[8] Rubin, Irène (1993) *The politics of public budgeting - Getting and spending, borrowing and balancing* (Chatham: Chatham House).
[9] The actors involved in British budgeting are central and local governments and nationalised industries according to Peter Mountfield, "Recent developments in the control of public expenditure in the United Kingdom" in Premchand, A. and Burkhead, Jesse (eds) (1984), *Comparative International Budgeting and Finance* (London: Transaction books) : 109-111.

Most conventional works on integration in the European Union also disregard budgetary matters.[10] Budgeting is not traditionally described as a case for illustrating integration in the EU because there is no overall responsibility of the EU for national budgeting and because there is no recognition by central governments that budgeting should adapt to EU pressures. First, conventional textbooks on integration in the European Union do not emphasise the links between the EU budget and national budgets, or restrict it to the revenue side of the EU budget in their discussions about national contributions. They overlook the relationships between EU expenditure and national budgets in matching or complementary spending programmes. The understatement of the role of EU expenditure is apparent in the assertion by Sbragia that "with regards to budgets and money the governance of the Community differs from that of parliamentary systems in that spending is less important than regulating."[11] Second, the received account in European literature restricts the EU influence to limited issues such as VAT where the EU has gained formal regulatory powers. Third, there is no discussion of the relationships between EU and national levels in the making of national and EU budgetary decisions, namely the participation of national actors from finance and spending ministries in the determination of EU spending priorities.

A few works in budgetary and European-studies literatures establish a link between national budgeting and EU membership but their focus remains narrow. Until 1992 authors mainly emphasised the budgetary cost of financing the European budget[12] and

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[10] Guerrieri, Paolo and Padoan, Pier Carlo (1989) *The political economy of European integration* (London: Harvester Wheatsheaf).
[11] Sbragia, Aberta (ed.) (1991), *Euro-politics - Institutions and policymaking in the "New" European Community* (Washington: The Brookings Institution): 7.
[12] Price, "Budgetary policy" in Blackaby, F (1978) *British economic policy*, chapter 4 (Cambridge: Cambridge University Press) : 536.

discussed the return on the national contribution. Decisions in the Treaty of Maastricht reoriented the focus to three main issues: the restrictions to central governments' use of budgetary management (e.g. prohibition of debt financing and bail-out) and the sanctions from the European Union to promote budgetary discipline;[13] the need for greater co-ordination between national budgetary policies for EU macroeconomic policy; and the scope for independent fiscal policy in the EU.[14]

While starting to integrate EU variables into the study of national budgeting and discussing the budgetary implications of European integration, these works offer a restrictive view of the breadth and width of changes related to EU membership. EU influence is associated with the need for budgetary discipline within EMU, and the impact of new EU responsibility to issue budgetary rules applicable in the member countries and to impose formal sanctions for the non-attainment of targets. This approach is negative, since it emphasises prohibited practices and restricted margins of manoeuvre for central governments. There is no explanation of how EU decisions are made and of the involvement of national governments in the formation of EU laws and in the drawing up of the Maastricht criteria. EU is seen as a regulatory body external to Member States. Furthermore, these accounts have no empirical basis since they do not describe changes in budgetary institutions or practices in the application of the Maastricht obligations.

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[13] Fair, Donald and Boissieu, Christian de (eds) (1992), *Fiscal policy, taxation and the financial system in an increasingly integrated Europe* (Dordrecht: Kluwer Academic): 19-27, 361-382 and 411-425.

[14] This issue is particularly emphasised in the French literature, notably CEPII-OFCE (1990), "Vers une fiscalité européenne?", *Observations et Diagnostics Economiques, Revue de l'OFCE*, 31 (Apr.), 121-189; Cahiers Français (1993), "Le budget de l'Etat", *Cahiers Français*, 261 (May-June) (Paris: La Documentation Française); Berlin, Dominique (1989), "L'élimination des frontières fiscales dans la CEE", *Droit et Pratique du Commerce International*, 15: 35-74.

Hagen[15] uses the new institutionalist framework to link the discipline requirements from EMU with supply procedures in the Member States. He argues national budgetary processes are the key to achieving the discipline required by EMU, and he assesses national budgetary procedures in EU countries. Hagen introduces European criteria for assessing national budgeting, and his detailed framework of budgetary institutions may be used as a basis for empirical testing. He demonstrates that

> "a budgeting process lending the prime or finance minister a position of strategic dominance over the spending ministers, limiting the amendment power of parliament, and limiting changes in the budget during the execution process is strongly conducive to fiscal discipline".[16]

He argues "institutional reform of the budgeting process may be a promising alternative for the EC to foster fiscal stability".[17] He recommends specific institutional reforms such as the creation of a National Debt Board and the adoption of a Debt Change Limit at the beginning of the budgetary process. However, Hagen's focus is normative since he specifies what the 'best practices' for budgetary procedures should be. His approach is static since he does not describe changes in national budgetary institutions because of EU membership. Also, he assimilates budgetary convergence to a greater need for better institutions and overlooks changes in decision-making and strategies.

[15] Hagen, Jürgen von "The role of institutional and procedural framework on fiscal discipline", in Wildavsky, Aaron and Zapico-Goni (eds) (1993), *National budgeting for Economic and Monetary Union* (Dordrecht: Martinus Nijhoff) and Hagen, Jürgen von and Harden, Ian (1994), *National budget process and fiscal performance*, working paper.

[16] Hagen, Jürgen von (1992), "Budgeting procedures and fiscal performance in the European Communities", in Commission of the European Communities, *Economic Papers*, 96 (Oct.) : 4.

[17] Hagen, Jürgen von (1992), "Budgeting procedures and fiscal performance in the European Communities", in Commission of the European Communities, *Economic Papers*, 96 (Oct.) : 5.

Zapico-Goni[18] offers a most complete account of the influence of EU membership on national budgeting. In contrast to earlier works, he does not restrict the influence of the EU to its regulatory activity. He argues

> "the role of the centre has to be understood beyond the imposition of fiscal norms and budget scenarios. Strategic guidance and interorganizational development are also very important components of budgetary co-ordination for fiscal discipline ... The objective of this work is to analyze, discuss and suggest positive initiatives for central budget units at the EC and national levels to encourage convergent spending behaviour."[19]

According to the author, the influence of the EU on budgeting is not restricted to 'negatively oriented' fiscal norms and procedures which establish limits that Member States cannot surpass. To the legislative and 'police-like' activity of the EU he adds its role of leadership and of articulating various institutions within budgetary decision-making. He argues that fiscal norms may be attained only if the EU provides overall leadership and secures the support of its strategy by individual departments. He argues

> "Neither the European Commission nor the Member States' finance ministries can guarantee that norms and rules for convergence will be implemented by spending departments as formulated by the centre unless they are previously negotiated and accepted. Proper negotiations guarantee that relevant interests will be taken into account (incorporated or compensated) when defining convergent budgetary policy. This means that the finance ministries cannot negotiate any budgetary position in Brussels without prior integration of domestic interests."[20]

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[18] Zapico-Goni, Eduardo, Chapter 6, "Adapting national spending behaviour for European convergence" in Wildavsky, Aaron and Zapico-Goni, Eduardo (eds) (1993), *National budgeting for Economic and Monetary Union* (Dordrecht: Martinus Nijhoff): 119-144.

[19] p.121-122

[20] p.136

Zapico-Goni introduces three factors which had been neglected in the conventional literature and seem important in understanding the influence of EU membership on national budgeting. First, to the negative approach of the influence of the EU he adds a positive one , based on strategic guidance and leadership. Second, he introduces the idea of an impact of EU membership on decision-making and interministerial negotiations. EU membership constrains Member States' budgeting not only by establishing limits for budgetary macroeconomic aggregates but also because it affects earlier stages of the budgetary process. Therefore, Zapico-Goni introduces European Union pressures during the drafting of budgets.

Third, by linking the success of negotiations at the EU level to policy determination at the national level, Zapico-Goni establishes a relationship between the two decision-making levels which had been neglected before. However, the development which follows is normative, since the author recommends initiatives which should be taken. There is no empirical account of whether and how EU membership alters national budgetary institutions and decision-making because of the various interactions between EU and national budgeting. The lack of evidence to support this new approach to EU pressures on national budgeting reveals an empirical gap in the conventional work on budgeting.

1.2. Hypothesis and methods

1.2.1. Hypothesis

The starting point of the thesis lies in this gap in the literature that needs to be investigated. The impact of EU membership on the determination of state income and expenditure has been inadequately discussed both in the literature on budgeting and on European integration. Little attention has been paid to this topic, and most writers stated the impact was small. Existing researches focus on technical issues (e.g. legal constraints on excise duties rates), which underlies the need for a broad approach to EU-related changes in national budgetary processes.

The main hypotheses tested throughout the thesis are the following. First, the thesis puts forward that the national approach is inappropriate to study budgeting because national budgeting is influenced by EU variables to a greater extent than is usually maintained. The thesis seeks to determine the impact of membership of the European Union on patterns of national budgeting. Are national budgetary processes affected by integration in the EU? Are there pressures on Member States to adapt their budgetary mechanisms emanating from the EU? The key argument of the thesis is that the impact of EU membership on national budgetary processes is greater than is widely assumed. This proposition is tested throughout the thesis, first in an overall way, e.g. with taxation and the Public Expenditure Survey in Britain, and then in three policy areas representing different degrees of exposure to EU influences.

Second, we take the hypothesis that actors are more constrained by the EU and also better able to influence international actors, when they interact frequently with actors at the international level. This hypothesis implies that the adaptation of budgetary processes to EU pressures should be proportional to the frequency and intensity of interactions between national and European actors during policy-making processes. Therefore, the thesis focuses on the involvement of national actors in the European budgetary process and the participation of EU actors in national budgeting because of the entanglement of national and EU budgetary processes.

A third hypothesis is tested in chapters 5 to 7, focusing on intermediate level decisions, on departmental programmes and on power-dependence relationships between actors. The thesis studies three departments (Agriculture, Transport and Health) illustrating different degrees of exposure to EU pressures. The EU has influenced policy in their jurisdictions to varying extents and with varying time lags. The thesis tests the argument that the adaptation of budgetary processes to EU pressures is proportional to the amount of EU finance in the budget of the department. The greater the size of EU transfers, the more constrained national budget actors and the more budgetary decisions are influenced by the EU. This assumption implies that Agriculture should be the department in which the influence of the EU is the greatest and Health the department where EU influence is the most marginal, with Transport lying in-between the two.

To determine the impact of EU membership on national budgeting and test these hypotheses, the thesis is structured around four main issues. First, the thesis quantifies this impact (big or small?) and determines the degree to which processes are affected.

Here the comparative approach is useful to evaluate the size of changes in different policy settings and across the European Union. The thesis argues that the impact of European Union membership has been far wider than might have been presumed from an examination of the literature, but that there is still a considerable margin for national discretion.

Second, the thesis assesses the "quality" of this impact: did it improve national budgetary procedures or did it create more problems than it solved? The thesis does not draw conclusions on the pros and cons of integration in the European Union for budgeting. Rather, it gives an appreciation of changes in the processes of budgeting in a qualitative perspective. For example, the thesis argues that the process of decision making on budgeting has become more complex and fragmented, but at the same time EU membership has obliged departments to define a more consistent policy than before.

Third, the thesis evaluates the impact of EU membership depending on aspects of budgeting under scrutiny. The pressures on budgeting are not uniform and there are many different ways to draw lines between aspects of budgeting. Using the dichotomy between spending and taxing, the thesis argues that national governments retain a large margin of manoeuvre for decisions on taxation. The impact of EU membership on taxation is far more restricted than is asserted in the literature, while the impact on public spending is largely underestimated. The thesis also draws contrasts between the impact of EU membership on policy and on policy-making. The sectoral chapters demonstrate that the impact is greater on policy-making than on the outcomes of policies. The influence of EU membership is greater on practices and strategies than on formal budgetary rules.

Fourth, the thesis identifies how EU integration impacts on budgeting. Here the thesis determines various pressures on budgeting (e.g. competition, regulation) to expose the main sources of influence. However, the illustration of how the impact operates should not be interpreted as a causal statement on the reasons for EU influences.

To describe the process of adaptation of national budgeting to EU integration, the thesis uses the concept of Europeanisation. It is necessary at the outset to be precise about the definition of Europeanisation which has been used throughout the thesis.

1.2.2. The concept of Europeanisation

There is no consensus on usage of the concept of Europeanisation in the literature, reflecting that Europeanisation means different things to different authors. Europeanisation is a loose concept which was adopted by various schools of thought and adapted to their particular need for theoretical tools. First, with traditional "government" models of policy-making Europeanisation (or "Europeification" in some rare cases) refers to the tendency for an increasing number of decisions to be made at the EU level.[21] Europeanisation is the process through which the EU progressively becomes a supranational body thanks to the "pooling of sovereignty". It contributes to the "hollowing out" of EU nation states, "referring to a haemorrhaging of authority

[21] Andersen, Svein and Eliassen, Kjell (eds) (1993), Making policy in Europe - The Europeification of national policy-making (London: Sage).

from the nation state to other public and private sector actors at the supranational, national and subnational levels".[22] Here the international system is the site of the dependent variables which should be observed. However, this first meaning of Europeanisation suffers from "conceptual overloading" since it includes the process of transfer of sovereignty from the national to the EU level as well as the building of a supranational policy-making institution. Therefore, most authors prefer more specific terms to describe different facets of Europeanisation (integration, pooling of sovereignty, spill-over).

Second, "governance" models have used Europeanisation to describe the increasing entanglement between national and EU policy making, and multilevel bargaining in general. Europeanisation describes the interlocking of national and EU decision making procedures on a number of policy issues. This second meaning of Europeanisation is useful, but Europeanisation is not the best term to use. Other terms, which are not specifically EU-oriented but which may be applied to describe European Union processes, are commonly preferred by many authors because they are more explicit (e.g. interdependence, linkage, entanglement, etc.).

Third, Europeanisation describes the processes through which national-level organisations adapt to European Union level pressures. Here Europeanisation is a consequence of integration in the EU. Analysed variables belong to the national system only since the focus is on changes at the national level. This usage of Europeanisation rests on the assumption that EU integration promotes specific changes

[22] Page, Edward (1997), "The impact of European legislation on British public policy making: a research note", working paper (Oct.).

which may be distinguished from broader integration processes such as internationalisation and globalisation. Also, this third meaning of Europeanisation, by playing down the influence of national-level organisations in the formation of EU pressures, may convey an "authoritarian" view of the causes of change in national systems. However, the third meaning of Europeanisation remains extremely useful to account for changes in a national system caused by membership of the EU. It emphasises the dynamics of change rather than static descriptions and may be applied to various types of changes (in policies, processes and behaviour).

In the thesis Europeanisation is used to describe the process of adaptation of bureaucratic mechanisms to the consequences of EU membership. The Europeanisation of national budgeting designates all types of changes in budgetary procedures at the national level in response to EU membership. Europeanisation is restricted to this "third" usage, that is the changes in a national system in response to membership of the EU, because it is a useful concept to demonstrate the impact of EU membership on national budgeting. Also, the term Europeanisation is particularly appropriate here since other words may be used for the other usages (e.g. integration). "The Europeanisation of national budgeting in the United Kingdom and France: a study of governmental processes" must therefore be understood as a quest for the impact of European Union pressures on national budgetary processes and the adaptation of these national bureaucratic processes to EU pressures.

This definition of Europeanisation, as the process of adaptation of bureaucratic mechanisms to the consequences of EU membership, is the same as used by Lequesne in his studies of the impact of Europeanisation on the French bureaucracy. For Lequesne,

> "Europeanisation of national administrations can be defined as an incremental process reorienting the direction and the shape of the national administrative institutions and of the public policies to the degree that the EU dynamics become part of their organizational logic."[23]

Since in the thesis Europeanisation describes the consequence of EU membership, Europeanisation differs from harmonisation, defined as "the setting of rules with the aim of reducing the scope of discretionary decisions and of achieving greater uniformity in economic structure." [24] Here harmonisation designates the cause of change and the setting up of voluntary top-down measures. Europeanisation may therefore, result from harmonisation, as is showed in chapter 2. Europeanisation also differs from convergence[25] and uniformisation because it does not imply that policies and policy processes become more similar over time (i.e. converge). EU constraints may stimulate divergent policy changes in each Member State. For example VAT harmonisation caused opposite changes in balancing between direct and indirect taxation depending on the existing tax structure in each Member State.

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[23] Lequesne, Christian (1995), "The Europeanisation of public administrations: some considerations about the French case", paper presented at the LSE Symposium on *Europeanisation: institutional change in Britain, France and Germany* (London, 24 March).

[24] Commission of the European Communities (1984), "Convergence and coordination of macroeconomic policies: some basic issues", *European Economy*, 20: 73.

[25] "Convergence is a longitudinal process through which formal as well as informal behaviour and values become increasingly similar because of a variety of domestic and international factors" according to Leonardi, Robert (1993), *Convergence, cohesion and integration in the European Union* (London: MacMillan): 185.

These definitions determine the variables used in the thesis. Because Europeanisation revolves around the notion of adaptation to the EU, the thesis focuses on the nation-state as the site of the dependent variables (national institutions, national decision making procedures, national actors). EU factors are treated as independent variables since they are the source of demands made upon national systems.[26] The thesis shows some of the various factors at work in the EU that shape budgeting (e.g. competition, regulation, substitution). These factors, which are different in their nature, are studied only because they are the causes of change within national administrative systems.

The thesis develops a new concept, hybridisation, to account for the increasing entanglement between national and European policy-making. This new term is useful to distinguish between linear changes in national mechanisms caused by EU membership (Europeanisation) and the interlocking of national and EU decision making procedures ("hybridisation"). Hybridisation revises the conventional approach to budgeting because it implies that the national context is inappropriate and that EU variables should be introduced to explain budgetary decisions in a nation-state. Therefore, hybridisation represents an important contribution to validate the hypothesis that focusing on the national context is inappropriate for studying budgeting since national budgeting is influenced by EU variables to a greater extent than is usually maintained.

Because Europeanisation is defined as a process, the thesis measures the degree to which policy sectors and countries are engaged in this process. The analysis is at all

[26] Rosenau, James (1980), *The study of global interdependence - Essays on the transnationalisation of world affairs* (London: Frances Pinter): 168-179.

times comparative between Britain and France. The thesis shows the extent to which different policy areas, agriculture, transport and health, are exposed to the process of adaptation to the EU.

Finally, the thesis focuses on bureaucratic mechanisms. It looks at the institutions and at the roles of the actors in the budgetary process. The thesis looks at changes in the public expenditure review, at the budgetary negotiations between the Finance Ministry and spending departments and at the role and strategy of the actors involved in national budgeting. However, the intention is not to describe the national budgetary process as a whole but only to delineate changes in these mechanisms which were caused by membership of the European Union.

1.2.3. Data and methods

The thesis uses empirical evidence to identify changes in national budgeting and to evaluate whether these changes have occurred because of EU membership. It adopts a comparative approach as a way of isolating similar pressures from EU membership on budgeting and contrasting the adaptation of different Member States to these pressures. The thesis focuses on the United Kingdom and France, which may be considered to be 'matching cases' for several reasons. First, the UK and France present a resemblance at the macroeconomic level (size of the country, level of development, standard of living). Because they are among the wealthiest EU members, the UK and France are both excluded from Cohesion Funds and have fewer regions eligible for Structural Fund support. It is more widely assumed that cohesion countries' policies and budgetary choices are influenced by EU funding; therefore the thesis deliberately selected EU members where the EU influence is considered to be small. Second, national budgetary institutions and the breakdown of responsibility between sub-levels in the two countries are similar. It would have been difficult to draw parallels between a centralised and a federal state because of the great differences in decision-making processes and the split between local and central government expenditure. Third, because of their size, the UK and France have similar weights in the negotiations at the EU level. Fourth, comparison of British and French budgeting reveals several differences: the size of the public sector and the level of taxation are much higher in France than in the UK, which indicates different uses of the budget for allocation and redistribution. That the UK joined the EC 15 years after France may explain differences in the timing of changes between the two countries.

The time-scale for the comparison of budgeting in the United Kingdom varies depending on the particular subject matter discussed. Analysis of budgetary aggregate data and taxation allows for the observation of trends since the early 1970s. Only after Charles de Gaulle withdrew from the French presidency in 1969 did the United Kingdom receive indications that France would not set more obstacles to UK membership of the EEC. Similarly the influence of EU membership on budgeting in the ministry of Agriculture may be measured as early as the 1970s. However, in other chapters discussing institutions, and budgeting for transport and health, the impact of EU membership on budgeting is much more recent. In these cases the comparison is focused on the 1990s since Europeanisation trends were reinforced by decisions contained in the Treaty of Maastricht.

Empirical evidence was gathered through an extensive analysis of budgetary aggregate data since the early 1970s and through interviews with 59 officials from British and French national administrations which took place between November 1994 and April 1995. Interviews were conducted in four government departments (Finance Ministry, Agriculture, Transport and Health departments) in Britain and France.[27] The thesis then uses empirical generalisation to assess whether the process of national budgeting did adapt to the consequences of EU membership, and to demonstrate that European factors must be introduced into the study of national budgeting because of Europeanisation.

1.3. Theoretical tools

The choice of an empirical method to study budgeting raises the question of which viewpoint to adopt. Budgeting has been studied from a variety of perspectives, including accounting[28], public administration[29], economics[30] and political science. The political science approach to national budgeting itself is subdivided in a number of theories, including cultural theory[31], new institutionalism[32] and public choice theory[33].

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[27] For more details on the allocation of interviews per sector, country and bureau, see the methodological annexe, Appendix 1.1.

[28] For instance, Her Majesty's Treasury (1994), *Better accounting for the taxpayer's money - Resource accounting and budgeting in government*, Cm 2626 (London: HMSO, July).

[29] For instance, Institut Français des Sciences Administratives (1988), *Le budget de l'Etat* (Paris: Economica).

[30] For instance, Haan, J. de, Sterks, C. and Kam, C. de (1992), "Towards budget discipline: an economic assessment of the possibilities for reducing national deficits in the run-up to EMU", in Commission of the European Communities, *Economic Papers*, 99 (Dec.).

[31] Wildavsky, Aaron (1986), *Budgeting: a comparative theory of budgetary process*, 2nd edition (Oxford: Transaction books).

[32] Hall, Peter (1986), *Governing the economy - The politics of state intervention in Britain and France* (Cambridge: Polity press).

Each of these schools offers a different definition of budgeting and uses distinct variables of change. For instance, new institutionalists focus on budgetary institutions, and cultural theory focuses on kinship and shared values within central government. Not all these theoretical frameworks are used in this research. However, since the variables of change are numerous and non-exclusive, the thesis selects several approaches to budgeting as several complementary cases to test the hypothesis.

Strictly speaking, budgeting is defined as "the exercise through which the annual receipts and expenditure of the government are forecast and authorised by Parliament."[34] The budget document reflects national government's decisions over expenditure and taxation. While the remainder of the thesis emphasises the margin of manoeuvre of national governments in spending decision-making, chapter 2 focuses on the influence of the EU on taxation policy in Britain and France. It compares the impact on budgeting of competition and regulation with that of EU institutional arrangements.

Chapters 2, 3 and 4 adopt the new institutional approach to budgeting and use the definitions and the variables developed by Hagen. "We interpret the budget as a locus of conflict resolution and the budgetary process as a constitutional mechanism to structure and solve disputes and reach agreements."[35] New institutionalism posits that budgeting is best analysed at the institutional level because it assumes institutions

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[33] Dunleavy Patrick (1991), *Democracy, bureaucracy and public choice* (London: Harvester Wheatsheaf).

[34] Budgeting is defined as the "acte par lequel sont prévues et autorisées par le Parlement les recettes et les dépenses annuelles de l'Etat" in Baslé, Maurice (1985), *Le budget de l'Etat* (Paris: La Découverte) : 5.

[35] Hagen, Jürgen von and Harden, Ian (1994), *National budget process and fiscal performance*, working paper, : i.

perform several roles. Institutions frame constraints and powers, define the means through which states pursue their interests and reflect power distribution at a given point in time. Institutions shape actors' and states' expectations, perceptions of self-interest and preferences by establishing a network of responsibilities and relationships to other actors. New institutionalism seeks to determine how procedures and norms affect budgetary choices. Chapters 3 and 4 adopt the new institutional framework, focusing on changes in budgetary institutions as the major factor and indicator of budgetary change. They introduce European variables in the new institutional framework in that they test the proposition that EU membership has incited national budgetary institutions to change. Therefore, Europeanisation is revealed in the changes in national budgetary institutions because of EU membership.

We need to review which institutional variables should be integrated in the study. New institutionalism combines numerous variables, creating the effect that "the study of institutions that emerges as the hallmark of modern political theory potentially forms the basis for a synthesis of several intellectual traditions within political science".[36] To the 'old' institutional focus on 'fundamental' institutions[37], new institutionalism adds "formal rules, compliance procedures, and standard operating practices that structure the relationships between individuals in various units of the polity and economy."[38] New institutionalism retains the emphasis of public choice theory on individual action and integrates the impacts of individual rational motivations on budgeting. However, the extent to which bureaucrats perceive their self-interest is determined by institutional

[36] Alt, James and Shepsle, Kenneth (eds) (1990), *Perspectives on positive political economy* (Cambridge: Cambridge University Press) : 24-25.
[37] e.g. balance of power, international law, diplomacy, legislative structures and electoral rules.
[38] Hall, Peter (1986), *Governing the economy - The politics of state intervention in Britain and France* (Cambridge: Polity press) : 19.

settings. Institutions are viewed as important determinants of preferences over different actions, but in turn they are endogenously determined by individual preferences, traditions and transaction costs.

While Wildavsky concentrates on the procedures used by bureaucrats to allocate resources to competing expenditure programmes, new institutionalism adopts a more comprehensive definition of budgetary institutions. Budgetary processes incorporate "the collection of institutions, rules, and procedures through which decisions about government spending and taxation are made."[39] According to Hagen, budgetary procedures are synchronised in three stages: bargaining inside government on drafting the budget, the parliamentary stage with the amendment and the vote of the Finance Bill, and implementation by the government.

Interministerial bargaining over the drafting of the budget is framed by: first, how division-of-labour arrangements assign roles to individual actors. A typical European arrangement is that governments draft budget proposals and present them to the legislature. The division of labour determines who the agenda-setter is; second, how specialisation-of-labour arrangements assign jurisdictions to individual groups of actors. These arrangements are crucial because they determine what kind of choices the agenda-setter can make (spending ministries have jurisdiction in their sector only) and the possibility of trade-offs. Labour specialisation depends on the existence of general constraints such as a golden rule;[40] third, the quality of information the budget

[39] Hagen, Jürgen von and Harden, Ian (1994), *National budget process and fiscal performance*, working paper : 3.
[40] A golden rule is a binding budgetary clause. For instance, the Commission has recommended that government deficit should not exceed government investment expenditure.

conveys about public finances and the government's intentions. Poor information allows the government to send mixed signals about its fiscal intentions. The degree of information also depends on the amount of off-budgeting;[41] last, the existence of multi-year planning, the degree of commitment it conveys and the extent to which it is detailed (definition of targets, length of planning horizon, and nature of forecasts).

Institutional arrangements for the passing of the budget law through Parliament include: first, the voting procedure within Parliament (agenda-setting, timing, single vote for all expenditure, and an initial vote on budget size), which determine the degree of potential reciprocity and universalism;[42] second, the amendment procedure specifying how MPs may alter budget proposals and what amendments are receivable (e.g. whether it is required that they are off-setting);[43] third, party system and discipline, and more generally the relations between government and Parliament; four, the political implications of rejecting a budget proposal, which depend on the government's power and how easy it is to use a replacement procedure. If budget rejection is likely to lead to the demise of the government, then the government should propose a budget which is expected to find wide support in Parliament. This constraint tends to weaken the government's position in the budgetary process. But the political party supporting the government will refrain from proposing changes if the government

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[41] Off-budgeting consists in taking expenditure out of the budget document while it is centrally financed to enhance budgetary aggregates. Off-budgeting contradicts the principle of comprehensiveness.

[42] "Universalism refers to the property of budget proposals to contain 'something for everyone', i.e. to distribute favors more generously than an individual decision maker would want. Reciprocity refers to the principle of not attacking another person's appropriation proposal in return for her not attacking ones own. Both tend to increase expenditure." in Hagen, Jürgen von (1992), "Budgeting procedures and fiscal performance in the European Communities", in Commission of the European Communities, *Economic Papers*, 96 (Oct.): 28, referring to Alt and Chrystal (1981).

[43] Off-setting amendments means that changes to tax and expenditure plans must have a neutral effect on budgetary aggregates (e.g. deficit, PSBR and size of the public sector). Proposals to increase public spending must be accompanied by equivalent expenditure cuts on other budget items.

is in danger, which strengthens the position of the government. The combined effect is ambiguous.[44]

The execution of the budget by the government includes: first, the power of the Finance Minister to block expenditure and to impose spending limits on ministers who exceed their budget norms; second, the degree to which budget law binds the government's actions legally and politically during the fiscal year. Flexibility in the execution of the budget depends on the possibility of transferring expenditure between budget titles, of carrying unused funds forward, on the existence of a budget reserve and on the use of open-ended appropriations; and third, the degree of flexibility to respond to unforeseen events, which depends on the procedure to meet new demands for spending and reduced taxation and on the possibility of proposing supplementary budgets during the execution of the budget law.

New institutionalism offers a framework to assess the effectiveness of budgetary institutions in influencing individual or collective behaviour.[45] Effectiveness is first measured by success in implementation, through asking whether the operation of the institution has alleviated the problem that led to its formation. Second, success in compliance depends on enforcement and transparency (the ease of detection of violations by subjects; and the probability that violators will be subject to sanctions; the magnitude of the sanctions imposed). Third, success in persistence is defined as the ability of institutions to adapt to changing circumstances without losing their capacity

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[44] Hagen, Jürgen von (1992), "Budgeting procedures and fiscal performance in the European Communities", in Commission of the European Communities, *Economic Papers*, 96 (Oct.).
[45] Rosenau, James and Czempiel, Ernst-Otto (eds) (1992), *Governance without government: order and change in world politics* (Cambridge: Cambridge University Press).

to handle the problems they were created to solve. Persistence depends on transformation rules (amending procedures and the requirements imposed for altering institutions) and on robustness (whether the institutions rely on 'heavy' procedures such as majority voting, or on 'light' procedures such as consensus).

The new institutional framework allocates a specific ordering role to EU institutions in an environment considered conflictual. The interpenetration of bureaucracies and interest groups operating in tandem in Brussels creates a system where their actions can be detected, rewarded and punished. EU institutions bring together leaders of Member States, parties and interest groups in a permanent dialogue, continuous contact and collaboration. Actors learn about the preferences of their counterparts. EU institutions do not harmonise all interests and even create conflicts, but Member States find an incentive for co-operation because EU membership raises the cost of defection or of non-participation and enhances the value of reputation. This incentive is intensified because permanent institutional structures lengthen the time-horizons of participants and multiplies interactions.

The focus in chapters 5 to 7 differs from that of the preceding chapters because the level of analysis of budgeting is lower. Preceding chapters focus on high-level decisions on expenditure and revenue, and on system-properties (i.e. how the environment influences the budget outcomes through actor's strategies and processes), which Rubin[46] describes as 'macro-budgeting'. In contrast, chapters 5 to 7 are directed

[46] Rubin, Irène (1993) *The politics of public budgeting - Getting and spending, borrowing and balancing* (Chatham: Chatham House) - Rubin, Irene (ed.) (1988), *New directions in budget theory* (New York: State University of New York Press) : 24-28.

to 'micro-budgeting'. They focus on intermediate-level decisions on departmental programmes and line-items and usually emphasise bottom-up decision-making processes. Policy-making is seen as bargaining process between groups of actors with various degrees of authority, who are linked by power-dependence relationships. To some extent this approach to budgeting may be close to Wildavsky's description of budgeting[47] as a network of communications where information is generated and reacted to. He argues, "if politics is regarded in part as conflict over whose preferences shall prevail in the determination of national policy, then the budget records the outcome of this struggle".[48]

While conventional budgetary literature has traditionally focused on stable groups of participants at the national level, actor-based network theories explore the development of international and European networks in which officials and interest groups form linkages and alliances, which are no longer concentrated at the national level. Actor-based theories share with public choice theory a focus on individuals, and acknowledge that institutional arrangements shape actors' preferences and strategies. Their originality lies in their argument that nation-states and governments are not the best units for analysis of policy-making. They stand in contrast to 'within-systems theories' (according to Rosenau) which emphasise variables at one level only and neglect the levels or systems in which antecedents are located and into which the behaviour of actors is projected. These theories argue that the international variables of domestic policies can no longer be held constant.

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[47] Wildavsky, Aaron (1986), *Budgeting: a comparative theory of budgetary process*, 2nd edition (Oxford: Transaction books) : 7-9.
[48] Wildavsky, Aaron (1992), *The new politics of the budgeting process*, 2nd edition (New York: Harper Collins): preface.

Rosenau offers a formulation of the relations between national and international systems in his linkage theory. To test interactions between actors and structural changes in the polity, he introduces international variables in comparative politics, and vice versa. Rosenau uses the concept of linkage to illustrate a "recurrent sequence of behavior that originates in one system and is reacted to in another."[49] "Two or more autonomous actors are linked in the sense that the outcomes associated with the choices of each individual participant are determined, in part, by the choices of each of the others."[50] Interactions between national and international systems may explain how and under which conditions budgetary choices at one level affect budgetary choices at another level. Rosenau argues that linkage occurs when authority structures span national boundaries, i.e. when the dynamics whereby the authority is created, continued and dissolved at the national level emanate from the international level. National actors and budgeters tend to determine their behaviour in compliance with EU recommendations which they consider more legitimate than national ones. Rosenau sees two reasons why legitimacy is delegated to international levels: actors tend to rely on appeals to common values because of the decline of the nation-state; second, actors increasingly rely on scientific knowledge because of the technical nature of issues. Authority structures (compliance because the directive is legitimate) differ from influence structures (compliance because the directive is preferable), from loyalty structures (loyalty is not expressed through compliance only), or from citizenship (rights and obligations emanate from law). Budgeting would therefore become linked

[49] Rosenau, James (1980), *The study of global interdependence - Essays on the transnationalisation of world affairs* (London: Frances Pinter) : 180.
[50] Rosenau, James and Czempiel, Ernst-Otto (eds) (1992), *Governance without government: order and change in world politics* (Cambridge: Cambridge University Press) : 188.

because interactions between non-unified actors expand the EU authority structure as legitimacy grows for European actors.

Putnam's formulation of actor-based network theories[51] goes further in integrating national and international policy-making. While Rosenau emphasises the international causes and consequences of national policy-making and vice versa, Putnam emphasises the totality of national and international political systems and accounts simultaneously for domestic and international factors and behaviours. His 'general equilibrium' model argues that the distinction between domestic and international decision-making levels is irrelevant because variables at the two levels are 'entangled'. Some sub-levels of government may express national or international opinions, but intermediate actors operating across boundaries reconcile opinions in such a way that a specific policy-making process, based on multi-level interactions emerges, different from both national and international policy-making. Actor-based network theories describe a new policy context where policy-making depends on many variables and varied actors (governments, EU institutions, networks of transnational actors). On an increasing number of matters national politics is contingent on EU decision-making, which is itself made up of the aggregation of national choices in every Member State. Actor-based theories point out not only complexities and conflicts in multi-level decision-making, but also the constraints on government in reconciling these competing interests simultaneously. These theories interpret the Europeanisation of decision-making as a

[51] Putnam, Robert (1988), "Diplomacy and domestic politics: the logic of two-level games", *International Organization*, 42: 427-460.

consequence of the entanglement of national and EU institutions and actors; and they substitute actors' networking for the nation-state framework.[52]

Putnam suggests a methodology, the 'two-level game' metaphor, to study interactions between domestic and international levels. This model conceptualises the entanglement of domestic and international variables and the interactions between actors.

> "At the national level, domestic groups pursue their interests by pressuring the government to adopt favourable policies, and politicians seek power by constructing coalitions among those groups. At the international level, national governments seek to maximise their own ability to satisfy domestic pressures, while minimizing the adverse consequences of foreign developments."[53]

Central government decision-makers appear at both domestic (level 1) and international (level 2) negotiations and try to reach a point where both parties are satisfied. The constraint underlined by this model is that any tentative level 2 agreement must be ratified by each level 1 organisation.

Nation-state and national government are subject to theoretical reconstruction in actor-based network theories because they assume variables are entangled and the executive is never unified in its views. In contrast with the state-centric paradigm of international relations or with theories where actors are only supplementing the nation-state, actor-based theories argue political life is sustained through a variety of dissimilar and competitive authority structures. Rosenau, in his theory of transnational relations, had already underlined "processes whereby international relations conducted by

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[52] Andersen, Svein and Eliassen, Kjell (eds) (1993), *Making policy in Europe - The Europeification of national policy-making* (London: Sage).
[53] Putnam, Robert (1988), "Diplomacy and domestic politics: the logic of two-level games", *International Organization*, 42:434.

governments have been supplemented by relations among private individuals, groups, and societies."[54] Actor-based network theories focus therefore on actors' strategies, dependencies and coalitions. They adopt a wider definition of actors than public choice theory, since they include non-governmental actors and supranational organisations. Also, while public choice theory describes bureaucrats as following the same budget-maximisation paradigm, actor-based theories stress that actors adopt different strategies and pursue different, even competing, goals depending on whom they are bargaining with. The splitting of government into several sub-levels is useful to take account of the distribution of power, and conflicts of interests, within the executive. Actors in the level 1 game include members from the administrative and political systems, such as party and parliamentary figures, cabinet-level ministers and committees; and actors from the public and from interest groups such as spokespersons for domestic agencies, representatives of key private groups, sponsors and the leader's own political advisors. Actors in the level 2 game sit with their foreign counterparts across the table, and with diplomats and international advisors at their elbows.

Actor-based network theories define a number of variables for understanding multi-level bargaining between actors, which chapters 5 to 7 focus on. The two-level game metaphor may be used, first, to divide the budgetary process into several sub-levels of bargaining with distinct actors and constraints. Actors involved at several sub-levels may not defend the same argument, nor pursue the same goal, depending on the actors they bargain with. The success of their bargaining may be analysed by win-sets, i.e. the

[54] Rosenau, James (1980), *The study of global interdependence - Essays on the transnationalisation of world affairs* (London: Frances Pinter) : 1.

sets of choices that would match actors' constraints. The definition of win-sets raises questions on whether actors' preferences can be reconciled, whether opponents' interests overlap, whether actors' preferences are homogenous or heterogeneous, and what is the cost of 'no-agreement' or the 'reversion-point' for each actor.[55]

Second, Putnam emphasises the context in which the bargaining takes place, for instance, the degree of uncertainty about the positions of the other negotiators, about their expectations and the participation rates of the constituents.

Third, the approach focuses on the distribution of power among participants since it assesses asymmetries in power distribution and in the spread of information. The more symmetrical the distribution of power, the harder it is to establish institutional arrangements but the more effective they are once formed.

Fourth, Putnam measures the degree of external interdependency, i.e. where national actors cannot pursue their own goals without adjusting for, and endeavouring to regulate, the actions of others. Rising levels of interdependence increase the need for reconciling national and European interests and strengthen social pressures against the violation of the institutions' rights and rules. High external interdependency means that members of international society will be most concerned with interactions with others. It reduces the risk of voluntary and involuntary defection.

Last, Putnam emphasises the capacity and willingness of national governments to implement provisions favoured internationally. Members of international society have restricted means with which to enforce institutional arrangements within national jurisdictions and depend on national governments for compliance with rules. National

[55] According to Putnam, Robert (1988), "Diplomacy and domestic politics: the logic of two-level games", *International Organization*, 42: 427-460, preferences are homogenous when competing actors agree on the aim of the agreement but disagree on the evaluation of the cost of no-agreement (i.e. spending ministers acknowledge the need for deficit cuts, but disagree on how to allocate budget cuts). Interests are heterogeneous when actors also disagree on the aims of the agreement.

governments may be more willing to implement European directives if the initial cost of developing co-operation is low[56] and if other European governments are able to offer side-payments.

The originality of actor-based network theories lies not only in the representation of actors' interests but also in the vision of how actors are organised into networks. A policy network is a system of representation of interests acting on the government through intermediation. This notion includes an interpretation of how groups are formed (what defines their identity), how organised they are, and their impact on policy-making. Rhodes[57] distinguishes five types of networks from highly integrated policy communities to loose issue networks. 'Epistemic community' is one specific type of network and seems particularly relevant for budgeting. They are publicly-recognised groups with an unchallenged claim to understanding the technical nature of the regime's substantive issue-area and are able to interpret facts or events in new ways, thereby leading to new forms of behaviour. According to Haas[58] cross-national epistemic communities contribute to the development of co-ordinated and convergent policy-making, and are particularly active on technical issues. They direct their action to setting the international agenda, guiding their states towards support of international measures and supporting the process of learning.

[56] Rosenau, James and Tromp, Hylke (eds) (1989), *Interdependence and conflicts in world politics* (London: Avebury).
[57] Marsh, David and Rhodes, R. (eds) (1992), *Policy networks in British government* (Oxford: Clarendon press).
[58] Haas, Peter (1989), "Do regimes matter ? Epistemic communities and Mediterranean pollution control", *International Organization*, 43 3: 377-403.

Finally, actor-based network theories' focus on change and complexity offers a framework for explaining changes in actors' expectations, strategies and in institutional arrangements. Many theories adopt a static perspective on budgeting as they focus more on explaining continuity than on how and why budgeting changes. Actor-based network theories combine change and conflict with the notion of complexity: "A system's complexity is generally thought to be a function of the number of elements, their heterogeneity, the number and variation of linkages and the degree to which the system is in transformation."[59] The degree of complexity in budgetary decision-making is therefore a function of the following variables: the lack of oversight and co-ordination; the linking of national traditions through a system of transnational policy-making; the fact that EU is a new and changing form of authority with new types of modes of regulation (e.g. subsidiarity); and the broadening of the scope and variety of budgetary issues influenced by the EU.

Actor-based network theories offer a framework relevant for studying micro-budgeting and for introducing European variables in a cross-national comparison. Since micro-budgeting focuses on intermediate level decisions, on departmental programmes and on power-dependence relationships between actors, chapters 5, 6 and 7 test the thesis' proposition from the departmental perspective and investigate the influence of EU membership on budgeting in three spending ministries (Agriculture, Transport and Health). The thesis focuses on links and tensions between groups only to the extent that they affect budgetary choices and are linked to EU membership. The thesis does not describe the functioning of groups as such, nor does it emphasise the

[59] Andersen, Svein and Eliassen, Kjell (eds) (1993), *Making policy in Europe - The Europeification of national policy-making* (London: Sage): 11-12.

Europeanisation of policy sectors. Rather it describes shifts in the strategy of groups and the consequences for budgetary decision-making because of EU pressures.

The strength of the approach lies in its ability to capture the visible patterns and connections between organisations. It stresses the splitting of policy-making into differentiated institutional groupings with distinctive strategies and power resources. Going down one level from national to departmental budgeting allows for the incorporation of sub-government relationships and the delineation of power-dependence and conflict between groups. The focus on micro-budgeting emphasises diversity within national budgeting which cannot be viewed as a unified whole, since it juxtaposes highly integrated sectors with sectors which are little constrained by the European Union. The approach underlines that the adaptation to EU influences is not a uniform process but varies in intensity and channels.

1.4. Conclusion

First, chapter 1 shows that the existing political science literature underestimates the adaptation of national budgetary mechanisms to the consequences of EU membership. Chapter 1 distinguishes between essentially outdated literature like Heclo and Wildavsky and contemporary literature on European integration that plays down or ignores the effect of the EU on budgeting. Conventional public finance literature adopts a national approach to budgeting: it describes budgeting as a process internal to national governments and excludes non-national variables that may affect budgetary strategies and mechanisms. The EU is not considered an actor in the budgetary processes nor an arena for decision-making. This neglect is paralleled by the fact that most contemporary works on integration in the European Union disregard budgetary matters because the EU has no formal responsibility for national budgets. A few works investigate the links between national budgeting and EU membership but their focus remains narrow since they offer a restrictive view of EU-related changes in budgeting. Also, most literature is normative and static since it does not describe changes in national budgeting. Zapico-Goni is an exception: he does not restrict EU influence to 'negatively oriented' fiscal norms and 'police-like' activity since he sees a role for the EU in leadership and in decision-making. However, his work lacks empirical evidence of whether, and how, EU membership alters national budgetary institutions and decision-making. Therefore, chapter 1 has identified a gap to investigate. It argues there is a need for an empirical study of the adaptation process of bureaucratic budgetary mechanisms to the consequences of EU membership, which is why the thesis uses empirical evidence to identify changes in national budgeting in two cases, Britain and France, to evaluate whether these changes have occurred because of EU membership

Second, chapter 1 has explained the hypotheses and methods used in the thesis. The main issue addressed in the thesis is to determine whether EU membership caused a process of adaptation of bureaucratic budgetary mechanisms to EU pressures. The argument asserted throughout the thesis is that the impact is greater and different in nature than is widely assumed in the conventional literature presented at the outset. This argument rests on three hypotheses which will be evaluated in the forthcoming chapters: first, the thesis puts forward that the national approach is inappropriate for a study of budgeting because of the significant influence of EU factors on national budgeting. The two other hypotheses suggest that the adaptation of budgetary processes to EU pressures is proportional to the frequence and intensity of interactions between national and European actors during policy-making processes (hypothesis two) and to the amount of EU credits in the department's budget (hypothesis three).

This main argument is subdivided into four types of questions which are enunciated in chapter 1 and will be evaluated as the thesis goes: one aspect measures the degree to which budgetary processes are affected; another assesses whether these changes improved national budgetary processes or not; the third determines which aspects of budgeting are more affected than others and illustrates that the adaptation of national budgeting is not uniform; finally the thesis identifies various sources of pressure on national budgeting. Chapter 1, also, in discussing the meanings of Europeanisation, defines the concept of Europeanisation as the process of adaptation of bureaucratic mechanisms to the consequences of EU membership.

Third, chapter 1 has discussed the main theoretical tools used in the forthcoming chapters. The thesis selects several approaches to budgeting as several complementary cases to test the proposition that budgeting is affected by membership of the European Union. To test the hypothesis in an overall way it selects the new institutional framework to focus on changes in budgetary institutions as the major factor and indicator of budgetary change. The institutional variables used are those defined by Hagen, who argues that budgetary procedures are synchronised in three stages:

bargaining inside government on drafting the budget, the parliamentary stage with amendments and the vote of the Finance Bill, and implementation by the government.

To test the hypothesis at the sub-governmental level the thesis focuses on 'micro-budgeting' and uses Putnam's two-level game metaphor to emphasise the role of actors. Micro-budgeting features intermediate level decisions on departmental programmes and line-items. The issue of budgetary Europeanisation is approached from the perspective of individual spending ministries (Agriculture, Transport and Health). Policy-making is seen as a bargaining process between groups of actors with various degrees of authority, who are linked by power-dependence relationships. The approach emphasises the totality of national and international political systems.

By combining these complementary approaches to budgeting the thesis seeks evidence of the Europeanisation of procedures and actors' strategies at both macro and micro levels. In chapter 2 the thesis focuses on fiscal policy and assesses the degree of national sovereignty in the setting of taxes.

Chapter 2

The scope for independent fiscal policy in the European Union: taxation in the United Kingdom and France

While subsequent chapters emphasise how EU membership influences spending decision-making, this chapter focuses on the revenue side of the budget.[1] Fiscal policy in this context designates how governments distribute the cost of financing the public sector over current and future tax payers. Fiscal policy is a major instrument of regulation because of its macro-economic effects. Therefore, fiscal sovereignty is an important issue, given the postulated loss of monetary policy within EMU. Chapter 2 discusses the constraints on the design of taxes and social security contributions in the United Kingdom and France because of EU membership. The aim is to delineate the margin of manoeuvre of national governments in setting fiscal policy.

The normative approach does not offer a clear answer on the desirable scope for an independent fiscal policy in the European Union. Some authors argue that integration in the EU ultimately requires the harmonisation, or at least a greater convergence, of fiscal policy in individual countries. From an economic point of view the OFCE argues that production and consumption conditions should be similar in a unified market to protect and promote genuine competition. Fiscal policies should be co-ordinated to respond to exogenous macroeconomic shocks because the EU budget is too small to

[1] Budgetary receipts include all direct and indirect taxes, and social security contributions.

perform this role on its own.[2] Wildasin demonstrates that increasing market linkage from economic integration may limit redistribution at the national level while creating pressure for increased redistribution at the EU level.[3] On a political level Spahn argues "EMU will have an important impact on national fiscal systems of Member States as it will impinge on European intergovernmental fiscal relations."[4] He maintains that a number of taxes may be levied and designed at the EU level because EMU will increase the scope for EU responsibilities. This hypothesised evolution would represent a major threat to national fiscal sovereignty.

These views are opposed by the argument that EMU does not require fiscal uniformity and that Member States should retain their fiscal autonomy to correct regional imbalances, given the postulated loss of monetary and exchange rate policy at the national level. Bureau and Champsaur argue that only some co-ordination of national budgets is required since the main pressure on public finance is induced by competition.[5] This second school uses empirical evidence to show that existing economic union and federations did not require fiscal harmonisation or approximation. Federalism in Swiss and the United States did not reduce regional fiscal disparities or the authority of sub-government levels to set taxes.[6]

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[2] CEPII-OFCE (1990), "Vers une fiscalité européenne?", *Observations et Diagnostics Economiques, Revue de l'OFCE*, 31 (Apr.),121-189.

[3] Wildasin, David (1990), "The economics and politics of budget control: Budgetary pressures in the EEC, a fiscal federalism perspective", *The American Economic Review*, Papers & Proceedings, 80 2 (May): 69-85.

[4] Spahn, Peter, "The consequences of economic and monetary union for fiscal federal relations in the Community and the financing of the Community budget", in European Commission (1993), "The economics of Community public finance", *European Economy Report and Studies*, 5: 543.

[5] Bureau, Dominique and Champsaur, Paul (1992), "Fédéralisme budgétaire et unification économique européenne", *Observations et Diagnostics Economiques, Revue de l'OFCE*, 40 (Apr.): 87-98.

[6] Blöchliger, Hansjörg and Frey, René, "The evolution of Swiss federalism: a model for the European Community?", in European Commission (1993), "The economics of Community public finance", *European Economy Report and Studies*, 5: 213-243.

The chapter tests two competing propositions about the scope for independent fiscal policy and the extent of national sovereignty in the determination of taxation in EU members. The first maintains that increasing competition in the Single Market and EU harmonisation directives on a number of taxes constitute an impelling force towards fiscal convergence. The second proposition posits that existing institutional arrangements and decision-making processes at the EU and at the national levels secure the ultimate sovereignty of national governments in the determination of taxation.

2.1. The forces promoting fiscal convergence

Proposition 1 maintains that EU membership reduces the margin of manoeuvre of national governments in the setting of tax and social security contributions because increasing competition in the Single Market and EU harmonisation directives constitute a force for fiscal convergence. One driving force towards fiscal convergence is competition. Competition has expanded to taxation and social security contributions because unharmonised taxes hinder the efficient functioning of markets. The pressure on tax levels to converge towards those of trading partners is higher when tax bases are mobile. The second driving force for convergence is EU legislation, since it sets obligatory or recommended tax levels for all EU members.

2.1.1. Fiscal competition: the victory of economic over budgetary constraints?

The design of taxation reflects the trade-offs between budgetary constraints, which imply having sufficient revenues to pay for public expenditure with an acceptable deficit level, and economic requirements, which involve having tax levels comparatively low to attract investment, promote employment and increase production and consumption. There are also trade-offs within the strategies of Finance Ministries because the maximisation of revenues does not always occur from high tax levels (as underlined by Laffer): lower tax levels may ultimately generate more revenue because of the consequential increase in consumption or production. A senior civil servant from the Direction du Budget argued

> "Corporation tax bases and rates are not harmonised. However, first right-wing then left-wing French governments lowered corporation tax from 50 to 33% ... This move was quite widely recommended to the government by the technocrats and put forward by government to public opinion as a necessity for harmonisation understood as the competitiveness of French companies vis-à-vis their foreign competitors. This argument has been an important doctrinal component of all political and economic debates since 1986 because the Finance Ministry has systematically put forward lower corporation tax levels as a neutral measure which benefits employment and companies ... On this subject, Europe created an intellectual leverage effect."[7]

The liberalisation and the free-circulation of goods, services and labour within the EU stimulate increasing economic competition. Proposition 1 maintains that competition encourages national governments to favour economic constraints over budgetary ones

[7] "L'impôt sur les sociétés n'est pas harmonisé, ni en assiette ni en taux. Ceci étant, les gouvernements français de droite d'abord et de gauche ensuite, ont fait baisser l'impôt sur les sociétés de 50 à 33% ... C'est quelque chose qui a été assez largement justifié par les technocrates auprès du gouvernement et mis en avant par le gouvernement vis à vis de l'opinion, comme étant une nécessité d'harmonisation au sens compétitivité des entreprises françaises vis à vis de leurs concurrents à l'étranger. Cela a été un élément doctrinalement très important dans tous les débats politiques et économiques depuis 1986 parce que Rivoli-Bercy ont systématiquement mis en avant la baisse de l'impôt sur les sociétés comme une mesure neutre favorable aux emplois et aux entreprises ... C'est une zone où l'Europe a été un levier de pression intellectuel pour faire évoluer les choses.", Interview, ref. 1.

and to reduce differences between national and neighbouring tax levels on similar goods and services. With higher taxation national governments face four economic and budgetary risks.[8] First, distortion of competition may modify consumption patterns by favouring substitution goods or low-taxed goods. Second, production dislocation may occur if companies choose or change their locus of production (country, region) because mobile production factors will be responsive to different tax treatments. Third, trade may be diverted while not optimising the allocation of factors. Fourth, different tax treatments stimulate tax evasion. Therefore, the pressure on taxes to converge in the EU depends on the degree of competition and the likelihood for these risks to occur for each tax base.

Proposition 1 posits that economic competition in the EU encourages fiscal competition between Member States, especially on taxes with mobile tax bases. The more mobile the tax base, the greater the impelling force towards fiscal convergence for national governments. Fiscal convergence is stimulated by emulation, since Member States watch the taxation of direct competitors and tend to align their tax levels to the lowest practice if they can afford the fiscal opportunity cost. A British civil servant compared the impact of competition on VAT and excise duties and argued

> "[On VAT] there was enough proximity between the rates, the *rapprochement* was sufficient to allow there not to be distortions across borders. It is not necessary for us on the VAT side, but Denmark and Germany are the classic examples. It was the cross-border shopping issue that was really a problem: we have very high rates of excise duties and our immediate neighbours across the Channel have very low or zero rates on some of their products. We found that

[8] Commission of the European Communities (1991), "France", *Country Studies*, 5 (Brussels, CEC, July).

> that has led to smuggling, to a drop in revenue which was expected. They have estimated that it has probably reduced our revenue by £340 m. in a year on the excise duty goods and there may be even more because of fraud which we are not aware of."[9]

Tax approximation is not uniform because the pressure of competition is exerted on the most mobile tax bases. This proposition suggests that the taxation of savings is the most convergent because of the liberalisation of capital flows in the EU. The potential for tax competition among EU members based on existing VAT rates is illustrated by the diversity expressed in Appendices 2.2 and 2.3. The low mobility of labour in the EU permits widely decentralised public policies for redistribution.[10]

The pressure of competition would be likely to increase if the EU were to move to an origin system of VAT. Under the destination system goods and services compete in the EU on the base of their price before VAT. Similar goods and services support the same VAT rate in the country of consumption whatever their country of production. Under the origin system the VAT rate is that of the country where goods and services have been produced. Hence French products sold in the UK would bear the French VAT rate (20.6%), not the British (17.5%). Therefore, goods and services compete on the basis of their price including VAT.[11] Higher tax levels have an impact on the competitiveness of national products. Producers from highly taxed countries need to achieve lower production costs to compensate for the effect of higher taxation on price.

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[9] Interview, ref. 16.

[10] Bonnaz, Hervé and Mills, Philippe (1993), "Perspectives du budget communautaire en Union Economique et Monétaire", *Economie et Prévision*, 109: 41.

[11] Boiteux, Marcel (1988), "Marché unique et moeurs fiscales", *Futuribles*, 127 (Dec.): 23-38.

An official argued

> "if the Commission were to propose an origin system, there could be distortions between Member States if the rates were very different ... the pressure starts to build up for bringing the rates of VAT closer together at least, and possibly for harmonising, because under the origin system you would need to have redistribution of revenue between different Member States."[12]

The proposition that competition fosters tax approximation is subject to stipulations and criticisms which limit its strength. First, the pressure from competition on consumption, production and trade depends on geographical and practical factors. A member of a Finance Ministry argued "if you look around in the Community you find that in countries with extensive land borders , the level of excise duties is very much in line with neighbouring countries. Where you have islands like Ireland and the UK, then excise duties tend to be higher."[13] The constraints from competition are weaker in the UK than in France because the cost of importing goods from the Continent compensates the fiscal gain from higher VAT rates or excise duties.

Second, different tax levels are justified by cultural differences in consumption habits and national productions. Large differences in taxation are not sufficient to modify the patterns of consumption (e.g. it is not certain French people would drink more beer if excise duties were lower). The gap between excise duties on beer and wine in the UK and the equivalent tax level in France does not distort competition because wine and beer are not a perfect substitute product and because the effect of trade distortion is small, according to a member of the Direction du Budget.

[12] Interview, ref. 16.
[13] Interview, ref. 12.

He argued

> "The harmonisation of excise duties on alcohol, which is not a great macro-economic issue, was the reason for gigantic disputes in Brussels where everybody tried to defend its national particularisms reasonably. After all, nobody cares. There is a folkloric traffic which would become disturbing if it became industrial, if all British went to Calais to buy beer. At the moment it is marginal."[14]

Therefore, the pressure of competition sets an overall economic constraint over taxation, since market mechanisms could offer various sources of consumption, production and labour if national taxation were to become prohibitive. National governments must take into account the mobility and the comparative cost of substitute products imported from EU members to determine national tax levels. As a corollary the pressure of competition is weak when tax bases are not mobile or when the cost of importing substitute goods is high. This proposition suggests therefore that the pressure for tax convergence is not uniform across EU members (e.g. it is weaker in the UK than in France) or across tax bases (e.g. it is higher on capital than on labour, on globally rather than on regionally-consumed products, and on transportable rather than on heavy or short-lived products). Tax uniformity because of competition depends on the relative transaction costs on these goods.

Underlying the 'competition-approximation effect' lies the idea that national fiscal systems are also competing. First, integration in the EU encourages Member States to lower tax levels. A French senior civil servant reckoned that "the trend is to think that tax pressures will align to a certain level. Since there is a genuine single market, one

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[14] "L'harmonisation des accises sur les alcools, qui n'a pas une importance gigantesque macroéconomiquement, a été le sujet de querelles bruxelloises gigantesques, chacun essayant de défendre convenablement ses particularités nationales. Après tout, tout le monde s'en fiche. Il y a un traffic folklorique, qui deviendrait gênant s'il devenait industriel, si tous les anglais venaient acheter leur bière à Calais. Pour le moment c'est marginal.", Interview, ref. 1.

tends to think that it would be appropriate to homogenise tax levies effectively to equalise the cost of production factors."[15] However, data analysis since 1970 does not provide empirical evidence of approximation of tax pressure in EU members. Figure A of Appendix 2.1 shows the stabilisation of British and French tax pressures since the early 1980s. However, the tax burden in Britain and France varies by about 5 percentage points. Budgetary figures provide insufficient evidence to maintain that EU membership has promoted more convergent tax levies at the macroeconomic level.

Second, the 'competition-approximation effect' implies that tax structures should become more homogenised and converge. Competition in the single market should incite national administrations to rely less heavily on consumption taxes and more heavily on direct taxes on income.[16] This argument is not supported by empirical data gathered in Appendix 2.1. VAT is one of the main sources of revenue for the French budget (17% as against 15% in the UK) whereas income tax represents 14% of budget receipts in 1990 (as against 40% in the UK). The 'competition-approximation effect' does not explain the persistence of such differences among EU members (figures B-C). Moreover, the lower reliance on consumption taxes in France since 1970 is not present in the British case after 1978, when the government shifted the burden of taxation back to indirect taxes (figure D).

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[15] "La tendance est de penser qu'il va y avoir un alignement sur un certain niveau de prélèvements obligatoires. Dès lors qu'on a un vrai marché unique, on a tendance à penser qu'il conviendrait d'avoir effectivement une certain homogénéisation des prélèvements pour égaliser le coût des facteurs de production.", Interview, ref. 10.

[16] Boiteux, Marcel (1988), "Marché unique et moeurs fiscales", *Futuribles*, 127 (Dec.), 23-38.

2.1.2. Tax harmonisation in the EU

A second limitation to the independent setting of taxation by national governments is introduced by tax harmonisation in the European Union. Article 99 of the Treaty of Rome amended by the Single European Act calls for proposals "for the harmonisation of legislation concerning turnover taxes, excise duties and other forms of indirect taxation to the extent that such an harmonisation is necessary to ensure the establishment and the functioning of the internal market within the time limit laid down in Article 8A".[17] EU legislation sets obligatory or recommended tax levels applicable in EU member countries to the extent that approximation is required to avoid unacceptable levels of distortion of competition, diversion of trade and tax fraud. The Commission approached pragmatically the issue of tax harmonisation and required only minimum changes. According to Easson the Commission tends to select areas in most urgent need of attention or on which agreement may be most easily achieved with a view to progressing to more difficult or contentious fiscal subjects. He called this progressive approach to fiscal harmonisation 'salami tactics'.[18]

Tax harmonisation in the EU was justified by several arguments. First, differences in tax levels create fiscal barriers which contradict the idea of a Single Market without frontiers. Fiscal frontiers even form an integral part of the VAT system since they are necessary to ascertain that zero-rated exports have left the country. Under the destination system for VAT trade within EU members is more similar to international

[17] Commission of the European Communities (1987), "Completion of the internal market: approximation of indirect tax rates and harmonisation of indirect tax structure", Com. 87 (320-322), (Brussels, CEC, 5 July).
[18] Easson, Alex (1977), "Tax policy in the European Economic Community", *Revue d'Intégration Européenne*, 1 (Sept.): 31-46.

than to national trade, since goods 'exported' are exempt from VAT in the origin country, and are then taxed at the local rate in the destination country. This 'frontier effect' has a number of economic and administrative implications for competition in the European Union. Second, fiscal competition to encourage consumption or production produces lower budgetary revenues, which is precisely what the EU is striving to avoid. Harmonisation at the EU level of national taxation aims to prevent such fiscal competition by fixing minima on the most mobile tax bases. Its objectives are to avoid lower revenues from taxes and to ensure that the financing of public expenditure does not excessively weigh on the least mobile tax bases (salary earners and real estate).[19] Tax harmonisation in turn creates legal constraints on Member States and reduces their margin of manoeuvre to set taxes. Therefore, the 1987 Commission White paper concluded "only then, when indirect tax levels are sufficiently close as between one Member State and another so as not to distort competition and patterns of trade, will it be possible for the European economy to work in a free and unfettered way."[20]

Articles 99-100 of the Treaty of Rome amended by the SEA restrict tax harmonisation to most indirect taxes: mainly VAT and excise duties, and, implicitly, corporation tax and other indirect taxes which were left out of the 1992 programme. Because the pressure of competition varies depending on the mobility of tax bases, tax harmonisation in the EU is more or less constraining for each category of tax. Tax harmonisation in the EU is not uniform and the scope for independent national fiscal policy varies depending on each tax.

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[19] Dessaux, Pierre-Antoine (1993), "Les implications fiscales de l'Europe Communautaire", *Cahiers Français*, 261 (May-June) (Paris: La Documentation Française).
[20] Commission of the European Communities (1987), "Completion of the internal market: approximation of indirect tax rates and harmonisation of indirect tax structure", Com. 87 (320-322), (Brussels, CEC, 5 July).

Value Added Tax

The First and Second Directives on VAT in 1967 took measures to harmonise consumption tax mechanisms throughout the European Community. From 1967 to 1973 a value added tax system very similar to the original French one replaced existing systems of cumulative multi-stage turnover taxes in all Member States. The United Kingdom introduced VAT in the 1974 budget. The administration of the VAT system is homogenous, except for the classification of goods and services, for exemptions and for some particular cases (e.g. oil and individual cars are not tax-deductible in France). The Community adopted VAT as a 'European' tax because of its neutrality and its good financial return.

The Sixth VAT Directive in 1977 was mainly concerned with harmonising the VAT base and regulating VAT-exempted goods and services (e.g. education, financial services). VAT-exemption became governed by European Law, and national governments may not modify the list of exempted goods and services on their own. The Sixth Directive recommended that zero-rating, except for exports, should eventually disappear when the internal market was completed. Zero-rating was considered a less efficient way of achieving social policy than measures more closely targeted towards those in need, and it distorts competition.[21] In its 1987 proposal the Commission recommended again the abolition of zero-rating and faced a strong British opposition which had continued to apply zero-rating on 30% of consumer spending. The United Kingdom government questioned the mandate of the Commission to rule

[21] Commission of the European Communities (1987), "Completion of the internal market: approximation of indirect tax rates and harmonisation of indirect tax structure", Com. 87 (320-322), (Brussels, CEC, 5 July).

on this matter and recalled that zero-rating on food and children's clothing was its election commitment. In May 1989 a new proposal by the Commission attempted to accommodate UK and other countries' objections and allowed some zero-rating to continue as a 'temporary derogation'.[22]

In 1987 the Commission proposed to harmonise the number of rates. As shown in the Appendix 2.2, all Member States except Denmark and the United Kingdom[23] applied more than one rate in 1987. Indirect taxation systems in the EU had typically multiple rates and extensive exemptions because of distributional objectives (classification between 'essential' and 'luxury' goods) and for technical reasons. The Commission proposed to harmonise the number of rates and recommended the adoption of a reduced and a standard rate. The 1987 proposal would have had great consequences for France and the United Kingdom had it been applied. France would have had to suppress its increased rate while the United Kingdom would have had to introduce a reduced rate. The 1987 proposal imposed different obligations for the French and the British VAT systems and caused contrasting budgetary impacts. It offered the UK the opportunity to raise additional revenues by widening the tax base subject to indirect taxation. It implied France should have to rely less heavily on indirect taxes and find other ways of financing the budget. Therefore, the only limitations on the number of VAT rates are imposed by the 1992 Council Directive which decided Member States may apply either one or two reduced rates.

[22] Commission of the European Communities (1992), "The United Kingdom", *Economic Papers*, 79 (Brussels, CEC, July).
[23] Both of these countries also apply a zero rate on basic goods.

The Commission proposed to approximate VAT rates initially in 1987 and again in May 1989. The 1987 proposal offered a compromise between existing rates and total harmonisation. In 1987 the standard rates varied from 12% in Spain and Luxembourg to 25% in Ireland. The Commission proposed a range of between 14 and 20%. Theoretically eight Member States could leave their standard rate unchanged. For the reduced rates the Commission proposed a 4 to 10% range instead of the existing 1 to 10%. The advantage of such a solution was to leave some scope for national governments to decide their desired tax rate. The Commission proposed a list of items subject to reduced rates.[24] In 1989 the Commission revised the 1987 proposal to reduce the scope of fiscal approximation and accept marked inter-country differences on indirect taxation. However, the only constraints Member States agreed to were a 15% lower limit on the standard rate and a 5% lower limit on the reduced rate. The Council specified a list of the supplies of goods and services subject to the reduced rate.[25] However, Member States have resisted proposals to set an upper limit on the standard rate, and the other constraints are considerably reduced by the derogations granted to many countries.

Therefore, VAT harmonisation on taxation sets a number of constraints for the UK and France. First, EU membership has implied a major administrative and fiscal change in the UK with the introduction of the VAT mechanism in the early 1970s. This change has no equivalent in France since the European VAT system was inspired by the existing French one. Second, the existing constraints include a 15% lower limit on the

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[24] The Commission proposed to apply the reduced VAT rate to foodstuffs (except alcoholic drinks), energy products for heating and lighting, supplies of water, pharmaceutical products, books, passenger transports, newspapers and periodicals. This list represented one third of the consumer base.
[25] Council Directive 92/77/EEC on 19 Oct. 1992.

standard VAT rate and the complete harmonisation of VAT-exempted goods and services. Third, the budgetary impact of harmonisation varies from country to country. The French government strongly modified the VAT system as the number of rates went from 7 to 3 in the early 1990s (5.5%, 18.6% and 22%). In France the reduction of the increased rate from 33% to 22% between 1987 and 1991 cost FR. 26 bn. The suppression of the increased rate (22%) in 1991 reduced budgetary receipts by FR. 7.9 bn. in 12 months.[26]

However, Member States have successfully resisted proposals to harmonise the number of rates, their level and the tax base. In particular the legislation leaves the UK free to continue zero-rating since there is no indication of when this 'temporary' measure is to end. The existing legislation leaves the UK and France free to increase their standard rate.[27] A British official supported this view: "we could increase our VAT rates tomorrow without any problem if the government's policy is to shift the burden of tax from the direct taxes to the indirect taxes. It is not impossible that our tax rates would change if we decided that that was the way we wanted to go."[28]

Excise duties

For the first time in 1972 the Commission proposed to harmonise at EC level the excises on manufactured tobacco, mineral oils, spirits, wine and beer. In 1987 the Commission proposed the unification of excise duties, which was resisted by Member

[26] Estimates by Linditch, Florian (1993), "La souveraineté budgétaire et l'Europe - Quelques contraintes communautaires sur les finances publiques françaises", *Revue du Droit Public et de la Science Politique en France et à l'Etranger*, 6: 1680.
[27] In 1991 the UK increased the standard VAT rate from 15% to 17.5%. In France the 18.6% standard rate was increased by two percentage points (20.6%) in August 1995.
[28] Interview, ref. 16.

States for several reasons. Receipts from excise duties vary greatly between EU members (4.4% GDP in the UK as against 2 to 3% in other countries);[29] therefore the budgetary implications of uniformity vary between each EU member.[30] Also, the structures of excise are disparate (e.g. on petrol as against diesel in France). Last, excise duties should not be considered exclusively as a revenue instrument since they serve other policy goals. Excises on tobacco and alcohol belong to the taxation of demerit goods. Taxation is expected to curtail consumption and reduce health hazards and related costs. Excises on hydrocarbon oils are part of energy conservation and environment control policies.[31] Therefore, tax levels are difficult to harmonise because Member states have different attitudes to policy goals and are reluctant to cede national sovereignty.

Between 1989 and 1991 several propositions sought to accommodate these concerns. The Commission suggested setting minimum rates of duties with a theoretical convergence target. The approximation of excise duties in the EU is rather a convergence constraint based on the reduction of tax differences and bringing tax levels closer to the EU average than a binding harmonisation of rates. Appendix 2.4 gives a survey of existing tax rates for some excises in EU members and shows wide differences between Member States.

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[29] CEPII-OFCE (1990), "Vers une fiscalité européenne?", *Observations et Diagnostics Economiques, Revue de l'OFCE*, 31 (Apr.): 121-189.

[30] Linditch, Florian (1993), "La souveraineté budgétaire et l'Europe - Quelques contraintes communautaires sur les finances publiques françaises", *Revue du Droit Public et de la Science Politique en France et à l'Etranger*, 6, mentions an estimate in 1990: the French government would increase its receipts by FR. 16 bn. if it were to align its excise duties on alcohol (taxes on wine should be trebled) and tobacco (+20%). However, larger reductions should be required on petrol duties.

[31] Spahn in European Commission (1993), "The economics of Community public finance", *European Economy Report and Studies*, 5: 556.

The Council adopted a number of Directives in 1992 for the approximation of excise duty rates.[32] Member States reached an agreement for a minimum rate of excise duty on alcohol and alcoholic beverages, cigarettes, tobacco and mineral oils with obligatory force by 1st January 1993. Therefore, membership of the European Union sets a number of 'fixed points' and reduces individual member countries' capacity to lower tax levels below pre-determined thresholds. However, these Directives have little effect on the level of the most important excise duties in the United Kingdom and France: the minimum rate is well below the existing rates applicable to spirits in both countries, and to petrol in France. There is no agreement on a minimum rate on wine.

Corporation tax

The harmonisation of corporate taxation aims at stopping companies from choosing and switching the location of their headquarters to countries with a lower corporate income tax, or their production centres for tax reasons (e.g. regional tax reliefs). Proposals for harmonising different aspects of corporate taxation in the 1960s and 1970s were not adopted largely because Member States sought to retain their national sovereignty over tax matters. The internal market White Paper held out the prospect of a Commission initiative on measures to remove obstacles to co-operation between enterprises. In 1990 the Commission set up the Ruding Committee, a group of experts, to evaluate the distorting effects of diverging corporate taxation in the Community. The Ruding Committee proposed the harmonisation of corporation tax, but there was little political will to implement its recommendations.[33] Three

[32] Appendix 2.5 summarises the minimum rates of excise duty which Member States agreed upon in October 1992.

[33] Cowie, Harry (ed.) (1992), *Federal Trust conference report - Towards fiscal federalism? Delors II budgetary proposals 1993-1997* (London: Federal Trust for Education & Research).

'Scrivener' Directives were adopted in June 1990, Germany being allowed until 1996 to comply fully with the first directive. These directives concern (a) easing crossborder mergers and assets transfers;[34] (b) the taxation and double taxation of post-merger profits;[35] and (c) the regulation of disputes between Member States on transfer pricing issues.[36] These directives facilitate the tax treatment of cross-border mergers, acquisitions and investments in the single market.[37] However, the existence of directives on corporate taxation is not sufficient to sustain an assertion that corporation taxes are harmonised.

Savings

The taxation of savings should be harmonised in theory because capital flows are nearly perfectly mobile, especially with the suppression of exchange rate risks within EMU. Convergence in taxes on savings is a direct consequence of competition. However, it is not certain that increasing competition and the lowering of tax rates is a product of European integration, as opposed to internationalisation or globalisation. Capital flows with countries outside the EU are as large as those with EU members in Luxembourg, UK and Germany.[38]

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[34] This directive deals with taxing the difference between the market and the book values of assets acquired through merger, treated as a national capital gain. Tax is deferred until capital gains are realised (Council Directive 90/434/EEC on 23 July 1990).

[35] A proposal to restrict national taxation to profits generated within a particular Member State, excluding profits generated by a subsidiary in another state. There is no agreement on fully consolidated accounting in which losses from a foreign subsidiary could be offset against parent company profits, although this possibility had been included in earlier drafts of the proposals and has been reintroduced during recent discussion of a European company statute (Council Directive 90/435/EEC on 23 July 1990).

[36] This arbitration procedure is applicable when one company adjusts declared transfer prices between internationally associated companies to boost profits without an offset elsewhere (Convention 90/436/EEC on 23 July 1990).

[37] Commission of the European Communities (1992), "The United Kingdom", *Economic Papers*, 79 (Brussels, CEC, July).

[38] Bonnaz, Hervé and Mills, Philippe (1993), "Perspectives du budget communautaire en Union Economique et Monétaire", *Economie et Prévision*, 109: 42-45.

Article 67 of the Treaty of Rome gives the EC a responsibility for achieving convergence; however, the taxation of savings is far less developed than with VAT.[39] The Commission proposed a minimum rate (15%) of withholding tax on interest deposits and bonds to prevent the liberalisation of capital movements encouraging tax-evasion to low-tax countries.

The European Court of Justice performs a significant role which reinforces harmonisation. A British senior civil servant[40] mentioned the ECJ judgment on British excise duties on beer and wine in February 1980. It was alleged that by applying a higher rate to wine as compared to beer, despite their similar alcoholic strength, the UK was discriminating against an imported product competing against one produced domestically. It was argued this practice discriminated indirectly in favour of domestic products and against imported ones and thus contravened article 95 of the Treaty of Rome. The European Court of Justice found that this case constituted fiscal discrimination and required that taxation on wine be broadly in line with that on beer. In France a large number of taxes under Title E of the Finance Act (*taxes parafiscales*) were forbidden by ECJ judgments[41] in application of articles 12, 13, and 92 to 95 of the Treaty of Rome. The number of these taxes went down from 117 in 1975 to 50 in 1993, which had a significant budgetary impact.[42] The ECJ has promoted tax harmonisation because its judgments have traditionally extended the application of harmonisation directives by giving a broad interpretation of the decisions and their application. According to Berlin, "the Treaty of Rome and case law of the Court of

[39] See Appendix 2.1, figure F.
[40] Interview, ref. 12.
[41] e.g. ECJ, 25 June 1970, Aff. 47/69 *République française c. Commission*.
[42] Linditch, Florian (1993), "La souveraineté budgétaire et l'Europe - Quelques contraintes communautaires sur les finances publiques françaises", *Revue du Droit Public et de la Science Politique en France et à l'Etranger*, 6: 1686-1687.

Justice have extensively applied prohibitions on fiscal discrimination and protection against products from other Member States."[43]

Tax harmonisation sets a number of limits to national governments' fiscal policy. Although EU institutions have no capacity for organising a 'European' fiscal model, the completion of the Single Market incited Member States to seek the co-ordination of national taxation at the EU level on specific issues. The consequence of this co-ordination lies in a number of 'fixed points' (minimum tax levels in general) which are more or less constraining. Member States have agreed on priority objectives, such as fiscal neutrality in trade and the removal of fiscal distortions. Also, they have agreed on fiscal techniques (VAT, excise duty), while leaving a large margin of manoeuvre to national governments on the setting of tax levels. Harmonisation directives set constraints on tax bases, tax rates and the procedures for levying taxes, although they are the Parliament's exclusive responsibility according to the French constitution (art. 34).[44] This interference by EU legislation limits the powers of national Parliaments.

With Britain and France the minimum levels required by EU membership do not represent a great constraint because they are below existing tax rates (VAT, excise duty) and because of the derogations (zero-rating in the UK). Direct taxes, a major budget revenue, are not harmonised (Appendix 2.1 figure B shows that income taxes represent 40% of budget income in Britain, and social security contributions constitute 44% of the French and 18% of the British budget revenue). Article 100 of the Treaty

[43] "le Traité de Rome et la jurisprudence de la Cour de Justice ont porté très loin les interdictions de discriminer et de protèger fiscalement les produits des autre Etats membres" according to Berlin, Dominique (1989), "L'élimination des frontières fiscales dans la CEE", *Droit et Pratique du Commerce* International, 15: 35-74.

[44] This interference is legally possible because European law is superior to national law.

of Rome does not give explicit power to EU institutions over direct taxation in the way it does for indirect taxation under article 99. It is unlikely that EU institutions will seek to harmonise those taxes because differences in taxation do not represent a threat to the Single Market because of the low elasticity of labour supply for these taxes.

2.2. Fiscal sovereignty secured?

Proposition 2 posits that existing institutional arrangements and decision-making processes at the EU and the national levels secure the ultimate sovereignty of national governments in the setting of taxation. National governments remain largely masters of fiscal policy since the constraints imposed by EU membership are weak and controlled by Member States.

2.2.1. Existing institutions: the legal protection of national sovereignty

The European Union may impose legal constraints on national governments through directives with binding obligations for national taxation. However, these obligations do not restrict Member States' fiscal independence because institutional arrangements at the EU level protect the sovereignty of EU members. Since decisions on taxes and social security contributions at the EU level require unanimous voting[45], the voting procedure gives each Member State the possibility of vetoing decisions on taxes and

[45] Articles 89 and 100 of the Treaty of Rome, as amended by the Single European Act.

social security contributions should they not fit its interests. As argued by a member of HM Treasury,

> "unanimous voting is a principle that is quite important to us. It is quite possible that the issue will be raised, not by the UK but perhaps by others, in the context of the Intergovernmental Conference next year. But from our point of view, we think it is very important to retain unanimous voting on tax issues which comes back to the point I was making earlier about how important this is to national sovereignty."[46]

Unanimous voting offers an efficient protection of the fiscal sovereignty of national governments for a number of reasons. First, the requirement to gather unanimous consensus gives each Member State a strong instrument to resist further harmonisation (the veto from one country can impede the decision) whatever its size. A British civil servant underlined the point: "since the tax can only be changed by unanimity, each Member State is in a fairly strong position".[47] Therefore, EU members may impose strict conditions before accepting further harmonisation. The UK has set down four conditions which must be met before it is prepared to move to an origin system.[48]

Second, unanimous voting implies that Member States accept only those EU 'constraints' which correspond to national priorities. EU decisions cannot impose obligations or add constraints unless Member States are willing to accept them. This argument was echoed by a British official when he discussed EU recommendations about corporation tax and argued "it would be up to the countries to decide whether they wished to be influenced or not."[49] European fiscal integration does not involve a

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[46] Interview, ref. 12.
[47] Interview, ref. 16.
[48] "The government has said it has an open mind and is prepared to move if the origin system is simpler for businesses, if it is less open to fraud, provided we get the right revenue coming to us at the right time and provided our zero-rates can remain. These are the four conditions which we have set down.", Interview, ref. 12.
[49] Interview, ref. 8.

hollowing out of the nation-state because EU decision-making has no autonomy vis-à-vis the Member States. EU institutions are not able to impose measures unless they are supported by every Member State. European integration has changed the locus for making decisions on harmonised taxes but decision-makers remain individual members of the EU. Therefore, the EU level does not constitute a 'supranational' level since it cannot oblige Member States to harmonise taxes unless they have decided to do so.

Third, Member States' agreement for further tax harmonisation does not imply that taxation in EU members is different from what it would be without tax harmonisation. This argument challenges the view that the EU has a constraining power on national taxation. A British official confessed that

> "we accepted the rules on the rates because they did not have any impact on what we were doing. It was purely pragmatic. It did not actually restrict our freedom of movement. We did not want to reduce our rates of tax below 15%, we did not have a luxury rate and we did not have any reduced rates ... The Chancellor at the time was prepared to accept those rules because it did not tie his hands and it did not tie the hands of Parliament."[50]

Therefore, national fiscal sovereignty is protected by existing institutional arrangements. A French civil servant argued "French sovereignty has remained total on fiscal matters ... Legally, up to now, there is no real transfer of power to the Commission."[51]

The principle of subsidiarity is another institutional arrangement used by Member States to resist further tax harmonisation. The European Union has no overall

[50] Interview, ref. 16.

[51] "La souveraineté française en matière fiscale est restée totale ... Légalement, jusqu'à maintenant, aucun transfert réel de pouvoir n'a été fait à la Commission.", Interview, ref. 10.

responsibility for national taxation and social security contributions. The Commission has some powers to propose tax reforms provided they are required for the better functioning of the Single Market for which it is responsible. It intervenes only by default, since it supplements decisions by Member States. A member of HM Treasury noted

> "we take the line that, in line with the principle of subsidiarity, we should only agree to tax measures at the Community level where that is strictly necessary to ensure that the Single Market works effectively, or to achieve objectives that cannot be achieved by the Member States acting individually. We feel that the principle is particularly important in the tax field because taxation is so important to our national sovereignty. The freedom, the independence to raise tax revenues as it is necessary and appropriate for national circumstances, is a very important part of national sovereignty. We probably apply the principle of subsidiarity with particular rigour in the tax field."[52]

2.2.2. The margin of manoeuvre of national governments within taxation

National governments retain a large margin of manoeuvre because the EU has no overall responsibility for the approximation of national tax systems and tax burdens. Lindicht recalls MPs' strong opposition to the provision in the Commission's proposal that the eco-tax should not increase the tax burden and that extra receipts from the eco-tax must be balanced by an equivalent decrease in other taxes.[53] The influence of the EU is restricted to a limited number of taxes, because competition constrains only the highly mobile tax bases and harmonisation concerns only a few taxes. The EU constraints on some taxes must be set against the margin of manoeuvre national administrations have within taxation and the flexibility they have to raise other sources

[52] Interview, ref. 12.

[53] Linditch, Florian (1993), "La souveraineté budgétaire et l'Europe - Quelques contraintes communautaires sur les finances publiques françaises", *Revue du Droit Public et de la Science Politique en France et à l'Etranger*, 6: 1687.

of income. Constraints on some taxes do not suppress the fiscal sovereignty of national governments as long as the EU does not set constraints on the size of the public sector and the degree of state intervention. While EU integration and market liberalisation create a context favourable to smaller public sectors, wide differences between tax burdens in EU members[54] were not raised as a matter for concern at the EU level. A British official argued

> "membership of the Community is entirely compatible with having very different levels of social spending and public spending in general ... There is nothing about being part of the Community that forces a convergence in terms of levels of spending or tax as a share of GDP. Clearly there are pressures, partly political pressures, towards convergence of public finances in the sense of eliminating excessive deficits. But that is a different issue because the level of your deficit has nothing to do with the level of your spending."[55]

The uniformity of tax burden seems rather an effect of globalisation since similar trends affect countries outside the EU. The 'off-loading' of central government spending upwards (to supra-national authorities), downwards (to national sub-government levels) and laterally (to the private sector)[56] is a wide-ranging process not restricted to the EU. Therefore, because the EU does not set constraints on tax systems and tax burden levels, national administrations remain sovereign for fiscal policy at the overall level. They are free to determine the overall progressiveness and the amount of receipts from each category of tax because the EU has no responsibility for defining the role of taxation, the desirable degree of redistribution or progressiveness.[57]

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[54] see Appendix 2.1, Figure A.
[55] Interview, ref. 12.
[56] Leonardi, Robert (1995), *Convergence, cohesion and integration in the European Union* (London: Macmillan).
[57] For a comparison of the progressiveness of the British and French tax systems, see Appendix 2.1, figure G.

Second, EU institutions have no independence from Member States on tax issues because there is no 'European' tax or tax authority. The 1987 proposals included a transfer of powers to the Commission because the creation of a EU clearing body would have added a level of decision-making independent of individual Member States. At the moment the Commission may put together only projects unanimously supported. A civil servant mentioned a decision on excise duties in 1994 where Member States decided the implementation of the tax would be set up within bilateral conventions, which was in contrast to the Community's stance.[58] Furthermore, there is no 'EU' tax which is set and levied by EU institutions on their own. The system of receipts for the EU budget is based on national tax systems, since the EU cannot levy resources directly from EU citizens, companies or consumption in the single market.[59]

2.2.3. The margin of manoeuvre of national governments within policy-making

First, tax harmonisation is not implemented strictly by all Member States, which indicates they have a margin of manoeuvre in the implementation of harmonisation directives. This flexibility is illustrated by the British 'temporary derogation' to apply the provision of the Sixth Directive that zero-rating should disappear. A British official remembers

> "At that time we had almost total flexibility, we were entirely free to do what we wanted .... We said that the zero-rate was a real rate of tax. The tax applies in exactly the same way as if it were a standard rate, you register for the tax, you claim your input tax back, you get tax returns, but it just happens to be zero. When the Sixth Directive was being negotiated, we had to protect that position because it was politically very sensitive."[60]

[58] Interview, Ref. 10.
[59] The introduction of a carbon tax as proposed by the Commission would introduce a change in this respect.
[60] Interview, ref. 16.

The United Kingdom has secured zero-rating for the consumer base (e.g. children's clothes, and food). However, the UK may not extend zero-rating any further under EU law.

Second, national governments used the need for tax approximation in the Single Market as an argument for implementing measures at the national level. Convergence in the EU is used as an external constraint for pushing ahead policies which would have been difficult to justify with domestic arguments. With the reduction of the increased VAT rate in France, a French member of the DB acknowledged "we put forward the objective of European harmonisation but it was absolutely secondary. It was an excuse and even a camouflage."[61] Another French civil servant described this technique of national governments as one of 'wrong-footing' the European Union[62] by which he meant Member States use tax approximation to serve domestic interests.

Third, national administrations and other national organisations influence the Commission's proposals. National tax administrations are in contact either multilaterally in European Councils and Working Groups, or bilaterally to co-ordinate views before a negotiation. National tax administrations are in touch with business lobbies, such as the Confederation of British Industry, which are often considered by national governments a more efficient lobby than bureaucrats. A British official argued "we get UK businesses to lobby either directly to the Commission or via the European Trade Association. We told them to make their views known because if they are

[61] "L'objectif d'harmonisation communautaire était celui qu'on a mis en avant, mais c'était totalement secondaire. C'était un prétexte, et même une tenue de camouflage.", Interview, ref. 1.
[62] "prendre l'Europe à contre-pied", Interview, ref. 10.

saying it, it has perhaps more influence than what the tax administration says ... it is our own businesses who are the major contacts with the Commission."[63]

2.3. Conclusion

The constraints of EU membership on taxation in the Member States is the preferred illustration of an hypothetical budgetary integration in the EU for most of the authors discussing budgetary Europeanisation. Taxation is usually considered to be the area most exposed to EU pressures because of tax harmonisation and, therefore, Member States are thought to have lost a great part of their fiscal sovereignty by losing control over tax decisions to EU institutions.

Chapter 2 has determined the margin of manoeuvre of national governments in taxation in the EU context by contrasting two competing propositions. The first maintains that competition and regulation create contraints on national tax levels and tax systems. The second argues that Member States remain sovereign on tax matters because of EU decision-making procedures and because of the lack of EU responsibility for tax matters. Therefore, chapter 2 addresses the issue of the scale and scope of the impact of EU membership on taxation. It stands in contrast with the conventional literature and argues that the impact is smaller on taxes than is asserted in the literature. By arguing that the impact of EU pressures on taxation is smaller than usually maintained, chapter 2 implies that presumed Europeanisation of budgeting affects more spending

[63] Interview, ref. 16.

than taxing, which is why the forthcoming chapters focus on the processes of decision-making over spending at the national and at sub-governmental levels.

Chapter 2 has distinguished between various degrees of EU constraints.

First, EU pressures depend on the intensity of competition: competition sets a pressure for the approximation of national taxes depending on the mobility of the tax base. Because competition is more intense for mobile production factors and consumption goods, tax approximation in the EU is not uniform, and the scope for independent national fiscal policy varies depending on each tax (it is higher on capital than on labour, on internationally than on regionally-consumed products, on transportable than on heavy or short-lived products). Also the pressure for tax convergence is not identical within EU members, since peripheral countries are less affected by EU trade flows.

Second, tax harmonisation has precise binding implications: tax harmonisation promoted by the Commission sets a number of binding guidelines on indirect taxes (VAT, excise duties), corporation and savings taxes. Existing constraints include a 15% lower limit on the standard VAT rate and the complete harmonisation of VAT-exempted goods and services. VAT harmonisation has implied a major administrative and fiscal change in the UK with the introduction of the VAT mechanism in the early 1970s. This change has no equivalent in France since the European VAT system was inspired by the French.

However, the field of action of tax harmonisation is restricted to a limited number of taxes because most taxes are not harmonised. Income taxes and social security contributions are not harmonised because the supply of labour is not perfectly mobile across the EU and does not depend primarily on tax levels.

Therefore, chapter 2 contributes to the ovearching argument of the thesis by showing that the impact of EU membership has been different in nature than might have been presumed from an examination of the literature. Fiscal Europeanisation is a case-by-case adaptation process of some some aspects (rate structure, rate levels, tax base) of a limited number of taxes. Furthermore, even in the case of precise EU regulation, the effect on EU members varies from country to country depending on the tax structure applicable in each EU member and the derogations granted.

Chapter 2 has reviewed the mechanisms which contribute to protect national governments' fiscal sovereignty. First, existing institutional arrangements for making fiscal decisions at the EU level protect the sovereignty of EU members. Since decisions on taxes and social security contributions at the EU level require unanimous voting, the voting procedure gives each Member State the chance of vetoing decisions on taxes and social security contributions should they not fit its interests. Unanimous voting implies that Member States accept only those EU 'constraints' which correspond to national priorities or do not imply any change in national taxation. Sometimes national governments use the objective of tax approximation in the Single Market as an argument for implementing measures they favour on domestic grounds.
The second mechanism is subsidiarity: Member States use the principle of subsidiarity to resist further tax harmonisation because the European Union has no overall responsibility for national taxation and social security contributions.

Third, national governments retain a large margin of manoeuvre because the EU has no overall responsibility for the approximation of national tax systems and tax burden. Tax harmonisation is rather a tool than an ultimate objective of building the European Union. The priority given to the convergence of economic policy, while economic and social structures diverge among Member States, may indeed require different tax treatments and structures across the EU.Also, European institutions have no independence from Member States on tax issues because there is no 'European' tax or tax authority.

Last, national administrations retain a large margin of manoeuvre in the setting of taxes because they are sovereign in deciding the level of tax burden and raising other revenues than the harmonised ones.

Chapter 2 has argued that Member States have different tools to resist EU tax harmonisation pressures, which implies that EU fiscal 'constraints' are only those that Member States were willing to accept. This argument weakens the idea that EU institutions have a constraining power independent from what Member States decide unanimously. This argument implies that the main pressures involved in the membership of the European Union are on the expenditure side of budgeting, the topic of forthcoming chapters.

Chapter 3

The influence of EU membership on national budgetary institutions: compliance or hybridisation?[1]

The relations between national budgetary institutions and membership of the European Union have traditionally been tackled with a normative approach and from the perspective of EU institutions. The conventional literature examines what budgetary rules, procedures and structures should be adopted by the EU Commission for European convergence and budgetary discipline. The approach in this chapter is different since it emphasises empirical evidence of institutional change caused by EU membership from the perspective of national governments. The chapter does not describe budgetary processes in Britain and France, but determines the impact of EU membership on budgetary institutions. Institutions are useful in indicating the power distribution between the various players in the budgetary game and delineating the state's constraints and powers.

The second objective of the chapter is to reflect on the mechanisms of Europeanisation and to emphasise the processes by which budgetary institutions change. The chapter explores the impact EU integration has on methods and processes of budgeting in Britain and France. It assesses whether convergence of budgetary institutions occurs

[1] A revised version of this chapter was published under the title "The influence of EU membership on methods and processes of budgeting in Britain and France, 1970-1995" in *Governance*, April 1998.

and, if so, whether it is promoted by an obligation of compliance or by a hybridisation effect. Compliance refers to changes in national budgetary institutions made compulsory by membership of the EU. Hybridisation recognises that budgeting is no longer a process internal to national governments because part of decision-making on national expenditure is made at the EU level and because the national budget is closely linked to the EU budget in both financial and policy aspects.

Compliance and hybridisation convey different views of how budgetary processes changed because they adopt different approaches to institutional change. The compliance approach focuses on formal rules and sanctions whereas hybridisation emphasises practices and informal processes. The impetus for change is located at the EU level with compliance, while the hybridisation approach maintains that the national and the EU levels are hybrid and may not be analysed independently. Both approaches adopt different definitions of how EU institutions operate. Compliance stresses the regulatory powers of EU institutions, whereas hybridisation views the EU level as a locus of intergovernmental negotiations and decision-making. Therefore, new institutionalism can be used to support competing propositions about the extent of change which can be related to European Union membership.

3.1. Compliance, the basis of institutional change in the EU

Proposition 1: Budgetary targets and criteria imposed on EU members stimulate change in national budgetary institutions because Member States must ensure that national budgetary procedures comply with the requirements for an Economic and Monetary Union.

Several scholars have analysed the interactions between the EU and national budgeting on the basis of compliance. Hagen has extensively used the new institutional framework to assess the 'quality' of national institutions and their propensity to stimulate fiscal discipline as a way of recommending institutional change 'required' by EU membership.[2] The focus here is different since the emphasis is not normative. However, the institutional framework of Hagen is used later in the chapter.

3.1.1. EU rules and the adaptation of budgetary institutions

According to proposition 1, national budgetary institutions are becoming Europeanised because they have to comply with objectives and rules defined at the EU level to be included among the qualifying members of the third stage of EMU. The rule-based approach focuses on how obligations introduced by EU membership in budgeting directly impact on national budgetary institutions. This approach focuses on the limited number of EU budgetary constraints as a means of differentiating Europeanisation from other influences such as globalisation or New Public

[2] Hagen, Jürgen von (1992), "Budgeting procedures and fiscal performance in the European Communities", in Commission of the European Communities, *Economic Papers*, 96 (Oct.).

Management. Europeanisation involves the process of adaptation of national institutional arrangements to incorporate specific obligatory requirements formulated at the EU level into the national budgetary system, and to integrate new procedures involving EU bodies into the national budgetary process.

Europeanisation is an adaptation process which leaves Member States responsible for deciding whether present institutions comply with the set guidelines or whether they need to be amended.[3] This responsibility derives from the Maastricht Treaty provision that "Member States shall ensure that national procedures in the budgetary area enable them to meet their obligations in this area deriving from this Treaty."[4] Member States determine the extent and the type of institutional change required since the Treaty of Maastricht stipulates objectives that need to be achieved and not the means through which they should be achieved.[5] The margin of manoeuvre in the interpretation of the changes required explains why institutional changes stemming from the application of the Treaty of Maastricht may vary from country to country.

Formal European constraints on national budgeting are limited in number[6] and fairly recent. Only in the Treaty of Maastricht did Member States accept a number of 'safe-

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[3] Ian Harden argues "It is not the job of the Community to design national budgetary procedures. It is not necessary for it to do so since ... it is in the interest of each State to control deficits" in Wildavsky, Aaron and Zapico-Goni, Eduardo (eds) (1993), *National budgeting for Economic and Monetary Union* (Dordrecht: Martinus Nijhoff): 75.

[4] *Treaty of Maastricht*, Protocol on the Excessive Deficit Procedure, Article 3.

[5] According to Interview, ref. 14.

[6] The European budgetary constraints can be listed as follows:

- Prohibition of overdraft facilities and other credit facilities in favour of government authorities (article 104 para. 1).
- Prohibition of privileged access by government authorities to financial institutions (article 104a).
- Prohibition of bail-out (article 104b).
- Member States should avoid excessive government deficits. Deficits are excessive when the ratio of the planned or actual government deficit to GDP at market prices exceeds 3% and when the ratio of

guards', in the shape of budgetary aggregates, to create a general framework conducive to discipline in the context of the political agreement to move on to EMU. Since the constraints included in article 104c do not apply to the United Kingdom[7], compliance may not explain institutional change in the UK because one cannot relate changes in budgetary institutions to the EU targets. This argument underlay the statement of a member of HM Treasury, who argued

> "to be quite honest, the impact on our national budgeting is nil. The reason for that is that we want to reduce the PSBR anyway and we are doing it anyway, and the driving force behind it is the government's wish to cut back taxation ... In other countries, the requirement to converge is used as an excuse for imposing unpopular policies. If we were doing that in the UK, that would contribute to make policies more unpopular."[8]

The connection between changes in budgetary institutions and the obligations introduced by the Maastricht Treaty can be established in the French case. The independence of central banks required by the Treaty of Maastricht has put an end to the privileged relations between the Banque de France and the French Ministry of Finance. This obligation has increased by 2% the budgetary resources financed at market conditions.[9] Furthermore, the *Loi Quinquennale de Maîtrise des Déficits Publics* (23 October 1994) incorporates the deficit targets and the calendar agreed in the Maastricht Treaty into the French budgetary statute. Every budget is linked to a 5-year rolling law that sets targets for the main budgetary aggregates. The *Loi*

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government debt to GDP at market prices exceeds 60% (article 104c completed by the Protocol on the excessive deficit procedure).

[7] *Treaty of Maastricht*, Protocol on certain provisions relating to the United Kingdom of Great Britain and Northern Ireland, para. 5. The British government is exempted from the obligation to avoid an excessive deficit and may not receive deficit reduction measures or sanctions from the Council according to Cowie, Harry (ed.) (1992), *Federal Trust conference report - Towards fiscal federalism? Delors II budgetary proposals 1993-1997* (London: Federal Trust for Education & Research).

[8] Interview, ref. 7.

[9] Linditch, Florian (1993), "La souveraineté budgétaire et l'Europe - Quelques contraintes communautaires sur les finances publiques françaises", *Revue du Droit Public et de la Science Politique en France et à l'Etranger*, 6: 1695-99.

Quinquennale explicitly emanates from the Maastricht obligations and because a major policy of the French government is that France will participate in the core EMU group when it is created. However, the French government is keen to emphasise that the objective of reducing the budgetary deficit and the public debt existed before Maastricht, and in theory the Law would survive any amendment or cancellation of the Maastricht Treaty obligations. As an illustration of this claim, the annexe to the *Loi Quinquennale* mentions the demands of the Treaty of Maastricht as the last reason for the need to improve budgetary management. It cannot be denied, though, that the *Loi Quinquennale* creates an environment in which the focus of budgetary procedure is directed explicitly towards controlling budgetary deficits in the medium-term.

This shift in focus is apparent from slight changes during the budgetary process: first, budgetary negotiations between the Direction du Budget and spending ministries (Budgetary Perspectives in February and Budgetary Conferences in June), and the presentation of the draft budget to Parliament, now include discussions, '*les Quinquennales*', on public finance within a five-year time-frame.[10] These discussions give the Direction du Budget the opportunity to introduce macro-level considerations into the negotiations with the ministries to lower departmental credits and to create an interministerial solidarity in the fight against a deficit. This new procedure is a way of making explicit the DB's constraints to reduce departments' expectations of an increase in their credits.

[10] According to Interview, ref. 9.

Second, since the *Loi Quinquennale* sets targets for actual deficits, the focus of the DB was re-directed towards the implementation of the budget or making the draft budget more reliable. This shift in focus reflects the fact that EU targets are set for actual or planned budgetary deficits. Also, it results from the increasing difference between the planned and the actual deficit since 1991: the actual budgetary deficit was 2.5 times larger than forecast in 1992, then 1.9 times larger in 1993.

Third, although the traditional French definition of budgetary deficit is more exhaustive than the EU one, civil servants underlined that the Direction du Budget had started to use the definition of the European Union system of integrated economic accounts and was more concerned about deficit control for expenditure included in it.[11] This practice supports the argument by Zapico-Goni that "imposed budgetary rules may imply formal compliance (make-up, creative budgeting) rather than the adapting of budget spending to a disciplinary framework."[12]

Fourth, the figures of the *Lettre de Cadrage* (letter of guidance) sent by the Prime Minister to ministers in the Spring, which sets direct constraints on expenditure,[13] translate the aggregate constraints from the *Loi Quinquennale* into departmental budgets. The letter sent by Prime Minister Balladur in April 1994 acknowledges the link between the Maastricht Treaty obligations and these guidelines since he explains that the reduction of the budgetary deficit "is a priority objective as much to respect our commitments taken in the framework of the Treaty on European Union as to

[11] According to Interviews, ref. 9 and 32.
[12] Wildavsky, Aaron and Zapico-Goni, Eduardo (eds) (1993), *National budgeting for Economic and Monetary Union* (Dordrecht: Martinus Nijhoff): 120.
[13] For instance, the reduction of 15% of the non-priority *dotations d'intervention* was required in the 1995 letter.

loosen the constraint derived from the increasing interest payable on public debt because of accumulated deficits."[14] Therefore, these shifts in the French budgetary procedure and targets are closely connected with the *Loi Quinquennale* and the Maastricht obligations. Changes in budgetary institutions support the argument that Europeanisation may be defined as the compliance of Member States' institutions with 'good practice' guidelines agreed to at the European Union level.

To some extent, it is possible to relate the more stringent budgetary procedures to the Maastricht obligations. Indeed, the Direction du Budget has modified the budgetary game, in particular a number of 'traditional' budgetary practices, to accommodate aggregate constraints on public deficit and debt. For instance, it has become more difficult than previously to carry forward appropriations for credits under chapter 5 (government's direct capital outlays) and 6 (government's subsidies for capital outlays), as the procedure leaves less room for the defence of its credits by the department. This change in the budgetary procedure is because credits carried forward to year n+1 increase the deficit in year n. Therefore, policy-making became more 'short-sighted' with the need to reach set annual targets.

Shifts in budgetary techniques in France highlight the greater control by the Direction du Budget over departmental budgeting. In 1992 and 1993 the DB required the authorisation for departments' spending be duplicated (thus involving the approval of the relevant Chef de Bureau in the Direction du Budget) although formally only the

[14] "C'est un objectif prioritaire, autant pour respecter nos engagements pris dans le cadre du traité sur l'Union européenne que pour desserrer la contrainte que fait peser l'augmentation des intérêts de la dette publique sous le poids des déficits accumulés." in *Le Monde*, 27 April 1994.

authorisation of the Financial Controller is required. This double-authorisation was justified on the grounds of compatibility of expenditure with the aggregate spending framework, which again indicates the introduction of macro-level reasoning into departmental budgeting. Along similar lines the centralisation of credit allocation early in the budgetary procedure was reinforced by a 'pre-arbitration' practice. In 1994 and 1995 the Directeur du Budget sent a letter to departments, along with the *Lettre de Cadrage* from the Prime Minister's Office, to set the tone for savings and spending.

These shifts in budgetary practices reflect the priority given to the reduction of the French public deficit, and the Maastricht criteria have increased the political impetus for success in this endeavour. However, it is difficult to establish a strong direct link of causality between European integration and the shifts in specific budgetary techniques. As underlined by a former Directeur du Budget, changes in budgetary techniques do not date back to the Treaty of Maastricht but have always existed as a way of creating uncertainty in departmental expectations.[15] Because Directeurs du Budget have continuously used changes in budgetary techniques as part of the traditional game between the Direction and the spending ministries, namely to affect power distribution, it is not really possible to assess the extent of change, and to relate budgetary stringency specifically to the introduction of the Maastricht obligations. Therefore, these institutional changes are secondary illustrations of the compliance effect.

[15] Interview, ref. 3.

3.1.2. EU procedures to sanction national budgeting

The obligatory targets and '*code de conduite*' for budgeting have a greater impact on institutions than the introduction of procedures involving EU bodies in the national budgetary procedure.[16] The European Community has offered a framework for reflecting on national budgetary matters since 1964 with the creation of a Budgetary Committee (decision 64/302). Member States agreed to co-operate informally in budgeting and to accept the recommendations of the European Committee involving consultation with the Commission and the Council. For instance, the committee recommended a reduction in the growth of public expenditure (less than 5%) in its decision of 15 April 1964. However, the procedure remained informal, since Member States did not want to surrender their sovereignty in budgeting. The Werner Report in 1970 followed this line when it recommended the adoption of a budgetary deficit at the EC level and growth margins for annual and multi-annual planning. It implied a transfer of budgetary powers to EC institutions to harmonise the management of national budgets which the Council had agreed to.[17]

Most of the procedures set up at the EC level in the 1970s still exist, namely the Monetary Committee and the Committee for Economic Policy which offer ad hoc channels for the transmission of information between Finance Ministers and European

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[16] The new European budgetary procedures include (article 104c):
- the surveillance of the level of public deficits by the Commission and the Committee.
- the decision by the Council on a recommendation from the Commission that an excessive deficit exists.
- the recommendations by the Council to the Member States, which can be made public.
- a wide range of sanctions for Member States failing to put these recommendations into practice. They do not apply to the United Kingdom (Protocol on certain provisions relating to the United Kingdom of Great Britain and Northern Ireland, para. 5).

[17] Resolution on 22 March 1971.

institutions.[18] The Treaty of Maastricht bases future intergovernmental budgetary co-ordination within EMU on these existing structures, which originally operated informally. In particular in the Maastricht Treaty the Committee for Economic Policy has become an Advisory Committee (art 109c), reporting directly to the Council and the Commission in promoting budgetary co-ordination. It will become the Economic and Financial Committee in the third stage of EMU. It prepares Council debates on economic and monetary policy. It associates the Member States with the Commission's proposals since each Member State has met periodically since 1974 to discuss Member States' budgetary choices and to prepare a report that is sent to the European Parliament and the Economic and Social Council (ESC) on national budgetary orientations for the coming year. However, these recommendations are not obligatory for the Member States, although a Directive in 1974[19] required Member States to implement economic policy according to the orientations of the Council. Similarly, the assessment and recommendations of the Commission, included in the annual report and transmitted for approval by the Council after consultation with the European Parliament and the ESC, have only a pedagogical value.[20]

The Treaty of Maastricht is not the first Community attempt to create institutions which could alter national budgeting. However, the inclusion of precise targets, agenda and sanctions creates a more constraining context where European Union institutions are integrated into national budgetary institutions. Article 103 of the Treaty sets up a voluntarist co-ordination of economic policy and a multilateral

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[18] Decision on 18 February 1974.
[19] Council Directive 74/122/ EEC.
[20] Hertzog and Weckel (1994), "Union européenne et coordination des politiques budgétaires des Etats membres", *Revue Française de Finances Publiques*, 45: 177-193.

surveillance of whether orientations and recommendations have been followed by the Member States. In 1992 and 1993 Member States submitted national programmes of convergence to the Commission, including a concerted French-German convergence initiative. The Union may sanction the non-attainment of the targets, namely the Commission may declare that an excessive deficit exists in a Member State - which happened for ten Member States in October 1994 - and formulate recommendations during the Eco-Fin meeting. Until 1995 this procedure had no impact on the preparation of the French budget because the declaration was made while the draft budget was poised for submission to the Parliament. The timing of the declaration was amended under the French presidency of the Commission so that it now fits in with the national agenda. While it is not committed to reaching the Maastricht deficit targets, the United Kingdom escapes neither the monitoring procedure by EU institutions nor the excessive deficit procedure, and the Council's policy recommendations could be made public.[21] Therefore, the UK accepted a similar degree of surveillance to other EU members while escaping any obligation or penalty. However, these procedures involving European institutions have not been constraining to date because Member States are sovereign on budgetary matters during the second stage of EMU and there are no potential institutional sanctions from the Union.

[21] Cowie, Harry (ed.) (1992), *Federal Trust conference report - Towards fiscal federalism? Delors II budgetary proposals 1993-1997* (London: Federal Trust for Education & Research).

3.1.3. Other EU rules

Part of European legislation, although not directed in the first place to the regulation of budgetary management, includes provisions with side-effects on the determination of national budgets. The purpose here is not to offer an exhaustive account of such provisions but to underline that the scope of compliance should not be restricted to explicit budgetary rules. First, free-market and competition policies have imposed a clearer distinction between the budget for central government and for public companies. Several French annexe budgets have been affected by this requirement. The budget of the 'Poste et Télécommunications', which amounted to 165 bn in 1987 (i.e. 15% of the central government budget), was taken off the national budget in 1991. The 'Poudres' (gun powder) budget was suppressed in 1976 and there is a proposal to transform the 'Imprimerie Nationale' (National Press) into a private company. Similarly, the banning of taxes with an equivalent effect to forbidden taxes (art. 13 of the Treaty of Rome) has had a significant impact since it led to the suppression of 67 out of 117 taxes under title E of the French budget between 1975 and 1993.[22]

Second, European Union legislation regulates several types of public expenditure such as state subsidies. State subsidies to companies are limited in principle by art. 92 when they are likely to distort trade patterns and competition between Member States. This principle has been given a particularly large coverage since the notion of aid to companies has been widely interpreted by the European Court of Justice. It includes all measures creating a burden for the state by adding spending or diminishing receipts,

[22] Linditch, Florian (1993), "La souveraineté budgétaire et l'Europe - Quelques contraintes communautaires sur les finances publiques françaises", *Revue du Droit Public et de la Science Politique en France et à l'Etranger*, 6: 1695-99.

and public stakes in the capital of companies. The restrictions on state subsidies have a significant budgetary impact: the European Union investigated about ECU 82.3 bn grants in the EU and FR. 210 bn in France in 1993.[23] EU legislation caused a large decrease in such expenditure in France (the '*subventions d'exploitation*' decreased from FR. 90 bn in 1982-84 to FR. 5.1 bn in 1989, and repayments of FDES loans offset new loans since 1990).[24]

Third, some categories of public expenditure have been transferred from the national to EU level. The transfer of spending power to European authorities originates from the combination of two complementary interests: national states may be willing to delegate the financing of some projects to the central level as a way of reducing their domestic spending and of obtaining community financing of projects which would otherwise be financed nationally. In the meantime, they cannot be held accountable for the policy implemented. Other categories of expenditure are systematically transferred to the EU following an institutionalised process which does not require annual approval by national states. With community grants, the delegation of spending power is designed to guarantee a certain degree of social protection for farmers and is part of a wider protectionist policy for agriculture. European spending on community grants remains marginal (it represented 3.6% of Member States' budgets in 1988) but increased rapidly over the last decade (annual spending per inhabitant amounted to ECU 45 in 1979, 135 in 1988 and 182 in 1992). The impact of these grants on national budgets

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[23] The European Union currency has been named in many different ways across countries and time, e.g. Ecu in France, ECU for European Currency Unit, and Euro or euro since 1995. Throughout the thesis we use the abbreviation ECU, which is most commonly used in Britain.

[24] Linditch, Florian (1993), "La souveraineté budgétaire et l'Europe - Quelques contraintes communautaires sur les finances publiques françaises", *Revue du Droit Public et de la Science Politique en France et à l'Etranger*, 6: 1695-99.

varies according to the schemes. The direct impact on the French budget was estimated at FR. 7 bn dispersesd between 80 '*fonds de concours*'[25] in 1990, but the overall financial influence of the EU seems much greater. The selection of programmes at the national level is likely to take into consideration the co-financing of schemes by the community, although the funds do not go through the general budget (the Guidance section of the EAGGF covers 20-25% of the costs for projects included in EU schemes). Therefore, the EU has an influence over the choice of spending if not over the amount. Also, EU aid to the private sector which in theory has no impact on national budgets (e.g. funds under the Guarantee section of the EAGGF do not go through national budgets), indirectly reduces charges normally supported by national governments.

Compliance is a significant cause of change in budgetary institutions as it ensures that outcomes, procedures and practices follow a defined 'European' pattern. However, proposition 1 presents a number of limitations. The rule-based approach is minimalist in the sense that Member States do not need to amend their institutions as long as they comply with the European guidelines. For instance, the requirements for fiscal discipline in the Maastricht Treaty did not generate much institutional change in the UK and France since both countries have been committed to budgetary discipline for a long time on national grounds and have set up adequate institutions. Therefore, in spite of the effect of political expediency, formal rules pronounced by the EU do not necessarily imply great institutional upheaval in national budgetary systems.

[25] '*Fonds de concours*' are credits assigned for the financing of specific projects. They are an exception to the public finance principle of non-assignment.

The function of EU institutions lies in the setting up of a preventive framework and organising mechanisms for co-operation. Also, they monitor the budgetary performance of the Member States and control the nature of institutional compliance. The EU is the 'watch-dog' or the 'Supreme Court' distributing rewards (the main reward being qualification for the third stage of EMU) and sanctions to governments on the basis of their success in meeting budgetary requirements. The EU can impose a scale of political sanctions ranging from making recommendations on excessive deficits in stage 2 to deciding on non-qualification for the third stage of EMU.

Although legally binding, the Treaty of Maastricht has limitations which render the sanctions less credible. The procedure is not automatic; the final decisions on excessive deficit and debt require discretion; the criteria are more benchmarks than rules; and they are not bereft of ambiguity and vagueness. Target figures became both abstract and unrealistic in the current economic context, since they reflect the strongly voluntarist and optimistic views of the Maastricht Treaty where targets were used as a political signal. The setting of tight budgetary targets takes for granted that spending behaviour has the capacity to adapt. Moreover, Hagen argues discipline cannot be achieved unless sanctions become credible.

> "To be effective, such a strategy must rely on the credibility of the penalties it entails for violating these criteria. Experience with the budget norms in the US suggests that governments find ways to circumvent fiscal restraints in practice, with the result that they are largely ineffective. In the European context, the absence of a strict enforcement mechanism of fiscal constraints among sovereign nations other than the threat or possible application of peer pressure and financial sanctions raise the problem of how to ensure the prospects of budget criteria are successful".[26]

[26] Hagen, Jürgen von (1992), "Budgeting procedures and fiscal performance in the European Communities", in Commission of the European Communities, *Economic Papers*, 96 (Oct.): abstract.

While a compliance effect cannot be denied, the rule-based proposition is subject to several criticisms. First, the EU stance of legalising compliance seems naive or illusory, since it rests on the assumption that adopting an agenda for building the Union and overall objectives are sufficient to ensure Member States will comply with the requirements, although there is no credible sanction against free-riding. Hertzog and Weckel underline

> "the inadequacy of current co-ordination mechanisms and the partially illusory character of the strategy for building EMU adopted in the Maastricht Treatywhich rests on the idea that a set calendar for the achievement of the Union, together with the definition of general objectives for economic and budgetary policies - whose attainment would be monitored by the Community institutions - would be sufficient to compel states to follow converging economic and budgetary policies."[27]

It is all the more doubtful that compliance is an efficient basis for convergence since scholars have uncovered a large body of evidence that this strategy is unsuccessful for budgeting. Harden[28] recalls that the US experience has shown that it is not efficient to impose substantive norms and procedures attempting to force agreement between participants in the budgetary process. In 1985 the Gramm-Rudman-Hollings Act, that fixed annual declining targets, proved to be a failure. Similarly, Pliatzky recollects that "Parliament has in the past approved the legislation setting up these procedures, but the legislation left it with no say in the payments year by year."[29]

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[27] "l'insuffisance des mécanismes actuels de coordination et le caractère partiellement illusoire de la stratégie de construction de l'Union économique et monétaire adoptée par le Traité de Maastricht, qui repose sur l'idée que la fixation d'un calendrier de réalisation de l'Union, assorti de la définition d'objectifs généraux des politiques économiques et budgétaires, dont le respect sera contrôlé par les institutions communautaires, suffira à contraindre les Etats à pratiquer des politiques économiques et budgétaires convergentes." quoted from Hertzog, Robert and Weckel, Philippe (1994), "Union Européenne et coordination des politiques budgétaires des Etats membres", *Revue Française de Finances Publiques*, 45: 177.

[28] "A constitutional analysis of budgetary norms and procedures in the framework of EMU" in Wildavsky, Aaron and Zapico-Goni, Eduardo (eds) (1993), *National budgeting for Economic and Monetary Union* (Dordrecht: Martinus Nijhoff): 75-77.

[29] Pliatzky, Leo (1989), *The Treasury under Mrs. Thatcher* (Oxford: Blackwell): 77.

Second, the compliance approach tends to consider the EU level as a variable exogenous from national states and does not explain how European rules are created. Isolating EU from national administrations is unrealistic, since it does not account for the complex interactions between the two in decision-making.

Third, the notion of compliance emphasises the control and coercion functions of EU institutions. It conveys a 'negative' approach to convergence, based on enforcement and sanctions. It neglects the possibility for positive leadership and long-term budgetary guidance. The compliance focus is too narrow. Therefore, it is important to expose other and complementary views of how budgetary methods and processes in Britain and France are subject to Europeanisation.

3.2. Institutional hybridisation: are budgetary processes still 'national'?

Proposition 2: Budgetary institutions can no longer be understood in a nationalist perspective because of the entanglement of national and EU policy-making levels. Budgetary processes have become hybrid because budgetary decision-making is simultaneously made at the national and the EU levels with actors and institutions operating across boundaries. Budgeting at the national and the EU levels should be considered as parts of the same process.

Proposition 2 considers the European Union as a locus of decision-making rather than as a regulatory body and adopts a wider definition of institutions. This proposition has two implications for the study of changes in national budgetary institutions. First, the budgetary decision-making process is a hybrid of national and community rules and procedures because EU institutions and procedures have replaced some national ones, or have been added to them. Second, the hybridisation of institutions is not uniform but varies according to policy areas. National budgetary processes differ widely depending on whether decision-making involves EU institutions and procedures. This uneven hybridisation creates a two-track budgetary process, characterised by the juxtaposition of areas of conventional budgeting and areas where institutions are hybrid.

3.2.1. Hybridisation

The conventional literature traditionally isolates national from EU budgeting and considers that these processes are independent from one another. Proposition 2 underlines the links between national and EU budgets, and between decisions over spending at the national level and policy-making at the EU level. Analysis of public finances in EU members may no longer be restricted to that of the national budget because the national budget is closely linked to the EU budgeting, both finance and policy. At the macro-economic level there are clear financial links between national budgets and the EU budget. Not only do EU-own resources represent an opportunity cost for national governments, but financing the EU budget implies a direct cost for national budgets since it is increasingly financed by direct contributions (see Appendices 3.1 and 3.2). In the UK the British contribution to the EU budget was estimated at ECU 8,110 m. in 1993 (about £4,620 m.). In France the direct 'cost' of financing the European budget has increased fivefold since 1980 and reached FR. 82.5 bn in 1996 (about £9,700 m.), that is 6% of French budget resources (see Table 3.1.

below). The contribution to the EU budget is the third most important cost centre for the French budget.[30] It is greater than the budget for the Ministry of Employment and for the Ministry of Interior.

Table 3.1. *The French contribution to the EU budget* (1989-1997)

	1989	1990	1991	1992	1993	1994	1995	1996	1997
as planned in the draft budget in bn. FR.	64,5	63,5	70,7	84,2	83,5	90,8	88,0	89,0	87,0
as a % budget receipts	5.6%	5.2%	5.5%	6.3%	6.4%	7.3%	6.7%	6.3%	6.2%
actual contribution in bn. FR.	61,2	56,1	74,7	72,6	77,0	82,5	78,2	82,5*	-
as a % budget receipts	5.2%	4.7%	6.1%	5.8%	6.4%	6.6%	6.0%	6,0%	-

* Estimates of the actual contribution

Sources: Ministère de l'Economie et des Finances (1994), *Projet de loi de finances pour 1995, Relations financières avec l'Union Européenne* (Paris: Imprimerie Nationale) : 28. and Ministère de l'Economie et des Finances (1996), *Projet de loi de finances pour 1997, Relations financières avec l'Union Européenne* (Paris: Imprimerie Nationale) : 39.

Financing the EU budget became a significant cost for national budgets because of its growth while national governments' budgets remained stable over years, particularly as they were required to respect the Maastricht criteria (see Appendix 3.3). Most Member States have applied growth norms far below that of the EU budget (3.1% growth in credits in the 1995 planned draft EU budget and 7.7% in 1996). In addition, the actual growth rate of the EU budget largely overstepped the forecasts (8.7% growth in 1995 instead of 3.1% planned). In France the target of 0% growth in real terms requires dramatic budget cuts considering the service of public debt and the commitments on staff wages. French representatives alleged that the EU budget, an intervention budget which could vary from year to year, should take into account the

[30] Linditch, Florian (1993), "La souveraineté budgétaire et l'Europe - Quelques contraintes communautaires sur les finances publiques françaises", *Revue du Droit Public et de la Science Politique en France et à l'Etranger*, 6: 1694.

objectives of stringency in individual Member States. The 1997 EU budget plans a more moderate growth in expenditure, which may indicate the stabilisation of the weight of national EU contributions in national budgets.

The French budget document is hybrid since it does not clearly isolate the financial flows with the EU from national receipts and expenditure: some EU receipts go through the budget and part of national budget resources directly finance the EU budget. Therefore, Linditch recommends distinguishing the financial flows between national governments and the EU budget in national budget documents.[31] In its 1993 annual report on French public finances the Cour des Comptes, the equivalent to the National Audit Office, criticised the government's calculation of public spending for "arbitrarily" excluding a number of disbursements. It recommended the EU contribution be integrated into the economic estimate of actual government expenditure.[32] The EU contribution constitutes an important element of tax pressure since it adds up to 1.1% GDP in 1993. As a corollary EU expenditure should be added to the spending totals of national governments of EU members since it increases the size of the public sector. Also the contribution affects the PSBR, and the way it is accounted for is not neutral in budgetary deficit calculations: from 1985 to 1989 the French annual deficit was reduced by 72% if the EU contribution is not taken into consideration, or by 36% if it is included.[33] Therefore, the EU budget should be considered as an 'extension' of the national budget in the same way as the budget

[31] Linditch, Florian (1993), "La souveraineté budgétaire et l'Europe - Quelques contraintes communautaires sur les finances publiques françaises", *Revue du Droit Public et de la Science Politique en France et à l'Etranger*, 6: 1681-89.
[32] Les Echos (1994), "La Cour des Comptes souhaite que le budget de l'Etat soit plus sincère" (28 Sept.).
[33] Ecole Nationale d'Administration (1993) "Le financement de l'Union", *La mise en oeuvre du Traité de Maastricht et la construction européenne* (July): 29-30.

allocated to local authorities represents the 'local branch' of general government expenditure.[34] From this perspective EU budgeting corresponds to a collegial decision on how to spend national resources.

At the departmental level it is often misleading to consider national expenditure in isolation from EU spending programmes. Budget allocations at the national level are often determined on the basis of what the EU spends on similar programmes. First, national expenditure is complementary to the EU budget. The British government investment aid and grants scheme for farmers is a small programme designed to complement the broader EU scheme under regulation 2328. The French suckling cow premium scheme was set up as an addition to the existing EU expenditure. The design of national budgets is thus modelled on EU spending. Second, with national schemes co-financed by the EU budget such as the agri-environment schemes, there are restrictions on what national governments may finance. The more national governments spend on a programme, the more EU expenditure rises. EU expenditure is induced by national spending. Third, for a number of policy areas (especially agricultural) EU expenditure has totally evicted national spending, with the effect that national governments do not allocate credits to these programmes to complement EU expenditure (e.g. intervention on the beef market). Many of the credits under CAP do not go through the budget of the Ministries of Agriculture but through agencies (e.g. Onilait and Ofival). Agricultural sectors in individual Member States receive more from the EU than from the domestic budget for agriculture. Financial information from

[34] This argument rests on two facts. First, local government expenditure is included in the assessment of the size of general government in the UK. Second, part of the revenues of local authorities' budgets are centrally financed by grants from national taxpayers.

national budget documents would convey a misleading view about the extent of public spending for a particular policy. Credit allocations by national governments must not be analysed in isolation from the EU budget on similar programmes because the coverage of national budgets is defined by the boundaries of EU expenditure.

Not only are national and EU budgets linked, but national budgetary decision-making is also closely dependent on non-budgetary EU policy. Dowding argues "all departments must keep a close eye upon developments in Europe, for even policy initiatives which prima facie have little to do with the EC may in fact contradict European Law or European Directives."[35] A French senior civil servant mentioned that it has become vital for departments to check that national credits are compatible with EU regulation.[36] For instance, French credits for the tearing up of ship holds ("*déchirement des cales*") required the prior agreement of EU institutions. Therefore, the development of EU non-budgetary competence impacts on national budgeting.

Moreover, EU policy-making generates budgetary issues for Member States because it is a major locus of policy-making. Many policy issues with budgetary implications debated in the Commission and the Council are the starting point for inter-ministerial conflicts over national government's budgetary priorities. Negotiations at the EU level are regularly suspended to allow national representatives to consult their Finance Ministries. Therefore, EU negotiations oblige national governments to engage in interministerial co-ordination and determine a budgetary stance.

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[35] Dowding, Keith (1995), "European Union, new opportunities" in *The civil service*, chap. 7 (London: Routledge): 130.
[36] Interview, ref. 9.

It is vital to bring national and EU budgets together to understand the impact of European membership on budgetary processes. In a context of budgetary stringency, EU credits have become so significant for many departments and bureaux that decision-making on EU budget allocations has a revived importance. EU budgeting represents an other source of finance which most departments seek to optimise. For instance, the TENs programme offers a possibility of extra financing for the TGV-East project which the Ministère des Transports tries to maximise. Therefore, departments are encouraged to participate actively in EU budgetary decision-making as well as in the bargaining with the Finance Ministry for domestic funds. Budgetary processes are duplicated since departmental actors are involved in EU budgetary negotiations in addition to conventional budgetary bargains.

The argument that budgeting in the UK and France has become hybrid rests on the following. First, while only national governments are entitled to levy resources to finance public expenditure, there are two institutions for allocating public expenditure, the national budget on the one hand, and the EU budget on the other. Therefore, departments need to participate and be represented in budgetary decision-making at both levels. The participation of departments in budgetary negotiations at each level depends on how they value the respective benefits from them. For instance the Department of Health may not be willing to participate actively in EU budgeting because it assumes that the 'cost' of participation outweighs the financial returns. The Ministries of Agriculture put much emphasis on EU budgeting because CAP spending is larger than domestic spending. Therefore budgetary negotiations at the EU level are more important than the bilaterals with the Treasury on the domestic budget. In some departments such as Transport the emphasis given to EU budgeting is unrelated to the relative size of the EU returns. Actors expect from the EU budget the financial flexibility at the margin that national governments cannot offer them and the political impetus for taking policy decisions. Therefore, budgeting is a hybrid process since departmental actors need to participate in two budgetary decision-making processes.

Second, hybridisation is reinforced by the fact that processes for allocating domestic funds, or 'conventional budgeting', have also become hybrid. First, EU membership has imposed new budgetary rules, targets and procedures which bind national governments. Second, decisions on the allocation of domestic credits are no longer made in a totally independent fashion but proposals are linked to policies on similar projects at the EU level. Because both EU institutions and national governments have the capacity to spend, and since there is no division of competence or policy areas between them, national governments cannot ignore EU public-spending policy. National budgetary choices take into account the EU budget to complement, reinforce or correct its effects.

Third, EU budgeting itself is hybrid because it simultaneously involves EU and national actors, institutions and procedures. Decisions over the allocation of European Union funds involve national civil servants who are simultaneously participating in national interministerial budgetary negotiations. Decisions at the EU level involve representatives of national administrations called to contribute to, and to approve, decisions. While the adoption of decisions is a EU process, the approval of each national representative is backed by its national government. Therefore, the choices made by EU institutions are closely linked to those of national governments.

With unanimous decisions EU budgetary decisions reflect national choices. The role of actors operating across boundaries allows EU and national budgets to be co-ordinated, complementary or substitute. Therefore, EU budgeting is a hybrid system of bargaining between national actors and governments, and EU institutions (Commission, Council, Economic and Social Council, European Parliament) and EU procedures. The reciprocal involvement of national institutions in EU budgeting and vice versa creates a complex institutional system where budgetary decisions at both levels are so closely entangled that they cannot be isolated one from another. Budgetary processes have become hybrid because decision-making is simultaneously made at the national and the EU levels with actors and institutions operating across boundaries. Because of the linkages between the two levels, policy co-ordination is a major constraint and obligation. The hybridisation of national and EU decision-making institutions represents a major institutional change. Table 3.2. below considers the budgetary institutions defined earlier in the first chapter to see the changes involved and the effects on power distribution. With points 1.1 and 1.2 of Table 3.2, hybridisation has introduced limitations on the ability of departments to make proposals about EU spending decisions. While for conventional budgeting, departmental expenditure projections are discussed between departments and HM Treasury or the Direction du Budget, no spending decisions are drafted by national governments or ministries on their own because the framework and conditions for much spending in Member States are set at the EU level.

Table 3.2. Institutional change because of hybridisation

1. Public expenditure projections	
1.1 Division-of-Labour	The power of making proposals for policy decisions lies in the hands of the Commission, not the department. Ministerial departments are not in charge of proposing policies, and they are not supposed to develop formal direct links with the Commission to influence it (relations are filtered by the permanent representation). Ministries may seek to use informal channels to influence proposals at the EU level, but so may various non-administrative bodies (interest groups, experts) and administrative institutions either internal to the department (EU bureaux) or external to it (e.g. Ministry of European Affairs in France).
1.2 Labour Specialisation	Departments are required to co-ordinate their projections with a large number of administrative bodies (permanent representation, Prime Minister's Office, CO and FCO in the UK, SGCI and Quai d'Orsay in France) and other ministerial departments involved.
1.3 Leadership	The fragmentation of spending decision-making into a large number of stages (interministerial bargaining stage, working group stage, European Council stage) modifies the definition of departmental leadership into a role of negotiator seaking compromise.
1.4 Power distribution within government	HM Treasury / Direction du Budget has little control over European spending in the Member States and are exogenous actors in most negotiations. Therefore, they set up institutions for administering European expenditure (Euro-PES in the UK, rates-of-return in France) to regain control. Arbitration within government is horizontal as well as vertical.
1.5 Multi-year budgeting	Department projections must fit in with the five-year budgetary planning of the European Union budget.
2. Vote of public expenditure allocation	
2.1 Scope of parliamentary authorisation	- The size of EU Own Resources and the national contributions to the EU budget do not need to be authorised by national Parliaments. - National Parliament loses control over expenditure and policy decisions of 'Europeanised' policy areas.
2.2 Voting procedure	Qualified majority voting applies to most Council decisions on public expenditure. Member States need to form alliances and coalitions to influence decisions. Departmental representatives use bargaining techniques.
2.3 Discipline	Members in the Council represent the views of their national government which need to be defined before and often during the negotiations.
3. Execution of the budget	
3.1 Power of FM to block expenditure	Once the EU regulation or budget is voted on, the Finance Minister cannot amend it to cut expenditure. Therefore national programmes are more easily cut than others.
3.2 Degree of commitment	Commitment is financial as well as political in the international sphere.
3.3 Transfer of expenditure	European funds are used within the limits of what they have been allocated for. In general the conditions of use of EU funds are flexible.
3.4 Time period	Inertia effect, therefore EU programmes tend to be renewed.
3.5 Flexibility for new demands	Because of the complexity of the drafting stage, there is little flexibility for making new demands.
3.6 Accountability	Shared between national and EU administrations.
3.7 Control on execution	Juxtaposition of controls by national and EU administrations creates a problem of frontiers-of-control mandates and lack of synergy.
3.8 Sanctions	Recommendations on excessive public deficit; non-qualification for EMU.

Division and specialisation of labour have dramatically changed at the expense of ministerial departments: the power of making proposals for policy decisions lies in the hands of the Commission. Ministerial departments may not propose budgetary allocations and they are not supposed to develop formal direct links with the Commission to influence it (relations are filtered by the permanent representation and the CO-SGCI). Ministries may seek to use informal channels to influence proposals at the EU level, but various non-administrative bodies (interest groups, experts) and administrative institutions either internal to the department (EU bureaux) or external to it (e.g. Ministry of European Affairs) are allowed to do so.

The procedure for making spending decisions is fragmented into a large number of stages (interministerial, working group, European Council). Each of these stages must be concluded by a compromise so the proposal may pass to the next stage. Arbitration between national actors is as much vertical (ultimate arbitration by the Prime Minister) as horizontal (interministerial). With the introduction of an horizontal dimension at level 1, arbitration represents a major institutional change in the French conventional budgetary process. French budgetary negotiations are traditionally hierarchical and 'top-down', with unsolved disputes arbitrated for at the next level. Decisions on expenditure plans give an advantage to bilateral relations between each ministry and the Direction du Budget. Other departments are unaware of the contents of the *Lettre de Cadrage* sent by the Prime Minister, and Budgetary Conferences are bilateral. Negotiations at the EU level, because they require the definition of a 'national' stance, reinforce interministerial co-ordination and horizontal links within national governments.

At level 2 the arbitration process between national representatives is complex, involving the Commission, the Council and the Parliament. No institution at the European Union level is entitled to arbitrate in the last resort, since decisions must be supported by the consensus of all parties involved. This shift has an impact on the department's leadership function (1.3) which can no longer be described as a bilateral power relationship with HM Treasury and within the Cabinet, but encompasses negotiation procedures and consensus building in a multi-institutional environment. The shift in leadership is not best analysed by new institutionalism since this shift is less in institutions and more in strategies and role perceptions. New institutionalism usefully emphasises key functions, but the network approach would be more valid for understanding the complex strategies and power relationships between the various players of the budgetary game.

It is important to emphasise the shift in the Treasury's traditional function since it is left out of EU negotiation arrangements. Finance Ministries participate in the setting of the overall EU budget but they do not actively participate with departmental representatives in the decisions over detailed EU programmes. Hybridisation implies that Finance Ministries lose power over the control of expenditure. They may impose constraints on departments, but the direct responsibility for control of expenditure decided at the EU level lies in the hands of departments. Finance Ministries have set up specific institutions to regain leadership and control over EU expenditure which are discussed in chapter 4. Regarding point 1.5, departmental projections must fit in with the EU five-years' budgetary planning. MAFF public expenditure plans are designed within the broader framework of the EU agricultural budget, namely the stabilisation of expenditure under the Guarantee Fund and the CAP reform.

Budgetary hybridisation implies a great "hollowing" of Parliament's role of voting the budget. French Members of Parliament do not authorise the transfer of the national contribution to the EU budget and other EU Own Resources, although the contribution increases public expenditure. In France this arrangement was made legally possible since 1973 thanks to an institutional artifice whereby the French contribution to the EU budget is treated as a pre-budgetary levy on global receipts, not as a disbursement. The contribution to the EU budget is not integrated into public expenditure. Although this practice in theory contradicts both traditional public finance principles of comprehensiveness and non-assignment, a Conseil Constitutionnel decision[37] authorised it under the organic ordinance, on the grounds that the financing of the EU budget is authorised by Heads of States at EU summit meetings. However, this 'acquired privilege' of the EU and of Heads of States represents an interference with the intrinsic power of Parliament to vote on all credit allocations, and French MPs have expressed their concern, for example the report by Richard requests more national control over EU spending. Following an initiative from the socialists and centrists, the government indicated the level of the French contribution in the 1993 Finance Act (art. 36).[38] However, this clause operates only to make the French budget more transparent and informative since MPs are not entitled to challenge the level of the contribution.

[37] Decision 82/154 on 29 December 1982.

[38] Fressoz, in Cahiers Français (1993), "Le budget de l'Etat", *Cahiers Français*, 261 (May-June) (Paris: La Documentation Française).

Amselek has criticised this practice which maintains the illusion that they are 'accepted' by the Parliament while spending decisions are taken by the Council.[39]

Equally, the scope of parliamentary authorisation shrank as a result of the transfer of policy-making and spending power to EU authorities. To some extent spending levels are not so much decided by Parliament as by the administration. A member of the Direction du Budget underlined the dangers of a EU budgetary process uncontrolled by Parliament.[40] EU receipts and expenditure bypass the parliamentary stage at both the national and the European levels. Some categories of expenditure such as community aid are systematically transferred to the EU following an institutionalised process which does not require annual approval by Member States. The corollary is that governments cannot be held accountable by Parliament for decisions made or policies implemented (point 3.6).

The reduction in the scope of parliamentary authorisation is reinforced by a larger trend involving a shift in the relative weight of the successive stages of decision-making. The hybridisation of budgetary institutions emphasises the drafting stage of budgetary proposals while decreasing the importance of voting the law by Parliament. One explanation for this shift is that actors tend to secure a compromise acceptable for all participants well before the voting stage. Since decisions are taken on the condition they satisfy the expected desires of Parliament, one can argue that Parliament does not lose its intrinsic power. However, in practice, bargaining tends to become longer and

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[39] Linditch, Florian (1993), "La souveraineté budgétaire et l'Europe - Quelques contraintes communautaires sur les finances publiques françaises", *Revue du Droit Public et de la Science Politique en France et à l'Etranger*, 6: 1681-89.
[40] Interview, ref. 1.

more complex in the first rather than in the second stages. Decisions in the Council (point 2.2) involve lengthy negotiations because they require the agreement of a majority of level 2 participants, who themselves are backed at level 1. The definition of a national policy stance gives a specific leadership power to 'horizontal' actors: departments in charge of the settlement of interministerial disputes and European bureaux in charge of setting the departmental stance on European matters (Cabinet Office, SGCI). The degree of discipline (point 2.3) reflects how tight the link between level 1 and level 2 decisions is.

Because institutions are hybrid and entangled, the implementation of budgetary decisions is characterised by a lack of flexibility. First, ministerial departments' proposals must fit in with the EU calendar (e.g. CAP price-fixing is determined once a year). Second, since the drafting stage is complex and involves many actors and interests, it is difficult to amend decisions once they are made (point 3.5), and programmes tend to be renewed because of inertia (point 3.4). Third, because decisions simultaneously involve levels 1 and 2, and because national governments are responsible for implementing some EU programmes, it is not always easy to determine the level accountable for each expenditure programme (point 3.6). One effect of hybridisation, which is a corollary of the vagueness about the allocation of accountability between institutions, is the multiplication of administrative controls over the use of public funds (point 3.7). A better definition of who is accountable for what would make it possible to create synergy instead of repetitions in expenditure controls.

3.2.2. A two-track budgetary process

The integration of EU and national processes has a number of consequences for descriptions of budgeting. At the departmental level the process of budgeting differs widely depending on whether the EU has gained a responsibility in the area. Responsibility means the authority to make regulations and the ability to spend in a particular policy area. The conventional description of the budgetary process by Hagen as "the rules according to which budgets are drafted by a government, amended and passed by parliament, and implemented by the government"[41] and the underlying power distribution between national administrations is valid for budgeting on those programmes where the EU has no responsibility, such as health provision. However, in an increasing number of issues national budgetary procedures have been dramatically modified to accommodate EU decision-making procedures and expenditure. With the French Ministère de l'Agriculture, while the decision on the amount allocated to education and training, and the conditions regulating the programme, emerge from internal bargaining between the Ministry, the Direction du Budget and French agricultural associations, the processes for making similar decisions on subsidies to farmers are different since they involve other bodies and new procedures. Hybridisation is equivalent to a major upheaval in the budgetary process which may no longer be described in Wildavsky's or Hagen's terms. It is best described as a dual process characterised by the juxtaposition of conventional budgeting, and hybrid national and EU institutions.

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[41] Hagen, Jürgen von (1992), "Budgeting procedures and fiscal performance in the European Communities", in Commission of the European Communities, *Economic Papers*, 96 (Oct.): 2.

Many of the processes described by Wildavsky[42], Hall[43] and Hagen are not directly affected by EU membership because they are outside the responsibility of the EU. The chapter does not intend to discuss at length these mechanisms of conventional budgeting, because it is difficult to assess the extent to which they have been affected by European Union membership as against New Public Management. It is indeed significant that Hagen[44] does not adopt a dynamic approach to changes in institutional arrangements linked to the EU but concentrates on a static assessment of the 'quality' of national institutions on the basis of European requirements (i.e. compliance).

The budgetary pressures set by membership of the European Union have even been extensively used within conventional budgetary negotiations. Some budgetary institutions invoke membership of the EU during traditional budgetary negotiations to alter the power distribution within national administrations. Central agencies (HM Treasury, Direction du Budget, Prime Minister's Office) have used EU membership as an argument to consolidate their power in budgetary bargains with spending ministries. The Maastricht targets and procedures are used as an external constraint to keep public expenditure projections low. Obligatory targets are particularly efficient since they constrain central agencies while being determined exogenously. Therefore, ministries cannot hope to alter the external constraints in their negotiations with the Treasury. As underlined by a French civil servant of the DB, "before the *Loi Quinquennale*, we did not have such a powerful tool. For the Direction du Budget, it is a very good deal.

[42] Wildavsky, Aaron (1986), *Budgeting: a comparative theory of budgetary process*, 2nd edition (Oxford: Transaction books).
[43] Hall, Peter (1986), *Governing the economy - The politics of state intervention in Britain and France* (Cambridge: Polity press).
[44] Hagen, Jürgen von (1992), "Budgeting procedures and fiscal performance in the European Communities", in Commission of the European Communities, *Economic Papers*, 96 (Oct.).

Before the *Loi Quinquennale* we could not clearly highlight or make the global constraint visible."[45] The constraint makes departments aware of the need to think in aggregate rather than departmental terms and about budgetary execution rather than initial estimations in the draft budget.

Budgeting in the United Kingdom and France is characterised by the juxtaposition of conventional and hybrid budgetary processes with the following implications. First, the traditional representation of uniform national budgetary institutions has been challenged by the increasing budgetary and policy-making responsibility of European Union institutions. Conventional and hybrid national-EU budgetary institutions are juxtaposed, creating a two-track budgetary process. The shift from conventional to hybrid budgeting varies greatly depending on the policy area and is typically greater in the Ministry of Agriculture than in the Department of Health, which is why the thesis goes down to budgeting at the sub-governmental level to study the adaptation to EU pressures in policy domains which are more or less exposed to EU influences. Hybrid institutions create a much more complex decision-making process involving a considerable increase in negotiations, policy fragmentation and administrative control. As a consequence departments may be reluctant to seek further Europeanisation.

Second, the boundaries between conventional and hybrid budgetary processes are not formally established because they are blurred and moving. The Maastricht Treaty, with its new definition of obligations accompanied by new fields of competency for the

[45] "Avant la Loi Quinquennale, on n'avait pas d'instrument aussi puissant. Pour la Direction du Budget, c'est une très bonne affaire. Avant la Loi Quinquennale on ne pouvait pas faire apparaître clairement et faire visualiser la contrainte globale.", Interview, ref. 4.

Commission and the Council (namely on health matters), has enlarged the coverage of 'Europeanised' decisions. Spending ministries which used to be little involved in European decision-making, such as health, start a learning process on how best to represent the national spending priorities at the EU level. They learn the limits of conventional budgeting and become familiar with new budgetary decision-making. Traditional methods for elaborating rules and for making decisions are disturbed by the introduction of new levels of decision-making. This change creates conflicts of authority since the frontier between conventional and hybrid institutions is not static.

We may wonder why such an institutional change in national budgeting has not been described before and why national civil servants are not always fully aware of this shift in decision-making mechanisms. The first element to this answer is that the internal organisation of national administrations has not yet adapted to the changes in decision-making. Only recently have the governments in the United Kingdom and France requested the creation of a European bureau in each ministry to represent the department's view at interministerial meetings and to be the national representative at the EU level. In France the former Minister for European Affairs created in each ministry a position whose role is to liaise with the European Parliament and the appropriate commissions to represent national interests in a sector and to inform the department of developments in the EU decision-making process.

Second, the integration of EU financial flows with Member States is not yet complete: the contribution and returns on the EU budget in national public finance are not integrated in the budget, and the constraints on EU expenditure in the Member States are not always the same as those on national spending. HM Treasury and the Direction du Budget give little information on the financial flows with the European Union, and it is doubtful whether they have this information: since part of the returns on the EU budget do not go through the central government's budget but are directly allocated to local authorities or the private sector, the financial relations between Member States and the EU are not always transparent.

Third, the persistence of conventional budgeting in some policy areas, and the lack of adaptation of institutions (learning process), blur the extent of institutional change. The perception that the involvement of the EU within national budgeting is small is because not all institutional arrangements have yet assimilated this shift in practice and to date there is no formal recognition of this institutional shift either in government self-representation or in academic work.

3.3. Conclusion

Chapter 3 has enunciated and assessed a number of discoveries about the impact of EU membership on national budgetary processes. First, the chapter provided empirical evidence of the Europeanisation of national budgetary institutions and procedures. It proposed two interpretations of the type of adaption of bureaucratic mechanisms caused by EU membership, and concluded that the degree to which national budgetary institutions are affected is greater with the hybridisation than with the compliance proposition. Also, it concluded that, while both propositions are valid, institutional hybridisation is a wider process with greater long-term implications for national budgeting than is compliance.

Second, compliance and hybridisation do not qualify the impact of EU membership on national budgetary institutions in the same way. The concept of compliance was originally used within normative approaches to refer to changes in budgetary institutions. Compliance rested on the idea that EU institutions could impose 'good' procedures to ensure budgetary discipline in the EU (e.g. excessive deficit procedure, peer surveillance). Compliance rests on the presupposition that budgetary Europeanisation contributes to enhancing national bureaucratic mechanisms.

Hybridisation is opposed to this 'optimistic' view of budgetary Europeanisation. It underlines that the adaptation of bureaucratic mechanisms to EU membership caused increased complexity of budgetary decision-making processes. Indeed, budgetary processes are duplicated since departmental actors are engaged in budgetary negotiations at the EU level in addition to conventional domestic budgetary bargains. The reciprocal involvement of national institutions in EU budgeting and vice versa creates a complex institutional system where budgetary decisions at both levels are so closely entangled that they cannot be isolated from one another. The duplication of decision-making processes involves a considerable increase in negotiations, policy fragmentation and administrative control. Traditional methods for elaborating rules and for making decisions are disturbed by the introduction of new levels of decision-making. In the meantime, hybridisation has emphasised the drafting stage of budgetary proposals while decreasing the importance of the voting by national Parliaments; it has stressed the need for more interministerial coordination.

Third, compliance and hybridisation processes allow a number of EU pressures to urge national governments to adapt their budgetary processes to changing EU requirements. With compliance the main pressure implied by EU membership on budgetary processes to change is regulation. Europeanisation is the process of adaptation of national budgetary processes to incorporate specific obligatory budgetary requirements formulated at the EU level and to integrade new procedures involving EU bodies into the national budgetary process. The chapter provided empirical evidence of the impact of EU regulation on institutional changes in France, in particular with the inclusion in the French budgetary statute of the targets, agenda and sanctions defined in the Maastricht Treaty.

In the context of hybridisation the main cause of Europeanisation lies in the links between the national and the European budgets and between their budgetary procedures. The national budget is closely linked to the EU budget in finance and policy: at the macroeconomic level financing the EU budget is a major cost on national budgets; at the departmental level public expenditure by national governments may not be considered in isolation from EU expenditure because EU programmes are the basis, the complement or the substitute for national spending programmes. National and EU budgetary processes are entangled because budgetary decision-making is simultaneously made at the national and the EU levels with actors and institutions operating across boundaries. Therefore, hybridisation substantiates the hypothesis that the adaptation of budgetary processes to EU budgeting depends on the frequence and intensity of interactions between national and European actors.

Fourth, because of the types of EU pressure identified, the nature of the adaptation process of bureaucratic mechanisms to EU pressures is different in the two propositions. By restricting EU pressures on budgeting to formal binding rules, compliance conveys a restrictive view of the Europeanisation of national budgeting. The influence of the EU is restricted to negatively-oriented fiscal norms and procedures and to police-like legislative rules which establish limits that EU members cannot surpass. The compliance proposition conveys the view that Europeanisation is a 'top-down' process. It does not explain how EU rules are formed and the involvement of national governments in the designing of EU budgetary institutions. Furthermore, scholars have identified multiple historical examples to argue that Europeanisation may not arise from compliance only, because EU institutions have inadequate enforcement mechanisms to ensure compliance in hard times. Therefore, compliance to EU regulation cannot be denied but it is too restrictive to capture the whole process of adaptation of national budgetary institutions to EU membership.

With hybridisation the nature of the adaptation of bureaucratic mechanisms to EU pressures is different because hybridisation emphasises EU influences on leadership and on the roles of various institutions within budgetary processes. Hybridisation implies that budgetary Europeanisation is not uniform as it depends on whether decision-making involves both EU and national institutions and procedures. It contributes to creating a two-track budgetary process, characterised by the juxtaposition of areas of conventional budgeting and areas where institutions are hybrid.

Finally, the concept of hybridisation constitutes a promising contribution to the literature since it could be used not only to explain the mechanisms of integration in the European Union but also to challenge the traditional definition of budgeting. Hybridisation emphasises that the frontier between national and European budgets and budgetary processes is blurred. Budgetary procedures of EU members have been dramatically modified to accommodate EU decision-making procedures and expenditure. Therefore budgeting is best described as a dual process characterised by the juxtaposition of conventional budgeting, and hybrid national and EU institutions. Therefore, hybridisation substantiates the main hypothesis of the thesis because it reflects a wider definition of budgetary institutions and expresses the links between national and EU budgeting. Budgetary institutions can no longer be studied in a national perspective alone because of the entanglement of national and EU policy-making levels. Budgeting at the national and the EU levels should be considered as parts of the same process.

Chapter 4

National budgetary institutions administering the financial relations with the EU: impact on national strategies

One effect of institutional hybridisation entails that the centre of gravity for the setting of expenditure plans is displaced from the Finance Ministry to individual departments. Departmental actors participate in decision-making at both levels 1 and 2 while the Finance Ministry is mostly excluded from level 2 decisions on sectoral policies. In addition, a large part of expenditure is determined not at the national but at the collegial EU level. The Europeanisation of national budgeting through the process of hybridisation represents a challenge to the direct control of expenditure traditionally exercised by Finance Ministries in EU members.

Considering the dominance of HM Treasury and the Direction du Budget within respectively the British and the French central administration, and knowing the priority given to the control of public spending in both countries, the British and the French governments have adopted budgetary mechanisms to protect the control of public funds by the Finance Ministry. National governments in Britain and France have set up specific national financial rules for managing financial relations with the EU (including Euro-PES in Britain and the '*principe de constance*' in France) to ensure the ultimate control of national governments over EU spending. In both systems the budgetary mechanism aims to avoid the simultaneous financing of similar programmes by the domestic and the EU budgets and to maintain the level of public expenditure (when EU expenditure increases in a Member State, the domestic budget should decrease proportionally). These budgetary mechanisms allow the Finance Ministry to regain control over the financial flows with the EU budget. They alter the interministerial power distribution in favour of the Finance Ministry and affect the strategy of actors.

The chapter analyses these mechanisms and their impact on the strategies of national actors and more widely on national budgeting. The mechanisms set up in France and in the UK are different, and the interest of the chapter is to assess the impact on the strategies of national administrations of the EU budget and of the financial relations between the EU and national budgets.

4.1. In the United Kingdom, an efficient locking mechanism

In the mid-1980s the British government instituted a number of budgetary mechanisms for administering the EU contribution and receipts throughout Whitehall. The strategies of different groups within British administration are constrained by two 'layers' of financial mechanisms. First, departments are individually constrained by the Euro-PES and the attribution mechanisms. Second, the Fontainebleau agreement sets overall pressures on the financial relations between the British government and the EU. The juxtaposition of these mechanisms creates particularly complex and somewhat paradoxical effects on budgeting in the United Kingdom.

4.1.1. The Euro-PES mechanism

The Euro-PES (European Public Expenditure Survey) was established in 1984 in response to three main concerns. First, it reflected the government's priority of controlling increases in the EU budget as part of its general policy of maintaining the level of public expenditure, since an increase in the EU budget is directly translated into an increase in the British contribution. A British official argued

> "The UK government has a principle of what is called 'non-additionality' which means that, because one of the main themes of the British government is to control public expenditure, it does not want expenditure that originates in Europe to increase total public expenditure in the UK. Because it would be all too easy in the eyes of Treasury for them to try to squeeze down a particular programme in domestic terms if the same policy-makers could go off to Brussels."[1]

Second, the Euro-PES mechanism affects the behaviour of spending departments in negotiations at the EU level. It creates a context where ministerial departments try to ensure that national priorities and constraints (such as value-for-money) are well represented in the EU plans. It offers a solution to the problem of the duplication of financing for matching programmes by the national and the EU budgets. Therefore, the Euro-PES is a tool for HM Treasury to regain control of public spending in the UK, whether domestic or European.

> "Ministers feared that spiralling EC expenditure would undermine their efforts to curb domestic expenditure by increasing the UK's net contribution; and so they instituted Euro-PES as a device to restrain EC spending by threatening government departments with reduced domestic budgets in the event of excessive EC spending. With this incentive, departments would, it was hoped, become more actively involved in EC budget planning and exert more control, not only in reducing expenditure but also in scrutinising projects for value-for-money, ensuring minimal duplication of work at UK and EC levels and attempting to uphold UK priorities in the EC."[2]

[1] Interview, ref. 48.
[2] Department of Transport (1992), *A basic guide to Euro-PES*, July.

Third, the Euro-PES mechanism shares out the burden of the British contribution to the EU budget among spending departments. It rests on the idea that departments should contribute to financing the British contribution as a proportion of the relevant EU policies. Indeed, it is not possible to offset departments' budgets by the amounts that the European Union spends in Britain on specific programmes because EU funding cannot always be matched with a particular budgetary line and also because part of the EU funds are not allocated to central government but to local authorities or to the private sector. Therefore, the Euro-PES system is based on what the EU budget actually costs the British budget. In short, Euro-PES is a systematic tool for dividing the cost of financing the EU budget within Whitehall.

The technical details of how the Euro-PES mechanism works explain the strategies of the British administration on EU budgeting. The first stage of Euro-PES mainly involves HM Treasury and leaves little margin for departmental negotiations. It consists in breaking down EU expenditure into sectoral 'cost centres' which are then allocated to relevant spending ministries within Whitehall. The Treasury deducts from the PES baseline for departmental budgets the EU budget lines (the term denoting areas of EU expenditure) allocated to individual departments with related responsibilities, and adds to it the eligible public sector receipts[3] with no consideration for the identity of the final recipient of these grants. For instance, the initial PES baseline of the Department of the Environment is reduced by the British share (11.4%) of the relevant EU budget and increased by anticipated UK public sector receipts. This mechanism creates the effect that the Department of the Environment pays for 1.4% of

[3] The eligible public sector receipts are EU grants which have been part of the Programme and have a PES cover, i.e. have gone through the government accounting books.

the British contribution to the EU budget when the European Union spends 1.4% of its budget on environmental policies.[4] Departments can reduce the size of their baseline reductions by claiming credits for eligible public sector receipts, those EU grants which have been integrated into UK central government expenditure. The baselines are then raised by the size of these grants. However, most EU grants are sent directly to the private sector and cannot be claimed against PES baseline deductions.

The second stage consists in allocating the cost of Euro-PES within the department's budget. With the Department of Health where EU expenditure is small relative to the domestic budget, the baseline reduction is taken off the overall department budget with no allocation to individual programmes. However, with larger EU budgets Euro-PES means that EU spending in the UK is balanced by a reduction in individual domestic programmes at the departmental level. Dowding[5] gives the example of a £30 m. expenditure on youth training schemes by the EU, of which £6 m. would be spent in Britain. Under Euro-PES the Department of Employment will have to cut £6 m. from its own budget, although it is not entitled under matching agreements to reduce the budget it would have spent on youth training in the absence of EU spending. Departments have to cut other schemes or find savings in their core budget. This budgetary mechanism affects significantly the strategy of British civil servants during the implementation of EU schemes in Britain.

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[4] Estimation, Ministère de l'Economie et des Finances (1994), *Projet de loi de finances pour 1995, Relations financières avec l'Union Européenne* (Paris: Imprimerie Nationale).
[5] Dowding, Keith (1995), "European Union, new opportunities" in *The civil service*, chap. 7 (London: Routledge).

Dowding argues Euro-PES

> "has decreased Whitehall enthusiasm for the EC, given that civil servants' own pet schemes may have to be casualties of the commissioners' pet schemes ... it means that sometimes no department wishes to be the 'lead' department on issues which do not obviously come under its own sphere of influence. Rather than departments squabbling to be 'lead' departments in order to empire-build, they fight shy of new initiatives. Thus in 1994 no department wanted to be the lead department for the EC's 'Youth in Europe' initiative and negotiate on Britain's behalf."[6]

The Euro-PES mechanism has several financial consequences at the macroeconomic level. First, Euro-PES indicates that the UK government treats EU expenditure the same as domestic credits. As an illustration, the Euro-PES baseline is set at 1984 levels and is upgraded annually at the standard PES rate (the rate of increase in domestic expenditure). By doing so the government ignores EU budgetary projections and identifies EU expenditure trends with domestic public expenditure trends. The Euro-PES baseline has thus become artificial.[7] Second, Euro-PES affects the extent to which the principle of additionality operates in practice within British budgeting. At the departmental level Euro-PES is a systematic tool for proportionally reducing domestic credits when EU credits increase. Therefore, at departmental level, EU funding is not additional but a substitute for domestic funding.

Since Euro-PES is mainly directed at the EU budget for Internal Policies, the Overseas Development Aid budget and the Foreign and Commonwealth Office budget are not affected by Euro-PES but by attribution. The attribution mechanism is the simple deduction from their budget of the UK share of the Common External and Security

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[6] Dowding, Keith (1995), "European Union, new opportunities" in *The civil service* (London: Routledge): 138-139.

[7] In the case of non-R&D transport expenditure for 1992, the Euro-PES baseline was ECU 42.5 m. while EU's proposed 1992 budget sets the expenditure at ECU 121.1 m., which leaves an 'overspend' of ECU 81. 9 m., nearly twice as large as the Euro-PES baseline.

Policy (CESP). As a consequence, increases in multilateral EU programmes lead to corresponding cuts in British bilateral aid. Attribution differs from Euro-PES to the extent that the deduction from the departmental PES baseline is based on actual EU expenditure, not on the UK contribution to the CESP budget. However, since the impact of attribution on additionality and actors' strategies are similar to that of Euro-PES, the rest of the discussion about Euro-PES applies also to attribution.

4.1.2. The Fontainebleau agreement

As early as 1974 the United Kingdom requested financial compensation based on its structural net contribution to the EC budget. It was felt the UK should obtain financial compensation for at least three reasons. First, 80% of the EC budget was allocated to the CAP when the agricultural sector in the UK was fairly small. Therefore, EC expenditure priorities did not match with the UK's. Second, the Guarantee mechanism increased the price of UK agricultural products in comparison with world - namely Commonwealth - market prices. Joining the EC represented a cost for British consumers and fuelled some inflation. Third, the country allocation for financing the EC budget did not ensure perfect equity. Equity may be assessed by comparing for every country the share of financing the EC budget to the relative weight of its GDP within the overall EC GDP, which represents its capacity to contribute economically. Table 4.1. shows that with Germany, Italy and the UK, there are differences between the share of the contribution to the EC budget and the economic weight of these countries in the EC. With the United Kingdom the relative larger share of financing the EC budget partly results from the VAT resource of the EC budget which weighs more on countries with a large private sector and low savings such as the UK. With Member States where the public sector is larger, the VAT base is smaller.

Table 4.1. An assessment of equity in the financing of the EU budget (1992)

National % of	Bel	Dn	Ger	Gre	Sp	Fr	Irel	It	Lux	Nl	P	UK
contribution to EC budget	4	1.9	30.2	1.3	8.6	18.6	0.8	14.7	0.2	6.2	1.5	12
GDP/EC GDP	3.1	2	26.3	1.2	8.5	18.8	0.5	18	0.2	4.3	1.1	16

Source: Ecole Nationale d'Administration (1993) "Le financement de l'Union", *La mise en oeuvre du Traité de Maastricht et la construction européenne* (July): 32.

The principle of financial compensation to the United Kingdom was agreed as soon as UK joined the EC. In Dublin, Member States established a mechanism for reconsidering contribution levels of the UK, Ireland and Denmark whenever these countries faced an economic crisis and an excessive contribution to the EC budget.[8] The United Kingdom and Ireland used the Dublin mechanism in 1978 and 1979 to revise their contributions, but from 1980 the improvement of the British balance-of-payments precluded the UK from fulfilling the required conditions. However, the British government claimed a reduction of its EC contribution. From 1980 to 1983 the EC granted two financial measures to the UK: the British contribution was directly reduced (see Table 4.2.) and the EC agreed to finance special multi-annual programmes designed by the UK in the framework of the ERDF.

[8] The two conditions required for using the Dublin mechanisms are:
- a difficult economic situation which may be found when the average GDP per person is less than 85% of the average GDP in the EC, the real growth rate of the GDP is less than 120% of the average EC rate and the balance-of-payments is in deficit.
- an excessive contribution to the EC budget which exists when the contribution share is at least 10 points more than the share of the national GDP within the GDP of the EC.

Table 4.2. Reduction in the British contribution to the EC budget (1980-1983)

in m. ECU

	1980	1981	1982	1983
Reduction	1,175	1,410	1,187	1,750

Source: Ecole Nationale d'Administration (1993) "Le financement de l'Union", *La mise en oeuvre du Traité de Maastricht et la construction européenne* (July): annexe 3.

The Fontainebleau agreement was concluded in June 1984 in response to British concern about the cost of the EU budget and the size of UK's net contribution. Using Mrs. Thatcher's famous slogan, "I want my money back", the British government obtained a lump-sum compensation of £7 bn. for 1984 (i.e. half the UK net contribution in that year) and the restitution of 55% of the net contributions of the previous years.[9] Also, the British government succeeded in securing that in future years two-thirds of the difference between the British contribution to the EU budget and the EU spending in the UK would be paid back to the UK. In 1993 a ECU 3,181 m. compensation was granted the UK, thereby reducing by two-thirds the British net contribution and amounting to 40% of the British contribution to the EU budget (ECU 8,110 m.).[10] The British compensation represents a cost to the EU budget which is then financed by the other Member States (e.g. the French share of financing the British compensation was ECU 800 m. in 1993). In short, the British net contribution to the EU budget has been cut by 66% since 1984. This measure in favour of the UK has not been challenged since, despite the decreasing share of CAP within the EU expenditure (46% in 1997 as against 80% in the 1970s).

[9] Linditch, Florian (1993), "La souveraineté budgétaire et l'Europe - Quelques contraintes communautaires sur les finances publiques françaises", *Revue du Droit Public et de la Science Politique en France et à l'Etranger*, 6: 1694.

[10] Ecole Nationale d'Administration (1993) "Le financement de l'Union", *La mise en oeuvre du Traité de Maastricht et la construction européenne* (July): 32.

4.1.3. The effect of budgetary institutions on the strategy of the British administration

A French senior civil servant recognises the close link between existing budgetary mechanisms and the strategies of national governments. She argues that

> "from the budgetary point of view, they [the British] have this vision of things because their system of Euro-PES equates the cost of community financing to that of national financing ... The existence or not of such a mechanism has an impact on the fundamental positions which may be defended by Member States."[11]

There are several conclusions on the effects of these mechanisms on the strategy of British civil servants for EU expenditure. First, because of Euro-PES and attribution British departments adopt a 'resource-minimising' approach during negotiations on the EU budget. The interest of British departments is to keep the overall EU budget low to reduce the British contribution, which is the amount to be divided within Whitehall. Also, British departments seek to minimise the EU budget line allocated to their areas of expenditure as a way of reducing the proportion of the contribution to be set against departmental PES baselines. Departments prefer a smaller share of EU spending in their jurisdictions because it determines the percentage of the British contribution paid by the departmental budget. Therefore, ministerial departments are not seeking to maximise the resources available at the EU level, but rather to minimise the funds available for distribution among the Member States.

Second, once the EU budget and budget lines are agreed, the strategy of the department consists of staying within the agreed limits. Any EU spending in a

[11] "Sur le plan budgétaire, ils ont cette vision des choses parce que leur système de gage européen fait que pour eux le coût est égal entre le financement communautaire et le financement national ... L'existence ou pas d'un tel mécanisme a une incidence sur les positions de fond qui peuvent être défendues par les Etats Membres.", Interview, ref. 2.

departmental area in excess of the Euro-PES baseline is designated an 'overspend' by HM Treasury, and individual departments pay the UK's share of the overspend from their budget. In other words, when the Union spends more on a programme than the agreed budget line, overspending in turn increases the British contribution to the EU budget, increases the percentage of the contribution supported by the department and reduces the relevant department's baseline further. This mechanism explains the reason why British departments ensure EU expenditure does not exceed the agreed limits.

Third, the Euro-PES mechanism on its own would give departments incentives to adopt a resource-maximising approach and seek to maximise British government receipts once the EU budget is agreed on. This behaviour would include having a large coverage to get maximum public sector receipts within the set budget, since any receipts to the private sector are lost to the department. However, this effect of Euro-PES is contradicted by the impact of the Fontainebleau agreement on the British government's strategy on EU expenditure. Since the government gets back two-thirds of its net contribution to the EU budget, the more the European Union spends in the UK, the less the government gets back. HM Treasury's strategy consists of maximising the financial compensation under the Fontainebleau agreement as a way of minimising the cost of the EU for the domestic budget. This behaviour is because part of EU spending in the UK is allocated to local authorities and the private sector, while being ultimately financed by the budget; therefore it would be less costly for the government not to finance this expenditure. The Fontainebleau agreement creates the effect that there is no particular financial incentive for the government to prefer EU to domestic financing: the cost for the British budget is nearly the same whether spending is incurred by the EU or by the British budgets. Therefore, HM Treasury prefers spending to be decided at the domestic level, according to the government's criteria and priorities, rather than at the EU level.[12]

The consequence of the Fontainebleau agreement is that HM Treasury puts pressures on departments to minimise their take in EU expenditure. Financial mechanisms in the UK set incentives for departments to offer a small coverage and to obtain a small share of EU spending within a set EU budget. This conclusion contradicts Downs' and Niskanen's models which support the argument that departments should, in theory, try to maximise their resources to maximise their influence, the satisfaction of their users and their budget size in comparison with other departments.[13] This example illustrates how institutions may alter departmental strategies by introducing the values of HM Treasury into departmental activity.

The financial mechanisms discussed have an impact on the distribution of the cost of financing the EU budget throughout Whitehall. In particular, Whitehall departments not only support the weight of EU policy in their own policy areas, but also support the cost of CAP. Indeed, considering that the mechanism of attribution operates fairly similarly to the Euro-PES system, the only Whitehall department not concerned with

[12] The fact that EU expenditure in the UK is considered to be equivalent to domestic financing by the British government explains the reluctance of Whitehall to accept the allowance offered by EU institutions for the slaughtering of potentially BSE-affected cows in Britain. The EU allowance did not put financial pressures on the EU budget since any additional spending in the UK would have been deducted from the British compensation under the Fontainebleau agreement (therefore, the cost for the EU budget could have been small). The mechanisms described in this chapter explain the British hesitation to accept a EU financial support: it is as costly for the British government to pay farmers with domestic as with EU funds. In addition, large EU spending in the UK under CAP would have compromised the existence of the Fontainebleau agreement since Britain would no longer have been able to argue that it is largely contributor to the CAP budget.

[13] Dunleavy Patrick (1991), *Democracy, bureaucracy and public choice* (London: Harvester Wheatsheaf): 148-162.

financing of the UK contribution to the EU budget is MAFF. This exemption seems paradoxical at first glance since 46% of the EU budget is allocated to CAP (1997). Agriculture is not included in the Euro-PES mechanism for two reasons: first, it would be impossible to offset the British share of the CAP budget from the department's PES baseline, since the former largely exceeds the latter. As a broad indication domestic agriculture spending is only one third of entire agricultural expenditure in the UK, and CAP constitutes two-thirds of this spending. Second, Euro-PES is irrelevant for agriculture since the nature of EU and national spending is different: EU expenditure does not duplicate or replace existing national expenditure. Not only does MAFF not participate in financing the CAP, but the rest of Whitehall bears part of the cost of CAP. Indeed, the government does not reallocate to departments the money received from the EU under the Fontainebleau agreement. Instead, it uses it to cover part of the British contribution to the EU budget not covered by the Euro-PES - clearly CAP and the Structural Funds.

Existing budgetary institutions for administering EU contributions and receipts at central government level form an efficient locking mechanism, which offers the British government full control over expenditure in the nation in all possible areas, except spending by local authorities. Actors throughout Whitehall do not adopt a resource-maximising approach to EU finance. At departmental level actors do not seek to maximise EU resources because EU funding is not additional but a substitute for domestic funding under Euro-PES. In addition, the cost of EU policy in a sector is apparent in departmental budgets, while the financial returns are difficult to assess.

Decision-making at the EU level is more complicated, and the negotiations with HM Treasury to get EU funding in the UK are as intense as those in national funding. As argued by a senior civil servant from HM Treasury, "why it [the Euro-PES mechanism] is worth it, is because of the effect it has on the behaviour of the spending departments in the negotiations with Brussels"[14] rather than because of the amount of money saved. At central-government level actors are not resource-maximising because it is as expensive to have a programme financed by the EU as domestically under the Fontainebleau agreement. Illustrating this British view, Nicholas Ridley, British Minister and former Secretary of Transport, used to declare that EU finance is just a 'merry-go-round' by which UK pays money to the EU and gets it back through other channels. Although not part of a co-ordinated EU-wide system, some Member States including the Netherlands have copied the Euro-PES mechanism, and Sweden, Germany and France have expressed their interest in it.

Euro-PES represents a major obstacle for the extension of additionality, and there have been calls for its reform or even its abolition. Michael Heseltine, as Secretary of State for the Environment in late 1991 and for the Department of Trade and Industry in June 1992, led a number of Ministers in suggesting it would be appropriate to dismantle or reform Euro-PES in the light of the increase in EU spending under the Delors II budget package. This proposition was resisted by HM Treasury, although it acknowledged there were problems.

[14] Interview, ref. 7.

4.1.4. Additionality

Additionality is a fundamental principle of budgeting in the European Union, stating that EU funds should be additional to, and not a substitute for, domestic expenditure. Sir Bruce Millan, the British EU Commissioner, publicly condemned the British substitution practice and, with the backing of the European Court of Justice, made it conditional that European funds would be additional to domestic expenditure. Despite Whitehall's original disagreement, Sir John Kerr, the British Ambassador to the EU, finally accepted this principle (so-called 'Kerr-Millan agreement'). The purpose of the next section is to see the effect of these institutional mechanisms on effective additionality and on the strategy of varied groups of civil servants.

While additionality does not operate at the central government level, it is more difficult to assess precisely the extent of additionality at the local government level. The European Union requires that Structural Funds expenditure be additional, which means that the attribution of a EU grant to local authorities should not reduce the original central government spending plans. This requirement is designed to prevent substitution occurring, as has happened in the past. A British official acknowledged that

> "previously, we had quite simply pocketed the money which came from the Regional Funds and taken it both in the national budget and in the distribution mechanism so that if a particular Local Authority got a grant, its national grant is cut by that amount. In economic terms, it makes a good deal of sense because if you are going to build a Margaret Thatcher bridge and the Commission is going to build a Jacques Delors bridge, you are not going to build both."[15]

[15] Interview, ref. 7.

Additionality is now supposed to operate at the local government level since central government cannot formally undertake an offset. However, it is difficult to conclude that EU funding has become effectively additional at the local government level because it is extremely difficult to prove that central government continues to spend more than it would have otherwise by virtue of the fact that the European Union was paying. A civil servant recognised that "that is actually unmeasurable and I doubt it is true ... As far as the national distribution mechanism is concerned, we changed the rules so that a particular area getting a grant would not lose national grants. We also make sure we put less money through local government so that this question would not arise!".[16] We cannot therefore assert that EU funding through ERDF is additional at local level except in the case of block allocation grants (minor schemes under £2 m.) and 'recycled money' (local authorities must spend the money on programmes approved by central government).

4.2. In France, a less constraining framework

The government and the Direction du Budget have adopted several principles and mechanisms for administering financial relations between the French and the EU budgets but they create a less constraining framework than in the United Kingdom. The main French budgetary mechanisms, the '*principe de constance*' and the rate-of-return approach, are principally targeted to influence the spending behaviour of departments and solve the problem of matching expenditure programmes.

[16] Interview, ref. 7.

4.2.1. The 'principe de constance'

The French government has adopted the non-written principle that domestic expenditure should decrease when EU spending increases. The *'principe de constance'* was formulated by former European Affairs Minister Lamassoure in 1993, but it has been implicit since the 1960s. As underlined by a former Directeur du Budget, "the Direction du Budget considers that as soon as a policy is undertaken at the European level, it should cease at the national level ... I do not recall maintaining any other opinion since 1967-68."[17] The *'principe de constance'* originates from the fact that most EU programmes are by nature a duplicate of, or at least can be correlated to, national programmes. This principle aims to rationalise public spending by suppressing the domestic financing of matching EU and national expenditure. The rationale of the principle stands in opposition to that of the principle of subsidiarity, since the higher rather than the lower level of financing is favoured.

The *'principe de constance'* implements the decision to stabilise the size of the public sector in the framework of raising EU expenditure in the Member States. Also, its revived importance, as demonstrated by the Lamassoure declaration in 1993, is caused by the increased budgetary stringency required to reach the Maastricht targets. An official from the Direction du Budget argued

> "it is a non-written principle which exists implicitly since, because we are committed to Economic and Monetary Union, because there is inevitably a policy to reduce or control public deficits and because the contribution to the community budget increases, we need to find savings somewhere."[18]

[17] "la Direction du Budget estime que dès le moment où une politique est prise en charge au niveau Européen, elle doit cesser au plan national. (...) Je ne me souviens pas avoir soutenu d'autre thèse que celle-là depuis 1967-68.", Interview, ref. 3.

[18] "C'est un principe non-écrit qui existe implicitement puisque, comme nous nous sommes engagés dans l'Union Economique et Monétaire, comme il y a forcément une politique de réduction ou de

This principle institutes a mechanism different from that of the United Kingdom and causes opposite strategies. In contrast to the UK, the rising French contribution to the EU budget does not weigh on departments' budgets as a proportion of the relevant EU policies, but is top-sliced off the overall receipts of central government as a pre-budgetary levy. This choice is a response to political concerns and practical problems for implementing a budgetary offset at departmental level. First, EU expenditure may not always be set against a specific budget line because of the irregular pattern of EU expenditure. For instance, the growth in the EU Science and Technology budget under the Fourth Framework is going to be so considerable over the next decade that it would be very difficult to cut back domestic Research and Development spending while still maintaining some form of domestic expenditure. Second, technical difficulties are numerous such as uncertainty about the level of returns or the impact of exchange rate variations on the contribution. Therefore, the '*principe de constance*' is more a general policy guideline since there is no formal financial offset mechanism in departmental budgeting to parallel the Euro-PES.

The application of the '*principe de constance*' is more in policy than in finance. A member of the Direction du Budget underlined that the DB used the principle rather for information purposes than as a fundamental argument to cut departmental credits. He argued "bureaux get the information but there is no particular work session which would point out matching expenditure in this national budget and that type of action of the Union."[19] For instance, the creation of a suckling cow premium scheme at the EU

maîtrise des déficits publics et comme la contribution au budget communautaire augmente, il faut bien trouver des économies quelque part.", Interview, ref. 2.

[19] "Les bureaux sont informés mais il n'y a pas de séance de travail particulière qui consisterait à dire sur tel budget national et sur tel type d'action de l'Union, quels sont les recoupements.", Interview, ref. 5.

level did not lead to the reduction in the existing French credits for this area. Therefore, there is no systematic 'policy offset' largely because departments did not account to the Direction du Budget on matching EU and national programmes until 1994.

Increased budgetary stringency and the need to achieve the Maastricht targets have directed the attention of the French government to matching national and EU expenditure in recent years, reinforcing the application of the '*principe de constance*'. For the first time in the 1994 Perspectives the Direction du Budget asked each bureau to write a note on EU credits allocated to schemes similar to the national ones when preparing their budget. A French official explained "things have changed a little because we are systematically requested when preparing the budget to get information at an early stage on credits within the European credits allocated to the same types of activities as within national budgets."[20] The procedure is internal to the Direction du Budget and involves more an exchange of information about the impact of the EU than the operation of a formal financial offset. However, this procedure introduces the notion of offset in the negotiations between the bureaux of the Direction du Budget and spending ministries.[21] The reason why the application of the '*principe de constance*' was reinforced lately lies in a prescription from the Prime Minister's Office. The *Lettre de Cadrage* (Lettre of Guidance) for 1994 sent by Prime Minister Balladur

[20] "Les choses ont un peu changé parce qu'on nous demande systématiquement, lorsqu'on prépare le budget, de s'informer dans un première étape sur les crédits consacrés aux mêmes types d'actions que ce qu'on a dans les budgets nationaux, dans les crédits européens.", Interview, ref. 5.
[21] According to Interview, ref. 4.

to individual spending ministries urged them to

> "take into account the development of community interventions in the areas which come under the responsibility of your departments, for the determination of your budgetary bids. The rationale of building Europe must ... allow, whenever possible, a redirection of national actions when these are taken on by community action."[22]

The *Lettre de Cadrage* for the 1995 budget calls departments again to focus on community interventions with matching national schemes. The underlying '*principe de constance*' figures among the six arrangements imposed by Prime Minister Balladur on spending ministries.[23]

The '*principe de constance*' has different impacts on the strategies of French civil servants depending on which ministry they belong to. Departments consider EU funds additional, while the Direction du Budget considers them a substitute for domestic financing. At the overall level the Direction du Budget has incentives for setting the EU budget as low as possible to reduce the French contribution. At departmental level there is a financial incentive to maximise funds available at the EU level. However, it is difficult for them to do so because French policy-making on EU matters is very controlled, particularly since the Direction du Budget is a major player in the interministerial negotiations at the SGCI. Therefore, the French system for controlling trends in the EU budget and the French EU contribution relies more on the effect of

[22] "vous tiendrez compte, pour la détermination de vos demandes budgétaires, des développements des interventions communautaires dans les domaines qui entrent dans les compétences de vos départements. La logique de la construction européenne doit ... permettre dès que cela est possible un redéploiement des actions nationales lorsque celles-ci sont prises en charge par les actions communautaires." in Linditch, Florian (1993), "La souveraineté budgétaire et l'Europe - Quelques contraintes communautaires sur les finances publiques françaises", *Revue du Droit Public et de la Science Politique en France et à l'Etranger*, 6: 1695.

[23] Prime Minister Balladur wrote "You will also take into account the development of community interventions in areas coming under your department" ("Vous tiendrez compte également du dévelopement des interventions communautaires dans les domaines qui relèvent de votre département ministériel"), quoted from *Le Monde*, 27 April 1994.

the power distribution within government and the dominance of the Direction du Budget in interministerial bargaining than on a systematic financial offsetting at the departmental level.

4.2.2. The rate-of-return approach

The Direction du Budget takes the cost of EU budgeting for the French budget into account by focusing on financial returns at departmental rather than at the global budgetary level. The Direction du Budget assesses the rates-of-return for each department and compares them with the French share in the financing of the EU budget (17.8% in 1997). This method allows for the assessment of the budgetary impact of the EU in each policy sector and for the determination of sectors in which French interests are not well represented. For instance, European agricultural expenditure is profitable for the French budget since the rate-of-return on the CAP is about 24%, while expenditure under Internal Policies is not (12%). Departments have incentives for maximising the French take in EU expenditure as a way of improving the rate-of-return on the relevant EU policies. Resource-maximisation can appear paradoxical for all policies where France is a net contributor, except in agriculture. Indeed, since departmental returns on the EU budget are lower than the French share of financing the EU budget, it would be altogether less costly to finance these policies domestically. The choice to resource-maximise does not arise so much from existing budgetary institutions but rather from political decisions.

Paradoxically, the only exception to the rate-of-return approach is the European Affairs bureau in the Direction du Budget, which represents France in the process of EU budget-making, implements EU spending and co-ordinates controls on EU expenditure in France. Spending by the European Affairs bureau is assimilated to any other spending department bureau, and the bureau is partially assimilated to the budgetary procedure applicable to other bureaux (e.g. it submits Perspectives to the Bureau de la Synthèse which evaluates the implementation of the programmes). This approach stands in contrast to British reasoning about net contributions. Indeed, this approach is paradoxical, since it considers the financial relations between France and the European Union from the expenditure side only, even at a time when France was a net creditor to the EU budget. As stated by an official from the Direction du Budget,

> "we have always had a different rationale from the British. Thanks to Margaret Thatcher, that is to say thanks to the British Treasury, the British have always based their rationale upon the issue of the net contribution. This is probably because of their accounting methods since they do not treat the EU contribution as a pre-budgetary levy on global receipts. We were not a net contributor, we had to defend the Common Agricultural Policy, however the Direction du Budget considered it absolutely essential to watch over the increase in community expenditure and control the Common Agricultural Policy. It was considered a 'spending ministry' whose rate of expenditure growth we monitored."[24]

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[24] "On a toujours eu un raisonnement différent de celui des Britanniques. Les Britanniques ont toujours raisonné grâce à Margareth Thatcher, c'est à dire grâce à la Trésorerie britannique, sur le problème de la contribution nette. Cela vient probablement de leur mode de comptabilisation, ils n'ont pas de prélèvement sur recettes. Nous n'étions pas contributeur net, on avait à défendre la Politique Agricole Commune, mais la Direction du Budget considérait qu'il était absolument indispensable de veiller néanmoins à l'augmentation des dépenses communautaires et à la maîtrise de la Politique Agricole Commune. C'était un 'ministère dépensier' dont on surveillait le taux de croissance des dépenses.", Interview, ref. 1.

4.2.3. The net contribution approach

The Direction du Budget started to introduce rationales for net contributions in the late 1980s. This shift in focus corresponds with the period in which France became a net contributor to the EU budget. Indeed, until 1988 any increase in the EU budget was financially profitable since the returns on the French contribution were positive. The net balance of financial flows between France and the EU (a 'deficit' of about ECU 2,620 m. in 1994) indicates that France is a small net contributor in comparison with Germany (ECU -13,640 m.). France is the second greatest contributor to the EU budget before Italy (ECU -2,540 m.), Netherlands (ECU -1,830 m.) and the United Kingdom (ECU -1,160 m. in 1994 as against -2,200 in 1992).

Table 4.3. French budgetary balance with the EU budget (1988-1994)

in m. ECU	**1988**	**1989**	**1990**	**1991**	**1992**	**1993**	**1994**
EU expenditure in France* (1)	7,314	5,676	6,285	8,152	9,050	10,526	9,925
French share of EU budget (2)	9,095	8,623	8,090	10,602	10,493	11,546	12,551
Balance (1) - (2)	-1,781	-2,947	-1,805	-2,450	-1,443	-1,020	-2,626

* Estimates published by the Cour des Comptes, however the returns per country are known for only 86 to 90% of EU budget expenditure. For instance, the country returns on expenditure on research and other internal policies cannot be accurately measured.

Sources: Ministère de l'Economie et des Finances (1994), *Projet de loi de finances pour 1995, Relations financières avec l'Union Européenne* (Paris: Imprimerie Nationale) : 33. and Ministère de l'Economie et des Finances (1996), *Projet de loi de finances pour 1997, Relations financières avec l'Union Européenne* (Paris: Imprimerie Nationale) : 43.

Table 4.4. Net contributors and net recipients to the EU budget (1994)

	Share of EU own resources (m. ECU)	Share of EU own resources (%)	Share of EU spending (m. ECU)	Share of EU spending (%)	Rate-of-return on EAGGF-Guarantee (1991)	Rate-of-return on Structural Funds (1991)	Overall rate-of-return
Belgium	2,822	4.4	2,513	4.2	1.11	0.27	0.89
Denmark	1,296	2.0	1,495	2.5	1.96	0.34	1.15
Germany	21,366	33.3	7,729	12.8	0.56	0.17	0.36
Greece	992	1.5	4,844	8.0	4.84	7.00	4.88
France	**12,551**	**19.6**	**9,925**	**16.5**	**0.99**	**0.54**	**0.79**
Ireland	638	1.0	2,390	4.0	5.78	9.93	3.75
Italy	7,760	12.1	5,219	8.7	1.07	0.77	0.67
Lux.	165	0.3	419	0.7	0.05	1.32	2.54
Neth.	4,246	6.6	2,416	4.0	1.29	0.26	0.57
Portugal	1,215	1.9	3,043	5.0	0.75	10.55	2.50
Spain	4,718	7.4	7,835	13.0	1.28	2.91	1.66
UK	**6,417**	**10.0**	**5,259**	**8.7**	**0.63**	**1.02**	**0.82**

Sources: Ecole Nationale d'Administration (1993) "Le financement de l'Union", *La mise en oeuvre du Traité de Maastricht et la construction européenne* (July): annexe 7 and Ministère de l'Economie et des Finances (1996), *Projet de loi de finances pour 1997, Relations financières avec l'Union Européenne* (Paris: Imprimerie Nationale) : 43.

The objective set by the Direction du Budget is not to have positive rates-of-return for all policies, nor to become a net creditor again, because this objective would be illusory since France is one of the richest members of the European Union. The net contribution approach consists of introducing a rate-of-return rationale at central government level to balance the focus on departmental returns. This shift to an aggregate strategy motivated by a net contribution approach is not really apparent as yet because the government's official guidelines remain geared towards maximising returns on the French contribution. However, a number of civil servants interviewed acknowledged this shift.[25]

The Direction du Budget relies, although not heavily, on the net contribution approach for political reasons, in particular the priority given to solidarity inside the Union.

[25] According to Interview, ref. 3.

Also, the budgetary balance between Member States and EU institutions is not an accurate indicator of the economic goodwill that Member States gain from membership of the EU. First, non-budgetary advantages are not taken account for. Second, the net contribution calculation ignores the rules of EU policies. For instance, a large part of CAP spending in France aims at compensating for the difference between EU and world prices. Lower restitution expenditure in France does not necessarily indicate the worsening of national positions but may arise from higher world prices. In this case, a higher deficit in the budgetary account between France and the EU has no impact on the French economic welfare.[26]

4.3. Conclusion

Chapter 4 examined how national budgeting is affected by the various financial links between the national government budget and the European budget. It emphasises that the way the European budget is financed and the methods to account for received EU credits greatly impacts on the strategies adopted by national bureaucracies towards EU programmes and may explain differences in the nature of Europeanisation between member countries.

First, on the scope of budgetary Europeanisation, chapter 4 argued that budgeting in the United Kingdom is less affected by the financial links between the central government budget and the European budget than in France. The main reason for this

[26] Ecole Nationale d'Administration (1993) "Le financement de l'Union", *La mise en oeuvre du Traité de Maastricht et la construction européenne* (July): 31.

major difference lies in the way the European budget is financed and the treatment of the returns from the EU budget by each national budgetary system. In Britain the Euro-PES mechanism and the Fontainebleau agreement create a context where departments are encouraged to minimise the resources available at the EU level (which involves keeping the overall EU budget low, minimising the EU budget line allocated to their areas of expenditure and staying within the agreed limits) and to minimise the UK take in EU credits. EU credits are not additional to domestic funds at the departmental level, and central government has no particular incentive to prefer EU to domestic financing. Therefore, the British central government and spending departments individually do not seek to be financially influenced by European Union spending priorities translated in the budget. The efficient locking created by the Euro-PES mechanism and the Fontainebleau agreement organises the control of policy and spending choices by HM Treasury to ensure that budgetary choices are influenced by national policy priorities not European financial incentives.

In France the '*principe de constance*' does not constitute a systematic tool for dividing the cost of financing the European budget across departments as Euro-PES does, and there is no equivalent to the Fontainebleau agreement. Therefore, departments are financially encouraged to maximise funds available and the French take of the EU budget. Since EU credits are additional to domestic financing at departmental level, and since the Direction du Budget encourages the maximisation of departmental rates-of-return, the French bureaucracy seeks to be financially influenced by EU spending programmes. Therefore, it is legitimate to assume that French national policy choices are more largely influenced by EU policy priorities than are the British. This argument based on budgetary mechanisms at the overall level needs to be confirmed by a more thorough analysis of the influence of EU membership on national spending programmes at the departmental level. The three subsequent chapters focus, therefore, on the scope and nature of EU pressures on budgeting at the sub-governmental level to confirm, refine and substantiate this argument.

Second, on the impact of the various financial links between national government budget and the EU budget in a qualitative perspective, chapter 4 concluded that existing budgetary mechanisms contributed to defining a much stronger and more consistent policy on EU financing in Britain than in France. In the United Kingdom the Euro-PES mechanism and the Fontainebleau agreement create a context where all actors seek to minimise the EU budget and the British take within the EU budget. The strategy of British actors is particularly constant over time, across departments and inside departments, which shows that mechanisms in place are efficient in diffusing HM Treasury's values within Whitehall.

In France the policy line on EU credits has varied over the years and across departments. Chapter 4 enunciated a number of inconsistencies. First, because the '*principe de constance*' is rather a general policy guideline than a formal financial offsetting mechanism, departments consider EU funds additional to domestic credits, whereas the Direction du Budget considers them a substitute. Second, the Direction du Budget has incentives for minimising the EU budget to reduce the French contribution whereas some spending ministries (especially Agriculture) are encouraged to maximise the funds available at the EU level because of their positive rate-of-return.

Third, the rate-of-return approach encourages all departments to maximise their take in the EU budget but there is no formal pressure on departments to scrutinise EU expenditure and ensure it matches national policy priorities. Departments feel little concerned that the French government is a net contributor to the European budget. They adopt a positive attitude towards EU programmes since they consider they supplement domestic funds. Fourth, since France has become structurally a net contributor to the European budget the Direction du Budget is starting to add to the rate-of-return approach, which has been used for years, a net contribution approach which is not unanimously supported. Therefore, the Direction du Budget seems less successful than HM Treasury in imposing its policy on EU financing on central government. As a consequence, EU membership largely affects the determination of the French budgetary line because of the financial implications of European spending programmes.

Chapter 4 explained the differences in the degree and the nature of the adaptation of the British and the French bureaucratic mechanisms to EU budgeting. Central government accounting methods to finance the contribution to the European budget and the treatment of received EU credits create an overall context which is more or less favourable to the Europeanisation of national spending programmes and conditions the strategy of British and French actors during the budgetary process. However, differences between the effect of EU pressures will be refined in the forthcoming chapters, since the focus on sub-governmental budgeting enables an analysis to be made of different groups' strategies and role perceptions.

Chapter 5

The end of national budgeting? The case of Agriculture

The Common Agricultural Policy (CAP) is the most important EU sectoral policy in expenditure and historical significance. During the 1970s-80s the CAP took about two-thirds of EC expenditure, and even if this share is declining it is likely to remain by far the biggest item of the EU budget during the 1990s.

It is widely accepted that the influence of the European Union on budgeting in the department of Agriculture in France and the United Kingdom is great because of the size of transfers from the EU to individual Member States. The EU exerts a pressure in both policy (i.e. the choice of policies implemented) and decision-making (i.e. the way national administrations make policy decisions). Likierman argues

> "United Kingdom membership of the European Community is central to the department's role, and means that its expenditure differs in an important respect from that of other departments. Control over policy, and therefore expenditure, lies outside the United Kingdom, and the department's expenditure is largely determined by the Community's common agricultural policy."[1]

The conventional view maintains that spending on agriculture is mainly determined by decisions at the EU level, and that the margin of manoeuvre for national governments lies at the fringe of programmes. However, this assessment is not satisfactory. First, if one accepts the view that most spending is financed by the EU, and knowing that most EU agricultural expenditure does not go through the budget of the Ministries of

[1] Likierman, Andrew (1988), *Public expenditure - Who really controls it and how* (London: Penguin): 31.

Agriculture[2], how does one explain that national outlays on agriculture still represent an important share of national budgets? Second, if "membership of the European Community is central to the department's role", how does one explain that the Agriculture team in both HM Treasury and the Direction du Budget is split into two branches or bureaux, one looking at the CAP and the other at domestic spending programmes. Given the small work force available for checking budgetary allocations in these institutions, this organisation reflects the fact that spending under the national part of agricultural policy is significant in a government's eye. Third, if control over policy and expenditure lies outside the Member States, how does one explain that agricultural lobbies still seek to influence national governments? Therefore, one may question the view that budgeting for agriculture is fully determined at the EU level.

This chapter challenges the argument that "control over policy, and therefore expenditure, lies outside the United Kingdom". It emphasises that national government representatives are involved in decision-making at the EU level. The participation of national actors in control over policy at the EU level may imply that national governments have the means to exercise a large share of the control of policy and expenditure in individual Member States.

The hypothesis of the thesis is that budgetary pressures in Ministries of Agriculture have adapted to a greater extent than other departments to EU pressures because CAP has been running for three decades and is financially important (for both the EU and

[2] CAP cash flows go through agencies (e.g. ONIC, ONILAIT, OFIVAL in France) and the Intervention Board in the UK. For funding under Objective 5b the recipients are at the regional not the central level.

the Ministry's budgets). The question is whether budgeting in this ministry is fully determined by budgetary processes at EU level, and if not, what is the margin of manoeuvre of national governments for making decisions about agricultural programmes.

To assess the impact of EU membership on budgetary decision-making processes, and to compare the adaptation of bureaucratic mechanisms to EU pressures in the Ministry of Agriculture in France and Britain, chapter 5 is divided into four sections. The first presents a historical introduction to the evolution of CAP and to the main categories of spending programmes at EU level. Section two measures the extent to which public spending is financed by the European budget by comparing the sizes of EU and national expenditure on agriculture. This section contributes to quantifying the financial impact of EU membership. The third section highlights the impact of EU spending programmes on the strategy of bureaucrats: it explains how national administrations have adapted to European budgetary pressures. Finally, section four discusses whether all policy and budgetary decisions are determined by EU pressures or whether national administrations retain a large margin of manoeuvre. This section contributes to quantifying the impact of EU membership in policy-making.

5.1. The EU budget and agriculture

5.1.1. The evolution of CAP [3]

From 1962 to 1972 the CAP mainly relied on market price support which already operated in the six EEC founding members. Direct payments to farmers were not a realistic option then because national administrations did not have appropriate administrative infrastructures. Three instruments were set up that still exist: import levies forced external producers to sell above a 'threshold' price inside the EC and insulate the Community against fluctuations; export refunds compensated EC exporters for the difference between Community and world prices; and intervention prices became the trigger for the purchase of EC farm products by EC authorities when oversupply pushed market prices below predetermined levels. Also, the original CAP plan envisaged the allocation of one third of the budget to the Guidance section for structural measures, fostering the creation of larger farm units. However, little was achieved under this section.

The first EC enlargement in 1973 could have challenged the existing structure because it was soon clear the UK would be a net loser in budgetary and economic terms. Since unanimity was generally required at the time, one country could block decision-making and change the system. However, proposals for reform were weak, while both support prices and surpluses increased. CAP spending doubled in a decade while real agricultural incomes fell.

[3] Useful references for the history of the CAP are European Commission (1994), "EC agricultural policy for the 21st century", *European Economy Report and Studies*, 4: 1-40 - European Commission (1994), "The economics of the Common Agricultural Policy (CAP)", *European Economy Report and Studies*, 5: 71-112 - European Commission (1993), "The economics of Community public finance", *European Economy Report and Studies*, 5: 295-315.

In the 1980s a variety of uncoordinated reforms tried to discourage over-production. Co-responsibility levies on sugar were extended to milk (1977) and cereals (1986). Guarantee thresholds were applied to cereals, oilseeds and some fruits. Domestic consumption was stimulated for several commodities through consumer subsidies and marketing campaigns. Marketing quotas for sugar were extended to milk (1984). Production diversification encouraged cattle farms to switch from milk to beef production. However, these measures did not solve the fundamental problem of the CAP. Farm incomes remained static, surpluses reached record levels[4] and budgetary concerns persisted. In 1984 the invention of the 'green ECU' sought to avoid some of the difficulties of Monetary Compensatory Amounts and in 1988 a ceiling for agriculture expenditure was instituted.

The 1992 reform not only sought to provide ad hoc measures to reduce EU expenditure and agricultural surpluses but introduced a fundamental reshaping of the rationale for agricultural support. It acknowledged the failure of the market-price-support approach on which the CAP rested. The lesson learnt at the time was summarised by the European Commission.

> "Market support measures such as those of the traditional CAP tend to become less and less transfer-efficient as the price elasticity of agricultural production in the process of economic development implying the increased use of purchased input becomes more elastic. Benefits to producers are eroded by higher land and other input prices, while consumers pay high food costs and rising surpluses lead to ever-higher taxpayer costs. Indeed, the circle becomes a vicious one, with taxpayer-financed export subsidies helping to depress world prices which then require more subsidies to dispose of surpluses on world markets."[5]

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[4] In 1990 there were 14.4 million tonnes of cereals, 600,000 tonnes of dairy products and 530,000 tonnes of beef in public stores according to European Commission (1994), "EC agricultural policy for the 21st century", *European Economy Report and Studies*, 4: 17.

[5] European Commission (1994), "EC agricultural policy for the 21st century", *European Economy Report and Studies*, 4: 27.

The idea of a vicious circle between higher subsidies, increased surpluses, falling agricultural real income and high consumption prices underlay the conclusion that CAP should break away from the price support logic and become more market-based. Also in accordance with the so-called 'green box' of non-trade distorting measures agreed in the Uruguay Round negotiations, income payments should be 'decoupled'.[6] The MacSharry reform involved a switch from market price support to direct compensation to farmers.[7]

5.1.2. EU spending programmes on agriculture

Most of EU agriculture spending is financed by the European Agricultural Guidance and Guarantee Fund (EAGGF) under the Guarantee section (ECU 40.8 bn. in the 1997 budget). The CAP budget has grown in nominal terms from ECU 3 bn. in 1974 to ECU 34.5 bn. in 1995. Although it remains the most important item within the EU budget, the share allocated to CAP expenditure has relatively declined since the 1960-70s. In 1992 the Guarantee section represented 53% of the overall EU budget as against 90% in the 1970s. The CAP share is expected to decline further following the Edinburgh summit decision to develop structural policies (46% planned in 1997). Also the adoption of an 'agriculture guideline' sets limitations which stand in contrast to the conventional view that CAP expenditure is open-ended because demand-driven. Since

[6] 'Decoupled' payments mean that compensatory payments are made per hectare and are not based on production volumes to favour the extensification of production methods.
[7] The support prices of cereals and beef, and the ceiling of normal beef intervention, were substantially reduced, and price support for oilseeds and protein crops was suppressed. Financial compensation was granted to farmers depending on historical base areas and regional yields subject to a percentage of rotational set-aside except for small farms. For the livestock sector direct compensation was made through direct headage payments subject to a maximum stocking rate. Male bovine and suckling cow premiums were increased. A number of accompanying measures were implemented under the EAGGF-Guarantee.

1988 the ceiling for CAP expenditure, the 'agriculture guideline', is mathematically calculated from a baseline set in 1988 (ECU 24,914 m.) and a growth rate (74% of the corrected GDP growth in EU members). This method of calculating annual cash limits implies that agriculture credits are linked to EU average economic growth. It implies the share of CAP expenditure will be declining within the overall EU budget because the growth of CAP credits is lower than that of the EU budget.

There are four main programmes within the Guarantee section of the EAGGF.[8]
Direct aid to farmers (ECU 25,554 m. in 1997) amounts to 62.6% of the agriculture budget in 1997 (as against 52% in 1995). Grants have greatly increased since 1993 because of the CAP reform (May 1992). The MacSharry reform favoured direct income support to producers by EU institutions to compensate for falling guaranteed prices and the obligation for rotational set-aside land. Direct grants are mainly for oilseed, protein crops and cereals producers and represent 88% of total EU spending in the vegetal sector. Direct aids to farmers are important in the beef and sheep livestock sectors and tobacco too.
Market intervention (ECU 7,445 m. in 1997) used to be the main EU agriculture support scheme until the CAP reform and represents 18.3% of the EAGGF-Guarantee budget in 1997. The decision to lower guaranteed prices in the main sectors (cereals and meat) to bring them closer to the world market has considerably reduced the credits allocated to market intervention in favour of direct aid to farmers.

[8] The figures in this part are extracted from Ministère de l'Economie et des Finances (1996), *Projet de loi de finances pour 1997, Relations financières avec l'Union Européenne* (Paris: Imprimerie Nationale) : 19.

Export refunds (ECU 5,969 m. in 1997) are a traditional instrument for the support of production and exports. Their share (14.6%) has diminished since the CAP reform, because lower market intervention prices reduced the difference between EU-guaranteed and world prices.

Accompanying measures (ECU 1,837 m. in 1997) were created in May 1992 to offer incentives for the restructuring of agriculture. The new EU framework offers opportunities for EU financing of national schemes on agri-environmental measures[9], afforestation of agricultural land[10] and early-retirement of farmers. Although the accompanying measures remain small (4.5% of the budget), they are important because they introduce structural concerns within the Guarantee section which was traditionally devoted to production support. Therefore, the frontier between the Guidance (structural policies) and the Guarantee sections of the EAGGF has become blurred.

The second source of funding in the EU budget lies under structural policies (ECU 31,477 m. in 1997). However, assessment of the funds available for agricultural purposes is less precise than with EAGGF-Guarantee because not one fund or Objective matches exclusively agricultural programmes. The budget of the Guidance section of the EAGGF amounts to ECU 4,026 m. in 1997, which is equivalent to 12.8% of the Guarantee section budget. However, agriculture projects are eligible for financing under the European Regional Development Fund (ECU 12,990 m.) and Community Initiatives (ECU 3,173 m.). For instance, the LEADER programme

[9] The seven agri-environment schemes under Council regulation 2078/92 are designed for the protection of the rural environment and the management of the landscape. They encourage less-intensive and environmentally friendly production methods and farmers' training.

[10] The afforestation of agricultural land programme under regulation 2080/92 provides financial support for establishing, improving and maintaining woodlands and compensates for the loss of agricultural income whenever the holding has been turned into a wood.

allocated ECU 1,400 m. to rural development and PESCA has ECU 250 m. credits for restructuring the fishery sector in 1995. With the ERDF and Community Initiatives it is difficult to have a precise indication of the share of agricultural projects within the total budget. The budget allocated to structural policies is split between three items, including Community Initiatives, transitory measures and the main EU framework which comprises several Objectives. Agriculture is concerned with only three Objectives but not all the credits for each objective are allocated to agriculture.[11] Therefore, it is also difficult to measure the share of agriculture within structural policies.

5.2. The effect of EU expenditure on the budget for Agriculture in Britain and France

5.2.1. EU expenditure and the MAFF budget

The UK share of CAP spending is £2.9 bn. in 1995-96, while the domestic agriculture spending in the Agriculture departments including Scotland, Wales and Northern Ireland is £1.1 bn. Therefore, the ratio of EU to domestic financing of British agriculture is roughly 3 to 1. However, caution must be exercised when interpreting the recently rising EU agricultural spending in Britain because of the effect of non-agriculture-linked spending factors. In 1992 there were two contradictory trends in the

[11] Agricultural projects may be funded under the following structural policy schemes:
- Objective 1 (ECU 14,156 m. in 1995) for the development and adjustment of the least prosperous regions.
- Objective 5a (ECU 1,036 m. in 1995) for the adaptation of agricultural and fishing structures.
- Objective 5b (ECU 1,054 m. in 1995) for the development and the adjustment of rural zones.

level of CAP spending in the UK.[12] On the one hand, monetary fluctuations and the devaluation of the pound in 1992 increased CAP spending in the United Kingdom because payments to farmers were made in the national currency while the EU budget was set in ECU. Devaluing the pound increased the cash size of CAP spending in the UK for schemes budgeted in ECU (half of the CAP schemes, e.g. market intervention and export refunds). Also, although the agri-monetary system seeks to prevent any budgetary implications from monetary fluctuations, schemes set in green ECU were hit by relatively smaller fluctuations. The appreciation of the green ECU from 1.145 to 1.207 market ECU between June 1992 and May 1993 implied a 6% increase in EU spending purely because of monetary fluctuations. On the other hand, rising cash-flows under CAP should not conceal the fact that CAP reform reduced the level of intervention in the United Kingdom. Therefore, the increase in CAP spending since 1992 was driven by monetary fluctuations unrelated to the CAP reform of that year.

Table 5.1. *Spending in Britain under Objectives 5a and 5b and the British rate-of-return on these Objectives (1994-1999)*

in m. ECU 1995

	EU expenditure in Britain	**Rate-of-return**
Objective 1[13]	2,398	2.5%
Objective 2	4,616	29.9%
Objective 3 and 4	3,431	22.2%
Objective 5a	**457**	**7.0%**
Objective 5b	**830**	**11.9%**
Community Initiatives	1,170	8.6%

Source: Ministère de l'Economie et des Finances (1996), *Projet de loi de finances pour 1997, Relations financières avec l'Union Européenne* (Paris: Imprimerie Nationale) : 23.

5.2.2. EU expenditure and the budget of the French Ministry of Agriculture

[12] According to Interview, ref. 13.

[13] Objective 1 is for les developed regions; Objective 2 is for industrial reconversion regions; Objectives 3 and 4 are for measures against unemployment; Objective 5a is for agricultural structures; and Objective 5b is for rural development.

Conclusions about the influence of CAP on the budget of the Ministry of Agriculture are conflicting depending on how EU and French expenditure are compared. With direct grants to farmers most of the public expenditure is made by European Union institutions directly (FR. 71 out of 84 bn.) or indirectly (half of 13 bn. French grants co-finance EU programmes). Therefore, the European Union is responsible for about 90% of the grants to French farmers. The French government has few financial means to support farmers (7 out of 84 bn.) and there is little scope for an independent French agricultural policy. These figures suggest that the spending on agriculture, and therefore the decision on what to spend, is mostly determined at the EU level.

Table 5.2. Government expenditure in the agricultural sector in France (1993)

in billion French francs

	EU budget	MA budget	Social security	Total
Total expenditure	75	30 (40)*	75 (65)*	180
incl. income & price support	71	13	-	84

* 10 bn. out of social security expenditure for farmers are not financed by Social Security Funds but by the budget of the Ministry of Agriculture.

Source: Interview, ref. 6.

The picture is different when considering total expenditure in the agricultural sector by central government and Social Security Funds. Included here is spending on social protection and pensions (FR. 75 bn.) and on education and training (FR. 10 bn.). The figures show that domestic agricultural spending by the Ministry of Agriculture (FR. 40 bn.) and Social Security Funds (FR. 65 bn.) is important in comparison with the CAP. This approach shows all agricultural budgeting does not take place only at EU level and the role of domestic financing in social and policy terms remains significant.[14]

[14] This approach was suggested by Interview, ref. 6.

From a financial perspective the transfer of agricultural budgeting at EU level is partial. While direct support is mainly under EU's financial responsibility, a large part of spending in the agricultural sector is made by national governments. A former French civil servant recognised

> "the nature of the budget has completely changed because of the European budget since all interventions are now financed by the community budget. What is extraordinary is that the Agriculture budget has not diminished much because there has been an argument for the existence of an Agriculture administration to deal with agricultural education and all the authorised aids to investment which are permitted."[15]

He reflects the rationale of the '*principe de constance*' emphasised by the Direction du Budget which considers the increasing Agriculture budget a paradox - or an anomaly - given the increasing CAP credits. The Direction du Budget expects domestic credits to decrease as the EU budget increases. But empirical evidence shows that such trends have not occurred in France, because the budget of the Ministry of Agriculture doubled from 1981 to 1993. This increase in the national budget demonstrates that the '*principe de constance*' was not applied in Agriculture, which suggests domestic expenditure does not match EU programmes.

5.2.3. The future of CAP and national budgets

Although the changes discussed here are so recent that they must be interpreted with caution, their likely impact on national budgeting is so great that they need to be considered. First, one impact of the 1992 CAP reform is an increased budgetary cost

[15] "Le budget a complètement changé de nature du fait de l'existence du budget communautaire puisque toutes les interventions sont maintenant prises en charge par le budget communautaire. Ce qu'il y a d'extraordinaire, c'est que le budget de l'agriculture a peu diminué parce qu'on a justifié l'existence de l'administration de l'agriculture par l'enseignement agricole et toutes les aides à l'investissement autorisées.", Interview, ref. 1.

of the CAP. Before the MacSharry reform part of the cost of the CAP was supported by consumers who ultimately bore the cost of market price support (i.e. higher food prices). The decision to lower intervention prices and to grant direct compensation to farmers involved lower market prices but higher budgetary expenditure. Therefore, the reform favours consumers at the expense of taxpayers. In 1994 and 1995 the Guarantee section budget reached the maximum level authorised at the European Summit in Edinburgh. It is expected that this higher budgetary cost is temporary, and substantial savings were made in 1996.

Second, the last enlargement of the EU, and the possibility of Eastern Europe membership, gave more credibility to the possible nationalisation of farmers' income support. The entry of big cereal and livestock producers, who would contribute little to EU growth and the EU budget, risks disrupting the CAP system. The need for direct income support differs in each Member State depending on the severity of its structural problems, standard of living, pension schemes, unemployment benefits and other social provision. Also compensation to farmers may be more or less a political priority or may be defined differently in each Member State. In particular the CAP target of encouraging farmers to stay within the agricultural sector may not be desirable in East European countries. A centralised income support scheme may not be appropriate since compensation needs are not similar across the EU.

The evolution of the CAP towards more direct support and less intervention has weakened the rationale of EU financing. The EU has not recognised any responsibility for redistributive policy so far. EU financing by a central authority is not fully justified.

The European Commission argues "in line with the subsidiarity principle, the responsibility for direct income support, i.e. for deciding on criteria of eligibility, on size and on duration of such payments, should therefore be allocated to the Member States, on condition that the payments do not distort competition."[16] The 'nationalisation' of direct income support would imply a major transfer of the budgetary cost of the CAP back to the Member States. It would not mean the end of a European agricultural policy since the overall policy framework would still be set at EU level. However, the financial burden and political decisions on eligibility and transfer size would be the responsibility of national governments.

Section two of this chapter has contributed to quantifying the impact of EU membership financially. It shows that the EU budget finances nearly all intervention expenditure in member countries, which suggests that decision-making over these choices is located at the EU level. However, the section underlines that the national budget for agriculture remains significant as all domestic expenditure does not match with EU spending programmes. Therefore, financially, all budgeting in agriculture is not EU-determined. The next section highlights the impact of EU budgeting on the strategy of bureaucrats and explains how national administrations have adapted to European budgetary processes.

[16] European Commission (1994), "EC agricultural policy for the 21st century", *European Economy Report and Studies*, 4: 34.

5.3. The effect of EU budgeting on players' strategies and decision-making

5.3.1. Level 1 negotiations

In the United Kingdom

In the United Kingdom the strategy of the actors involved in the process of decision-making over credits allocated to Agriculture at level 1 is greatly affected by the UK being a net contributor to the overall EU budget and to the CAP specifically. Level 1 negotiations involving MAFF are affected by similar constraints as other policy areas because the Fontainebleau agreement encourages the reduction of the agriculture guideline of the EU budget and CAP spending in the UK (see chapter 4). However, MAFF is the only government department to escape the Euro-PES mechanism[17] and attribution for two reasons. First, there are few domestic credits which may be cut when CAP increases, because domestic and EU programmes do not match. CAP expenditure does not replace or duplicate national spending programmes but is additional to them. CAP and MAFF budgets supplement one another because they pursue different policy targets, and thus the nature of expenditure varies. Second, the Euro-PES mechanism would be infeasible to operate since the reduction in the Department's baseline would be too great in comparison with the domestic budget for Agriculture. An official argued

> "if you had to offset the CAP programme, it would have a very damaging effect on domestic spending. One of my colleagues calculated that if the upward trend in CAP spending would continue, then the only way you could preserve the net total broadly constant would be for the domestic budget to decline and within six years it would have disappeared! That is clearly politically a non-sense because that would include sacking 10,000 staff and not having a ministry. That is why you do not have a global one for one trade-off."[18]

[17] MAFF is not affected by the Euro-PES arrangements except for the Research and Development budget (the baseline reduction is about £ 3 m.).
[18] Interview, ref. 13.

The evolution and the size of CAP spending explain why MAFF would never agree to a formal *'principe de constance'* or Euro-PES. However, decision-making practices show HM Treasury has succeeded in creating efficient substitutes for the Euro-PES mechanism. First, ad hoc budgetary offsetting seems to operate although it is not formalised. The discussion with this official highlighted the pressure exerted by HM Treasury on MAFF credits, should representatives from the Department not follow the 'minimising line' fostered by the Fontainebleau rebate scheme. He argued

> "It is easier to operate something closer to the *'principe de constance'* for discretionary changes at the margin ... Given that so much of any extra pound in EU spending is in fact paid for by the UK taxpayer, it makes a lot of sense for us to argue in our discussions with our Agriculture ministry colleagues that if they have increased their share of receipts on a sector, then we can make corresponding reductions in other elements of support for the domestic programme. Although it does not operate formally, there is more of a presumption certainly from our side, that we would seek to reduce our domestic programmes to compensate for discretionary increases which the UK has argued for, in spending programmes in Brussels if indeed they argued for them at all. Actually they are very good normally at following the Treasury's order and at arguing against increases in spending even if they would be a benefit to UK farmers because of our wide and overriding interest in containing budgetary pressures and ensuring that the guidelines are preserved."[19]

Although the Euro-PES mechanism does not apply to Agriculture, this official claims that offsets occur for marginal increases in EU programmes which the Department supported despite the effect on the British contribution to the EU budget. This description of public expenditure negotiations suggests that an equivalent of the *'principe de constance'* is used in the United Kingdom and it is possible it serves intimidation purposes.

[19] Interview, ref. 13.

Second, with Guidance and ERDF expenditure, which involve the Department's co-financing of EU schemes in the UK, EU financing is ignored in the public expenditure negotiations with HM Treasury. A senior civil servant from MAFF considered the hypothesis of an Objective 5b

> "scheme which would cost £10 million, of which the European Community would pay £5 million. Before we can launch the scheme we must have the funds for it. We would have to bid in the public expenditure negotiations £10 million, not £5 million, because the European Community receipts do not count in the public expenditure negotiations."[20]

This procedure is closer to attribution than to the Euro-PES mechanism because the reduction in the Department's credits is not based on the UK contribution to CAP but on actual receipts from the EU. However, both arrangements greatly reduce the incentive for MAFF to maximise the UK returns on the EU budget. The argument that departments should bid for EU funding under Structural Funds in the same way as for domestic financing is a consequence of the Fontainebleau agreement. It translates the fact that the cost of EU expenditure is nearly the same as that of domestic expenditure for HM Treasury. However, decision-making processes imply that EU funding of agricultural structural projects is not additional.

Despite the absence of formal budgetary institutions such as Euro-PES, the strategies of the players in level 1 negotiations on Agriculture are similar to those in other policy sectors where EU budgetary influence is not as great. With MAFF the budget-minimisation approach is encouraged by pressures from HM Treasury. Bureaucrats in MAFF are also aware of the fact that CAP is the main cost centre for the EU budget while the size of the British agricultural sector is small.

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[20] Interview, ref. 28.

One characteristic of level 1 negotiations peculiar to the UK is the low degree of conflict between MAFF and HM Treasury, which numerous civil servants from different national administrations acknowledged. An official from Cabinet Office estimated that conflict resolution between HM Treasury and the Department represented only 10% of the Desk Officer's work because since the early 1990s MAFF had increasingly agreed with HM Treasury's line.[21]

In France

In France the strategies of the players involved in level 1 negotiations are particularly affected by the financial returns on the EU budget. Since France is a net contributor to the overall EU budget but a net recipient on the CAP, the strategies of actors are specific on Agriculture. The French returns on CAP are positive because France takes about 24% of the CAP budget while paying 17.8% of gross contributions. The MacSharry reform has continuously improved the rate-of-return on CAP spending in France (see Table 5.3.).

Table 5.3. *Expenditure under the Guarantee and the Guidance sections in France and the French rate-of-return (1989-1995)*

in million ECU

	1989	1990	1991	1992	1993	1994	1995
Guarantee section							
Total EU expenditure	24,403	24,980	31,528	31,324	34,748	33,605	34,498
EU spending in France	4,606	5,026	6,333	6,859	8,185	8,049	8,376
Rate-of-return on Guarantee	18.9%	20.1%	20.1%	21.9%	23.5%	23,9%	24,3%
Guidance section							
EU spending in France	187	362	363	455	583	384	-
Rate-of-return on Guidance	13.9%	19.8%	19.3%	18.0%	21.4%	13.3%	-

Source: Ministère de l'Economie et des Finances (1996), *Projet de loi de finances pour 1997, Relations financières avec l'Union Européenne* (Paris: Imprimerie Nationale) : 39-42.

[21] Interview, ref. 59.

Table 5.4. *Spending in France under Objectives 5a and 5b and the French rate-of-return on these Objectives (1989-1999)*

	1989-1993*		1994-1999**	
	EU expenditure in France	**French rate-of-return**	**EU expenditure in France**	**French rate-of-return**
Objective 1[22]	1,082	2.4%	2,225	2.3%
Objective 2	1,495	18.3%	3,803	24.7%
Objective 3 and 4	1,809	20.5%	3,254	21.1%
Objective 5a	**1,400**	**33.7%**	**1,963**	**30.3%**
Objective 5b	**1,170**	**36.8%**	**2,274**	**32.6%**
Community Initiatives	453	10.1%	1,649	12.1%

Source: Ministère de l'Economie et des Finances (1996), *Projet de loi de finances pour 1997, Relations financières avec l'Union Européenne* (Paris: Imprimerie Nationale) : 41.

Because France is a major net recipient of the Guarantee section and Objectives 5a and 5b, and gets more than its fair share overall on the Guidance section, the Direction du Budget has incentives for maximising not only the French take of EU expenditure but also the funds available for Agriculture in the EU budget. This strategy coincides with the resource-maximisation approach of the Ministry of Agriculture that traditionally defends farmers' interests and incomes. The greater financial returns on EU agricultural expenditure contributed to a lower degree of conflict in the relationships between the Direction du Budget and the Ministry of Agriculture.

EU budgeting influences the strategy of Agriculture ministry actors in opposite ways in Britain and France, since French level 1 actors pursue budget maximisation while their British counterparts are minimising the financial impact of the European budget within national policy. However, in both cases EU-related financial considerations decreased

[22] Objective 1 is for les developed regions; Objective 2 is for industrial reconversion regions; Objectives 3 and 4 are for measures against unemployment; Objective 5a is for agricultural structures; and Objective 5b is for rural development.

the degree of conflict between the Finance Ministry and the Ministry of Agriculture during level 1 negotiations. Whereas lower conflict reinforced the values of HM Treasury within Whitehall, it favoured the position of the French Ministry of Agriculture by encouraging a resource-maximisation strategy towards the European budget.

5.3.2. Level 2 negotiations

Decision-making in the Ministry of Agriculture offers an illustration of the hybridisation of budgetary institutions. Because of the size of EU-financed expenditure on agriculture, a large part of the decision-making process over agricultural programmes involves negotiations between departmental actors at level 2 (hybridisation). The 'collectivisation' of policy decisions at the EU level has increased the importance of level 2 negotiations. Exposing the strategy pursued by departmental actors during these negotiations will identify how national administrations have adapted to EU pressures.

Negotiations between British and French representatives and their European counterparts at the EU level are affected by several factors. First, British and French bargaining strategies vary because of differences in the distribution of their agricultural priorities. Because of the structure of agricultural production, France is directly affected by virtually all CAP commodities and compensation programmes. France is also interested in export refund levels since it is a net exporter of agricultural products. Therefore, French representatives are actively involved in negotiations on most CAP programmes, while other Member States have a predominant interest (e.g. Mediterranean countries with fruits, wine and vegetables, UK and Ireland with livestock). This specificity of the French position creates both advantages and drawbacks. A French official argued

> "because of its geographic location at the heart of Europe, France has interests in all the programmes, which is an inconvenience since one always has the impression of claiming something, but which may be an advantage because there is no negotiation on which to have blocked positions ... On all issues national interests are at stake."[23]

The participation of France in many negotiations presents some drawbacks. A member of the DB underlined "France always defends positions in favour of agriculture because it is not good at making choices between its types of production and sub-sectors because it has interests everywhere. We tend to avoid sacrificing anyone, and therefore to defend everything."[24] However, the dispersion of French agricultural interests is often considered a strategic advantage within negotiations because it multiplies the possibilities of trade-offs between policy preferences. An increasing number of win-sets eases compromise-building. Participation in decision-making on many programmes implies that French players occupy a central position within CAP negotiations, which may be conducive to a leadership role for France. Also, these multiple agricultural interests offer French negotiators opportunities to alter policy preferences from year to year or even during a negotiation. Sustaining uncertainty about French policy positions may disturb constituents' expectations and modify

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[23] "Sa situation géographique au coeur de l'Europe fait qu'elle a des intérêts dans l'ensemble des dossiers, ce qui est un désavantage parce qu'on a l'impression de toujours réclamer mais ce qui peut être assez avantageux sachant qu'il n'y a aucun dossier sur lequel on ait des positions bloquées ... pour tous les points, nous avons des intérêts nationaux en jeu.", Interview, ref. 17.

[24] "La France défend toujours des positions pro-agricoles parce qu'elle ne sait pas bien arbitrer au sein de ses productions et au sein des filières parce qu'on a des intérêts partout. On a toujours tendance à ne vouloir sacrifier personne ce qui nous conduit à tout défendre.", Interview, ref. 2.

possible country alliances. Therefore, the involvement of France in many CAP programmes is often considered a strategic advantage for the defence of French agriculture.

The participation of the United Kingdom in the designing of CAP programmes is similarly affected since not all CAP programmes involve spending in the UK because of the structure of British agriculture. The United Kingdom is an important recipient of beef and sheep livestock grants, but is little concerned with wine, tobacco or cereals. The UK participates in decision-making on the latter programmes as a secondary player only, because it is not considered an expert in those commodities and because spending decisions on these programmes have no financial consequences for British agriculture or MAFF budgeting. Member States not producing a commodity are secondary players because their claim for budget cuts is considered biased. The UK is an exception in that respect since British representatives support price reductions for all commodities.[25]

The concentration of British agricultural interests on a few programmes gives credibility to the British policy line because its preferences remain consistent over the years. An official from the Ministry of Agriculture argued "they [the British positions] are quite predictable within budgetary negotiations, whereas we do not adopt as clear-cut positions as the British because our interests lie in more sectors."[26] This statement

[25] According to Interview, ref. 24.

[26] "Ils [les Anglais] sont assez prévisibles dans les négociations budgétaires, alors que comme on a des intérêts dans plus de secteurs, on n'a pas des positions aussi tranchées que peuvent l'avoir les Anglais.", Interview, ref. 17.

was echoed by an official from the Direction du Budget who argued

> "With the English, negotiations are simple because they always have one single concern. They are predictable within negotiations whereas we are interested in all community issues, thus we are obliged to make compromises and choices. We do not have one single concern which necessarily wins. We would sometimes put agricultural preoccupations forward, sometimes transport, another time the fact that it is too expensive."[27]

The predictability of British positions does not necessarily constitute a strategic advantage because it offers fewer opportunities for new compromise agreements and country alliances. British involvement in only a few CAP schemes limits the opportunities for policy trade-offs and reciprocity, which reduces its margin of manoeuvre within negotiations. It contributes to the isolation of British players within EU bargaining. However, isolation may be an advantage in a policy context where unanimous decisions are favoured for political reasons. An official argued

> "Because of their low rate-of-return on Agriculture, the British are not interested in it [CAP]. But they are obliged to participate because they cannot put the whole system into question. Their tactic in Brussels is to have their agreement paid for. In every agreement or package there is always a little something for the British. They obtained the specific set-aside land, they obtained the maintenance of the refunds on whisky and the price of linseed oil. There are always specific 'presents' for the British to buy them off, otherwise one cannot reach a compromise."[28]

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[27] "Avec les Anglais, ce qui est simple pour les négociations est qu'ils ont toujours une seule et même préoccupation. Ils sont assez prévisibles dans les négociations alors que nous sommes intéressés par tous les sujets communautaires et donc on est obligés de faire des compromis et de choix. On n'a pas toujours une préoccupation qui l'emporte forcément. On mettra parfois en avant nos préoccupations agricoles, parfois les transports, et puis une autre fois le fait que cela coûte trop cher.", Interview, ref. 2.

[28] "Les Anglais, comme ils ont un mauvais taux de retour sur l'agriculture, cela ne les intéresse pas. Mais comme ils n'arrivent par à remettre en cause le système ils sont bien obligés de suivre. Leur tactique à Bruxelles c'est de se faire payer leur accord. Dans tout accord ou dans tout paquet il y a toujours un petit quelque chose pour les Anglais. Ils ont obtenu leur jachère spécifique, ils ont obtenu le maintien des restitutions pour le whisky, le prix du lin oléagineux. Il y a toujours des 'cadeaux' spécifiques aux Anglais pour les acheter, car sinon on n'arrive pas à boucler un compromis.", Interview, ref. 2.

Second, the strategy of national representatives is affected by voting procedures at level 2. Decisions by the European Council require a qualified majority if supported by the Commission. If there is a disagreement between the Commission and the Council, unanimity is required within the European Council to overcome the Commission's opposition. A member of MAFF recalled

> "that has only happened on three or four occasions because the Commission will make sure that its proposal was along the lines of what the Member States wanted or at least it would not have every Member State voting against it ... The Commission has a lot of power because it has the power to make the proposal in the first place."[29]

Voting procedures impact on Member States' strategies. Member States try to influence commissioners to gain their support to ease the adoption of a proposition in the Council. Member States seek to gain the Commission's opposition to proposed decisions, should they wish to impede decision-making. The Commission's opposition gives each Member State a veto power unrelated to its weight within EU negotiations. However, small countries on their own cannot expect to block decisions supported by the Commission.

Because of the size of EU agricultural programmes and because of hybridisation of decision-making processes, Britain and France have had to adapt and define a policy during negotiations at level 2. France seeks a leadership or at least a central role within negotiations to influence them, and it uses the possibility of changing its priorities and its alliances to pursue budget-maximisation. At the opposite, Britain adopts a consistent budget minimisation policy line and uses isolation as a threat againsst other EU members to impose its national priorities. Therefore, the strategy pursued by

[29] Interview, ref. 31.

national civil servants during level 2 negotiations reflects how national bureaucracies have adapted to EU membership and use decision-making procedures at EU level to impose their national priorities.

5.4. The margin of manoeuvre of national administrations on agricultural programmes

5.4.1. The Common Agricultural Policy

This section seeks to quantify the impact of EU membership on policy-making. National administrations have no margin of manoeuvre or very little on CAP expenditure at the EU level and in their country. First, the CAP budget, the Agriculture guideline, is worked out mathematically and follows EU economic growth. It is agreed that Member States cannot increase the guideline because of their willingness to develop non-agricultural programmes at the EU level, which was demonstrated at Edinburgh. Indeed, the guideline was not increased in 1994 and 1995 when the MacSharry reform and exchange rate fluctuations put heavy pressure on CAP expenditure. Member States discuss the Commission's proposal for a budget and can require a revision of the budget, if they can convince the Commission that planned expenditure would breach the Agriculture guideline. Therefore, the guideline constrains national administrations because it authorises a fixed level of spending on CAP. At the same time the guideline offers a guarantee that CAP expenditure is not absolutely open-ended and gives Member States the power to amend CAP plans accordingly.[30]

Second, once the design and the budget of the various CAP schemes are agreed at the EU level, national administrations have little flexibility in the implementation of these schemes in their countries. An official from HM Treasury argued "there is very little discretion at all in any of the CAP spending".[31] His statement was confirmed by a member of MAFF who maintained "CAP is obligatory expenditure. There is nothing we can do about it or very little."[32] The margin of manoeuvre of MAFF is restricted at operational level because most of the money comes from the EU with precise conditions attached, and there is no national regime for commodities and market support. Therefore, an official from MAFF argued "with CAP as such, directly applicable, and most funding is 100% EC funding, we do not have to make any decisions for ourselves other than what has been agreed in Brussels. Therefore, it is important to get Brussels policy to fit with UK wishes."[33]

In contrast to other EU schemes CAP programmes are obligatory not optional, therefore national administrations do not have a choice to implement them or not. CAP schemes fully harmonise the conditions for agricultural production (support prices, aid to farmers) throughout the EU. Harmonisation suppresses any possibility of differences between Member States, in contrast to approximation or convergence which only reduce differences. The central management of intervention and restitution

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[30] According to Interview, ref. 31.
[31] Interview, ref. 13.
[32] Interview, ref. 28.
[33] Interview, ref. 31.

spending is required to suppress the distortions of competition. National governments cannot, for instance, impose restrictions on claimants additional to those in the EU legislation to reduce CAP expenditure in the country. Finally, CAP regimes for market intervention and income support leave little scope for complementary interventions by national governments on their own. Therefore, Member States do not have major agricultural policies at the national level since the CAP is so exhaustive. Even domestically-financed schemes on national policy issues (e.g. environmental rules which impact on the beef sector in the UK) need to be cleared with EU institutions.[34]

Third, national governments have a restricted flexibility at the margin in the implementation of CAP schemes. With beef intervention the EU allows some differences between Member States about the classes of beef subject to intervention. Because it criticises beef intervention the UK has reduced the number of beef classes on which to intervene.[35] However, beef is the only commodity sector where there is a possibility for variations between intervention in EU members. With the suckling cow premium scheme the EU allows cross-national variations since it allows Member States to offer supplementary headage payments. The UK does not use this facility but France and Ireland give complementary payments within the limits set by EU institutions. However, these variations are exceptional and concern only the fringe of EU programmes. CAP schemes are so precisely targeted and defined that the margin of manoeuvre of national administrations is almost nil during implementation.

[34] According to Interview, ref. 27.
[35] This example also illustrates that the British government does not seek to maximise CAP spending in the UK.

Therefore, there are only two main ways for national governments to influence CAP schemes. First, Agriculture ministries are responsible for the administration of CAP schemes and anti-fraud controls. Second, Member States influence and participate in decision-making about CAP at level 2. Member States retain their sovereignty for designing agricultural intervention and income support because only decisions supported by a majority of countries are implemented. Member States' sovereignty is not as complete on agricultural policy as on fiscal policy because only unanimous voting gives a veto power to individual EU members. However, the efficient participation of national governments in level 2 negotiations is the key for them to maintain a role in the definition of policy measures applicable in their country.

5.4.2. Structural programmes

The margin of manoeuvre of national governments over decisions on structural programmes is significant. Although the two accompanying measures implemented in the United Kingdom and France, the agri-environmental and the afforestation of agricultural lands schemes, were switched from Guidance to Guarantee during the 1992 reform, they are discussed in this section because they differ greatly from obligatory CAP programmes. Not only are the targets of these measures oriented to reforming agricultural structures but the financial design of these schemes is closer to that of Guidance programmes. Therefore, accompanying measures are more similar to structural programmes under the Guidance section than is CAP for their effects on the margin of manoeuvre and the strategy of national governments.

With structural programmes the margin of manoeuvre of national government is large for a number of reasons. First, the conditions attached to EU schemes are not as precise as with CAP. As argued by a member of MAFF on agri-environment schemes, "we have a wide margin of manoeuvre. The criteria are the same for all Member States but they are in very general terms."[36] The conditions of eligibility for EU funding are flexible in the EU regulations while leaving Member States free to impose additional restrictions to reduce financial claims in the country. With the Processing and Marketing Grants, an official underlined

> "a lot of the administrative matters have been handed out to the Member States. Under the present arrangements for regulation 866/90, the actual decisions on individual cases are made by the Member States. As a partnership arrangement, the Commission sets out the framework because they are paying the largest part of the money."[37]

Member States also have a large margin of manoeuvre to set spending levels for each programme. The British level of livestock compensatory allowances is set at the minimum allowed by the EU regulation (ECU 20.3 per unit in 1995), while France and Germany tend to set compensation closer to the maximum allowed (ECU 135).[38]

Second, while Member States must implement the EU programmes, national schemes may complement them. The British government found the EU investment aid and grant scheme unsatisfactory in comparison with the national scheme it replaced. Regulation 2328 required that investment should be part of a plan and was income-related. A separate state aid scheme was maintained in the UK to continue traditional arrangements for investment and for farmers not eligible under the EU scheme.[39]

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[36] Interview, ref. 22.
[37] Interview, ref. 19.
[38] According to Interview, ref. 20.
[39] According to Interview, ref. 21.

Third, Member States influence the design of the EU programme. The UK had a leadership function in the promotion of structural measures at the EU level. The EU schemes on agri-environment and the afforestation of agricultural lands were largely inspired by schemes the UK had been running since 1986-87. The British schemes were considered good practice which other Member States should copy. Therefore, few amendments were made to the British arrangements. Similarly many of the schemes under Objective 5a, such as support for young farmers and for mountain agriculture, were inspired by existing French policies. The influence of individual Member States in the designing of EU agricultural policy fosters changes in other Member States. French farmers' organisations used not to be interested in British agri-environmental measures because they argued agriculture and environment were separate. Since the EU has adopted agri-environmental schemes, the discourse of these organisation has altered, and expenditure under these schemes has multiplied over tenfold since 1992 in France.

Therefore, the stimulation effect of EU structural programmes depends on whether national governments consider co-financing a strong incentive for undertaking structural schemes. In the United Kingdom co-financing provides little stimulation for developing schemes because of the Fontainebleau agreement. The budgets for environmental and afforestation schemes were not increased since the UK has received EU funds because HM Treasury considered that the changes in the source of funding should have no impact on spending levels. It shows that EU funding is not additional to domestic financing. Because of the effect of Euro-PES and the Fontainebleau agreement on the British budgetary procedures, negotiations between MAFF and HM

Treasury concern total, not British, spending on agri-environment. A civil servant from MAFF explained "we first determine the overall size of the programme ... Within the budget envelope that we nationally have decided for a particular scheme, none of the allocations of budgets is driven by the Community."[40] Since the conditions of eligibility for EU financing are flexible, the department decides first on the desired level of spending on these policies and then determines the criteria for eligibility to the schemes. Because schemes similar to the accompanying measures were started from the mid-1980s in the UK, MAFF has the administrative structure and the information on farming necessary accurately to forecast the budgetary cost for more or less stringent criteria. Spending levels under the EU scheme are determined on the basis of former levels under the national budget.

In France co-financing is a strong incentive because of the resource-maximisation approach. Co-financing is seen as a way of cutting the ministry's costs and improving the profitability of investment plans. In some countries eligible for Cohesion Fund credits co-financing is not an efficient financial structure because matching domestic funds may not be available. In 1989 the EU offered full financing of the programme for rooting up vineyards because mixed financing was slowing down the implementation of the policy in Mediterranean countries.[41]

Two main conclusions may be drawn from this section. First, in spite of the CAP programmes, which EU members must undertake under precise conditions, other EU agricultural schemes leave some margin for national discretion. Therefore, Member

[40] Interview, ref. 22.
[41] According to Interview, ref. 2.

States may decide on how much they want to be influenced by EU schemes. Second, because of the participation of departmental actors in the design of EU schemes, Member States have means to influence EU programmes and policy priorities.

5.5. Conclusion

Chapter 5 argued that the impact of EU membership on budgeting in agriculture ministries and the adaptation of the departments' bureaucratic mechanisms to EU spending programmes on agriculture are different in size and nature from what could be assumed from the existing literature.

First, chapter 5 demonstrated that the literature commonly over-emphasised the impact of EU membership on agriculture ministry budgetary choices because of the great size of transfers from the EU to individual Member States. Chapter 5 quantified the degree to which budgeting on agriculture is affected by EU membership in finance and in policy-making more precisely. In the first place, a financial approach comparing the size of EU and domestic expenditure on agriculture shows that the European budget finances nearly all intervention expenditure in member countries. For instance, the ratio of EU and domestic financing of British agriculture is roughly 3 to 1. However, recently rising EU agricultural spending in Britain was mainly driven by monetary fluctuations unrelated to the CAP reform. In France the European Union is directly or indirectly responsible for about 90% of the grants to French farmers, leaving the government with few financial means for an independent French agricultural policy.

However, a large part of public spending in the agricultural sector is made by national governments: about half of total expenditure in the agricultural sector is financed by the French central government and Social Security Funds. Therefore, financially, agriculture ministry budgetary choices are not totally EU-determined, and domestic financing remains important for social protection and policy.

Chapter 5 demonstrated that the impact of EU membership is limited since national governments keep a margin of manoeuvre on policy-making. National governments have little margin of manoeuvre on the design of CAP expenditure and little flexibility in the implementation of these schemes. With structural programmes national governments decide how much they want to be influenced, depending on whether they consider co-financing a strong financial incentive. In the UK co-financing provides little incentive because of the Fontainebleau agreement, whereas in France co-financing favours spending because of the resource-maximisation approach. Therefore, budgeting in agriculture ministries is not as fully EU-determined in policy-making as is usually maintained.

Second, chapter 5 argued that the main consequence of EU membership is the adaptation of the department's bureaucratic mechanisms to European budgetary processes. The design of the European budget requires the participation of departmental actors at level 2. Therefore, the strategy of the national actors at level 1 and at level 2 reveals how national bureaucracies have adapted to EU membership and their reaction to EU pressures. In the United Kingdom the sectoral approach confirms the strategy of minimisation of EU expenditure and the priority given to national not

EU policy priorities. The strategy of level 1 actors is affected by the net contribution to the EU budget (especially because of CAP). The constraints on MAFF actors are similar to those in other departments because the Fontainebleau agreement impacts on all EU expenditure in Britain. Level 1 negotiations in the UK present a low degree of conflict between MAFF and HM Treasury because MAFF is conscious of the particularly low return on CAP. Within level 2 negotiations British representatives adopt a consistent budget minimisation policy line and use isolation as a threat against their counterparts.

In contrast, French representatives are financially concerned by a large number of negotiations and implement a strategy of changing policy priorities and alliances to budget-maximise. The strategies of level 1 players are specific to agriculture since France is a net contributor to the overall EU budget but a net recipient on the CAP. The Direction du Budget has incentives for maximising not only the French take of EU expenditure but also the funds available for Agriculture in the EU budget. The greater positive financial returns on CAP contributed to a lower degree of conflict in the relationships between the Direction du Budget and the Ministry of Agriculture.

British and French bargaining strategies vary because of differences in the structure of agricultural production. French agricultural interests are varied, even dispersed, while British interests are concentrated. The structure of interests affects national alliance-building and negotiation strategies. It affects the potential win-sets and the possibility of leadership. Therefore, the British policy line is more consistent and predictable than the French, but UK's position at level 2 is more isolated.

The contrasted strategies at level 2 indicate the different reactions of national administrations to EU pressures. The definition of a coherent policy guiding the participation of national actors in level 2 negotiations shows that national administrations have adapted to EU budgetary procedures. The participation of departmental actors in the design of EU programmes give them also means to influence EU policy priorities. Therefore, Member States may influence EU processes on national budgeting.

The conventional view about budgeting in the Ministry of Agriculture tends to exaggerate the influence of EU institutions on the determination of national budgeting. The conventional literature tends to differentiate too widely between the influence of the EU on budgeting for Agriculture and for other departments. The conventional literature presents the Europeanisation of agricultural budgeting as an exception within national budgeting. Likierman argues "its expenditure differs in an important respect from that of other departments".[42] By extending the focus to the impact of EU membership on budgeting in other departments, the thesis will determine whether budgetary Europeanisation is peculiar to agriculture or whether it is a wide-ranging adaptation process affecting budgeting in EU members across a number of sectors. This study across departments will make it possible to substantiate our hypotheses that the adaptation of budgetary processes to EU pressures is proportional to the frequence and intensity of interactions between national and European actors during policy-making processes and to the size of EU expenditure in a sector.

[42] Likierman, Andrew (1988), *Public expenditure - Who really controls it and how* (London: Penguin): 31.

Chapter 6

Europeanisation under national control? The case of budgetary decision-making in the Department of Transport

The case of transport lies mid-way between Agriculture and Health since EU regulatory activity in the transport sector is long-established while the direct financial impact of EU transport programmes on departmental budgeting is recent. The competency of the EEC in transport was asserted as far back as the origins of the Community (Treaty of Rome, articles 74 to 84) and encompasses various aspects. First, the liberalisation of the transport sectors was to be completed in 1997. Access to the market for road transport was freed when registration and national authorisation for providing transport services were suppressed (e.g. any European transport company may provide services between London and Manchester). In rail liberalisation has started only recently.

Second, the harmonisation of technical norms (e.g. weight and dimensions of vehicles) and the functioning of the transport sector (e.g. community quotas on road transport) have been developed. EU transport regulation is now extensive and has a great impact on the structure of the market, competition and industry. The regulatory activity of the EU has an indirect impact on the department's budget to the extent that it sets technical constraints on transport companies, some of which are publicly owned (SNCF, Air France, British Rail ...). However, it is extremely difficult to assess the impact of this category of measures on budgeting.

Third, budgeting in transport is also greatly affected by the overall EU environment and regulations which apply to transport as well as to other sectors. Social and work regulations affect the treatment of employees of public transport companies (as of private ones); tax policy, in particular excise duties on petrol, is defined on the basis of the level of taxation in neighbouring countries and technology (trucks can now cross France without tanking in France if petrol is comparatively expensive since the capacity of petrol containers has now increased); the regulation on re-capitalisation of public companies is another example of the European Union's constraints on transport budgeting by non-transport regulation. The impact of this regulation, in particular in air transport, is more apparent in France because unlike the UK France has a national carrier. The Air France case illustrates that the government no longer can decide to finance or cancel part of the debt of a public company without the agreement of the European Union. However, as noted by a senior civil servant from the DB, the regulation has less impact on financial flows between the central government and Air France than on administrative and legal procedures.[1] In short, the government will go on subsidising public companies using more complicated financial and legal structures. For instance, the French government uses the possibility of financing non-profitable air companies within the framework of regional planning as a means of continuing to subsidise Air Inter indirectly through the Fonds de Péréquation des Transports Aériens.

[1] According to Interview, ref. 9.

Fourth, regulations on the structure of transport companies have a more direct impact on budgeting. The Directive 91/440 on rail companies[2] implies a split between management accounting for infrastructure and operating costs. The Directive is inspired by the British system and challenges the negotiations of the '*contrat de plan Etat-SNCF*' by requiring that the infrastructure budget should be balanced. This regulation represents a major cultural change for the SNCF, since it raises the possibility of introducing competition for providing rail services by opening up access to the national infrastructure network to foreign rail-operating companies. The introduction of competition into what France traditionally considers a natural monopoly has an enormous impact on SNCF budgeting. It raises the question of how to price the service as against the infrastructure cost. The new obligation raises a major problem because international competition will mainly occur on those TGV lines where the SNCF is making profits through earning rent, which it then uses to finance its low-return conventional rail network. The whole financial equilibrium of the SNCF, based on a cross-subsidisation by which the TGV pays for providing services on old conventional lines would be challenged.[3] Competition and an increasing pressure on the SNCF to lower its price on TGV lines services would modify the existing financial equilibrium. The effect can be felt already since the former chairman of SNCF, Mr. Bergougnoux, planned to close 6,000 kilometres of unprofitable conventional rail lines.[4]

[2] Council Directive of 29 July 1991 on the development of the Community's railways (91/440/EEC).
[3] Interview, Ref. 57.
[4] "La SNCF prête à supprimer 6.000 kilomètres de lignes", *La Tribune*, 18 Oct. 1995.

Moreover, the Directive is considered by a few Member States as a first step in the direction of privatising rail services. The United Kingdom has split infrastructure and operating services into two entities for privatisation of the service-operating company, although the Directive requires only a separation of their accounts, and Germany goes in that direction. The French government currently rules out this possibility for the SNCF, arguing the SNCF must run all the profitable lines (those that could be privatised) to pay for the non-profitable ones.

The influence of the EU in norm-setting, tax and accounting is not new but it has always been difficult to assess the adaptation of departmental budgetary processes because these pressures are indirect. Up to the early 1990s the European Union was not competent to decide on investment priorities nor on the design of transport infrastructure. The only chanel of intervention of the EU on transport infrastructure was research, namely feasibility studies (in 1983 the Community financed part of the feasibility studies for the Channel Tunnel). The great change brought by the Treaty of Maastricht to the transport sector was to give a responsibility to EU institutions to finance transport infrastucture in the EU. This new mandate has had an important impact on the determination of spending priorities by the Departments of Transport in Britain and France. Transport is a significant case study of the impact of EU membership on the adaptation of bureaucratic mechanisms at departmental level. This chapter concentrates on how varied groups of actors at departmental level have promoted or reacted to this new financial responsibility and the effect it has had on departmental policy-making.

6.1. Historical background

The main stages leading to the creation of a financial responsibility for the European Union in transport are as follows.

In 1968 the European Parliament expressed its intention of having a Common Transport Policy (CTP) defined and implemented without delay. In 1970, 1974, 1979 and 1982 resolutions called the Council to fix a working programme with a precise timetable of decisions to be taken.[5] In 1982 a resolution of the European Parliament brought an action for a declaration by the ECJ that the Council had infringed the EC treaty by failing to introduce a Common Transport Policy. Only minimal measures had been adopted by the Council, which had reached no decision on a number of Commission proposals on which the EP had long ago adopted a favourable opinion. In 1985 the European Court of Justice called the Council to act by fixing the framework for a CTP and introducing the freedom to provide services.[6]

In December 1989 the idea of a European network for high-speed trains was submitted to the European Council of Ministers, which decided to set up a Working Group involving national experts to reflect on how the network concept could be used in the European Community. The group produced guideline maps for a European high-speed train (*schéma directeur de train européen à grande vitesse*) adopted by the Council in December 1990, which launched the idea of a European high-speed train network. The group identified 'missing links' (*maillons clef*) that are parts of rail lines where there is less traffic mainly because of topographic obstacles (Pyrenées barrier, Alps, TGV-East

[5] Resolution 1970/40, and resolutions on 25 September 1974, 16 January 1979 and 3 March 1982.
[6] Judgement of the European Court of Justice, case 13/83 on 22 May 1985.

and the line between London and the Channel Tunnel). The low profitability of these 'missing links' partly explains why national financing may not be available. By late 1990 the group of national experts had gathered a consensus on the identification of EU interests with precise projects that Member States would not want to undertake by themselves. The decision was legitimated by scientific and technical expertise. This group still exists and produced a report in 1995 which slightly modified the original scheme.

Independently of, and simultaneously with, the identification of weaknesses in EU high-speed train network by national experts, intergovernmental negotiations in Councils led to a political decision by the Heads of State at the Maastricht summit in December 1991. The Treaty introduced the notion of Trans-European Networks (TENs) in the transport, communication and energy sectors (article 129b) aimed at the interconnection and the compatibility of existing and planned transport networks. In the transport sector the notion of TENs enlarges the concept of guideline maps (*schémas directeurs*) first defined in 1990, since it includes conventional rail, infrastructure for combined transport, ports, airports, road and inland waterways. However, the concept of a high-speed network remains as it was defined in the 1990 guideline maps included in the annexe of the TENs decision. Moreover, article 129c of the Treaty of Maastricht creates a EU responsibility for defining infrastructure investment priorities, since it gives the European Union the task of identifying projects of common interest and needs for technical-norm harmonisation. Last, TENs provides for EU financial support for projects of common interest.

Table 6.1. The budget for Internal Policies and TENs (1994-1999)

in m. ECU

	1994	1995	1996	1997	1998	1999
Financial perspective						
- Internal policies	4,557	5,003	5,337	5,603	5,837	6,060
- incl. TENs	292	358	410	489	574	683
Actual expenditure						
on TENs	179	239	277	346	-	-

Source: Ministère de l'Economie et des Finances (1996), *Projet de loi de finances pour 1997, Relations financières avec l'Union Européenne* (Paris: Imprimerie Nationale): 27.

Since then European Councils have continuously given a budgetary priority to Trans-European networks, e.g. increasing the budget line by over ECU 70 m. in 1996 (that is a 20% growth). In September 1995 the Council defined the conditions for obtaining EU support and allocated the credits among the different types of networks for 1995-1999. Transport networks were given the priority with ECU 1,785 m. out of the 2,345 available (about 75%), ECU 112 m. for energy and 448 for telecommunication networks. In 1995, 240 out of the ECU 280 m. allocated to transport networks were spent.

The European Councils enlarged the concepts of guideline maps and missing links defined by experts to new sectors and integrated them into the responsibilities of the European Union. Negotiations on the selection of projects started in 1992. Guideline maps for combined transport, road and inland waterways were agreed upon in October 1993 but because of the co-decision procedure, EU decisions on all outstanding guidelines were delayed until mid-1995. Also, the selection of priority projects by the European Council became more difficult as varied groups simultaneously produced different lists of priority projects.

In parallel with the intergovernmental negotiations on TENs, the Commission in 1992 started to reflect on how to relaunch growth in the European Union (the European summit in Edinburgh in December 1992 launched a European economic growth initiative). In its White Paper submitted at the June 1993 Copenhagen summit, the Commission recommended the European Union should undertake and contribute to financing transport infrastructure projects as a way of sustaining employment and growth. The implementation of the Treaty of Maastricht gave the European Union new legal and financial means to act in this sector. The Delors' White Paper selected 26 projects which could constitute the agenda of the EU transport and energy infrastructure programme.

Together with the adoption of Delors' European Initiative for Growth and Employment, the Brussels European Council (December 1993) commissioned a group of personal representatives of the Heads of State[7] to assist the Commission in co-ordinating and taking forward plans for networks in transport and energy. The setting up of the Group originated from a Commission initiative originally separate from the TENs project and its ideas. It was a response to the feeling that TENs was too general a concept and that there was a need for specific projects. The group, chaired by vice-president Christophersen, submitted an interim report to the Corfu European Council (June 1994). It short-listed 11 priority transport projects among the 34 infrastructure and 5 traffic management projects. By doing so the European Council redirected attention to the high-speed train network and on the 'missing links'. The final report of the Group to the Essen European Council (December 1994) selected 14 top priority

[7] Professor Christian de Boissieu was appointed as the French representative, and Mr. G. Fitchew, Head of the European Secretariat of the Cabinet Office, as the British.

projects and about 20 projects of lower priority (see Appendix 6.2.). The Christophersen list soon raised a financial duplication problem as the Group mostly selected projects which had been already short-listed in the framework of TENs (with one exception), and as it was decided there would not be a special financial instrument to pay for the Group's projects. However, the Christophersen list gained political support because, in contrast to the Commission, the selection was legitimated by expert advice and intergovernmental consensus. In the end the two initiatives were brought together as the Commission redefined its list of projects eligible for TENs funding to fit in with those of the Christophersen Group.

6.2. Shifts in players' strategies

This short historical summary provides a background for reflecting on how national administrations have adapted to pressures arising from the new role of EU institutions on transport infrastructure. Section two of this chapter argues that the definition of a new responsibility together with financial means at EU level had a strong impact on the strategy of the various national actors involved in the budgetary process at level 1 and level 2. Also, it shows that these national actors helped define the role and the means of EU institutions in the transport sector. Therefore, section two shows how national bureaucracies at the departmental level have used and reacted to EU membership. The network approach is relevant for studying the role of the varied players involved, and a comparative approach serves to underline specific national interests.

6.2.1. States' subjective interests at the genesis of the European transport initiative

Before discussing sub-governmental interests and strategies, as a background it is useful to focus on the two states' interests. In transport policy, French interests are significant. The timing of the different stages leading to the definition of a new responsibility for EU institutions in transport infrastructure supports the view that France exercised a major leadership function in promoting this new function. Major initial steps in the designing of EU transport policy were taken under French presidencies (Commission proposal in 1983[8] and the decision to set up a Working Group in 1989). The idea of a European high-speed train network closely followed a decision by the French Council of Ministers on national guideline maps for high-speed trains (*schéma directeur national des trains à grande vitesse*) in January 1989. A senior civil servant argued that "taking into account France's precedence in the field of high-speed trains and the fact that the concept of networks and guideline maps is very old, we have imposed it somewhat at the European level during the French presidency. We are a little the originators of this matter."[9] The Delors White Paper on growth and employment recommended a EU transport programme just when the TENs initiative was in need of political support. French civil servants are keen to emphasise that Delors had designed his White Paper to justify European transport programmes.

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[8] Commission of the European Communities (1983), "Progress towards a common transport policy - inland transport", Com. 83 (58), (Brussels, CEC, 9 Feb.).

[9] "Compte tenu de l'antériorité de la France en matière de grande vitesse et que le concept de réseau et de schéma directeur est très ancien, on l'a, à l'occasion de notre présidence, un peu imposé au niveau européen. On est un peu à l'origine de tout cela.", Interview, ref. 42.

On this subject a former Directeur du Budget acknowledged that

> "France has managed wonderfully to use Brussels as an instrument for the penetration of the TGV product, which is on the verge of becoming a Community product. We succeeded in having Delors give birth to a masterpiece, which is the Great Programme on Employment of 1992, on which of course nobody has ideas on how to create employment directly, so why not build tunnels in which you would put trains ... This is a pure product of the French influence inside the Commission."[10]

On the same topic, but more reflecting the interests of the Ministry of Transport, an official insinuated that the Delors White Paper provided a useful justification for giving a European aspect to French transport projects: "This is the official version, but of course the Ministry of Transport has taken this opportunity to emphasise the interest of developing trans-European networks independently of their impact on growth and employment."[11] Therefore, there are strong presumptions on the part of officials that French players actively encouraged the creation of a European transport programme to sustain the building of high-speed train infrastructure in the European Union.

In contrast, the government of the United Kingdom is not often considered a leader in diffusing ideas that led to the European transport programme. Yet, the increase in EU expenditure in the transport sector corresponds to the period when the UK realised it should promote every European policy other than agriculture to reduce the share of CAP within the European budget. However, British ministers were sceptical about the EU's need to expand its role in transport investment because the Commission had no expertise in that sector at the time.[12]

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[10] "La France a formidablement bien sû utiliser Bruxelles comme instrument de pénétration du produit TGV qui est en train de devenir un produit communautaire. On a réussit à faire accoucher par Delors un chef d'oeuvre qui est le Grand Programme sur l'Emploi de 1992 sur lequel bien entendu personne n'a d'idées sur la façon directe de créer des emplois, alors pourquoi pas faire des tunnels dans lesquels on mettra des trains ... C'est directement un produit de l'influence française à l'intérieur de la Commission.", Interview, ref. 1.

[11] "C'est la thèse officielle, mais bien évidemment le Ministère des Transports s'est saisi de cette opportunité pour développer l'intérêt de développer les réseaux trans-européens indépendemment de leur impact sur la croissance et sur l'emploi.", Interview, ref. 32.

[12] According to Interview, ref. 45.

6.2.2. HM Treasury and the Direction du Budget: the guardians of their governments' interests or Machiavelian actors ?

In a first approach Finance Ministries in the UK and France were keen to emphasise they had little financial incentive for using EU financial facilities. As laid down in the TENs financial regulation, support is in the form of feasibility studies, interest-rate subsidies, loan guarantee premia and, in exceptional cases, co-financing. In contrast to other Member States, such as Belgium[13], the French and the British governments are not interested in interest-rate subsidies nor loan guarantee premia, since they find better borrowing conditions in private financial markets thanks to their credit-worthiness. Even the SNCF enjoys equivalent borrowing conditions despite its huge deficit, because of the implicit financial backing of the French government. However, EU financing facilities remain attractive for the 'label' they give to a project. As mentioned by a British official, "EIB financing is not seen as a source of cheap finance but, if you can get it, it is financing that seems to give projects a particular financial status ... In relation to the Channel Tunnel Rail Link, the Department hopes that the bidders will be able to attract significant contributions from the EIB",[14] particularly as it is easier for a project to raise other sources of finance if it is already supported by EU organisations.

The second element in the determination of the Finance Ministries' strategy stems from the mechanisms set up in France and in the UK for administering EU expenditure and the national contribution to the EU budget. The position of HM Treasury seems more

[13] The Société Nationale des Chemins de Fer Belges contracted a European Investment Bank loan.
[14] Interview, ref. 34.

consistent than that of the Direction du Budget, which has notably shifted its strategy and informal discourse in a Machiavelian fashion.

The institutionalist approach proved most useful for pointing out that institutional arrangements in the UK set pressures on HM Treasury to be in favour of setting both the EU transport budget and the British share of EU transport expenditure as low as possible. However, while the new institutional framework explains most of the behaviour of HM Treasury, it does not explain why the British government was so keen to push the CTRL project as its top priority, and why eventually four out of the 14 Christophersen priority projects involved the UK as a participant (notably the West Coast Main Line was added at the last minute). The maximisation of UK projects included in the EU initiative seems paradoxical in the new institutional analysis which posits that HM Treasury is not financially interested in EU funding because, as a result of the Fontainebleau agreement, EU and domestic financing amount to the same thing in budgetary terms. On the CTRL project, one explanation suggests HM Treasury is keen to obtain EU finance to reduce the official government contribution to the project. It is a government principle and a public policy made explicit with the Private Finance Initiative that government should contribute as little as possible to projects that could be financed privately. Even if EU financing of the CTRL project may reduce the compensation under the Fontainebleau agreement, it also reduces the government's subsidy to the project in accordance with the PFI's recommendations. However, in spite of this notable case HM Treasury is broadly consistent with its formal instructions of containing public expenditure, no matter from which body, to levels that are as low as possible.

In France positions inside the Direction du Budget are contradictory depending on the bureaux, reflecting conflicting interests at different levels of policy-making. The European bureau is in favour of setting the EU transport budget low because France is a net contributor for all policies except agriculture. On internal policies the rate-of-return on the French contribution is negative (the French rate-of-return on TENs is 10% to 13% depending on the calculations, while France contributes to 17.8% of the EU budget).[15] Once the EU transport budget is set, the European bureau is in favour of a large French stake of European transport expenditure because it accounts to the Bureau de la Synthèse on the basis of the returns on the French contribution during the Perspectives. At this stage the approach does not consist in seeking positive but 'less worse' rates-of-return. This rationale denotes a shift to a resource-maximising approach. In this respect the European bureau adopts the perspective of the Ministry of Transport, which is to maximise EU expenditure to optimise total receipts.

The position of the Transport bureau should in theory be the pure reflection of the general line of the Direction du Budget on EU budgeting. However, the TENs led the Transport bureau to break away from the ministry's line, subsequently altering the overall policy of the Direction du Budget. The extension of the European Union's responsibilities to transport infrastructure investments corresponds to when the Transport bureau was trying to resist the government's political project of building the TGV-East, particularly on the grounds of the low profitability of the project (estimated at between 3 to 4%). The low profitability is because the North-East of France is not densely inhabited, a large share of the potential users are subsidised by the government

[15] According to Interview, ref. 57.

(e.g. army), and the opportunities for extending the network further East are not great. Indeed the traffic towards Vienna or Budapest would be too low to be profitable, and the TGV network cannot be extended to Germany where the rail technology is based on a different system (magnetic support).

Against that background successive governments took a political commitment to give the East a TGV as part of French regional planning policy. After years of political and financial deadlock on the subject the new EU role seemed to offer a solution for both parties by providing enough additional sources of finance to make the project worthwhile. As argued by a member of the Direction du Budget,

> "the stakes are not the same from the perspective of the European bureau and that of the Transport bureau, except for the common ones of controlling budget spending, or of having institutions other than the French government finance budgetary expenditure so that it does not weigh on the Maastricht criteria. If Local Authorities have more debt, it comes down to the same thing. As regards the TGV-East, the budgetary stake is such that we are better off getting the most we can financed by Europe up to a certain point."[16]

In short the Transport bureau took the view that EU financing would reduce the government's subsidy, and that financial arrangements would increase the profitability of the project: additional EU financing created the illusion that the profitability of the TGV-East project increased (to 8%), because the calculation did not include the cost of the EU contribution for French public finance.

[16] "L'enjeu n'est pas le même vu du bureau Européen et vu du bureau Transports, si ce n'est l'enjeu commun de la maîtrise de la dépense budgétaire ou le financement de la dépense budgétaire par d'autres que l'Etat pour que cela ne pèse pas sur les critères de Maastricht. Que les collectivités locales s'endettent, cela revient au même. Sur le TGV-Est, l'enjeu budgétaire est tel qu'on a intérêt à faire financer le maximum de choses par l'Europe jusqu'à un certain point.", Interview, ref. 9.

The EU solution seemed to be a miracle. However, it is rather a mirage, causing major shifts in the strategy of the Transport bureau and the Direction du Budget as a whole. First, the Transport bureau broke away from the European bureau policy to set the EU budget low by considering the possibility of altering the European Financial Perspectives to increase TENs' credits and by agreeing at the Essen summit to allocate any extra financing to the network budgetary line. This decision, motivated by the desire to increase the credits available under TENs, stands in complete contradiction with overall DB policy to keep public expenditure low to respect the Maastricht criteria. Second, the priority given to TENs funding as an alternative to 100% domestic financing stems from a misleading resource-maximising approach breaking away from the DB's traditional rate-of-return approach. Since the French return on TENs is negative, it would be less costly for the government to pay for the investment with domestic funds rather than have it financed by the European Union. Third, since the internal rate-of-return on the TGV project is lower than the French share of the EU transport budget, it is not profitable to have it financed by the European Union.[17]

While it is not clear when this solution was found, it is possible to argue that the financing of the TGV-East was in the back of the minds of the actors who contributed to designing the European transport initiative. We have already underlined French leadership in the promotion of the concept of high-speed train networks at the EU level and the identification of missing links by the 1989 Working Group. The only missing links identified corresponding to projects that were ready to start were the Channel Tunnel and the TGV-East, the two projects where France has high economic and

[17] According to Interview, ref. 57.

financial interests. A former Directeur du Budget recognised "the French government and the industrial corporations in the sector managed to insert TGV programmes into the Community budget thanks to small budgetary lines and research programmes."[18]

6.2.3. The Department of Transport: the defence of sectoral interests at all costs ?

The most interesting question about the strategy of the Department of Transport and the Ministère des Transports is whether access to the new European Union financial facilities have altered their positions within the budgetary process regardless of national budgetary priorities and how they have adapted their strategy to accommodate EU policy-making.

In the United Kingdom the reconciling of departmental and national budgetary interests is not an issue. Since the introduction of the Euro-PES mechanism in the department's budgeting in 1988, coupled with the Fontainebleau agreement, the natural interest of the department lies in setting EU expenditure, even in the UK, as low as possible.

Table 6.2. Department of Transport's baseline reduction under Euro-PES (1992-96)

in m. pounds

	1992-93*	1993-94**	1994-95**	1995-96**
Non-Research & Development		9.180	na	na
Research & Development		0.458	0.458	0.434
Total	9.180	9.638	na	na

* actual expenditure
** DTp's baseline reduction as forecast in the 1992 Survey (estimations)

Source: Department of Transport (1992), "A basic guide to EUROPES", internal document, July.

[18] "L'Etat français et les industriels concernés ont réussit par des petites lignes et des programmes de recherche, à instiller dans le budget communautaire des programmes TGV. On va réussir à faire passer le TGV-Est, qui est une catastrophe macroéconomique, et le faire financer par Bruxelles.", Interview, ref. 1.

While the conclusions from the new institutional approach help explain the general 'minimalist' attitude of British DTp civil servants about EU transport expenditure, it does not explain why they ultimately voted in favour of the TENs programme and put up proposals for EU funding four UK projects. An approach based on groups' interests suggests the DTp cannot afford to reason purely in budgetary terms in a European context where the Commission has given a political impetus for EU transport investment programmes. Because the UK cannot opt-out from EU transport policy without being politically isolated within the negotiation process and unable to influence decisions, the Department of Transport has to participate in the decision-making process at the EU level. The participation of the Department of Transport in EU decision-making against its political interests (because it challenges national methods of project prioritisation), against its administrative interests (because it complicates the decision-making processes by involving varied actors and introducing additional constraints) and against its financial interests (because EU expenditure is not additional and not even considered a substitute for domestic finance) illustrates how the European Union creates an environment where players are induced into participating in the game by the risk of exclusion. This context partly explains the feeling of unease felt by members of the DTp about EU policy and institutions. Since they are conscious they sacrifice departmental and national budgetary interests, departmental actors seek to ensure that at least EU priorities match the British ones so that national priorities are not distorted nor contradicted by EU ones. British players adopt an active attitude within negotiations, not because they believe in the benefits of EU policy, but to minimise its budgetary costs for national government and its policy costs for the transport sector.

The circumstances are different for the French Ministry of Transport, which has strong incentives for adopting a budget-maximising approach on EU transport expenditure. First, spending ministries have a natural propensity to increase their credits to expand the satisfaction of the actors in their sector and their own satisfaction. Second, institutional arrangements lead the Transport and the European bureaux in the Direction du Budget to encourage the MT to obtain as many EU credits as possible to avoid worsening the rate-of-return. Third, shifts in the strategy of the Direction du Budget on the TGV-East project were interpreted by the Ministry of Transport as a signal the Direction du Budget was abandoning the rate-of-return approach. Prospects of 'additional' EU financing supported the idea there were new means of financing infrastructure. As a consequence the Ministry of Transport was particularly active in EU negotiations in the hope of pushing French projects to the top of the priority list to get maximum funding and including as many transport schemes as possible (6 projects were included in the Christophersen Group's report). The Ministry of Transport took the view that the European Union provided an opportunity for promoting its interests within global government policy, and the TGV-East negotiations left it with the feeling of having the implicit backing of the Direction du Budget and the government for pursuing this line.

This shift in strategy affected the department's policy in several ways. First, the MT tried to give a European label to projects which had already gained national political backing. With the TGV-East an official recognised that "the European term was added somewhat afterwards."[19] Several civil servants pointed out that this shift had

[19] "Le terme européen a été rajouté un peu après coup.", Interview, ref. 9.

contributed to a loss of credibility by the French representatives within the EU negotiations, not only because their European counterparts were not easily deceived by the strategy, but mainly because the French projects were pushed although they did not fulfil the basic requirements for EU funding: the TGV-East does not satisfy the criteria of financial partnership between the public and private sectors set by the Christophersen Group, nor does the Lyon-Turin TGV satisfy the maturity criteria. French projects were accepted after a difficult bargaining stage, once French representatives accepted the possibility that countries eligible for Cohesion Fund credits may accumulate several EU financing schemes for a single project.

The second effect of the new EU transport programme on the strategy of the Ministry of Transport is project diversification. Pushing the budget-maximising approach further than the government wished, the Minister of Transport Bosson included a second project (the Lyon-Turin TGV) within Christophersen's selection list with the same degree of priority as the TGV-East. This inclusion marked the return of the traditional clash between departmental and the Direction du Budget's views and created the impression the French government was not speaking with one voice. The DB continued to hold its old positions, arguing the maturity of the project was not satisfactory, that neither the SNCF nor the French government were ready to finance the remaining 90% of the project (about FR. 50 bn.), and that the project was 'polluting' the debate on the financing of TGV-East. Reflecting the view of the Direction du Budget, a senior civil servant argued "the risk we face is to get a 'sprinkling' between several TGV, while the real priority is the TGV-East because it is ready and because it represents the greatest budgetary risk for us since we are politically constrained to undertake it."[20]

Therefore, EU pressures on transport infrastructure have caused significant changes in the strategy of national actors involved in the budgetary process. In Britain, the sectoral approach shows that British actors were encouraged to participate in the EU budgetary process as bidders of funds, whereas the institutional approach underlined their commitment to resource-minimisation. In France, the existence of funds at EU level altered the internal process of prioritisation and challenged the overall government's policy on EU budgeting.

6.2.4. Corporate interest groups and professional experts: the secret makers of public policy ?

Corporate interests in the transport sector are so strong that we can argue they participated actively in the shaping of EU transport initiatives. First, transport-operating companies in all transport modes had strong incentives for introducing the concept of guideline maps at the EU level, even before the possibility of EU financing was mentioned, mainly as a way of improving the profitability of the existing infrastructure by increasing international traffic. This factor explains the French government's support for the so-called 'PBKAL TGV', even though it will not bring any budgetary income from the European Union: the SNCF is concerned with the completion of the Belgian, German, Dutch and British parts of the project to increase

[20] "Ce qu'on risque d'avoir c'est un saupoudrage entre plusieurs TGV, alors que la véritable priorité c'est le TGV-Est parce qu'il est prêt et parce que budgétairement c'est là que le risque est le plus important pour nous, parce qu'on y est contraint politiquement.", Interview, ref. 9.

traffic on the French part of the line. Second, by accelerating or generating the building of infrastructure projects, the EU transport initiative opens up many contract opportunities for road, rail and other transport infrastructure companies. These potential developments create a strong incentive, notably in France, where the government and the SNCF are not likely to undertake more TGV projects, since the ones remaining have a low profitability. Third, because the most expensive, the least completed and the most 'European' transport mode is the TGV, the SNCF, the manufacturers of rail equipment and the builders of railways have strong interests in shaping EU transport programmes so they contribute to the diffusion of TGV technology in Europe. Here again, the French rail corporations have a specific interest, since the TGV is the product where their market share is well above the French share of other products. But the effectiveness of corporate interest groups and professional experts in shaping the European transport initiative varies, depending on the structure of the sector for each transport mode.

Rail

The rail pressure group is highly organised and operates through long-established international representative organisations. Its position has a large audience since the group represents a major economic sector, and unity is ensured by the dominance of few railway companies (usually one per country, e.g. British Rail, SNCF and SNCB) at the expense of the manufacturers of rail equipment and builders of rail. Its strength also originates from the fact that railway companies escape government control to the extent that transport administration is under the 'guardianship' of railway companies operating the network. As argued by a member of the MT, the SNCF controls the Direction des Transports Terrestres, not the reverse.[21]

The rail industries (brought together at the French level in the Fédération des Industries Ferroviaires - FIF) are organised at the EU level in the Union des Industries Ferroviaires Européennes (UNIFE) in Brussels. The strategy of this organisation has substantially shifted following the opening of the single market and of TENs which challenged the long-established relations between a national rail industry and a national railway company (in France the SNCF ordered only from GEC-Alsthom and German railways from Siemens). Therefore the rail industries were disoriented by TENs because of the change in the market structure it involved. They were less in favour of TENs than railway companies in 1990-91. This example illustrates that TGV is a project designed by the SNCF, not primarily by industrial companies. However, industrial enterprises have recently taken the lead, namely on the inter-operability of high-speed trains. As underlined by a civil servant from the MT, "they became conscious that they had ideas, that they constituted a force, that there was a market opening up for them."[22]

Several propositions can be formulated to explain the role of rail companies and experts within the European transport initiative. First, the railway companies, in particular the SNCF, have contributed to the identification of a potential EU added value for transport at an early stage. Railway companies grouped in the Union Internationale des Chemins de Fer (UIC), whose headquarters are in Paris, agreed on a

[21] According to Interview, ref. 38.
[22] "Ils ont pris conscience qu'ils avaient des idées, qu'ils constituaient une force, qu'il y avait devant eux un marché qui s'ouvrait.", Interview, ref. 42.

high-speed project in Europe and identified guideline maps as early as 1989. This document was used as a basis for the work of the group of experts commissioned by the European Council that year. Second, the Commission has used the backing of experts to gain credibility and expertise in the transport sector. The Commission sponsored the foundation of the Association Européenne pour l'Interopérabilité Ferroviaire (AEIF) at the European Union level, which consists of 300 representatives of railway companies and industries working on the definition of technical norms. Third, governments have sometimes taken the lead in promoting the interests of the private sector in participating in shaping public policy. A civil servant argued

> "In the Channel Tunnel case, the French or the British governments were led into becoming substitutes for the responsibilities of British Rail and the SNCF in the discussions with the Commission. On matters that should have involved lobbying and dialogue between the rail companies and the Commission, the Member States have had to do it instead."[23]

Road

The road pressure groups are not as organised or as united as the rail because of the structure of the sector: national administrations do not control road companies because they are numerous and there are varied administrative levels of financing and decision-making bodies on road infrastructure (national and local roads, subventions by the regions). Also, government is involved only in providing the infrastructure, not in offering transport services (while government has both roles in rail). Road pressure bodies are numerous and each represent different sub-interests: for instance, the International Road Federation (IRF) in Geneva and Washington is largely dominated

[23] "Dans l'affaire du Tunnel sous la Manche, les gouvernments français ou britannique ont été amenés à se substituer aux responsabilités de British Rail et de la SNCF et à dialoguer avec la Commission. Pour des sujets qui auraient dû faire l'objet d'un lobbying et d'un dialogue entre les entreprises ferroviaires et la Commission, les Etats-Membres sont obligés de le faire à leur place.", Interview, ref. 42.

by petrol and car companies. The International Road Transport Union (IRU) expresses the views of the conveyors. It participates in many working groups, seeking information more than influence.

Because corporate interests in the road sector are diffuse and organised at the international rather than the EU level, professional experts have more opportunities for influencing the design of EU policy in an informal fashion. In particular, the European Centre for Infrastructure Studies (ECIS) in Rotterdam, which organises seminars under the sponsorship of the Commission, diffuses ideas about transport policy among wider sector policy-shapers. Also noted by civil servants is the NEA Research bureau based in the Netherlands. Informal meetings and 'independent' studies by experts seemed an efficient way of shaping the EU initiative, and governments and industrial corporations have favoured this indirect method of influence. The Round Table of European Manufacturers (with the membership of Renault, Volvo and Philips) produced a document in 1983 in which they developed the concept of 'missing links' and expressed their support for the Channel Tunnel project. By intervening early in the decision-making process, the group efficiently directed the reflection of the Working Groups and of the Commission on its own three main concerns: the development of the network approach, the partnership between public and private sectors, and training. Using specialised expertise in the road sector seems an efficient mode of interest-representation. The British government is particularly known for commissioning studies from universities and research bureaux which are listened to attentively by the Commission. Road companies use the backing of academic expertise to convey their views to the Commission: in 1994 the IRU ordered a study by a German professor on the advantages of road in comparison with rail, and gained expertise from it. Therefore, EU expenditure on transport infrastructure within the Member States was influenced by actors over which EU members have no control at national level or through their participation in EU mechanisms.

The description of players' strategies helps one to understand the shift in national transport policy which arise from EU membership and how national actors design European policy to fit in with their interests. It helps explain shifts in budgeting to the extent that policies and / or policy-making at the national level were altered because of EU membership. Section two concludes that the EU transport initiative was supported by governmental and non-governmental actors from the transport sector, and that it caused substantial shifts in the position defended by the governmental actors involved in budgetary negotiations. It shows that national administrations have adapted to EU pressures on transport and seek to influence EU influences through their participation in the EU decision-making system.

6.3. EU constraints on national transport policy and the nationalisation of European transport policy

Section three quantifies the impact of European Union transport programmes on budget allocations between transport projects at the national level. Did EU membership change national transport policy choices? Is transport policy different from what it would be without EU financing?

With transport policy civil servants both in the United Kingdom and France were keen to emphasise that the influence of the European Union is small, because EU transport policy did not alter project prioritisation at the national level for several reasons. First, the size of the budget for TENs is too small in comparison with government or private financing to be considered a major factor in the decision to undertake a project. As argued by a senior civil servant, "we do not see any rationale for switching funds as a result of the Christophersen route" because the current TENs budget financing regulation draft sets the maximum a Member State can obtain at 10% of the cost of a project.[24] At the aggregate level the TENs budget (ECU 280 m. in 1995, some £205 m.), to be shared out among projects in the whole EU, is small when one considers that the SNCF invests a minimum of 2 to 3 billion Francs (excluding the maintenance of existing infrastructure) and the French government subsidises the SNCF for infrastructure projects by 11 billion Francs every year. Therefore, EU financing in the transport sector is a minor source of finance, because the limited funds available are 'sprinkled' among many competing projects.

[24] Interview, ref. 45.

Second, EU financing is a substitute for domestic funding because the government acts as the 'last resort financier', providing complementary financing after other institutions (railway company, regions, private bodies) have set their levels of contributions. Therefore, any 'additional' funding of an infrastructure project reduces - or is a substitute for - the government's contribution.

Third, the interest in having additional EU financing is cancelled out by perverse effects: information or even expectations that a project has or could receive support from the European Union increases the cost of projects. According to an official from the SGCI, much of the subsidy for building transport infrastructure in Corsica and in Belgium (construction of the Belgian part of the PBKAL TGV) went in inflation, supporting the idea that building infrastructure would be cheaper if there were no financial support.[25]

Fourth, project prioritisation at the national level has not been altered because EU transport programmes are constrained by national transport policies rather than the reverse. The first reason for this fact is timing: the European initiative for transport infrastructure projects is recent and must fit in with previous national plans for infrastructure projects. In France the relations between the SNCF and the government are defined in a '*contrat de plan*' set for five years. Up to now actors in the budgetary games have turned to the European Union for extra financing once the plan was accepted by the national parties involved in the negotiations, but there is no indication that the content of the plan is influenced by EU considerations. In the United Kingdom the proposal to the Commission on priority transport infrastructure projects in April 1994 was not consistent with the national priority plan for roads designed by the DTp

[25] According to Interview, ref. 57.

and published a few weeks later. There was no interministerial co-ordination on the timing or on the content of both plans, which indicates that European and national project prioritisation are two independent processes which do not interact. The planning approach underlying TENs did not extend to Member States such as the UK that adopted a non-strategic approach to transport infrastructure: the government plan considers about 250 improvement schemes, which are bits of roads it is thinking of financing over the next ten years. However, the government does not make any commitment to undertake any of the road projects included in both the national plan (because HM Treasury's planning horizon is three years only) and the EU plan (there is no guarantee the schemes included in the guideline maps would be undertaken by the government without EU finance).

Also, project prioritisation is not altered because of agenda-setting rules. The EU agenda of priority projects is based on existing national projects that Member States considered a priority. National projects were not designed to match specifically with a call from the EU but before the EU initiative. The European label was added afterwards. As a result the Christophersen list incorporates projects whose maturity varies: the 14 top priority projects include projects ready to start (TGV-East) and others for which feasibility studies are just starting (Lyon-Turin TGV), while some projects with a lower priority are ready to launch (Spata airport) or are currently being built (Maurienne motorway). Some of these projects would have been undertaken anyway, especially the very mature. These examples indicate that EU policy has been 'nationalised' to a greater extent than national policy was changed under European constraints.

On the other hand there are some indications that national transport policy was altered by the EU initiative. First, project co-financing is a strong incentive for orienting government spending in France. EU expenditure in the French DOM within the framework of the Structural Funds has greatly accelerated French government investments on those programmes co-financed by the European Union (by 50 to 60%). Second, the European label provides a kind of guarantee which conditions the viability of a project. The credibility of the Lyon-Turin TGV project, a project even greater than the Channel Tunnel for the technology and the finance involved, is enhanced by the European Union backing of the project (it is included in the TENs) although feasibility studies have not yet been subsidised by the EU. Third, if EU funding is small within total spending, it can be significant for some individual projects. Investment in the Reunion Island under the framework of the Structural Funds (POSEI-DOM programme) represents about 10% of the island's GDP (30% of these investments are on transport). While Community financing of the Channel Tunnel as a whole was low, its contribution was significant for the research budget of the project, namely the feasibility studies. Therefore, the EC can be considered an important supporter of the launch of a project in its early stages. With the TGV-East the French government hopes to receive FR. 2.5 bn. out of the FR. 28 bn. necessary to complete the infrastructure, while hoping to obtain FR. 3.5 bn. from Local Authorities and FR. 800 m. from Luxembourg. In 1995 about ECU 22 m. were spent by the EU budget on feasibility studies on the TGV-East, that is 140 out of the 300 million Francs spent on studies. In 1996 the French government received ECU 33 m. under the transport section of TENs. The EU contribution cannot be considered insignificant.

Among those who think the European transport initiative in the transport sector has modified the policy undertaken, and therefore spending decisions, are the disillusioned officials who emphasise that EU influences are particularly efficient in making unprofitable projects possible. They argue that projects brought to the EU level are those that the private sector, public transport companies, and government, would not want to finance because of their low financial return. As underlined by a civil servant from the MT, "one must say that the best projects have been completed, and that we are undertaking projects which are far less profitable."[26] This reasoning raises the question of why a government would agree on financing unprofitable projects at the EU level while they refused domestic financing. The answer may lie in the argument of a senior official from the Direction du Budget: "We will manage to put through the TGV-East, which is a macroeconomic disaster and have it financed by Brussels, in exchange for which we will subsidise a bridge in Greece. It is a gigantic 'bargaining' of public spending."[27] This statement indicates that governments have interests in having EU financing of some non-profitable projects they want to undertake for non-financial reasons (political, regional planning, strategic), and they negotiate EU financing on those projects. However, this explanation cannot apply to all EU projects, because some of them are very profitable economically.

The multiplication of non-exclusive sources of funding at the EU level (TENs, Structural Funds, Cohesion Funds) and at sub-government levels (European, central, regional, local) has many undesirable side-effects. First, because it is difficult to know

[26] "il faut dire que les meilleurs projets ont été réalisés, et qu'on attaque des projets beaucoup moins rentables.", Interview, ref. 32.

[27] "On va réussir à faire passer le TGV-Est qui est une catastrophe macroéconomique et le faire financer par Bruxelles, en échange de quoi on ira subventionner un pont en Grèce. C'est un gigantesque bargaining de la dépense publique.", Interview, ref. 1.

the various potential sources of financing open to a single project, it is difficult for a Finance Ministry to assess the extent to which domestic funding is the solution of last resort. The creation of a new source of revenue is likely to make negotiations between spending ministries and Finance Ministries more complex. As noted by a member of the Direction du Budget,

> "we consider that often, when they have not obtained something at the national level, spending ministries try to get it at another level, that is the European level. Therefore, we try to make sure that they have not already been granted certain European credits or on the contrary, we ourselves send them towards some European credits in certain sectors."[28]

Second, because the European Union allocates credits to projects at sub-governmental level, namely to Local Authorities, it can distort general government policy. As an illustration, the British government was most concerned about the possibility that the European Union could allocate subsidies to ports in Objective 1 areas (Liverpool) which would distort competition with other ports (Holyhead) and challenge regional planning in the UK. Central government finds it particularly difficult to design policy while not being able to control policy decisions at the sub-national government level. Therefore, it is more difficult to co-ordinate general government policy and to control the budgets of Local Authorities. Third, multi-level sources of funding for a single project multiplies the number of applications for funding and underlying negotiations. It has become more difficult for the Department of Transport in all Member States to launch a project because of the need to accommodate the requirements of the varied funding bodies and to fit in with their decision-making timetables. Fourth, application

[28] "On considère que souvent les ministères dépensiers, lorsqu'ils n'ont pas obtenu quelque chose au niveau national, essayent de l'obtenir à un autre niveau, le niveau européen. Nous faisons donc attention à ce qu'ils ne puissent pas déjà disposer de certains crédits européens ou, au contraire, on les renvoit de nous-mêmes vers des crédits européens dans certains secteurs.", Interview, ref. 9.

rules create perverse effects. A senior civil servant described the strategic inclusion of a Spanish mountain road in the TENs programme, not because the potential TENs funding is significant, but because projects included in the TENs have a competitive advantage in obtaining substantial financing from the Cohesion and the Structural Funds.[29] Multi-level financing can be perverse since some projects can obtain disproportionate funding because it is not possible to know which other sources of finance the project applied to.

Section three argued that the European transport initiative had little impact on decisions over national transport policy choices. There are some exceptions to this arguement, especially with low-profit and small projects. The impact on policy seems much more restricted that on policy-making, since section two demonstrated earlier in the chapter that the EU transport initiative caused substantial shifs in policy-making. The greater impact on policy-making than on policy suggests that national actors can 'nationalise' EU pressures through their participation in EU mechanisms.

[29] According to Interview, ref. 38.

6.4. The effect of the European Union on policy-making and inter-groups' relationships

While national transport policy does not seem to be affected much by EU transport programmes, it seems that policy-making processes have been altered by the creation of the EU. The institutional changes described in chapter 3 show that policy-making in the transport sector has become more complex and can no longer be described in a national context. EU and national decision-making intersect, creating an hybrid process where national civil servants make policy decisions at the national and at the EU levels at the same time. This section provides an illustration of the concept of hybridisation which was developed earlier in the thesis.

Section two described shifts in the interests and in the strategies of the main actors in transport policy decision-making. The approach here characterises relationships between these actors in decision-making at the national (level 1) and EU level (level 2) as power-dependence and dominance. In contrast to the theoretical framework of Rhodes, where policy-making is determined by the interests of a dominating group of actors, transport policy-making offers an example of a case of 'rolling domination', with different groups dominating different stages of the decision-making process depending on power-dependence and conflict-resolution.

Preceding arguments support the case that corporate and professional experts have a leadership function in the initial stage of policy-making. There is a power-dependence relationship between the European Union institutions (Commission and Council) and transport corporations and professional experts, by which the latter give the former expertise in exchange for interest-representation. The main political constraint on the Commission is the need to formulate proposals which can succeed in the Council. Proposals must be supported by a political impetus and be able to offer a basis for consensus. In transport the political impetus was created by the Delors White Paper and the decisions made at successive European summits. What the Commission mainly lacked was credibility to formulate valid proposals because of its lack of expertise in transport infrastructure. Because the transport sector is highly technical and involves varied corporations, the backing of the industrial and scientific community offered the Commission's proposals the expertise required to create a consensus. As acknowledged by the Commission, "developments at expert level should allow renewed efforts to be made".[30] Corporations and experts were happy to participate in the study as a way of diffusing ideas, especially since the creation of groups such as the AEIF and ECIS institutionalised their participation in decision-making, which is otherwise informal. In contrast, the hybridisation of policy-making challenged the long-established relations between government departments and the national railway company (BR or SNCF) in the case of rail. As pointed out by a French official, "today, you have to justify yourself, even in financial and economic terms. You have to sell your projects much more than before."[31]

The Department of Transport has some informal influence at the initial stage, but acts as a secondary player when its interests match the Commission's and the corporations'

[30] Commission of the European Communities (1983), "Progress towards a common transport policy - inland transport", Com. 83 (58), (Brussels, CEC, 9 Feb.), 30.
[31] "Maintenant il faut aller se justifier y compris en termes financiers et économiques. Il faut vendre son projet beaucoup plus qu'avant.", Interview, ref. 32.

positions. Although the department is not meant to have direct links with the Commission, departments use their administrative expertise to diffuse ideas informally at the EU level. A report written under the chairmanship of Fayard, French Head of Roads[32], which reflected French views on the mixed financing of motorway infrastructures, was sent as a background document to the Commission. Some of the contents of the report were copied into Working Paper 66 of the Christophersen Group. However, the Departments of Transport did not have a major role in the generation of proposals. When the interests of companies and experts are symmetrical with those of the department at level 1 (i.e. both are in favour of undertaking projects to improve infrastructure and services in the transport sector), the department often finds it efficient to rely on industrial corporations and experts to convey ideas. In this case it is relatively easy to reach an agreement between the two groups as the win-sets are large. With the industrial and professional backing of government initiatives the Department of Transport does not really need to intervene early in the decision-making process, because the Commission considers scientific and industrial expertise a better basis for gaining a consensus than administrative expertise.

The Department of Transport mainly leads during the negotiation stage as it reconciles level 1 interests and represents them at level 2. However, decision-making and leadership vary depending on the degree of conflict between the interests of level 1 actors and on the degree of asymmetry between actors' power-dependence. In some cases the department shares the leadership function with the SGCI / CO because of the

[32] Groupe de Travail Autoroutes (1994) "Le financement des infrastructures routières en Europe: vers un partenariat public-privé, une approche réaliste et un partage des risques", Oct.

functional split between the institutions defining national interests at level 1 and institutions representing them at level 2.

Table 6.3. Leadership and 'rolling domination'

Symmetry		**Asymmetry**	
Low degree of conflict	High degree of conflict	Representative dominates decision-making	Representative does not dominate decision-making
A	B	C	D

'A' represents policy decisions on which involved parties, with symmetrical power-dependence relationships, agree. In this case any conflict-resolution is carried out at the administrative level under the leadership of the department and requires the approval of all groups. The Department of Transport has some margin of manoeuvre in negotiations at level 2 for two reasons. First, since the department represents its own interests, which are supported by other governmental bodies, the national policy is consistent with varied sectoral interests (transport, budget and environment). Second, since conflict-resolution is organised under the lead of the department, it is possible for the department quickly to react to new issues through interministerial co-ordination. Issues under 'A' can move to 'B', if the win-sets of the participants no longer overlap, which in turn increases conflict; to 'C' if the department gains authority at the expense of others, creating asymmetry; and to 'D' if the power-dependence relationship becomes asymmetrical at the expense of the Department of Transport.

'B' represents decisions involving a number of participants whose interests are conflictual and who share equal power in the decision. The Department of Transport is only one participant in decision-making and therefore loses the leadership for conflict-resolution at level 1 to the benefit of an institution geared to conflict-resolution between level 1 actors (CO in the UK, SGCI in France). However, while losing leadership of the level 1 negotiations, the department is still very much in the same position as in 'A'. Since 'A' depicts an '*entente cordiale*' at level 2, the views of the department are well represented within negotiations. However, the decision-making process is much more complicated and fragmented since the intervention of a additional department is institutionalised. Second, the margin of manoeuvre of the department at level 2 is reduced since the resolution of conflicts usually takes the shape of guidelines defining the government's line. For any question not discussed beforehand at the interministerial level the representative cannot make any commitment on behalf of the government before the involved parties reach an agreement.

'C' and 'D' represent negotiations involving actors with asymmetric power-dependence. In this case conflict-resolution at level 1 often reflects the position of the dominant player. The impact on leadership for the Department of Transport varies depending on whether it dominates the decision-making. When the department is the dominant player at level 1 ('C'), then it is in charge of both conflict-resolution at level 1 and interest-representation at level 2. Its margin of manoeuvre within negotiations at both levels is great.

When the Department of Transport is not the dominant player at level 1 ('D'), then it represents interests other than its own at level 2. This dissociation of interest-representation and leadership has several consequences: interest-representation has less credibility; the consistency of the national discourse is challenged, namely big differences can appear between the official line and the informal positions; and the margin of manoeuvre of the department in level 2 negotiations is reduced since it must first seek the approval of the dominant player.

Therefore there are grounds to support the argument that national policy-making for transport infrastructure had to adapt to EU decision-making through the process of hybridisation. The processes for making decisions have become more complex because of the greater fragmentation of the decision into successive and/or simultaneous stages taking place in various loci of decision-making by a larger number of actors. National governments do not dominate the decision-making process as much as they used to before hybridisation because new institutional arrangements allocate decision-making powers between more players and because new actors (experts, manufacturers) have acquired a greater legitimacy because of their expertise. The way for national governments to regain control over decision-making is to master either these new actors thanks to their long-established relationships with them, or to become influential at the EU level.

6.5. Conclusion

Chapter 6 focused on the impact of the new European transport programmes on the determination of national spending priorities. Transport is a significant case study of the impact of EU membership on the adaptation of bureaucratic mechanisms since it is possible to isolate recent changes in policy and policy-making as a response to the new financial responsibility of EU institutions.

Chapter 6 assessed the degree to which policy and policy-making in Departments of Transports were affected by the EU responsibility for transport infrastructure. While addressing the quantification issue, chapter 6 concludes that the impact is greater on policy-making than on policy. There are several reasons why the EU does not succeed in influencing policy: the size of the European budget is small in comparison with government and private financing, especially with the multiplication of projects submitted for EU funding; the agenda of EU priority projects is based on existing projects that Member States identified and were ready to finance. As a result, the effect of the EU on project prioritisation and on overall transport policy is low, except for a limited number of projects. The European transport initiative offers substitute financing but is not able to make much difference to national policy choices. The new responsibility of EU institutions for transport infrastructure had a stronger impact on policy-making than on policy. Because of hybridisation, the processes for making decisions have become more complex from the greater fragmentation of decisions into successive and/or simultaneous stages taking place in various loci of decision-making by a larger number of actors.

Chapter 6 focused on how national actors involved in budgetary negotiations (Finance Ministries, Department of Transport, private interest groups) had adapted to the creation of a European level of decision-making. It argues that shifts in the strategy of these actors during budgetary negotiations reflect how national administrations aim to use and react to EU membership. EU transport policy has promoted shifts in the strategies of the groups of actors involved in decision-making at level 1 and level 2. National actors have shaped the EU transport programmes which respond to the interests of the two Member States, although they do not always acknowledge that they seek to maximise the returns on these programmes.

First, the sub-governmental approach provides an explanation for the British strategy of having many projects included in the EU priority lists, although institutional arrangements in the UK create pressures in favour of the lowest possible EU transport budget and British share of EU transport expenditure. In France the resource-maximising line adopted stands in contradiction to the overall policy of keeping public expenditure low, especially on projects with a negative rate-of-return. With some EU transport expenditure in France it would be less costly for the government to pay for investment with domestic funds rather than having it financed by the European Union.

Second, shifts in the strategy of the Departments of Transport show they adapted to the new EU responsibility for financing transport infrastructure. Hybridisation implies that officials from Departments of Transport are engaged in negotiations over the allocation of the European budget credits. Therefore, British actors face an obligation to participate in the EU budgetary process as bidders for EU credits to avoid isolation, whereas the institutional approach demonstrated that these actors were strongly encouraged to minimise EU expenditure in the UK. In France the existence of a EU budget for infrastructure investment led the government to give a European label to national projects and to alter project prioritisation to maximise EU credits.

Third, private interest groups and professional organisations in the transport sector participated actively in the shaping of EU transport initiatives because of the power-dependence relationship by which experts gave scientific credibility to the Commission's proposals in exchange for influence in the decision-making process.

Chapter 6 provided explanations of how to reconcile a low EU influence on policy and a significant influence on policy-making. The chapter suggested that the European Union is not skilful in deploying its resources, which are limited: its financial means are small in comparison with those of national governments; it has too low an expertise by itself to have a strong lead in policy in the EU and needs to use - and become dependent upon - external expertise; its administrative resources are small and the EU relies on national administrations to generate projects and control the implementation of EU programmes; the EU has no overall legal responsibility for transport but its mandate is confined to specified programmes in accordance with the principle of subsidiarity.

Also, the chapter argues that Member States were able to influence EU pressures through their participation in EU decision mechanisms. National governments have adapted quickly to the hybridisation of policy-making to ensure the representation of national interests at the EU level. EU policy was more nationalised than national decisions were modified to accommodate a European transport programme. This argument substantiates the view that a high level of integration and an efficient learning process in national administrations allow national governments to use the EU level in their own interests.

Finally, chapter 6 showed that not only Ministries of Agriculture have to adapt to European Union pressures. Europeanisation is a wide-ranging adaptation mechanism affecting budgetary processes in many policy sectors and in proportions which are not necessarily linked to the size of EU public expenditure. This proposition is tested in the next chapter with a 'hard case', since it is widely accepted that budgetary processes in the Departments of Health are not affected by EU membership.

Chapter 7

Health: the embryonic Europeanisation of budgetary processes?

There is a major methodological problem in measuring the impact of EU membership on health budgeting. First, there is a difficulty in defining health budgeting in the United Kingdom, France and the European Union. The frontiers of government health expenditure are particularly hard to trace in France because the social security system has developed prevention and public health programmes that are undertaken on behalf of the government but are excluded from the budget of the Direction Générale de la Santé (DGS). In particular, expenditure under the Fonds National de Prévention, d'Education et d'Information sur la Santé (FNPEIS) managed by the Caisse Nationale d'Assurance Maladie (CNAM) includes programmes against cancer (namely breast cancer screening), AIDS and tobacco. Therefore, it may be more accurate to include expenditure by the FNPEIS in the definition of the French government health expenditure since the Fonds' budget (about FR. 1.3 bn.) is almost as important as that of the DGS (about 2 bn.). In addition, in policy-making the DGS usually tries to include on the agenda of the CNAM those programmes which the government refuses to finance in the central government budget because of its close relationships with the Comité Français d'Education pour la Santé which coordinates actions by the DGS and the FNPEIS.[1] In the UK the Department of Health (DOH) is responsible for the management of the National Health Service (NHS).

[1] Interview, ref. 5.

The focus of the thesis is on health budgeting for government spending programmes which overlap in the three geographical areas: the UK, France and the European Union. NHS expenditure cannot be considered the basis for our definition of health expenditure in the UK and France since part of the coverage of the NHS is not centrally financed in France (e.g. there are different social security regimes to finance the hospitals in France). Nor can the coverage of French central government and social security health expenditure be considered a sound basis for a comparative study because public health programmes do not match in the UK and France. Moreover, a budgetary focus does not incorporate the level, access and quality of health care provision and benefits. Differences in the distribution of health expenditure among various institutions and in the public health system in the UK and France (tax-based as against mixed public and private provision) make it difficult to establish a sound basis for a comparative study. Therefore, the chapter bypasses this methodological problem by working back from what the European Union undertakes in health, and measures its impact in Member States' budgeting, whether centrally financed or not.

Second, the thesis is interested in the impact of the EU on health policy only to the extent that it has clear budgetary consequences. The thesis is not discussing the Europeanisation of health policy but of health budgeting. Health is useful in delineating the adaptation of bureaucratic mechanisms to the consequences of EU membership since the influence of the EU is fairly recent in this sector. Therefore, health budgeting constitutes a 'hard case' for the proposition that Europeanisation is a wide-ranging adaptation process affecting budgeting at the overall level and across departments.

To determine the impact of EU membership on budgetary processes in Departments of Health and to compare how national administrations have adapted to EU pressures, the chapter is divided into four sections. Section 1 provides an historical background to how EU institutions have become responsible for health care and determines their impact on the involvement of national departmental officials within policy-making at level 2. Section 2 quantifies the impact of EU membership on the determination of health policy choices by national administrations. Section 3 measures the impact of hybridisation in policy-making and describes how budgetary processes have adapted to the creation of a European health policy level. Finally, section 4 argues that EU membership has modified the existing equilibrium between the various groups of actors involved in policy-making.

7.1. Historical background

The mandate of the European Union to take public health measures is fairly recent. The responsibility of the EU for health matters was recognised formally only in 1992. Before the Treaty of Maastricht health decisions and programmes were adopted through two procedures that presented many drawbacks for the promotion of EU health action. The first procedure consisted of adopting health programmes under Article 235, but the prospects of extending programmes was challenged by the requirement of unanimity, and some Member States indicated they would resist the development of more programmes at the EU level. Health decisions and programmes were also adopted as part of other policies for which the EU was responsible.

As emphasised by an official from the French Ministry of Social Affairs,

> "It was one of the big claims of the various ministries in charge of health: many things were done for policies other than health. One has been able to do many things in the name of free circulation of workers since 1975 and of the opening up of para-medical professions since 1978. Medicines come under free-trade and competition policy. Social security benefits were dealt with by virtue of the harmonisation and free circulation of labour provisions ... There was a strong demand within the administrations of the different countries concerned, for Health ministers to be able to intervene on a number of actions undertaken in the name of free-trade, when health matters were involved."[2]

Decision-making at the European level on health matters before 1992 incorporated the participation of Member States' representatives, but their participation had no solid legal basis. The participation of the representatives of national health administrations varied at the different levels of decision-making at the EU level. At the Council level Health ministers met but their ability to take decisions was hindered by the absence of a mandate of the Commission to deal with health policy. This official from the Direction Générale de la Santé stresses

> "the fact that Health Ministers meetings were organised in Brussels quite quickly after 1978. It is namely because Health Ministers were also Ministers of Social Affairs, or Consumer Affairs Ministers in other countries, or of Social Security. They could well meet because they wore two hats."[3]

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[2] "C'était une grande réclamation des différents ministères chargés de la santé: on faisait toute une série de choses au nom d'autre chose que de la santé. On peut faire beaucoup de choses au nom de la libre circulation des travailleurs depuis 1975, de l'ouverture des professions paramédicales en 1978. En matière de médicaments, cela relève de la politique de libre-échange et de concurrence. Les prestations de sécurité sociale étaient traitées au nom de toutes les dispositions d'harmonisation et de libre circulation des travailleurs ... Il y avait une forte revendication au sein des administrations des différent pays concernés qui était de dire qu'il fallait que sur un certain nombre d'actions prises au nom du libre-échange, quand cela touche à des questions qui concernent la santé, les ministres de la santé puisse mettre leur grain de sel.", Interview, ref. 46.

[3] "le fait qu'il y ait eu assez rapidement vers 1978 à Bruxelles des réunions des ministres de la santé. C'est notamment parce que les ministres de la santé étaient aussi ministres des affaires sociales, ou ministres de la consommation ce qui est le cas dans d'autres pays, ou de la sécurité sociale. Ils pouvaient tout à fait se réunir parce qu'ils avaient une double casquette.", Interview, ref. 46.

At the Working Group level national health administrations were consulted during the making of decisions but the absence of any formal recognition of a EU health responsibility prevented them having any real power within decision-making processes. As noted by a British official about AIDS,

> "We were going along to meetings in Luxembourg with the Commission but every time the Advisory Committee started getting difficult, they said to us: you are existing on an ad hoc basis; in actual fact you have got no legal rights, you do not exist as a Committee; we are only consulting you as a courtesy. So if you are going to be difficult, we are going to ignore you anyway."[4]

Article 129b of the Maastricht Treaty introduced a new provision that legalised a EU responsibility for health promotion and the prevention of diseases. The Treaty of Maastricht confirmed EU health programmes undertaken in the past and allowed for the definition of a EU mandate in public health. The Commission is responsible for encouraging the co-ordination of individual Member States' actions between themselves to develop synergies by creating economies of scale and avoiding duplication. Also, in conformity with the principle of subsidiarity, the Commission complements individual Member States' policies where action at the EU level creates an added value.[5] The approach of targeted EU action programmes in health promotion and the prevention of specific diseases was preferred to a regulatory approach based on norm harmonisation. In June 1994 eight priority areas were determined, four of which were adopted at the Cannes Summit: cancer, AIDS and other communicable diseases, drug dependence and health promotion. Second, the Treaty of Maastricht posits that other policies (e.g. consumer protection, environment) and departments within national

[4] Interview, ref. 51.

[5] For example, the EU is financing a centre in Paris for the collection of data on epidemics, which will centralise information from all individual Member States. The EU added value is obvious in this case, since none of the Member States would have agreed to finance it individually.

governments should, in pursuing their policies, also take public health policy priorities into account.

By providing a legal basis for health programmes the Treaty of Maastricht modified the power distribution among actors for decision-making at the EU level by changing the procedures for making decisions. Decisions in the Health Group no longer need to be taken unanimously because qualified majority voting applies to health decisions. The recommendations by the Working Groups have become more constraining, although not binding. The Commission may reject projects vetoed by a member of the Advisory Committee if he or she proves such projects are not valid. However, a strong recommendation by the Advisory Committee to fund a project is an advantage in gaining the Commission's final approval.

There are limitations on the European Union's responsibility for public health. First, EU institutions have no power over Member States' health systems which differ widely in their funding mechanisms, organisation and structure. As noted by a member of the DOH, the purpose of a EU health policy is to assist Member States to co-ordinate their policy, gather information and spread best practice.

> "On the health care side and our relations with Europe, the Treaty as it was amended after Maastricht, does not say that the Community has any responsibility for doing things for the health care ... There is a role for the Commission to help the exchange of information but we do not want that to be taken again as a sort of recognition that the Community is responsible for deciding what is the best way of spending money on health care."[6]

[6] Interview, ref. 47.

According to a French official the absence of an EU general responsibility for health is a major difference from other policies.

> "Despite Article 129 of the Maastricht Treaty, health is not really a Community responsibility. There is a Community responsibility for setting up health programmes but not for organising public authorities according to different objectives, nor for setting general health guidelines. The Common Agricultural Policy sets, in some ways, a number of general objectives covering the entire agricultural policy. It is also true in other fields like transport. But the idea of having a Community health policy with general objectives is out of the question since countries themselves do not have any general health objectives."[7]

Second, there are some paradoxical effects when health negotiations are put into an institutional framework. EU actions are now strictly restricted to action programmes and recommendations in support of existing actions of the Member States, whereas, before the Treaty of Maastricht, any type of decision could be taken under Article 235. Article 129b may be used to oppose EU expenditure on the grounds that a programme contradicts the principle of subsidiarity or that the EU added value is not proved. Legal limitations introduced in the Treaty of Maastricht may create obstacles for the adoption of health programmes of great magnitude such as the cancer programme. The limitations introduced by Article 129b would become particularly constraining if it were decided that the inclusion of a health article precludes Member States from taking health decisions under Article 100a or under Article 235. The prohibition of directives for the harmonisation of health systems does not allow for the alignment of standards to the best practice. Finally, the introduction of qualified majority voting could be interpreted as a limitation on Member States' sovereignty for small countries which

[7] "Même avec l'article 129 du Traité de Maastricht, la santé n'est pas vraiment une compétence communautaire. Il y a une compétence communautaire pour élaborer des programmes en matière de santé, mais pas du tout pour organiser les pouvoirs publics en fonction d'objectifs quelconques, pas du tout pour avoir des objectifs généraux de santé. La Politique Agricole Commune a, d'une façon ou d'une autre, un certain nombre d'objectifs généraux qui coiffent l'ensemble de la politique agricole. C'est vrai dans d'autres domaines, les transports notamment. Mais il n'est pas question qu'il y ait une politique communautaire de santé avec des objectifs généraux parce que les pays eux-mêmes n'ont pas d'objectifs généraux en matière de santé.", Interview, ref. 46.

would not be able to veto a decision. However, unanimity has remained the practice because the desire for consensus tends to dominate negotiations.

Third, the financial impact of the Europe Union on health in Member States' budgeting is restricted by the limited EU health budget, reflecting that the development of EU health policy is not a high priority for most Member States. These amounts remain symbolic if one compares the estimated EU health spending in the UK (about £5 to 6 m. per annum) to the government's health budget (about £30 billion).[8]

Table 7.1. EU health budget (1995-1999)

Action programmes budget lines	EU health budget (1995-1999)	Average EU budget per year in £	Average EU budget per year in FR.
AIDS and other communicable diseases	49.6 m. ECU	£7.8 m.	FR. 65 m.
Europe against cancer	64 m. ECU	£10 m.	FR. 84 m.
Drug dependence	28 m. ECU	£4.3 m.	FR. 37 m.
Health promotion and education	35 m. ECU	£5.5 m.	FR. 45 m.
Total spending under health	177 m. ECU	£28 m.	FR. 230 m.

Source: Interview, ref. 5.

Fourth, the Treaty implies some constraints since it explicitly excludes any responsibility of the Working Groups for health care and formalises the decision-making processes in the Advisory Committee. As noted by a British official, "it makes the actual processes of going through to get a decision adopted a lot more complicated because you have got the Parliament, the Economic and Social Affairs Committee, the Committee of the Regions who need to be consulted."[9] However, the UK still argues that the role of the Committee should be extended further than advising on project prioritisation.

[8] According to Interview, ref. 11.
[9] Interview, ref. 51.

According to his French opposite number the role of the Committee is deliberately weakened by the Commission:

> "I wonder if it is not after having seen how the programme Europe against cancer was developing, that Commission people thought that the least possible power should be given to this type of Committee in order to make it more efficient and be able to undertake arbitration between countries."[10]

Since the EU responsibility for health care is recent, health is a significant case to study whether new EU pressures have caused an adaptation of the department's bureaucratic mechanisms.

7.2. The effect of EU membership on national health programmes

The assessment of whether EU membership affects health programmes at the national level encompasses several underlying issues. Are EU health programmes additional to national actions or substitutes? Has the allocation of a budgetary line to health programmes oriented policy choices and project prioritisation at the national level? This section seeks to quantify the impact of EU pressures on health policy choices at sub-governmental level.

There are several problems in assessing the effect of the European Union on spending decisions in the DOH and the DGS. With policy it is difficult to measure whether EU programmes duplicate or complement national ones because of the lack of transparency

[10] "Je me demande si ce n'est pas après avoir vu comment se développe le programme Europe contre le cancer que le gens de la Commission on pensé qu'il fallait donner le moins de pouvoir possible à ce genre de Comité pour le rendre plus efficace, pour pouvoir faire ses arbitrages entre pays.", Interview, ref. 53.

about the contents of EU programmes. A civil servant in the Direction du Budget confessed that the DGS and the DB often had difficulty in deciding whether the level of funding and the contents of EU programmes were appropriate because central government has little information on the policy contents of EU programmes.[11] In the UK an official from the DOH argued

> "the Community has not been very transparent about the way they spend the money so far. They have not been very transparent about the criteria by which they choose which bids they fund. They give us reports saying where the money was spent but it has been very difficult to work out whether that money was well spent or what was the product of doing it."[12]

This opacity results from institutional arrangements for designing EU programmes and for allocating EU funds among competing bids, which hardly involve central government on the policy side. Also, it is difficult to assess all the EU measures for a particular policy area (e.g. education to AIDS) because projects could be eligible for funding by two separate EU programmes (e.g. Europe against AIDS and health education). The combination of vertical programmes geared towards the prevention of a specific disease and horizontal public health programmes (such as health education) creates a risk of duplication of financing at the EU level. This risk has increased since horizontal programmes were favoured after Maastricht, while the EU previously preferred vertical ones (cancer and AIDS).

The lack of transparency on the policy side has a financial impact in France because its rate-of-return rationale can operate only with perfect information on the returns on the French contribution. Because most EU health funds go to private institutions and

[11] Interview, ref. 5.
[12] Interview, ref. 47.

because there is no clear information from the EU on the recipient country shares, and on the types of activity funds were allocated for, it is impossible to establish a policy or a budgetary offset for matching EU and national programmes, which creates waste. Therefore, EU health programmes tend to be additional to national ones in France, although the French government is currently unable to assess whether these additional funds complement or duplicate existing undertakings. There are further practical problems for the assessment of the impact of EU health programmes on national budgeting: EU vertical programmes such as the cancer programme cannot be matched with particular credits in the DGS budget because there is not always an identified budgetary line allocated to cancer programmes and, even if there were, it might disappear in the next budget. Spending patterns vary from year to year and cannot always adjust in a flexible way because they often cover rigid infrastructure costs. Also, because health is a small and recent cost centre within EU budgeting, national governments have not yet traced redundant policy measures on AIDS, cancer, drug dependence and health education. The Direction du Budget introduced the notion of offsetting in the health budgetary conferences only in 1995 (1994 for all other ministries) because the EU health budgetary line was considered too small until then. However, the offset consists of exchanging information between the bureaux of the Direction du Budget rather than a formal financial offset for matching credits. The Direction du Budget has no authority to reduce departmental credits on the grounds that EU credits exist for similar projects.[13]

[13] Interview, ref. 5.

In the UK the introduction of the Euro-PES mechanism circumvents the difficulty in assessing the financial impact of EU budgeting since the Euro-PES is not based on the returns but on the British contribution to the EU health budget. As for other ministries EU spending programmes are not additional to national ones, which supports the argument that the potential influence of European health programmes on national health budgeting is successfully resisted by existing institutional arrangements.

The vagueness about the contents and the effect of EU health programmes, the fact that these programmes are very recent and the small EU health budgetary line, sustain a widely shared view among the civil servants interviewed that the impact of EU health budgeting is small and unsuccessful. That is the feeling of a civil servant about AIDS:

> "For my experience of the work that has been done under the first programme, not a lot of terribly productive results have come out of it ... It is a kind of scatter-gun approach with people firing off small amounts of money all over the place without any cohesion at all. On that basis I would not personally want to lobby for any more money for the next programme ... I do not think that the fact that there has been a European programme had any impact on what has happened in this country."[14]

EU programmes have tended to multiply and be enlarged without being integrated in a coherent framework. Health departments criticise the lack of overall strategy at the EU level, while the amounts are too small to have an obvious impact. Also, EU policy decisions on health do not have a great impact in France because French legislation is often stricter than the agreement reached at the EU level. Civil servants in the DGS are therefore reluctant to promote action by the EU because they have been disappointed by the decisions taken to date, and because they are not familiar with the EU decision-making processes.[15]

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[14] Interview, ref. 51.
[15] According to Interview, ref. 11.

EU health programmes have an impact on some health policy decisions at the national level. First, although the EU health budget is small in comparison with the overall health spending incurred by central governments, the influence of EU programmes is significant for some individual programmes. For instance, if about 12% of the EU health budget is allocated to French projects (estimate by the Direction du Budget), EU spending on AIDS policy in France would represent 4.8% of the French credits on prevention measures.[16] In the United Kingdom the PES baseline reduction subsequent to Euro-PES (£5 to 6 m.) may appear small in comparison with the total health budget (about £30 bn.). However, since EU health programmes may not be directed to the provision of health care, the PES reduction is not weighted against the entire health budget but only against the budget for Centrally Financed Services (about £300 m.). These services match with areas for which the European Union is responsible, e.g. health education, support to the voluntary sector, research and development. According to an official from the DOH the reduction by 1.8% of the CFS budget because of Euro-PES "is not a very large amount, but every one or two percent is not easy to find because of the very stringent reviews of public expenditure in the UK over the last two or three years."[17] Therefore, EU health budgeting has an effect on some aspects of national health budgeting because of the additional financial burden on departments and the additional credits obtained.

[16] Considering that the average EU AIDS budget amounts to FR. 65 m. per year and that the estimated return on the French contribution to the EU budget for internal policies is 12%, the estimated EU spending on French AIDS projects is about FR. 7.8 m. This amount represents 2.5% of total AIDS budget (FR. 307 m.) and 4.8% of the credits allocated to AIDS prevention measures (FR. 160 m.) in the planned budget for 1995. EU AIDS spending should be compared with the former since they are allocated to prevention projects.

[17] Interview, ref. 48.

Second, financial and policy effects are becoming increasingly important as they have gradually increased over the years. For instance, the budget of the programme 'Europe against AIDS' was multiplied by 8.3 between 1991 and 1993 (from 1.43 to 8.3 m. ECU). As argued by a British official, "it is not a direct effect but it will be cumulative over the years, of both having programmes and being able to use Article 129 to tell other Community policy areas that there is a health impact that we are interested in."[18]

Third, EU expenditure creates a leverage effect at the national level because of several mechanisms. Co-financing creates a financial incentive for governments to undertake certain actions by sharing out the programme costs between the EU and national budgets. This financial incentive exists even though it is an illusory financial supplement for Member States with a negative rate-of-return on health such as France: it would be less costly for the government to secure domestic financing for health programmes since the government puts more into the EU health budget than it receives back from it. Leverage also arises from institutional factors. For instance, management mechanisms set up for the EU breast cancer programme have obliged Member States to organise their activities to obtain EU funds at the national level in the light of these mechanisms. Then these EU-linked programmes were enlarged and contributed to shaping the overall national cancer programme. Therefore the impact of the European Union on decision-making at the national level is much stronger than its financial impact suggests.[19]

[18] Interview, ref. 47.
[19] Interview, ref. 54.

Policy decisions on the allocation of credits between health projects at the national level seem little influenced by EU health priorities. Financially it is difficult to quantify the real impact of EU health programmes on national health policy. Existing institutions suggest that EU health programmes are more likely to be additional in France and non-additional in the UK, but vagueness about the contents and the achievements of EU programmes does not allow us to determine whether EU programmes duplicate or complement national ones. The argument that EU membership is not important to health departments because the funds are small is not convincing, because increasing credits would not necessarily contribute to making national governments more aware of the contents of EU programmes in deciding on national priorities. The main obstacle to a greater impact of the EU on health budgeting lies in the lack of transparency in EU policy and in the budgetary choices at national government level.

7.3. Changes in budgetary decision-making processes

The conclusion of the last part suggests that the blurred view on the impact of the EU on health policy outcomes may be a reflection of a disjointed decision-making process about spending. Information does not seem adequately to circulate between groups and levels of decision-makers, and spending priorities are not co-ordinated. These problems could indicate inefficiencies and loopholes in the adaptation of national spending decision-making to EU procedures (Europeanisation) and in the extent to which national actors control the EU decision-making processes.

The Europeanisation of national spending decision-making remains limited, first, because the EU level is not yet considered as a credible locus of decision-making. By comparison with major international organisations, such as the World Health Organisation (WHO) or the United Nations, the European Union's responsibility for health matters is recent and lacks the backing of scientific expertise since the EU is not yet a recognised medical forum. Also, EU financial resources remain small. Therefore, central government actors are not willing to create or to recognise an additional level of decision-making, while the trend is for the internationalisation of standards and policies rather than for the differentiation of the European Union among the international scientific community.

Second, actors in the DOH and in the DGS are not familiar with interministerial co-ordination on EU matters nor with EU decision-making processes. Therefore, they do not always efficiently use or control the negotiations with their national and EU counterparts. The SGCI plays a major role in accelerating the learning process started at departmental level in France by making the department aware of opportunities and helping prepare texts submitted at the EU level. Interministerial co-ordination with the SGCI is particularly emphasised since health matters usually involve the participation of other departments (Department of Employment, Ministry of Environment) and many agencies (Agence des Greffes, Agence du Médicament, Agence Française du Sang). Therefore, co-ordination by the SGCI is paradoxically more vital in those policy areas such as health where the role of the EU is minor and recent than in those where the relationships with the EU are so vital that actors have developed an adequate EU role and direct relationships with EU actors, such as in agriculture.

The major problem about the co-ordination of national and EU health decision-making processes lies in that central government actors do not control EU decision-making procedures. First, EU procedures have evolved over time, and the constraints on multi-level co-ordination vary depending on the programme: the first EU programme on health, Europe against cancer, sought to ensure co-ordination of national and EU measures by involving central government in the selection of projects to be funded by the EU. National projects were centralised and filtered by a National Committee, then submitted to the EU for approval. This centralised approach generated many problems for the management of project prioritisation since national bureaucracies within Member States did not set similar priorities, thus creating an incoherent EU cancer policy. Also, a French official emphasised about AIDS that "it generates rivalries between schools, between strong personalities, because the project involves specialised researchers, and that creates conflicts".[20] Political conflicts and strong pressures on national bureaucracies for the definition of national priorities seemed an unnecessary burden on health departments since the definition and the responsibility for the actions undertaken ultimately lay in the hands of the EU. It was then suggested the EU should be in charge of selecting the projects it wanted to fund.

The procedure for selecting projects in the AIDS programmes answers these problems since it relies on a bottom-up approach, establishing a direct link between EU institutions and private organisations submitting a bid. By calling Member States to apply for funding the Commission invites not central governments but mainly organisations within the Member States. Furthermore central government is no longer

[20] "Cela cristallise des rivalités entre écoles, entre personnalités fortes, car le projet implique des chercheurs spécialistes, ce qui suscite des conflits", Interview, ref. 53.

in charge of centralising or pre-selecting projects at the national level. National centralisation of projects was rejected for practical reasons linked to the nature of AIDS. The number of bids is limited by the small number of organisations dealing with the disease, which makes the centralisation of projects at EU level possible. There are problems in selecting AIDS experts about EU action on the prevention of the disease, since EU AIDS programmes do not correspond to a medical or scientific specialisation.

Bids are directly submitted to the EU level, and the role of the AIDS bureau of health departments is two-fold: during the application stage, to contact and inform private associations informally on how to submit an application for EU funding; and during the selection stage national representatives from health departments advise the Commission on the quality of all applications submitted (160 projects in 1993) within the framework of the Advisory Committee. The recommendations from the Committee have some influence on the Commission's final choice. However, the Committee's rating of the projects is not binding, and the final decision on project funding is taken by the Commission according to its own criteria (72 projects funded in 1993). According to a French official,

> "Once we, as members of the Advisory Committee, have given our opinion, it goes back to the Commission and then, there is a sort of 'black box', we do not know what happens: balancing, negotiations, compromises occur so that each European country gets its part and there is not only one group of countries eating up the whole budget of the programme. These arbitrations also depend on the epidemiological situation of the disease. There is a re-balancing in favour of the most affected countries."[21]

[21] "Une fois que nous, en tant que membres du Comité Consultatif, nous avons donné notre avis, cela repart à la Commission et là c'est la 'boîte noire'; on ne sait pas très bien ce qui se passe, les équilibrages, les négociations, les compromis se font pour que chaque pays européen 'retrouve ses billes', et qu'il n'y ait pas un groupe de pays qui mange tout le budget du programme. Ces arbitrages se font aussi en fonction de la situation épidémiologique de la maladie. Il y a un rééquilibrage en faveur des pays les plus touchés.", Interview, ref. 53.

The EU decision-making procedure creates a number of obstacles for the co-ordination of national and EU policies and policy-making. First, the lack of transparency about the criteria for the selection of EU funded projects makes it difficult for governments to orient national projects to obtain maximum EU finance. Central government actors are little involved in the definition of EU health policy priorities and do not have the means to shape national measures about EU policy. Also, the DOH and the DGS do not have adequate information to assess the content of EU policy and the rate of financial return. Second, since the EU decision-making process ignores the criteria and the procedures by which central government defines health priorities, national governments criticise EU-funded projects on the grounds that they are bad projects, which should, otherwise, have obtained central government financing. In France the allocation of funds to medical research projects is decided on the basis of independent recommendations by the INSERM or the CNRS. Health projects submitted to the EU are those for which financing was refused by central government on advice from INSERM.[22] This position is echoed in the UK:

> "What happened initially was that organisations in different Member States, who wanted to do something in their own Member State, asked the government to give them money, then the government said 'no', then they went to the Community and got the money. So, when we said 'no' because it is rubbish, the Community said 'yes' because they want to spend money."[23]

Third, the choice of a bottom-up approach, favouring direct relationships with the private sector, has the corollary effect of exacerbating an incoherent EU policy. As argued about AIDS by a British official, "it tended to be piecemeal funding of projects without any coherence, without anybody at the Commission who seemed to take a

[22] According to ref. 1, Interview.
[23] Interview, ref. 47.

wider overview ... Areas were so scattered that it was difficult to know what the impact has been, whether it has made any difference."[24] The lack of an overall framework for EU health programmes contributes to a greater opacity of their objectives and achievements, and makes EU policy more questionable because it encourages waste of money and policy distortions.

Fourth, EU programmes are not sufficiently assessed according to national civil servants. According to a British official,

> "the assessments have been done but the Commission has decided to carry on. They have not done it in any way that would pass any academic standard and there has not been a wish to do it so ... There is a fear among Commission officials that they must not set themselves too difficult targets in case they fail to meet them, in which case they would be told they are no good. They are nervous about targets."[25]

Assessment is all the more difficult in the prevention of diseases or health education where numerical targets cannot be used, since the achievements of the programme are 'negatively' measured (e.g. the number of AIDS cases that were avoided because of the scheme). Such an assessment cannot be accurate since it is impossible to measure precisely how the disease or poverty would have increased if the EU programme did not exist. The lack of evidence to assess whether a programme proved effective in alleviating the problems it was created to resolve is the basis of the British criticism of the Commission's project to treble the third Anti-Poverty programme in comparison with the second. The United Kingdom required a clearer spelling out of the third programme's targets than had occurred previously.

[24] Interview, ref. 51.
[25] Interview, ref. 47.

Fifth, existing EU programmes tend to be renewed even though previous programmes did not achieve the set targets, which indicates an inertia effect in the decision to undertake EU actions. For instance, the criticisms in the report on the first AIDS programme published in 1993 did not prevent an increase in the credits allocated to the second programme. An official noted "once you get one programme, it is difficult not to have another one", because it is hard to stop a programme on on-going diseases in case it is making a difference.[26] The renewal and the extension of policy and budgets of expired programmes despite their poor performance reveals the power of administrative inertia. According to a French official, these growing responsibilities are because the structure set up at the time of the first Europe against cancer programme (DG V) has grown and multiplied its actions to justify its existence.[27] For a DOH civil servant the renewal of programmes despite their achievements emphasises that the Commission undertakes health programmes not to achieve particular targets but to be in the lead in high-profile policies. "The Commission tries to get something running which could appear to be a Commission programme ... It is very much something on which they want to have the blue flag with the twelve stars flying."[28] According to him, individual Member States support the Commission in its approach:

> "The thing I find missing from most Member States when they are talking in the Health Council is any concern for the objective of the action or the initiative, they are just interested in the political presentation really more than in the reasons of the actions which appear to be Community actions ... Other countries say that [assessment] does not matter, that it is all political presentation, that we do not need to say whether projects are good or bad because they want to carry on."[29]

[26] Interview, ref. 51.
[27] Interview, ref. 54.
[28] Interview, ref. 47.
[29] Interview, ref. 47.

The position of Member States in this respect may be explained by the fact that a European label proved useful for implementing policies that national governments would have found politically difficult to undertake on their own because of powerful national pressure groups. For instance, AIDS programmes were better accepted in Southern Europe because of the EU label.

These various obstacles contribute to a lack of co-ordination of national and EU decision-making and policies, which suggests the two levels of decision-making do not overlap sufficiently. Actors and processes at each level are distinct and not many of them are in charge of reconciling policy decisions. This case contrasts with the preceding ones since decision-making at both levels is not entangled nor blurred. The persistence of clear frontiers between national and EU decision-making without a systematic verification that policy decisions are not contradictory creates risks of incoherent and inefficient policy outcomes. Therefore, the recent decision in the UK and France to create a EU unit in each ministry is a major step towards a better Europeanisation of national decision-making because it makes departments more aware of the increasing weight of the EU in health matters and accelerates the department's learning process on how EU procedures work. Also, it is a contribution to a better representation of national interests in EU decision-making since the EU unit is involved in the definition of national health policy with ministries and national organisations and in defending it at the EU level. In addition to creating EU units in ministries, the French Prime Minister's Office has required that one official in each department should be in charge of relations with the European Parliament on relevant policies. With health the work of this official proved important in learning about the EP's health agenda, defining the French policy on amendments proposed and preparing background information for the Minister of European Affairs and the Minister of Health.

The lack of co-ordination of national and EU decision-making creates a major budgetary problem within the existing institutional arrangements where spending power lies in both national and EU hands. A former Directeur du Budget, pointed out

> "There is a perverse aspect in budgetary institutions because the plurality of levels creates waste since responsibilities are not totally shared-out. If we said health is in the field of Member States or Brussels, but that one may not intervene in the field that is not his, we would be in an ordered system in which an adjudication could be made."[30]

The simultaneous financial responsibility of government bodies with non-coordinated policies raises major policy and budgetary issues. First, the two organisations may be supporting conflicting policies. Second, the two levels may be financing the same measures, generating waste and over-financing of some projects. For this reason the British government has required that funds under EU regional policy should not be used to finance health care infrastructure projects in UK's Objective 1 areas (Merseyside, Northern Ireland, Highlands and Islands of Scotland). As a member of the DOH emphasised,

> "if there were Community funds suddenly available for these three parts of the UK on top of the money that we have already made available for health care, those three parts of the country would be distorting our national priorities on where money should be distributed."[31]

[30] "Il y a un aspect de perversion des institutions budgétaires parce que la pluralité des niveaux sans une répartition absolue des compétences débouche automatiquement sur du gachis. Si l'on disait que la santé est du domaine des Etats Membres ou de Bruxelles, mais que l'autre n'ait pas le droit d'intervenir dans le champ qui n'est pas le sien, nous serions dans un système ordonné dans lequel des arbitrages peuvent se rendre.", Interview, ref. 1.

[31] Interview, ref. 47.

These examples support the argument by the former Directeur du Budget that financial responsibilities should be better defined at each level and that co-ordination would allow for a better implementation of the principle of subsidiarity on health matters.

Section three concludes that Health Departments in Britain and France have not yet adapted their budgetary mechanisms to the new responsibility of EU institutions for health care. Budgetary processes at level 1 and level 2 are disjointed, which reveals that institutional hybridisation did not take place. National governments do not yet recognise the EU as a new locus of decision-making and do not seek to influence decisions at level 2 through channels they are not familiar with. Also, national representatives may not always influence EU budgetary decisions through their participation in EU mechanisms which sometimes bypass central government. The lack of adaptation of departments' budgetary mechanisms to EU processes and the low involvement of Member States representatives in EU decision-making create distortions, duplication and waste of public expenditure on health care in EU countries.

7.4. The effect of EU membership on power-dependence relationships between groups

7.4.1. EU decision-makers and experts: a symbiosis of interests?

Section four shows that because hybridisation is incomplete, national governments are less able to influence EU policies on health matters than on transport through their participation in EU mechanisms. Therefore, national governments are less able to nationalise EU pressures than non-governmental interests involved in the EU decision-making process. Medical experts play an active role in defining European health budget choices. Therefore, public expenditure occurs on programmes within the Member States over which these states have little control.

Policy-making institutions reinforce the power-dependence relationships between EU decision-makers and non-government health specialists (e.g. committees, charities, independent sector, non-governmental organisations and medical experts). EU institutions, because they lack scientific expertise in comparison with international organisations focused on public health (such as WHO), are strongly dependent upon specialists to become credible actors in health policy-making. For instance, the Commission commissioned Professor Abel-Smith from the LSE to provide advice on health issues where it would be useful to exchange information. Committees such as the Comité des Experts Cancérologues give a scientific label to EU programmes since their participation in EU decision-making emphasises that EU programmes are not purely administrative products but are designed by scientists for scientists. Although the comings and goings between the Committee's advisers make decision-making more tedious, the decisions made are better accepted by the health community.[32] New decision-making procedures set up on AIDS programmes institutionalise the bottom-up nature of the promotion of EU health decisions. As a consequence EU policy choices reflect the concerns of these specialists. This power-dependence relationship encourages a strong synergy between EU administrators' and professionals' interests since both are willing to extend EU programmes and financial resources.

It is becoming increasingly difficult to ensure that EU health programmes are selected and defined by independent scientific experts in the new AIDS or drug dependence programmes. First, the expertise of the EU is contested since the medical community does not entrust leading doctors with the power to represent them over AIDS, since the new programmes do not match a single medical specialisation. Second, since most AIDS or drug specialists have acquired expertise because of their work within the voluntary sector (which may apply for EU funding), the expertise brought to the EU may be considered biased. A civil servant from the DB argued EU programmes respond to individual concerns from specialists and lobbyists who are influential since there is no overall framework on public health in the EU.[33] The role of experts in the promotion of EU actions that match with their own scientific speciality would explain why small programmes tended to multiply[34] and why the types of projects eligible for EU funding within a single programme are so varied.[35] A French official stressed that existing relationships between experts and EU administrators were becoming

[32] According to Interview, ref. 50.
[33] Interview, ref. 11.
[34] e.g. ECU 336 m. for the Biomedicine and Health programmes for 1994-98, ECU 20 m. for the protection of consumers in the internal market.
[35] The first Europe against AIDS programme included such diverse headings as working with young people, prevention and education, anti-discrimination, social rights, civilian exchange of information and working with particularly disadvantaged groups.

"clientelistic".[36] Third the independence of experts, who recommend what action should be undertaken at the EU level, may be called into question when experts commissioned to produce a report are selected by the Commission. In these cases it is possible to argue that the Commission is biased because it selects experts who agree with it on the definition of its role. However, EU institutions prefer to be influenced by non-governmental rather than by national health administrations.

7.4.2. New power-dependence relationships between national administrations and experts

Merging EU and experts' interests affects the power-dependence relationships between national health administrators and the voluntary sector. Because the selection of health projects funded by the EU bypasses national government, national health administrations have a renewed incentive to work closely with the voluntary sector to ensure the projects submitted to the EU for funding match national priorities. Also, national governments increasingly need to rely on scientific experts and health associations to represent and defend national views at the EU level, since the Commission seems to prefer scientific to administrative expertise. As stated by a French DGS official, "the voice of the associations is loud, louder than the voice of politicians".[37] Experts have sometimes become a means for national government to explain its health-of-the-nation strategy when the Commission requires the advice of experts nominated by the Health Department. For instance, the British government

[36] Interview, ref. 54.
[37] "La parole des associations est très forte, elle est plus forte que la parole des politiques", Interview, ref. 53.

nominated one DOH official and a leading doctor from the private sector to provide expertise on the communicable diseases programme to the European Commission. The Department was careful to select experts who would represent the British government's view on the subject. However, experts' recommendations are not binding and the Commission has the exclusive right to propose policy measures.

The development of close relationships between health administrators and the private sector is more or less an easy task in each Member State. In the UK the private sector has traditionally been active and well organised. That is why British interests seem well represented at the EU level, and explains why the policies implemented are close to what the UK was undertaking before the EU programmes were finalised. British associations seem successful in submitting bids for EU funding and the UK obtains more than its fair share of the EU health budget.

In France private associations have not been traditionally involved in the definition and promotion of public health. Associations remain dispersed and unorganised, which makes lobbying inefficient. Also because the benefits of public health policy are dispersed, there is no structured and powerful public health lobby raising questions during the EU decision-making processes. The DGS sees the structure of the French voluntary sector as a problem for the representation of French interests at the EU level and a major difference with agricultural or industrial policy-making. A French official observed "that there is no pressure group means that there is no link between national and Community administrations."[38] Existing decision-making procedures give the

[38] "Le fait qu'il n'y ait pas de groupe de pression fait qu'on n'a pas de relais entre les administrations nationales et l'administration communautaire", Interview, ref. 50.

private sector a major coordinating function which the EU considers a guarantee against a 'Europe of bureaucracies'. The lack of organised private networks linking national and EU bureaucracies with the real world is a major obstacle to Europeanisation because it makes difficult the adaptation of bureaucratic mechanisms to the consequence of EU membership. The DGS is conscious of the need for greater coordination. As already emphasised with transport, the ministry has an unofficial active role in encouraging associations to form structured networks and to defend their views at the EU level. The AIDS independent sector is starting to become more active because new EU institutional arrangements offer them the opportunity to obtain funds directly from the EU. National government is more eager to control public health programmes which traditionally involved private associations because of scandals such as over blood transfusions. New para-public agencies were created (Agence du Médicament, Agence du Sang, Etablissement des Greffes) to allow for the increased control and accountability of national government, thus greatly modifying the existing networks of organisations.

Experts and associations have become more central for the definition of EU health programmes and, indirectly, they affect the balance of power between actors at the national level. Present arrangements represent a challenge for the formulation of public policy because of the strong representation of interest groups in non-coordinated EU and national decision-making.

A former Directeur du Budget argues

> "because of the interference of government levels, we are dealing with a multipolar decision-making system, in which the real decision-maker is the lobbyist, who is at the centre of the system and who is trying to maximise his own income by playing on at least the four levels of subsidy he can get, that is Brussels, national government, his Region and, depending on the nature of what he wants to do, his Department or Local Authorities. One must be really dumb not to manage, with time, to have something financed."[39]

Some experts appear to have had a strong influence on the definition of health priorities at the EU level. For instance, it is tempting to link the assertion of a British civil servant who argued "a lot of what has happened in other European countries has been influenced by the programme this government set in place in the mid to late 1980s"[40], with the positions held by the expert Merkel, who was in charge of European Affairs working on AIDS policy from 1986 to 1990 when the British AIDS programme was set up. He was then seconded to the Commission to run the EU programme against AIDS during its implementation and to contribute to drafting the second AIDS programme.[41]

This section argues that health offers a complex case of adaptation of bureaucratic mechanisms to EU health budgeting. Analysis of the policies undertaken by the Departments of Health in Britain and France shows that the impact of EU membership is small in policy and difficult to quantify financially. Also, departmental budgetary

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[39] "En raison de l'interférence des niveaux d'administrations territoriales, nous sommes dans un système multipolaire en matière de décision, dans lequel le véritable décideur c'est le lobbyiste, qui se situe au centre du système et qui va essayer d'optimiser son propre revenu en jouant sur les quatre niveaux au minimum de subventions qu'il peut obtenir, c'est à dire maintenant Bruxelles, l'Etat, la Région et, selon la nature de ce qu'il veut faire, le Département ou la Collectivité Locale. Il faut vraiment être cloche pour ne pas arriver, en se donnant du temps, à faire financer quelque chose.", Interview, ref. 1.

[40] Interview, ref. 51.

[41] Similarly, the programme Europe against poverty was drafted by a Frenchman who heavily influenced the definition of social exclusion by lending the French approach to it, according to Interview, ref. 51.

processes have not adapted efficiently to EU budgeting. Departments' officials are not often able to influence EU health policy because the participation of non-governmental organisations and experts in EU decision-making is preferred to that of representatives of the Department of Health. These two arguments support the view that Europeanisation and hybridisation trends are limited since EU membership did not cause any substantial adaptation of departmental budgeting in Britain and France.

However, at the same time, EU membership has reinforced the links between national bureaucracies and experts in policy and policy-making, especially in France where these links were not as strong as in Britain. National civil servants seek to ensure that the policy priorities of the government and the private sector match, and also that experts may be used to present the views of the ministry within decision-making at level 2. Therefore, the section concludes that Departments of Health have adapted to a greater extent and more efficiently to EU health programmes than in sections two and three since they reinforced and used their relationships with the private sector just when EU institutions favoured the participation of these experts in the definition of EU health budget allocations.

7.4.3. Health department 're-positioned' within central government?

EU membership impacts on decision-making processes at level 1 by 're-positioning' the Department of Health within national government. Article 129b paragraph 4 of the Treaty of Maastricht altered the balance of power in the relationships between the DOH and the DGS, and other government departments, since it requires that health protection provisions should form a constituent part of other policies. Health Departments are now entitled to participate in the decision-making process of policies in which other departments have taken the lead when they feel health matters are involved. The greater participation of health representatives in EU policy-making reinforces the power of the DOH and the DGS at the national level because of their greater involvement and weight within interministerial co-ordination. The EU treaty enables health bureaucracies to amend decisions and programmes directly or indirectly affecting health matters even though these changes may contradict other policies' strategies. For instance, the DGS pressure on medical technology regulation conflicted with the Ministry of Trade and Industry's policy for the free circulation of goods.[42]

The 're-positioning' of health departments within national government and the increased involvement of health officials in decision-making on social affairs create an emulation effect. International Relations Unit officials (DOH), who used to be involved in Working Groups on the setting up of new programmes, have started to join officials from technical units (AIDS, cancer) on Advisory Committees to discuss the management of existing programmes. This organisational change stimulates the exchange of information and learning processes. For instance, AIDS officials were interested in learning how the cancer programme functioned. Policy emulation also arises because health concerns in some Member States oblige others to discuss points which national health officials did not consider a priority. In particular, German concern about the health implications of BSE (mad cow disease) and drinking water regulations has made the DOH stronger in introducing policies at the national level.

[42] Interview, ref. 50.

However, there are some conflicts of interest which put Health Departments into opposition to the rest of national government. First, new opportunities at the EU level encouraged national health officials to undertake action at this level, while the government was opposed to more EU health measures. This disagreement was revealed when the DGS tried to use the French presidency of the European Commission to reinforce French leadership on health programmes while neither the French government nor the European Union had chosen health as a policy priority. Second, the Direction du Budget is seeking to introduce the rationale it adopted for relations between EU and national budgeting (*'principe de constance'*, assessment of the rates-of-return) into departmental budgeting. The Direction du Budget stressed that "the ministry has adopted a rationale today by which credits add up without cancelling each other out."[43] Becoming familiar with the government's budgetary rationale requires a learning process. It is more difficult for the Direction du Budget and for HM Treasury to make the DGS and DOH familiar with the notion of offset since the cost of health within EU budgeting remains small. Third, a SGCI official argued that the introduction of health measures within intergovernmental bargaining led health decisions to be used as side-payments to poorer countries in exchange for their agreement on other policies, because health remains a small player within negotiations.

[43] "Le ministère est dans une logique aujourd'hui où les crédits se cumulent mais ne s'annulent pas", Interview, ref. 5.

7.5. Conclusion

Chapter 7 quantified the impact of EU membership on the determination of policy choices and demonstrated that this impact is small in policy and in finance. First, the Europeanisation of national health budgeting remains limited over policy because the Departments of Health in the UK and France are mainly concerned with health care, for which the EU is not responsible. EU health policy is not yet considered to be critical. Second, EU funding has little financial influence on the budget of health departments because the European health budget is small and most of EU funding is allocated to the private sector. Also, it is difficult to assess whether EU health programmes duplicate or complement national ones because of the lack of transparency about the level of funding and the contents of programmes. In France opacity makes it difficult for departments to establish financial offsetting for similar EU and national programmes, because French returns on EU health budget are not known in detail. Poor information hinders the application of the '*principe de constance*' and the assessment of existing programmes. Therefore, EU programmes tend to be additional to national ones in France, and non-additional in Britain, but there is no systematic assessment of whether EU funds complement or duplicate existing national undertakings.

Third, EU health programmes sometimes influence policy decisions at the national level, in particular when EU expenditure is great in comparison with matching national funds and co-financing. The impact of EU health programmes is not always a function of the size of the funds available at EU level because EU funding creates a leverage effect.

Chapter 7 measured the impact of EU membership on policy-making and demonstrated that Europeanisation and hybridisation trends remain much smaller in Departments of Health than in Ministries of Agriculture and Departments of Transport. Budgetary mechanisms at the department level did not adapt much to pressures caused by EU membership, and hybridisation is limited by the restricted participation of national representatives to the decision-making processes at level 2. Europeanisation is limited since there is no clear health policy at the EU level to which Member States' health department could adapt and integrate with at the national level. The hybridisation of level 1 and 2 budgetary processes is limited because decision-making procedures at level 1 and level 2 remain largely non-coordinated, and information does not easily circulate across both levels. National governments are not much involved in the definition and the running of EU programmes and are not often able to ensure EU expenditure closely matches national government's priorities. Central government actors do not control EU decision-making because EU selection procedures largely by-pass the central government level as these processes favour discussions with lower government levels or with non-administrative actors (private charities and experts). National and EU spending decision-making processes are disjointed, with the consequence that EU policies when implemented create distortions to national policies (duplication, contradiction, waste). The two levels of decision-making do not overlap, actors and processes are distinct, and not many actors are in charge of reconciling policy decisions. The fact that multiple levels of government may spend on similar programmes without co-ordination of decision-making is inefficient. In the absence of a co-ordination mechanism, it would be desirable for responsibilities to be shared more clearly.

national governments are not able to influence EU expenditure on health within the Member States because of low hybridisation. First, it showed that the EU encourages the creation and organisation of policy communities by opening its bids to private organisations. Simultaneously, it is widely influenced by individual experts and lobbies which provide the Commission with expertise. These groups may express governmental views but the government has little control over the interests represented at EU level. The bottom-up approach favouring direct relationships with the private sector fosters an incoherent EU policy, which contributes to the opacity of its objectives and achievements.

Second, the influence of specialists, lobbies and experts in the designing of EU programmes without a coherent EU public health framework creates a problem because of administrative inertia in the renewal of programmes. Therefore, because the DGS itself has an incentive to maximise the returns on the French contribution to the EU budget, the absence of budgetary and policy offsetting in France is more acute since there is little opposition to the extension of programmes.

Health constitutes a 'hard case' since chapter 7 shows that the process of adaptation of the department's budgeting to EU budgeting remains limited. The reason for a restricted Europeanisation lies in the low involvement of national civil servants in EU decision-making, to the benefit of experts. However, this case does not dismiss the central argument of the thesis. First, the health case shows that EU factors are necessary for understanding health budgeting in Britain and France. Only EU factors may explain that EU decision-making, because it bypasses national government, has encouraged closer relationships between the DGS and the DOH with the private sector; and that EU health policy is incoherent and distorts national priorities, because there is no process to coordinate EU and national budgets. Many policy problems are caused by the lack of adaptation of national bureaucratic mechanisms to EU budgeting. Therefore, a low degree of budgetary Europeanisation is a significant factor in explaining budgeting in a department. Second, the health case substantiates the second and the third hypotheses, because the low adaptation of budgetary processes is linked both to the lack of interactions between national and European actors during policy-making processes, and to the 'sprinkling' of EU credits between small health programmes.

Chapter 8

Conclusion: Europeanisation limited?

The impact of EU membership on methods and processes of budgeting has been inadequately discussed in the conventional literature. The starting point of the thesis was this gap in existing work on budgeting and European integration, and the need for a study of the adaptation of national budgetary mechanisms to EU-related pressures.

The thesis tests the proposition that the impact of EU membership on national budgetary processes is greater and different in nature from what could be presumed from an examination of the existing literature. The thesis analyses, quantifies, assesses and characterises budgetary Europeanisation, defined as the process of adaptation of bureaucratic budgetary mechanisms to the consequences of EU membership. It demonstrates that membership of the EU is an important variable for the determination of national policy-making. At the same time, it argues that through their participation in EU decision-making processes, national governments succeed largely in 'nationalising' European Union pressures on national budgeting. This proposition is tested in an overall way in chapters 2 to 4, and then in three policy areas representing different degrees of exposure to EU influences (chapters 5 to 7).

To explain differences in the extent of Europeanisation in various policy settings, the thesis tests two more hypotheses: hypothesis two is that actors are more constrained by the EU and also better able to influence international actors, when they interact frequently with actors at the international level; hypothesis three argues there is a link between the degree of adaptation to EU processes and the amount of EU finance in the budget of a department. The thesis argues that empirical evidence of the adaptation of national budgetary processes to EU pressures at the overall level and at sub-government level supports the three hypotheses tested throughout the thesis. It concludes that, while both hypotheses two and three are valid, the role of interactions between actors at the national and the EU levels is greater than that of finance in explaining the scope and nature of budgetary Europeanisation. To bring together the discoveries enunciated in the preceding chapters, chapter 8 is articulated around these issues which have guided the thesis.

Section 1 addresses the quantification issue and measures the degree to which EU factors are an important variable for determining national budgeting. It evaluates how much national budgeting is affected by EU influences. Section two focuses on the characteristics of budgetary Europeanisation and assesses the impact of EU membership according to different aspects of budgeting. Section three gives an appreciation of the adaptation of budgeting to EU pressures from a qualitative perspective and assesses the improvements and the problems this adaptation process involves. Section four focuses on how national budgetary processes are constrained and identifies various sources of pressure on national budgeting. Finally, section five provides an insight into future pressures on national budgeting in the framework of EMU.

8.1. The Europeanisation of national budgeting: the quantitative approach

The thesis demonstrates that the impact of EU membership on national budgeting is greater than what could be presumed from an examination of the existing literature by providing evidence of a process of adaptation of bureaucratic mechanisms at the overall level and at sub-government level in Britain and France. However, the thesis recognises that there is still a considerable margin for national discretion in policy and policy-making.

8.1.1. A wide-ranging adaptation process

First, at the overall level, the thesis argues budgetary Europeanisation is a wider process with greater long-term implications for national budgeting than is supposed in the existing literature because the latter has a narrow view of the adaptation process of bureaucratic mechanisms to EU pressures. The existing literature focuses on two main EU-related constraints on national budgeting: EU regulation, which sets tax harmonisation rules, and compliance with formal budgetary rules. The thesis shows that the process of adaptation arising from these two pressures is smaller than asserted in the literature. Only a few changes in British and French budgeting emerge from direct EU constraints. Member States retain a large part of their sovereignty on fiscal matters and compliance may be achieved through cosmetic techniques.

The thesis shows that the adaptation of bureaucratic mechanisms is a wide process because it does not restrict EU influence to negatively-oriented fiscal norms and procedures and to police-like legislative rules which establish limits that Member States cannot surpass. By emphasising EU influences on decision-making and on leadership the thesis demonstrates that processes and methods of budgeting at the national level had to adapt to EU procedures and to European budgeting. The thesis argues that the implications are greater on decision-making than on policy. Therefore, the Europeanisation of national budgeting implies institutional change at the overall level and at sub-government level. As a consequence, budgetary institutions can no longer be studied in a national perspective because of the strong links between policy decisions at the EU and the national levels, and between the European and the national budgets.

Second, at sub-government level, the thesis demonstrates that the adaptation of departments' mechanisms to the consequences of EU membership is wide-ranging, affecting budgetary processes in many policy sectors and in proportions which are not necessarily related to the size of EU public expenditure. It is commonly assumed that Europeanisation is determined by the size of EU finance in a particular policy domain. Because Agriculture is the main cost centre of the European budget and because CAP expenditure in Britain and France is greater than domestic spending, the conventional literature limits the potential influence of the EU on budgeting at department level to Agriculture. Likierman argues that "United Kingdom membership of the European Community is central to the department's role, and means that its expenditure differs in an important respect from that of other departments."[1] Because the literature traditionally distinguishes between EU influences on Agriculture and on other departments on the basis of the size of EU finance, it overstates Europeanisation trends in Agriculture and neglects those in Health. The approach to budgetary Europeanisation is scattered and the emphasis on finance is made at the expense of the adaptation of methods and strategies.

The thesis is opposed to this segmentation within public budgeting and reveals that Europeanisation is a general adaptation process involving national budgeting as a whole and not just its parts. The institutional approach and the sectoral chapters demonstrate that budgetary Europeanisation is a general trend which takes place across departments. The thesis finds evidence of budgetary Europeanisation in the three spending departments studied in Britain and France. Moreover, there are similar patterns of Europeanisation which may be found in the three cases, e.g. the increasing contribution of national civil servants to the making of EU policy, the role of expertise and the role of accounting methods.

The thesis argues it is not appropriate to measure the role of EU pressures in a policy sector only as a function of the size of EU finance within domestic expenditure. On the one hand, big EU spending programmes do not always have much impact on national budgetary plans. With the TENs project the multiplication of projects funded produced a 'sprinkling' of EU aid, an argument also invoked about the programme Europe against AIDS. With health programmes the opacity of the criteria for EU

[1] Likierman, Andrew (1988), *Public expenditure - Who really controls it and how* (London: Penguin): 31.

funding makes it difficult for governments to orient national projects to obtain maximum EU finance.

On the other hand, small EU budgetary lines may have a great impact on domestic expenditure. First, although some EU credits seem small within the whole budget, they can be significant for some individual projects. Structural Funds' investments are vital for transport projects in the Reunion Island. With agriculture the EU is the origin of agri-environment measures being adopted in France. Second, French spending ministries often stress the advantage of undertaking EU-funded projects, even if the size of EU finance is small in comparison with domestic expenditure, because EU grants are considered additional or 'free'. With the TGV-East project the Department of Transport considered that EU financing provided a new way to finance the infrastructure and increased the profitability of the project since its calculations did not include the cost of the EU contribution for French public finance. Similarly, departments often take the view that co-financing schemes are half free and boost the profitability of projects. In a context of budgetary stringency any additional financing means are vital to departments. Third, EU financing is important for the label it gives to a project because it shows that Member States' governments support that project. Fourth, EU expenditure creates a leverage effect and obliges Member States to organise their actions at the national level in accordance with EU mechanisms to obtain funds (e.g. breast cancer programme). Therefore, the impact of EU programmes on decision-making at the national level is in some cases stronger than its financial impact suggests.

8.1.2. Country differences in the degree of adaptation to EU pressures

The thesis reveals country differences in the degree of adaptation to EU pressures. It demonstrates the role of the British and the French Finance Ministries in creating a context favourable or not to the adaptation of national budgetary priorities to EU budgeting. The way the European budget is financed and the methods of accounting for EU credits received impact on the strategies of ministries towards EU programmes and explain differences in the degree of exposure of these ministries to EU influences.

Several factors impact on the strategy of national actors at level 1 and contribute to the reduction of EU influence on public budgeting. In the UK departments are constrained by the Euro-PES mechanism and the Fontainebleau agreement which put pressures to keep small both the EU budget and the British share of the EU budget. Financial mechanisms in the UK set incentives for departmental actors to encompass a small field and to obtain a small share of EU spending within a set EU budget. These mechanisms clarify part of the strategy of British representatives of minimising the budgetary impact of European policies. They help explaining differences in degrees of adaptation to EU pressures in equivalent departments in Britain and France.

In France, the lack of a systematic budgetary enforcement of the '*principe de constance*' and the rate-of-return approach encourage departmental actors to adopt a resource-maximisation strategy. French actors have incentives for maximising their share of the EU budget once it is set. In France the rate-of-return approach explains also differences in strategies in various policy domains. Because France has high financial returns on EU agriculture spending and is a net recipient of CAP, the

Ministère de l'Agriculture has interests in maximising the CAP budget. In contrast with internal policies the relevant departments are requested to set the EU budget as low as possible. Therefore, financial mechanisms explain differences in the strategy of departmental actors and clarify the reasons why the adaptation of bureaucratic mechanisms has greater implications in France than in Britain.

National governments sometimes encourage a greater impact of EU influences on public budgeting. Some EU programmes leave much margin of manoeuvre to national governments, e.g. the agri-environmental and the afforestation of agricultural lands schemes. National governments decide whether the EU schemes should be undertaken in their country and decide how much they want to be influenced depending on whether they consider co-financing a strong financial incentive. In Britain co-financing provides little incentive because of the Fontainebleau agreement, whereas in France co-financing is a strong incentive because of the resource-maximisation approach. This margin of manoeuvre explains why EU programmes may have different budgetary implications from one country to the other.

8.2. The Europeanisation of national budgeting: characteristics and limits

Section two focuses on the characteristics of budgetary Europeanisation and assesses the impact of EU membership according to the different aspects of budgeting. By determining which aspects of budgeting are more influenced by EU factors, the thesis indicates the limits of Europeanisation. Based on earlier developments, the thesis determines three major characteristics of budgetary Europeanisation.

8.2.1. Spending and taxing

The thesis shows that EU membership sets constraints on spending more than on taxing. The discovery of a 'spending bias' contradicts the approach of the existing literature which traditionally focused on EU influences on taxation (e.g. VAT harmonisation) and budgetary macroeconomic aggregates (e.g. public deficit and public debt). The thesis argues that the traditional approach over-emphasises the potential for a strong EU influence on taxation and on macroeconomic aggregates, while overlooking effects on spending.

The thesis shows that national governments retain a large margin of manoeuvre on tax matters because tax decisions require unanimous voting at the EU level. The voting procedure at the European Council gives each Member State the power to veto any unwelcome decision on taxation. Unanimous voting implies that Member States accept only those EU 'constraints' that match with national priorities. EU institutions have little power of constraint since obligations imposed at the EU level are in fact 'nationalised'. Member States may agree to a EU tax directive either because it serves national purposes (e.g. abolition of the higher excise duty rate in France) or because it has no effect on their tax systems (e.g. the 15% lower limit on the standard VAT rate is below existing rates in Britain and France). The failure of EU institutions to impose tax patterns is illustrated by the exemptions granted to the UK on zero-rating. The European Union has no overall mandate for the harmonisation of national tax systems and tax pressures, and is not entrusted with the authority to impose tax norms and systems. While there are clear measures for the approximation of some taxes, which are accepted by each individual Member State, national governments are sovereign to determine the tax burden and to raise other sources of revenue than the 'harmonised' taxes. Therefore, as long as there is no European Union tax under the control of the EU and as long as unanimous voting remains, the existing institutions protect national governments' sovereignty. The only European Union constraint on taxation which Member States do not control is the pressure from competition. However, this pressure remains weak under the destination system and should be attributed to globalisation rather than to European factors exclusively.

The thesis acknowledges that the Treaty of Maastricht sets constraints on national budgetary macroeconomic aggregates. However, it emphasises that the target figures became unrealistic in the current economic context since they reflect the strongly voluntarist and optimistic views of the Treaty of Maastricht where targets were used as a political signal. Also, the thesis maintains that the setting of target aggregates has little constraining power on Member States because of the lack of credible sanctions against free-riding and because national governments have little margin of manoeuvre within budgetary management. Finally, with macroeconomic budgetary aggregates such as the tax burden, the size of the public sector, the budgetary deficit and the public debt, it is difficult to provide evidence of the influence of EU treaty articles for methodological reasons. The methodological annexe emphasises it is difficult to establish causal links between changes in budgetary figures and European influences. On a large number of aggregates there is no 'European' standard with which to compare national figures. Therefore, macroeconomic budgetary figures are not useful tools in a study of budgetary Europeanisation because few convergence effects can be observed.

While it acknowledges some influence of the EU on national taxation and budgetary aggregates, the thesis shows that the traditional approach over-emphasises this potential and neglects influences on public spending. The thesis distinguishes between three reasons why European budgeting affects public spending by national governments. First, since the European budget depends on national budgets for the levy of resources and has little impact on macroeconomic regulation since it is institutionally committed to budgetary balance, spending is the main function of the European budget. Therefore, EU membership modifies the distribution and the level of public spending in individual Member States, since expenditure by EU institutions is additional to that of national governments'. The role of EU expenditure in EU Member States should be stressed since public spending is financed by two non-exclusive spending authorities (EU institutions and national governments) whereas there is no independent European tax system.

Second, public spending at the national level is often determined by the boundaries of EU spending even though the plurality of spending levels did not lead to a formal division of responsibilities between EU institutions and national governments. The financing of a project at one level does not systematically preclude the financing of the same project at another level. To avoid duplication and waste, public spending projections at the national level take the European budget into account: in some policy domains, public spending is nil because all interventions are implemented at the EU level (e.g. CAP); in others, national spending programmes are designed to complement or correct EU programmes (e.g. the French suckling cow premium); and with co-financing schemes, national financing induces EU spending, and vice versa. Therefore, EU spending patterns affect the allocation of public funds by national governments since public expenditure at the national level is often modelled on EU spending.

Third, EU budgetary processes affect decision-making on national expenditure because departmental actors are simultaneously engaged in budgetary negotiations at both EU and national levels. In a context of budgetary stringency EU credits represent an additional or another source of finance which most departments seek to optimise. Departments are encouraged to participate actively in EU policy-making as well as in bargaining with the Finance Ministry for domestic funds. In addition, part of decision-making on national spending involves negotiating at the EU level. Therefore, processes for making decisions on public expenditure are duplicated.

8.2.2. Policy and policy-making

The thesis shows that budgetary decision-making processes and methods have adapted to pressures originating from EU institutions. However, changes in budgetary processes do not imply that budgetary outcomes and policies are different from what they were before. First, the thesis demonstrates that budgetary Europeanisation involves a significant change in budgetary decision-making processes and it uses the concept of hybridisation to describe it. Hybridisation refers to the entanglement of national and EU policy-making. It means that the making of the budget is no longer a process internal to national governments because part of decision-making on domestic spending programmes is made at the EU level, and because the national budget is closely linked to the EU budget in finance and policy. Hybridisation results from two symmetrical entanglements. On the one hand, policy-making on national budgeting involves the EU level because national decision-making procedures request the advice, the authorisation or the financing of EU institutions simultaneously. On the other hand, the making of decisions at the EU level involves the participation and the agreement of national actors in the European Council and other institutions.

Second, the thesis argues that the hybridisation of budgetary processes did not necessarily imply changes in the substance of national policies. The sectoral approach shows that Europeanisation involves changes in the making of policies more than in policies. For instance, the implementation of the TENs programme did not lead to great modifications of the French and the British programmes for new transport infrastructure, whereas the making of decisions on transport infrastructure has become much more complex.

The thesis suggests several reasons why EU-related changes in budgetary processes are not echoed by changes in the substance of policies. First, the thesis suggests that the European Union it not very skilful in deploying its resources, which are limited. Since its financial and administrative means are weak and it needs to rely on external expertise, the EU may not give a strong lead in sectoral policy. Second, national governments influence EU budgetary and policy choices through their participation in EU processes and ensure the representation of national interests at the EU level. National administrations have used policy-making at the EU level to promote policy decisions fitting their own national interests. In this sense, national governments have 'nationalised' European policy decisions so that national policy is not constrained by distorting EU policy priorities. Therefore, budgetary Europeanisation is characterised by the adaptation of national budgetary processes and methods to EU budgeting rather than by changes in policies.

8.2.3. Practices and rules

The thesis demonstrates that budgetary Europeanisation is characterised by the adaptation of practices rather than by changes in formal rules. First, the thesis argues that restricting EU pressures to formal rules conveys a superficial view of the nature of the adaptation process. There are few EU obligations on national budgetary institutions because treaty articles stipulated objectives that need to be achieved and not the means through which they should be achieved. There is no normative model formed in the EU of how public budgetary institutions should behave and the constraints on Member States depend on how close they are to fulfilling the EU budgetary criteria.

Second, the EU strategy of imposing norms on budgetary aggregates is not fully effective since there is no strict enforcement mechanism. Although legally binding, the Treaty of Maastricht has limitations which render sanctions less credible: the procedure is not automatic; the final decisions on excessive deficit and debt require discretion; the criteria are more benchmarks than rules; and they are not exempt from ambiguity and vagueness. EU obligations for budgetary management have little constraining power in the UK since the British government is exempt from the obligation to reduce its budgetary deficit and public debt, and from European Council sanctions.

Third, the compliance of national budgetary institutions to imposed EU requirements is limited by formal compliance (cosmetic and creative budgeting). Therefore, while acknowledging the influence of compliance, the thesis shows that the impact of EU rules on national budgetary institutions remains limited. The rule-based approach conveys a 'negative' view of Europeanisation, based on enforcement and sanctions. It neglects the possibilities for positive leadership and long-term budgetary guidance.

The thesis shows that the adaptation of budgetary practices has been neglected in the conventional literature. Budgetary hybridisation has redefined the function of departmental actors within budgetary processes. Departmental actors are simultaneously involved in designing the EU budget and the national budget and are in charge of reconciling policies at both levels. Traditional budgetary practices and the control by central agencies, in particular HM Treasury and the Direction du Budget, are also challenged by the hybridisation of budgetary institutions. Central agencies have integrated specific tools (Euro-PES and the '*principe de constance*') into national budgetary processes to regain control of the financial relationships between central government and EU institutions. Therefore, budgetary Europeanisation is characterised by the adaptation of practices and methods to EU budgeting more than by the adoption of formal rules, because Europeanisation often is an informal and bottom-up process. The lack of formalism of the Europeanisation process has contributed to the understatement of EU influences on national budgeting.

8.3. The Europeanisation of national budgeting: the qualitative approach

Section three analyses the adaptation of budgeting to EU pressures from a qualitative perspective and assesses the improvements and the problems this adaptation process produces. The thesis demonstrates that Europeanisation involves a change in the quality of budgetary processes at level 1 (in particular, increased complexity and fragmentation) and at level 2 (consistency, predictability).

8.3.1. Hybridisation: the greater complexity of decision-making processes at level 1

At level 1, hybridisation implies a greater complexity of budgetary decision-making processes. Departmental actors are simultanously engaged in decision-making processes at the EU level in addition to conventional budgetary bargains nationally. The reciprocal involvement of national institutions in EU budgeting and vice versa creates a complex institutional system where budgetary decisions at both levels are so closely entangled that they cannot be isolated from one another. Departmental actors operating across boundaries are in charge of the reconciliation of decisions simultaneously made at the national and the EU levels because hybridisation creates a strong need for vertical coordination. At the same time, the need for horizontal coordination is reinforced by the need to define a general national policy and to ensure its enforcement throughout departments. Coordination departments (e.g. SGCI) and units (e.g. European bureaus) play an increased role within decision-making. Hybrid institutions involve a considerable increase in negotiations, policy fragmentation and bureaucratic control. Also, traditional methods of decision-making are disturbed by the introduction of new levels of decisions, especially since not all budgetary processes have become hybrid. Hybridisation is not uniform but varies depending on policy areas, creating a two-track budgetary process characterised by the juxtaposition of conventional budgeting and of hybrid institutions

8.3.2. The nature of the representation of national budgetary priorities at level 2

Hybridisation implies that Member States are able to influence EU pressures through their participation in EU policy-making. A high level of adaption to EU mechanisms allows for the 'nationalisation' of EU decisions, which means that national governments use the EU level in their own interests. However, the thesis shows that the nature of the representation of national budgetary priorities at level 2 depends on strategic factors. For instance, the thesis shows that the consistency of British budget minimisation positions throughout negotiations at level 2 reinforces the credibility of the British policy at the EU level and within Whitehall. The involvement of French representatives in a large number of CAP schemes gives France a leadership function which allows for great French influence on the design of agriculture schemes.

Table 8.1. Conditions for a role of national representatives at level 2

Conditions	Characteristics	Strategic advantage	Strategic drawback	Example
Recipient: Only recipient	- made-to-measure scheme	- expertise	- considered biased	DOM with POSEI-DOM scheme
Leader: Recipient of most programmes	- dispersion of interests	- unpredictable - large win-sets - many possibilities of alliances	- lack of consistency	France with CAP
Actor: Recipient of few programmes	- concentration of interests	- consistency	- predictability - narrow win-sets - few possibilities of alliances	France and UK with TENs
Outsider: Not recipient	- isolation	- veto power with unanimous voting - side-payments	- lack of expertise - risk of exclusion	UK with CAP negotiations on wine and tobacco, UK and France with Cohesion Fund

The nature of the representation of national budgetary priorities at level 2 depends on strategic factors. The thesis isolates four main country positions within level 2 negotiations which explain how national governments use strategic factors to influence EU mechanisms. First, with EU schemes designed to answer needs in one particular country (e.g. POSEI-DOM), the representative of the recipient country is necessarily considered biased in its claims for financial support by the other Member States, damaging its credibility. However, its strategic advantage within level 2 negotiations is expertise since only this country can claim full awareness of the problem to be solved. Second, often one country (or a coalition of a few important countries) takes the lead during level 2 negotiations because it is the main recipient of a large number of programmes. This leadership function is typical of France during CAP negotiations since France is directly concerned with virtually all commodities and compensation programmes. The drawbacks of having dispersed interests is the lack of consistency within French agriculture priorities but such a strategic position is largely coveted. It multiplies the possibilities of trade-offs between policy preferences and eases compromise and alliance-building. It sustains uncertainty about the leader's policy positions and new alliances. Participation in decision-making on many programmes offers a central position to the country representatives.

Third, the most common case is the participation of country representatives as simple actors within level 2 negotiations because they are recipients of a limited number of EU schemes. With UK agriculture the commodities where British interests lie are well-known and predictable. The UK is traditionally an important recipient of beef and sheep livestock intervention, but is little concerned with wine and cereals. The UK participates in decision-making on the latter programmes as a secondary player only, because it is not considered an expert on these commodities and because spending decisions on these programmes have no consequential effect on British agriculture or MAFF budgeting. This position offers fewer opportunities for changing a compromise agreement and country alliances. It limits the possibilities of trade-offs and reciprocity and therefore reduces the country's margin of manoeuvre within negotiations.

Isolation characterises the fourth strategic position, when a country is against all others within level 2 negotiations. This position is usually considered dangerous since an isolated Member State faces the risk of exclusion, and may not greatly influence the design of EU programmes as an outsider. However, when unanimity is required within the European Council to overcome the Commission's opposition or to demonstrate a political consensus at level 2, the outsider's voice has a veto power. The outsider may block the decision process or bargain its agreement for side-payments.

8.4. The sources of pressure on national budgeting

Section four focuses on how national budgetary processes are constrained and identifies various sources of pressure on national budgeting. The intention here is not to provide a causal statement of why Europeanisation trends develop, but to describe how some pressures have obliged national bureaucratic mechanisms to adapt. The list in Table 8.2 is not exhaustive and the examples provided refer to the cases presented with more details in the core of the thesis.

Table 8.2. The pressures on national budgeting

Pressures	Description	Example	Limits to EU pressure
Competition	approximation of tax treatments to homogenise the cost of production factors	VAT and excise duty harmonisation	- more a consequence of globalisation - constraint depends on the mobility of tax base
Substitution	- financial: public resources - financial: public spending	contribution to the EU budget, European VAT CAP	voting procedure (e.g. unanimity on taxation), consensus-building strategies
	- policy: transfer of decision-making on spending from the national to the EU level	CAP	
Regulation	- binding	subsidies to public companies, relationships with the central bank	formal compliance
	- setting up an environment	VAT harmonisation, Maastricht criteria	derogations (e.g. zero-rating, excessive deficit ratios)
	- recommendations	corporate taxation	non-binding
Lobbying	- early identification of EU added value - recommendations on the design of EU scheme	TENs AIDS	non-binding
Demand by Member States	- policy stand: Member States want to be seen participating in EU policy	programmes on AIDS	interest in EU policy is not genuine, loose implementation
	- emulation: Member States copy one another	agri-environment programmes	rather an impact of globalisation
	- alibi	financing the TGV-East	EU pressures as a pretext for undertaking national policies

8.4.1. Competition

Economic competition contributes to the convergence of Member States' taxation because different tax treatments affect the cost of production factors. Increased competition in the Single Market sets economic pressures for the equalisation of tax treatments across competing countries. Therefore, competition in the EU has the consequence of a greater convergence of tax levels in the Member States, usually towards the lowest standards among competing countries. The stronger the pressure of competition, the greater the approximation of tax treatments. The thesis shows that the pressure of competition on the approximation of taxes depends on the mobility of tax bases. Because competition is more intense on mobile production factors and consumption goods, the degree of tax approximation in the EU depends on each tax (e.g. it is higher on capital rather than on labour, on internationally rather than on regionally-consumed products, and on transportable rather than on heavy or short-lived products). The pressure of competition is not identical within EU members since peripheral countries are less affected by EU trade flows.

Therefore, competition sets up pressures on public budgeting since it contributes to the approximation of taxation in the EU. However, the thesis shows that a limited number of taxes are concerned (mainly VAT, excise duties and the taxation of capital flows). Also, although competition is stronger in the EU because of the Single Market, the pressure of competition should be attributed to globalisation rather than to European factors specifically.

8.4.2. Substitution

Substitution refers to the transfer of responsibilities (e.g. spending, revenue collection and decision-making) from one level to another. Substitution is an important cause of transfer of national governments' sovereignty on budgeting to the EU level from both a financial and an institutional perspective. While public resources are collected nationally, part of these resources (VAT, national contribution to the EU budget) are transferred to EU institutions. Therefore, EU institutions are a substitute for central government as they become responsible for spending public funds. This substitution is important for financial and policy reasons: central governments lose not only resources but also control over how public funds are allocated and the responsibility for the policies undertaken. Ultimately, they surrender the authority to formulate norms and accountability for part of public policy. Substitution raises the question of the democratic control of EU policies since the European Parliament remains lacking in powers and is unable to replace the traditional control by national Parliaments.

This transfer of responsibility for the financing of public policies is supplemented by an institutional substitution mechanism. Decision-making processes on public spending have been increasingly transferred from the national to the EU level. With the recapitalisation of public companies and various public aid schemes EU institutions have the power of controlling the national budget or authorising the use of domestic funds. Decisions on public spending involve increasingly the EU level as a substitute for, or as an additional level to, the national level. This trend contributes to the greater complexity of budgetary decision-making processes.

8.4.3. Regulation

Regulation refers to the imposition of more or less binding rules by a competent authority on a lower institution compelled to comply with them. Regulation is a significant cause of Europeanisation since EU institutions may impose norms, targets, procedures and sanctions to promote desired 'European' outcomes, behaviours and institutions. For instance, Member States are bound to integrate a number of rules and requirements formulated at the EU level, such as the Maastricht criteria, and to integrate new procedures involving EU bodies into national budgetary processes. The adoption of the *Loi Quinquennale* in France explicitly emanates from the Maastricht obligations. Compliance is in theory an efficient factor of convergence: the British and the French budgetary institutions should become more alike since both must adapt to the same EU obligations.

However, the degree of compliance varies, since all EU regulations do not have the same obligatory power. Some rules are fully binding as they codify precisely institutional arrangements or the use of budgetary techniques. For instance, EU institutions prohibit overdraft facilities and privileged access of government authorities to financial institutions. This EU law put an end to the symbiotic relationship between the Banque de France and the government, with important budgetary implications for the financing of budgetary deficits. The conditions for granting central government subsidies to public companies are strictly defined and controlled at the EU level.[2] With fully binding regulations compliance is high and failure to comply is usually punished.

[2] For more details on the effect of the EU state subsidies regulation on national budgeting, see 3.1.3..

Regulation is an important cause of Europeanisation. However, imposed rules sometimes result in formal compliance achieved by the use of cosmetic techniques. With Air France the EU regulation on the re-capitalisation of public companies does not prevent the government from granting subsidies, but obliges the use of more complicated administrative and legal structures.[3]

Other EU regulations are binding and include sanctions, but they leave much margin of manoeuvre to national governments since they set up only a framework. For instance, the Maastricht Treaty requirement that national budgetary procedures should comply with the set guidelines leaves Member States responsible for defining which amendments are required since the Treaty stipulates objectives and not the means through which they should be achieved. The margin of manoeuvre in the interpretation of treaty articles explains why institutional changes may vary from country to country. Another limit to EU constraints lies in the frequent derogations granted to those Member States where EU regulations would have a great impact (e.g. zero-rating in the UK). Exemptions prevent EU regulation from producing wide-scale EU-related changes.

Finally, EU institutions produce a number of non-binding recommendations which are constraining for Member States only to the extent that national governments are willing to implement them. For instance the Commission recommended the abolition of zero-rating and the application of only two VAT rates.[4] These rules are not obligatory but

[3] For more details, see the introduction to chapter 7.
[4] Commission of the European Communities (1987), "Completion of the internal market: approximation of indirect tax rates and harmonisation of indirect tax structure", Com. 87 (320-322), (Brussels, CEC, 5 July).

they indicate the opinion of a key EU institution, sustain a cross-national debate and may be used as a pretext by national governments for undertaking policies with the political backing of the EU.

8.4.4. Lobbying

Experts and the private sector set up pressures on national budgeting. The thesis identifies three ways in which experts have influenced EU spending programmes in the Member States and have caused the adaptation of national bureaucratic mechanisms. First, national administrations and EU institutions have used concepts and conclusions of research studies by experts to initiate, legitimate or influence European spending programmes. The design of EU programmes, and ultimately EU policies, are largely dependent on experts. For instance, the thesis shows that the involvement of French transport experts within TENs favoured high-speed train networks, a sector in which French interests are strong.

Second, because the Commission emphasises independent expertise, national bureaucracies have modified the ways of representing national priorities. Both cases on transport and health reveal that national governments use private groups to represent and defend national priorities at the EU level. Private involvement is considered a more efficient method to influence decisions at the EU level.

Third, because the determination of EU health priorities largely involves independent private experts, the Departments of Health in Britain and France have reinforced their links with non-governmental organisations, to influence their views. Therefore, public health policy is increasingly influenced by the private sector, which itself may be strongly influenced by their national governments.

Table 8.3. Conditions favourable to the role of experts in EU decision-making

Conditions	Description	Example	Problems
Institutional: disjointed decision-making process	Institutional link between EU institutions and the private sector, excluding central government institutions	Health: AIDS	Lack of co-ordination between EU and national programmes
Scientific: lack of expertise	EU projects require the scientific backing of independent experts	Health: Comité des Experts Cancérologues	Greater complexity of decision-making processes
Strategic: power-dependence relationship	Experts need interest representation and EU institutions need scientific backing	Health: AIDS	Clientelism
Organisational: leverage effect	Early identification of potential EU added value on which enlarged scheme is based	Transport: TENs	Biased project definition
Internal: structure of the network	Structure of the network of experts, leadership	Transport: rail, road	Biased interest-representation

The thesis isolates several conditions favourable to the role of experts and identifies some problems. First, experts are sometimes called to participate in decision-making processes through institutional arrangements. The procedure for selecting projects in the AIDS programmes establishes a direct link between EU institutions and the private sector. Institutional arrangements for making the decision on how to allocate the EU budget rely strongly on experts. Therefore, EU policies are determined by the individual concerns of medical experts and may distort policies undertaken by national governments because of the lack of coordination between the two levels.

Second, the basic reason for the role of experts lies in the independent technical and professional expertise they provide for the selection of projects. Scientific criteria seem a better basis of choice than bureaucratic or political. Thus, EU institutions need to rely on outsiders from the private sector because they lack scientific expertise and credibility. The responsibility of EU institutions for health is recent in comparison with major international organisations, such as WHO, and with long-established leading public companies in transport infrastructure. Although the coming and going between the Commission's advisers add complications to the decision-making process, decisions are better accepted by the private sector when they have been involved in the making of the decisions.

Third, the role of experts is promoted by strategic factors, in particular the strong power-dependence relationship between them and EU institutions. EU institutions, because they lack scientific expertise, are strongly dependent upon specialists to become credible actors in new policy domains. Committees such as the Comité des Experts Cancérologues (Committee of Cancer Experts) give a scientific authority to EU programmes. Thanks to their participation in EU decision-making EU schemes are not pure administrative products but are designed by private-sector actors. In exchange for contributing their expertise the experts ask to be represented, as an interest, on EU institutions. EU programmes become a channel for the promotion of decisions supported by individuals and groups, as against by central governments. EU programmes can therefore be criticised as biased towards sectional interests and as failing to reflect a general public interest in health across the EU.

Fourth, the contribution of experts in the design of EU programmes is often because of organisational factors. Experts intervene early in the decision-making process by identifying potential EU added-value in some policy domains. With TENs the preparatory work of experts in 1990 defined and shaped a potential EU initiative on networks. While the project was revised many times afterwards and involved many more parties, the final project is largely inspired by this preparatory work and the suggestions of these experts in the early days.

Fifth, the role of experts and the private sector depends on internal factors, in particular the structure of their network. With health the role of British experts is greater than that of their French counterparts because of the structures of the private sector in the two countries. In the UK the private sector has traditionally been active and well organised and British associations are proportionally more successful in submitting bids for EU funding. EU policies have been largely influenced by British policies for AIDS. In France the private sector has not been traditionally involved in public health decision-making. Associations are dispersed and not organised into networks capable of effective lobbying. The DGS recognises that the structure of the French voluntary sector is a problem for French representation at the EU level, especially as EU institutions pay more attention to experts' advice. Therefore, the structure of private networks is a significant factor explaining the role of experts in different policy domains.

The thesis demonstrates that the increasing participation of experts in the determination of EU decision-making represents an obstacle to the good representation of national priorities at the EU level and to the coordination of budgetary decisions at national and

EU levels. The Health case shows the problems (duplication of public expenditure, distortions of policy, waste of money) caused by the lack of coordination of budgetary processes when private experts are preferred to departmental actors for the expression of national priorities at the EU level. The role of experts also suggests that national governments have little control over public expenditure in their own country.

8.4.5. Demand by Member States

EU policies are also promoted by Member States themselves, for motives that are not necessarily 'European'. First, Member States sometimes want to be seen participating in or initiating EU policy not mainly because of a genuine interest in that policy domain but rather for the effect on national and international actors. For instance, the DGS wanted the government to use the French presidency to launch a major EU health programmes because it would have been perceived as a political signal that the EU was responsible for health. Also, experts are often said to have played an important function in the promotion of vertical health programmes because they wanted the Commission to take the lead in high profile policies.[5]

Second, emulation is a cause of further Europeanisation because membership of the EU develops links between national actors. EU institutions become a forum for the exchange of ideas and the comparison of national practices. For instance, meetings of national representatives with their EU counterparts contributed to the selling of needles as a means to reduce the spread of AIDS in France. However, emulation is not a pressure specific to the European Union.

[5] This argument is based on various statements of senior civil servants quoted in 7.1.

Third, individual Member States sometimes use EU membership as a pretext for undertaking national policies that might be opposed by powerful national interests. For instance the abolition of the higher VAT rate in France, allegedly because of EU membership, was a decision of the French government since there was no EU obligation to do so. As a corollary Member States try to get national projects to fit into later EU programmes so as to qualify for EU financing. A large number of 'EU projects' are national projects which happened to meet the selection criteria for EU projects but were not designed as EU projects specifically. EU financing is a substitute for domestic financing since national governments were committed to undertake these projects on their own. In France the TGV-East project was given a European label to be selected among the TENs projects, although the French government was already committed to undertake it as a national project and had started work on it.

8.5. The future of budgetary Europeanisation within EMU

At the end of this concluding chapter, it is necessary to make some reflections on national budgeting in the third stage of Economic and Monetary Union. There is a great contrast between the current understatement of a European influence on public budgeting since 1970 and the strong expectations that national budgetary management is going to be greatly affected by EMU. National public spending is likely to be affected by European monetary integration as a result of two contradictory forces. On the one hand, because the government will lose traditional instruments of policy regulation, budgetary management will become a strategic tool for national governments to direct economic policy. On the other hand, since the EU is increasingly dependent on the budgetary performance of national states, the EU is expected to put pressures on governments to reach a degree of convergence or at least to produce budgetary outcomes considered compatible with EMU.

8.5.1. The instruments of economic regulation

Economic and Monetary Union has direct consequences for the use of regulatory instruments by central governments. First, budgetary management becomes a special instrument of policy regulation within EMU since central government will lose the domestic management of monetary policy and exchange rate adjustments for national economic stabilisation and demand management. Emphasis on budgetary and fiscal instruments could appear paradoxical in a period well-known for rejecting Keynesian principles and fine-tuning. In contrast, the focus is directed towards the structural impact of budgets on economic performance rather than on short-term stabilisation. Because monetary and exchange rate policies will be conducted by the EU, national economic performance will be determined to a greater degree by budgetary policy.

Second, the loss of monetary policy at the domestic level has several implications for budgetary management. Because money creation is determined by an independent central bank, budgetary deficits cannot be monetised any longer. However, the loss of seigniorage revenues[6] for the UK and France is almost nil since both these countries have emphasised the reduction of inflation as one of their main priorities for many years. The financing of a budgetary deficit will imply higher taxes and public

[6] Seignorage revenues are reductions in the public debt because inflation erodes the value of money.

borrowing or lower public spending, which raises the costs of financing deficits in a monetary union where fiscal competition between Member States is important. However, a single rate of monetary expansion in Europe will offer a stable context for forecasting and controlling public expenditure.

Third, the loss of exchange rate adjustments at the national level affects economic regulation and the financing of budgetary deficits. Member States will not be able to compensate for the higher interest rates required for financing budgetary deficits with exchange rate adjustments and changes in relative prices because EMU requires a single nominal interest rate in the EU. Because modifications in relative prices cannot be absorbed by differences in real interest rates, budgetary deficits imply changes in absolute prices and in quantities (the adaptation of which would be much more harmful to the economy if prices are rigid) and higher real interest rates for the whole Union.[7] Since budgetary policy does not provide the same functions as exchange rate adjustments (that is, immediate modification of relative prices, perfect flexibility of the price of financial assets), it is widely agreed that more budgetary co-ordination is required to encourage discipline in Member States, since the cost of budgetary deficits on interest rates is shared between all the Member States of the Union. This idea is basic to the Delors Report.

Fourth, the choice of national regulatory instruments is influenced by the decisions on subsidiarity. This principle, discussed in the Werner Plan in 1970, in the MacDougall Report (1977) and in the Padoa-Schioppa Report (1987), recognises the preference

[7] Wyplosz, Charles (1990), "Les implications budgétaires de l'union monétaire", *Observations et Diagnostics Economiques, Revue de l'OFCE*, 33 (Oct.): 155-172.

given to the most decentralised level of decision-making compatible with externalities. The principle of subsidiarity has two main implications for budgeting. First, taxing and spending matters remain largely for national states, which also have corresponding responsibility for the soundness of their public finances.[8] Second, an incidental result of subsidiarity is the separation of powers between the controllers of the money in circulation (the central banks) and the spenders (politicians).[9]

8.5.2. The impact of national budgetary policies

With EMU European economies will be increasingly connected financially and monetarily. This interdependence affects the impact of national budgetary policies. First, national budgetary and fiscal policies will be less effective in affecting domestic demand or supply because of the openness of the European economies. National fiscal policies are likely to lose much of their control over national output and employment. "Greater openness implies greater spill-overs of aggregate demand between the economies and, hence, reduces government spending multipliers."[10] Public choice theory suggests that policy-makers will seek to regain their leverage and restore the effectiveness of their policy instruments by co-ordinating their policy and centralising fiscal policy at EU level.

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[8] Hagen, Jürgen von and Harden, Ian (1994), *National budget process and fiscal performance*, working paper.

[9] Cowie, Harry (ed.) (1992), *Federal Trust conference report - Towards fiscal federalism? Delors II budgetary proposals 1993-1997* (London: Federal Trust for Education & Research).

[10] Welfens, Paul (ed.) (1991), *European monetary integration - EMS developments and international post-Maastricht perspectives* (Berlin: Springer-Verlag): 292.

Second, as a corollary of the preceding point budgetary policies implemented in one country will have direct repercussions on others. Fiscal externalities may produce distorting effects if Member States undertake divergent budgetary policies simultaneously. Such distortions were caused by the failure of the French expansionary budgetary policy in 1982 when the rest of the EC had adopted stringent policies. The French case illustrates how national budgetary policy can be ineffective in an open European environment without co-ordinated budgetary policies from other Member States.

Third, because the openness of the economies makes it difficult to assess national performance, financial markets may misprice the level of risk tied to national government debts, creating periods of unconstrained fiscal laxity.[11] Therefore, binding rules are justified if capital markets in the EU cannot adequately price individual risk differentials to offset the incentive for higher deficits by larger premia. The Delors report (art.30) argues that

> "to some extent the market forces can exert a disciplinary influence ... [but] market perceptions do not necessarily provide strong and compelling signals and that access to large capital market may for some time even facilitate the financing of economic imbalances ... The constraints imposed by market forces might either be too slow and weak or too sudden and disruptive."

Fourth, national budgetary and fiscal policies will in aggregate almost entirely determine the total European budgetary and fiscal position. The combination of a small European budget with fairly independent national budgets makes global fiscal

[11] Driffil, John and Beber, Massimo (eds) (1991), *A currency for Europe, the currency as an element of division or Union of Europe* (London: Lothian Foundation Press).

policy in EMU the incidental outcome of national decisions.[12] This fact reinforces the need for co-ordinated fiscal policy since it is still unclear, first, whether the single market will increase wage and price flexibility; second, whether shocks in the EU will be symmetric or not, transitory or permanent, and what is the time lag for the adjustment to transitional shocks;[13] last, whether the EU budget is large and efficient enough to act as an automatic stabiliser and to absorb asymmetric regional shocks in a roughly budget-neutral fashion for the whole union. Fiscal externalities and the incidence of asymmetric shocks require some policy co-ordination or centralisation to organise fiscal redistribution in Europe; but there is no consensus on the way to set it up.

The first possibility entails the centralisation of public spending at the European level. The MacDougall report supports this approach and argues that EMU is infeasible until the European budget reaches 5 to 7% of European GDP. Since the EU budget is financed by all Member States as a proportion of their wealth but not spent according to the share of their contribution, inter-regional income redistribution is achieved by the European budget procedure (namely, spending on areas of weak economic performance).[14] The efficiency of a centralised spending system involving automatic inter-regional transfers has been obvious to American observers such as Eichengreen, Sachs and Sala-I-Martin.[15] To some extent the Commission is moving in this direction

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[12]Wolfson in Fair, Donald and Boissieu, Christian de (eds) (1992), *Fiscal policy, taxation and the financial system in an increasingly integrated Europe* (Dordrecht: Kluwer Academic).
[13] Cohen in Wyplosz, Charles (1990), "Les implications budgétaires de l'union monétaire", *Observations et Diagnostics Economiques, Revue de l'OFCE*, 33 (Oct.): 155-172.

[14] Welfens, Paul (ed.) (1991), *European monetary integration - EMS developments and international post-Maastricht perspectives* (Berlin: Springer-Verlag).
[15] Eichengreen, Barry (1992), "Should the Maastricht Treaty be saved?", *Princeton Studies in International Finance*, 74 (Dec.) (Princeton: Princeton University).

with its call for a specific financial support scheme and the Delors II package. However, the European budget has none of the instruments of economic regulation. It is a marginal source of spending in the EU (1.2% of the European GDP in 1994-95); it has no borrowing rights and is therefore not entitled to run a deficit; and its decision mechanism prevents it from acting rapidly on aggregate demand. The EU budget is currently mostly allocative and increasingly redistributive but does not perform any stabilisation functions. [16] More importantly, centralisation of spending would require a higher degree of political unification than Member States are currently prepared to commit to. This statement is the conclusion of Lamfalussy (1989) who admits the advantages of budgetary federalism but considers this option not to be feasible politically. He recommends close policy co-ordination as an acceptable compromise solution. Therefore, the lack of political commitment to fiscal federalism explains the conservative approach adopted by the EU to budgeting and the extensive formal freedom left to Member States on national public spending.

Alternatively, fiscal redistribution to stabilise transitory regional shocks may be set up on the revenue side of budgeting with no public spending centralisation. Tax-based income redistribution would occur through automatic transfers among regions. These transfers would be subject to political discretion and would leave the spending and taxing power to national administrations. The theory of fiscal federalism suggests that national governments would better recognise the national priorities and that fiscal

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[16] Gretschmann, Klaus (ed.) (1992), *Economic and Monetary Union - Implications for national policy-makers* (Dordrecht: Martinus Nijhoff).

income redistribution favours competition among tax authorities.[17] Fiscal regulation lies in the logic of the Delors Report (§30) where it is noted that "the centrally managed community budget is likely to remain a very small part of total public sector spending."[18] It is supported by the US case of a monetary union working without significant mechanisms to balance regional shocks.[19]

Inter-regional income redistribution could also be left to the market which provides several mechanisms for economic regulation. First, inter-regional labour migration could regulate the economy by reallocating factors and modifying the structure of demand. However, the efficiency of this type of regulation depends on the flexibility of the labour market which is currently low because of language and cultural barriers. Second, domestic wage and price adjustment is not particularly credible because of the low flexibility of real wages in the EU, especially their lack of elasticity towards a decrease. Wages are not usually quickly responsive to monetary and exchange rate policies since changes in the value of money are thereafter offset by equivalent increases, leaving real wages unchanged.[20] Third, inter-regional flows of private and public capital are a countervailing force against lack of fiscal discipline. Public debt holders will ask for a premium in response to any undisciplined budgetary policy, therefore increasing the cost of issuing debt. According to the Padoa-Schioppa Report (1988), the high mobility of capital, enhanced by the liberalisation of financial markets,

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[17] Welfens, Paul (ed.) (1991), *European monetary integration - EMS developments and international post-Maastricht perspectives* (Berlin: Springer-Verlag).
[18] Driffil, John and Beber, Massimo (eds) (1991), *A currency for Europe, the currency as an element of division or Union of Europe* (London: Lothian Foundation Press).
[19] Hagen in Fair, Donald and Boissieu, Christian de (eds) (1992), *Fiscal policy, taxation and the financial system in an increasingly integrated Europe* (Dordrecht: Kluwer Academic).
[20] Eichengreen, Barry (1992), "Should the Maastricht Treaty be saved?", *Princeton Studies in International Finance*, 74 (Dec.) (Princeton: Princeton University).

puts a sufficient constraint on central governments to establish budgetary discipline without any further need for fiscal redistribution.[21] However, the efficiency of financial markets depends on their ability to assess and price risk correctly. Furthermore, market mechanisms may not be conducive to fiscal discipline since the cost of financing public debt is supported by all members of a monetary union. Therefore, the Community has called for more formal restraints with the explicit contention contained in the Delors report that capital markets are not efficient in this respect.

8.6. Conclusion

The thesis, by exploring budgeting comparatively and by uncovering material not previously presented (interviews and official documents), has revealed a variety of ways in which membership of the European Union influences budgeting in Member States and has demonstrated that national budgeting is involved in Europeanisation, defined as the process of adaptation of national bureaucratic mechanisms to the consequences of EU membership. While assessing budgetary Europeanisation, the thesis describes the extent to which national budgetary mechanisms are exposed to the process of adaptation to the EU at central and department' levels.

First, the thesis quantifies the impact of EU membership on national budgetary processes and demonstrates that membership of the EU is an important variable for the determination of national policy-making. It shows that budgetary Europeanisation

[21] Fourçans, André (1991), "L'union monétaire de l'Europe: fondements théoriques, problèmes et propositions", *Revue d'Economie Politique*, 1 (Jan.-Feb.).

processes are greater and different in nature from what could be presumed from an examination of the existing literature. Budgetary Europeanisation is a wide-ranging adaptation process affecting budgetary processes at the overall and at department levels in proportions that are not always related to the amount of finance involved. The thesis develops a new concept to explain the adaptation of national budgetary processes to EU budgeting. Hybridisation describes the growing interlocking between national and EU processes and represents a major contribution to the study of budgeting. Hybridisation argues that national and EU budgetary processes are entangled because budgetary decision-making is simultaneously made at the national and the EU levels with actors and institutions operating across boundaries. Therefore, hybridisation substantiates the hypothesis that the national level is an inappropriate context in which to study budgeting since EU factors must be introduced to explain budgetary decisions in a nation-state.

However, the thesis shows the limits of Europeanisation. Finance Ministries in Britain and France have tools to encourage or to reduce the impact of EU budgeting on departments' budgetary choices. At the same time, the thesis argues that through their participation in EU decision-making processes, national governments retain a large margin for national discretion in policy and policy-making because they succeed largely in 'nationalising' decisions at European Union level. 'Nationalising' here means that, since EU policy is determined by taking national policy priorities into account, EU policy is dependent on national governments and becomes an instrument for the achievement of national policy goals.

Second, the thesis determines three major characteristics of budgetary Europeanisation. First, budgetary Europeanisation shapes spending more than taxing. The thesis argues that the traditional approach over-emphasises the potential for a strong EU influence on taxation and on macroeconomic aggregates, while overlooking effects on spending. The thesis demonstrates that national governments remain largely sovereign on taxation and that formal constraints on macroeconomic aggregates are often ineffective. The thesis reveals the ways EU budgeting affects public spending at the macroeconomic and at departments' levels.

Second, budgetary Europeanisation affects the institutions more than figures, and the process of policy-making more than the substance of policies. The thesis highlights a paradox: the impact of EU membership on the adaptation of budgetary processes and methods did not often cause a change in policies. This argument suggests that national governments succeed in 'nationalising' EU policy through their participation in the EU decision-making. Therefore, budgetary Europeanisation involves a change in the locus of decision-making rather than in the actors in the process.

Finally, the Europeanisation of public budgeting affects practices and methods more than rules, which shows that Europeanisation processes are often informal and bottom-up. The thesis dismisses the compliance approach because the focus on formal rules is too narrow to capture the whole of Europeanisation. However, with hybridisation it underlines the role of actors in charge of reconciling budgeting at the national and at EU level. Therefore, the thesis substantiates the second hypothesis since it shows the adaptation of budgetary processes to EU membership depends on the frequency and intensity of interactions between national and European actors during policy-making.

Third, the thesis gives an appreciation of the adaptation of budgeting to EU pressures from a qualitative perspective and assesses the improvements and the problems this adaptation process involves. The thesis shows the impact of Europeanisation on complexity, but at the same time emphasises that coordination contributed to better known and more consistent policies at both levels. The thesis underlines the impact of accounting methods (Euro-PES) on the greater consistency of budgetary policies in Britain than in France.

Fourth, the thesis identifies five sources of pressure on national budgeting: competition, substitution, regulation, lobbying and demand by Member States. It demonstrates that EU pressures emanate from different – sometimes competing – sources and may be formal or informal. In particular, lobbying is sometimes a source of distortions between budgeting at the national and the EU level. The thesis demonstrates that budgeting at the European Union level does not necessarily imply a 'hollowing' and a loss of power of the nation-state. Through their participation in EU decision-making, national governments succeed largely in influencing European Union pressures on national budgeting to protect national budgetary priorities.

Appendices

Appendix 1.1.

Methodological annexe

The thesis is based on three main sources: data analysis, an assessment of the literature on administrative systems, and elite interviewing.

A. The problems of data analysis

With macroeconomic budgetary aggregates such as the tax pressure (ratio of taxes to GDP), the size of the public sector, the budgetary deficit and the public debt, it is difficult to show the influence of EU membership for two reasons. First, there is a problem of determining the variables of Europeanisation. With the budgetary deficit and the public debt it is possible to argue that a Europeanisation effect is revealed in the convergence of budgetary outcomes towards the standards defined at the EU level. In this case, the Europeanisation of budgeting is shown by the convergence of some macroeconomic budgetary aggregates. Analysis of British and French deficits and debt data does not illustrate such a convergence trend and supports the view that there is little influence of the EU on public budgeting.

With the other macroeconomic budgetary aggregates there is a problem in determining the variables which could indicate Europeanisation trends. On a large number of aggregates (e.g. the size of the public sector, tax pressure, government consumption, the size of transfers and the main sources of revenue) there is no 'EU standard' with which to compare national figures. For instance, there is no indication of what a

‘European’ tax pressure is or should be. Therefore, it is possible to compare the British with the French budgetary aggregates, but there is a lack of variables to indicate whether the British and the French budgets are becoming Europeanised.

Second, it is difficult, for methodological reasons, to establish a link of causality between changes in budgetary figures and European influences. Proving the convergence of macroeconomic budgetary aggregates is not sufficient to prove that these aggregates converge because of EU membership, because of the possible influence of globalisation for instance. Also, the Europeanisation of budgeting does not necessarily require that budgetary aggregates converge. It is arguable that Europeanisation trends may induce different tax and spending behaviours in different Member States. Therefore, budgetary Europeanisation is distinct from the convergence of budgetary outcomes. For these reasons methodological problems inhibit the use of much data analysis in the thesis.

B. An assessment of the literature

There is a dual gap in the literature on budgetary Europeanisation. First, there is little material on the subject at all. The bibliography shows that budgetary Europeanisation has never been the subject of a book; most studies have been chapters. Most of the budgetary literature reviews EU variables in a few pages and consequently presents two biases: a normative bias, with authors focusing on what should be changed in public budgeting because of EU membership; and a compliance bias, with scholars emphasising EU obligations for public budgeting. The thesis identifies this gap in the literature and aims to fill it. This lack within the literature increased the need to rely on official sources and primary sources such as interviews.

Second, existing works on budgetary Europeanisation are not exempt from criticisms. Recent investigations have relied on a traditional approach of public budgeting (Heclo and Wildavsky, 1974) which is outdated since it predates EU integration. This literature is characterised by its 'nationalist' focus since budgeting is described as a process internal to national governments. The traditional description of public budgeting excludes non-national variables and does not explain how budgetary methods and processes are affected by EU integration. In addition, contemporary literature on EU integration processes plays down or ignores the effect of the EU on public budgeting. Public budgeting is not often taken as a case for the study of administrative convergence in the EU. When discussed, the impact of EU membership on budgeting is approached with a narrow focus, e.g. the cost of financing the EU budget, the scope for independent fiscal policy[1] and the sanctions from the EU.[2] Two authors[3] have introduced EU integration criteria for assessing national budgetary institutions in EU member states but their normative approach lacks empirical support and omits changes in methods and practices.

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[1] CEPII-OFCE (1990), "Vers une fiscalité européenne?", *Observations et Diagnostics Economiques, Revue de l'OFCE*, 31 (Apr.),121-189; Cahiers Français (1993), "Le budget de l'Etat", *Cahiers Français*, 261 (May-June) (Paris: La Documentation Française); Berlin, Dominique (1989), "L'élimination des frontières fiscales dans la CEE", *Droit et Pratique du Commerce International*, 15: 35-74.

[2] Fair, Donald and Boissieu, Christian de (eds) (1992), *Fiscal policy, taxation and the financial system in an increasingly integrated Europe* (Dordrecht: Kluwer Academic).

[3] Hagen, Jürgen von (1992), "Budgeting procedures and fiscal performance in the European Communities", in Commission of the European Communities, *Economic Papers*, 96 (Oct.); Wildavsky, Aaron and Zapico-Goni, Eduardo (eds) (1993), *National budgeting for Economic and Monetary Union* (Dordrecht: Martinus Nijhoff).

C. Elite interviewing: definition of the sample and problems encountered

Elite interviewing was conducted from November 1994 to April 1995. It was based on open-questions to allow civil servants to use their own terms and not to orient their answers or their vision of Europeanisation. Interviews lasted for at least one hour. They were recorded, then transcribed thoroughly so that any information or argument may be quoted or noted accurately.

3.1. The representation of departments and countries: institutional classification

Chapters 5 to 7 focus on intermediate level decisions, on departmental programmes and on power-dependence relationships between actors, since they study budgetary Europeanisation from the departmental perspective. They investigate the influence of EU membership on budgeting in three spending ministries (Agriculture, Transport and Health). These three departments were selected because they offer representative cases of Europeanisation. The EU has influenced policy in their jurisdictions to varying extents and with varying time lags. We hypothesise budgetary Europeanisation is proportional to the degree of policy integration in a sector. The more integrated a sector, the more constrained are national budget actors and the more budgetary decisions are influenced by the EU. This hypothesis implies that Agriculture should be the department in which the influence of the EU is the greatest and Health the department where EU influence is the most marginal, with Transport lying in-between the two.

Table A. *The representation of institutions: classification per country, department and bureau*

	Treasury	Agriculture	Transport	Health	CO/SGCI*
UK dom.	3	9	8	3	-
UK Europe	2	2	2	1	2
Fr dom.	8	1	2	2	-
Fr Europe	3	3	2	2	4
Total	16	15	14	8	6

* the Cabinet Office and its French counterpart, the Secrétariat Général du Comité Interministériel.

*** Classification per department**

A total of 59 British and French civil servants were interviewed. The Ministries of Agriculture and the Departments of Transport are equally represented within the sample (15[4] and 14 interviews respectively). The lower number of interviews at the Departments of Health (8) reflects the fact that they are smaller departments within national administrations and that European bureaux within the Departments are recent.

In addition to these three departments, 16 interviews were conducted within the British and the French Finance Ministries (HM Treasury, Customs and Excise, Board of Inland Revenue, Direction du Budget and Direction Générale des Impôts). Interviews with Finance Ministry officials had two aims. First, meetings with heads of sectors (e.g. Head of Agriculture) complemented the discussions with departmental actors. Second, interviews with senior civil servants such as former Directeurs du Budget provided an overview on budgetary Europeanisation at the highest administrative level. The last type of department was the Cabinet Office (2 interviews) and its French counterpart the SGCI (4).

[4] including one interview at the Intervention Board.

*** Classification per bureau**

Inside government departments two types of civil servants were interviewed. Of the 59 civil servants interviewed, 31 came from a bureau in charge of European affairs, and 22 represented domestic financial and policy interests (6 non-allocated). It was important to gather information from representatives of both bureaux since they reflected complementary and sometimes contradictory rationales and strategies.

*** Country representation**

Finally, with a comparative study it was important to allow for an equal representation of British and French civil servants. Of 59 interviews, 32 took place with British civil servants and 27 with French ones.

3.2. The representation of the three sectors within the sample

The classification per department is not perfectly appropriate to account for the representation of country representatives of each sector (Agriculture, Transport and Health). For instance, Table A gives the impression that French opinions were under-represented on Agriculture (4 interviews as against 11 in Britain) and Transport (4 as against 10 in Britain). Table B corrects this impression by classifying interviewees not by department but by sector.

Table B. Classification per sector

	Agriculture	**Transport**	**Health**
United Kingdom*	14	10	5
France*	12	6	6
Total*	26	16	11

* Six civil servants (3 British and 3 French) out of the 59 civil servants met are not counted in Table B since their position is not linked to one particular sector (e.g. taxation and budgetary procedure).

Table B shows that the country representation for each sector is much more even than suggested in Table A, e.g. 14 interviews with officials dealing on Agriculture in Britain as against 12 in France (10 and 6 respectively on Transport). The reason for such a great difference within the results of both tables lies in the apparent over-representation of French Finance Ministry officials. Most of these civil servants are in fact in charge of sectors. The approach by sector is more valid than the classification per department because it cancels country differences of administrative organisation.

3.3. Functional classification and the representation of various groups within the budgetary process

Table C. *Elite interviewing: functional classification*

	Domestic Finance	Domestic Sector	Relations with Europe
United Kingdom*	6	15	8
- Agriculture	3	7	4
- Transport	2	6	2
- Health	1	2	2
France*	5	4	13
- Agriculture	3	1	8
- Transport	1	2	3
- Health	1	2	3
Total*	11	20	22

* Six civil servants (3 British and 3 French) out of the 59 civil servants met are not counted in Table C since their position is not linked to one particular sector (e.g. taxation and budgetary procedure).

The functional classification aims at sharpening what was said about the classification by bureaux. The sample of civil servants may be classified into three groups depending on their function in the budgetary process. Of the 53 officials fitting in the functional classification, 22 are responsible for relations with the EU for their sector. They form a substantial part of the sample because their function is important within budgetary

Europeanisation. These officials are in charge of representing national priorities at the EU level, informing national actors of the opportunities and problems because of EU negotiations, and reconciling domestic and EU positions. The same proportion of officials interviewed were in charge of domestic sectoral policy. They represent national policy interests and are involved in budgetary negotiations. It was important to know how Europeanisation trends affected this policy-making. Finally, 11 civil servants were finance specialists for a sector and their contact was useful to understand the financial challenges implied by budgetary Europeanisation.

3.4. The problems encountered

Two main methodological problems were encountered with elite interviewing. First, there is the problem of meeting the counterpart of each civil servant interviewed in a country. The need to find 'matching positions' was a constant priority when selecting the sample. However, there are 'hard cases', e.g. it was impossible to meet a former Chancellor of the Exchequer to balance the interviews with two former Directeurs du Budget. Also, the British and the French bureaucracies are organised in different patterns and with different definitions of roles. It is sometimes impossible to find the opposite numbers of French officials because they simply do not exist in the UK, and vice versa. For instance, the functions of the Chancellor of the Exchequer are not that of a Directeur du Budget. Similarly, institutions are not always similar although they might look so. For instance, the Cabinet Office does not have the same functions as the SGCI and the DGS as the DOH.

Second, the reliance on elite interviewing creates a problem of data protection which is greater in a thesis where sources need to be quoted. The recording of about 90% of the interviews allowed accurate quotations in English and French (any mistakes in the translation of the French quotations are my own).[5] The list of all civil servants interviewed is in Appendix 1.2.

[5] About 10% of the civil servants interviewed did not want the conversation to be recorded.

Appendix 1.2.

List of interviews

Name	Position	Date
Jean-Marc Andrieu	European and International Affairs Division Ministère de l'Agriculture	6 March 1995
René Barlet	Head of European Community Division Ministère de l'Equipement, des Transports et du Tourisme	30 January 1995
Marc Berthiaume	Head of Social Sector Secrétariat Général du Comité Interministériel pour les Questions de Coopération Economique Européenne	27 April 1995
Mariane Berthod-Wurmser	Director Mission Interministérielle de Recherche Expérimentation Ministère des Affaires Sociales, de la Santé et de la Ville	3 February 1995
Robert Bishop	Head of International Shipping Policy Division A Department of Transport	27 March 1995
Daniel Bouton	Former Directeur du Budget Former Head of European Community Bureau Direction du Budget	31 January 1995
Michael Brown	Head of International Relations Unit Department of Health	10 January 1995
J. M. Brownlee	Head of Finance Division Department of Health	8 February 1995
Christine Buhl	Head of European Affairs (Bureau 7-B) Septième Sous-Direction Direction du Budget	8 March 1995

A. Burchell	Head of Railway Economics Division Railways 1 Directorate Department of Transport	17 March 1995
Marie-France Cazalere	Head of Agriculture Secrétariat Général du Comité Interministériel pour les Questions de Coopération Economique Européenne	27 April 1995
Philip Chorley	Desk Officer in charge of Education, Culture and Health European Secretariat Cabinet Office	17 February 1995
Jean Choussat	Former Directeur du Budget Direction du Budget	8 March 1995
David Cooke	Head of Division III International Aviation Directorate Department of Transport	23 March 1995
Neil Cumberlidge	Head of Farm Woodlands Branch Land Use and Tenure Division Ministry of Agriculture, Fisheries and Food	15 February 1995
Trevor Denham	Market Task Force Division Ministry of Agriculture, Fisheries and Food	9 February 1995
Mike Divver	Sheep and Livestock Subsidies Ministry of Agriculture, Fisheries and Food	14 February 1995
Julien Dubertret	Budgetary Synthesis (Bureau 1-A) Première Sous-Direction Direction du Budget	18 April 1995
Mike Dudding	Chief Scientist's Unit Department of Transport	8 December 1994
Andrew Eldridge	Head of Branch A Countryside Division Ministry of Agriculture, Fisheries and Food	13 January 1995
André Ernst	Head of European Affairs Bureau de la Communication et des Relations Européennes et Internationales Direction Générale de la Santé	23 November 1994
Simon Evans	Highways Policy and Programmes Department of Transport	17 March 1995

Alain Fayard	Head of European Affairs Direction des Routes Ministère de l'Equipement, des Transports et du Tourisme	19 April 1995
Laurent Garnier	Head of Health (Bureau 6-B) Sixième Sous-Direction Direction du Budget	8 March 1995
Marie-Claire Grima	Head of Transport and Regional Policy Sector Secrétariat Général du Comité Interministériel pour les Questions de Coopération Economique Européenne	21 April 1995
Jérôme Grivet	Head of European Economics and Finance Secrétariat Général du Comité Interministériel pour les Questions de Coopération Economique Européenne	10 March 1995
Jean-Pierre Guillon	Head of Agriculture (Bureau 7-A) Septième Sous-Direction Direction du Budget	1 February 1995
Lindsay Harris	Head of Agri-Environment Protection Branch Environmental Protection Division Ministry of Agriculture, Fisheries and Food	15 February 1995
Michael Harrison	Environment Task Force Division Ministry of Agriculture, Fisheries and Food	15 February 1995
Ivan Hockley	Local Transport Policy Division Department of Transport	8 December 1994
Nicholas Ilett	Head of European Community Division II HM Treasury	11 January 1995
Graham Jenkins	Finance Director Intervention Board	14 March 1995
Françoise Lalanne	Head of European Affairs Ministère de l'Agriculture	6 March 1995
Patrice de Laurens de Lacenne	Head of European and International Affairs Ministère de l'Agriculture	6 March 1995

Andrew Lebrecht	Head of European Community Division I Ministry of Agriculture, Fisheries and Food	9 January 1995
Anne Lebrun	International Relations Division Ministère des Affaires Sociales, de la Santé et de la Ville	24 April 1995
Roger Lejuez	Director, Mission Europe Equipement Direction des Affaires Economiques et Internationales Ministère de l'Equipement, des Transports et du Tourisme	9 March 1995
George Lloyd	Private Secretary Board of Inland Revenue	27 March 1995
Louise Maderson	AIDS Unit Department of Health	13 February 1995
Bernard Merkel	Department of Health Formerly seconded to the Commission of the European Communities on AIDS	29 November 1994
Franck Mordacq	Head of Transports (Bureau 4-B) Quatrième Sous-Direction Direction du Budget	8 March 1995
François Moutot	Head of Bureau 2B1 Direction Générale des Impôts	18 April 1995
Peter Nash	Head of Finance Division Ministry of Agriculture, Fisheries and Food	19 December 1994
David North	Desk Officer in charge of Agriculture European Secretariat Cabinet Office	6 February 1995
Jean-Claude Paille	Financing of the Agriculture Ministère de l'Agriculture	7 March 1995
Stephen Reeves	Head of Finance Transport Programme Department of Transport	8 December 1994
Jean-Louis Rohou	Deputy Sous-Directeur Sous-Direction des Chemins de Fer Ministère de l'Equipement, des Transports et du Tourisme	9 March 1995

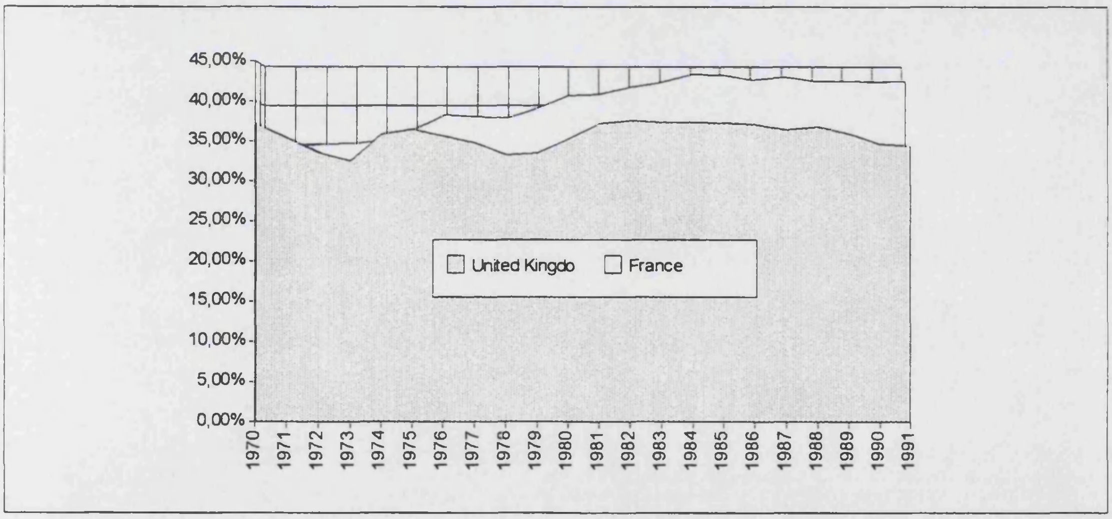
David Rossington	Head of Beef Division Ministry of Agriculture, Fisheries and Food	14 February 1995
E. Routledge	Head of Branch C European Community Division I Ministry of Agriculture, Fisheries and Food	9 January 1995
Philippe Sauvage	European Affairs (Bureau 7-B) Septième Sous-Direction Direction du Budget	29 December 1994
Alan Sharples	Assistant Secretary Fiscal Policy Division HM Treasury	7 February 1995
Pierre Soccoja	AIDS Division Direction Générale de la Santé	7 March 1995
Claire Spink	European Division II Department of Transport	8 December 1994
Handley M. G. Stevens	Former Director Public Transport London Directorate Department of Transport	17 November 1994
Tim Sutton	Head of Agriculture HM Treasury	1 March 1995
Claude Trupin	Chargée de Mission auprès du Sous-Directeur Conseiller Référendaire à la Cour des Comptes Première Sous-Direction Direction du Budget	1 February 1995
Jean-Eric Vimont	European Affairs (Bureau 7-B) Septième Sous-Direction Direction du Budget	29 December 1994
Ian Walton	Head of International Policy and Liaison Branch Strategy and International Division Customs Directorate, Customs and Excise	28 February 1995
C.M. Woodman	Head of Division Highways Policy Division Department of Transport	17 March 1995

Appendix 2.1

A comparison of British and French tax structures
The evidence from data

The aim of this section is to offer empirical evidence to support the propositions in chapter 2. Appendix 2.1. presents and analyses selected British and French budgetary data from 1970 to 1992. All figures are based on Eurostat data unless otherwise specified.

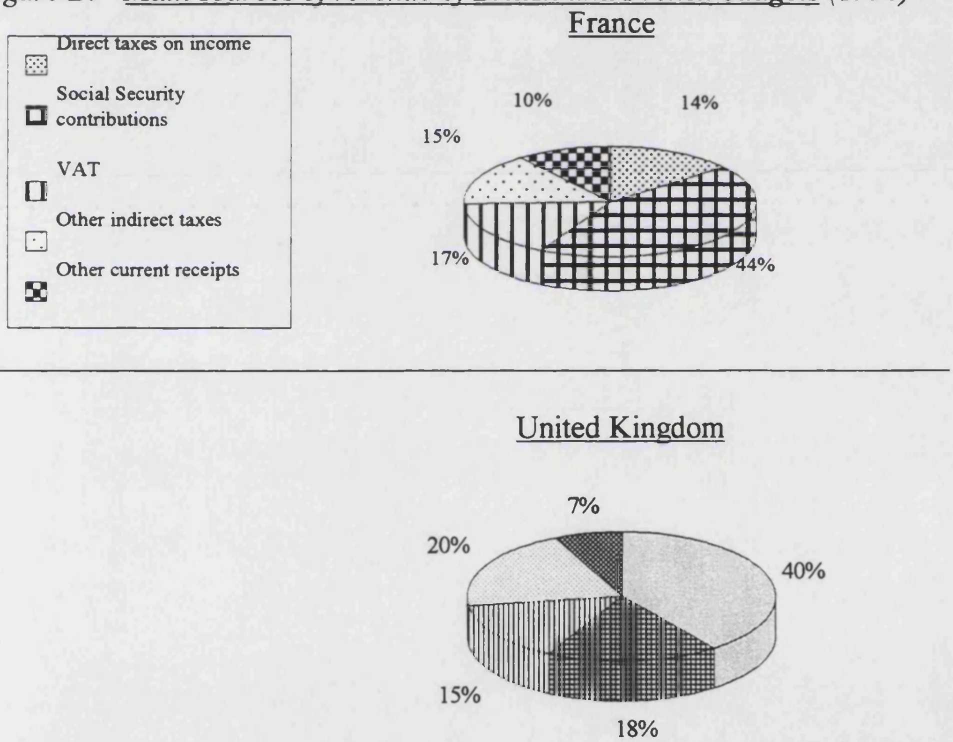
Figure A. *Tax burden in the United Kingdom and France (the ratio of total taxes and social security contributions to GDP)*



Tax burden is defined as the ratio of taxes (direct and indirect) and social security contributions to Gross Domestic Product. It reflects the amount of resources drawn from national wealth and transferred from private agents to the government for reallocation. Tax burden indicates the state's 'weight' on the private economy, since public administration activities add little to national output.

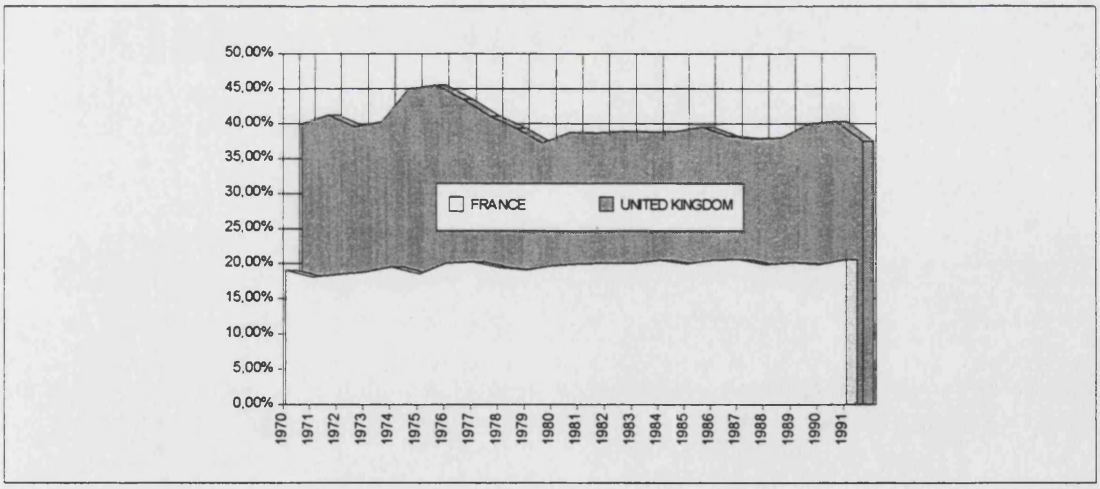
In comparison with other Member States, the tax burden in the United Kingdom is one of the lowest (constantly under 37%) while France maintains its tradition of interventionism with the second highest tax burden (exceeding 40% since 1981). However, the main feature of British and French tax burdens is continuous stabilisation since the mid-1980s despite recurrent economic crises. Stabilisation since 1985 in France represents a major reversal within the context of continuous increasing tax levels which prevailed since 1971.

Figure B. *<u>Main sources of revenue of British and French budgets</u> (1990)*



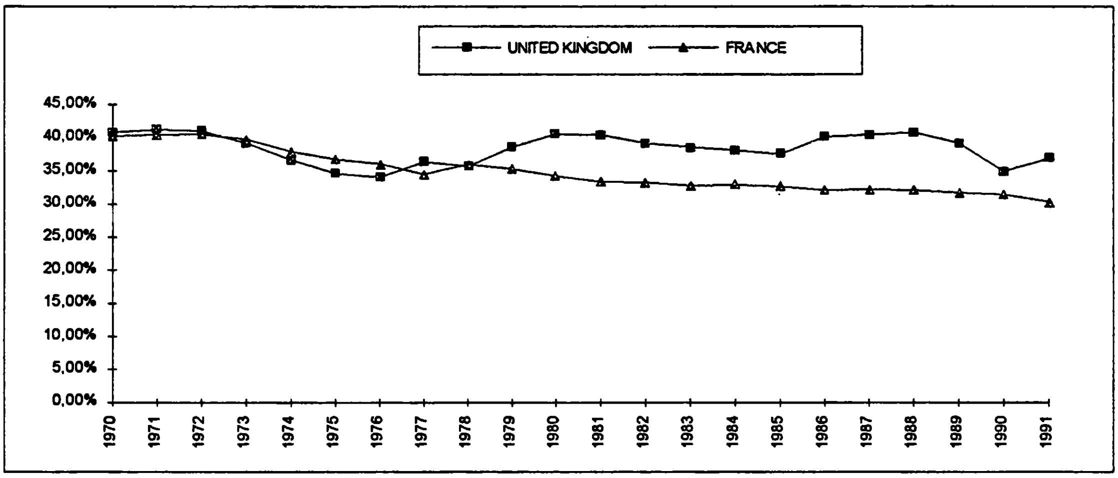
The respective proceeds from direct taxes on income and social security contributions differ greatly in the United Kingdom and France. The share of these sources of income is approximately inverted in France (respectively 14% and 44%) and the United Kingdom (40% and 18%). The share of personal income tax is particularly small in France (5.7% GDP) when the EU average is 11.2% and OECD is 12%. In addition, the share of social security contributions increased more rapidly in France than in the United Kingdom. Therefore, differences in the share of receipts financed by social security contributions tend to increase.[1] By comparison with the United Kingdom France relies less on income taxation and more on social transfers and taxes on labour. The UK favours taxes on profits, wealth and incomes. The contrast between direct taxes and social security contributions mainly reflects differences in the financing of the social security system.

Figure C. *Budget receipts derived from direct taxes*



[1] 17 points in 1963, 20 points in 1970, 24 points in 1980 and 26 points in 1990.

Figure D. *Budget receipts derived from consumption taxes*



Until 1976 the relative share of receipts derived from consumption taxes declined in the United Kingdom and France. A breakdown occurred following the shift from direct to indirect taxation in the 1978-79 Budget in the UK, which stands in contrast to the world-wide trend of reducing consumption taxes. As a result the share of indirect taxes decreased by 15 points in France from 45% (1963) to 30% (1990). In the meantime the UK, during the second period, nearly offset the decrease obtained between 1963 and 1976, and was therefore very close in 1988 to the level of 1963.

The structure of indirect taxation evolved substantially during this period as a result of the broadening of the VAT base, the rationalisation of the VAT structure and changes in the mix of consumption taxes. In the UK consumption switched increasingly from taxes on commodities (excise duties), which distort consumption patterns, to broad-based consumption taxes.

Figure E. <u>*Budget receipts derived from social security contributions*</u>

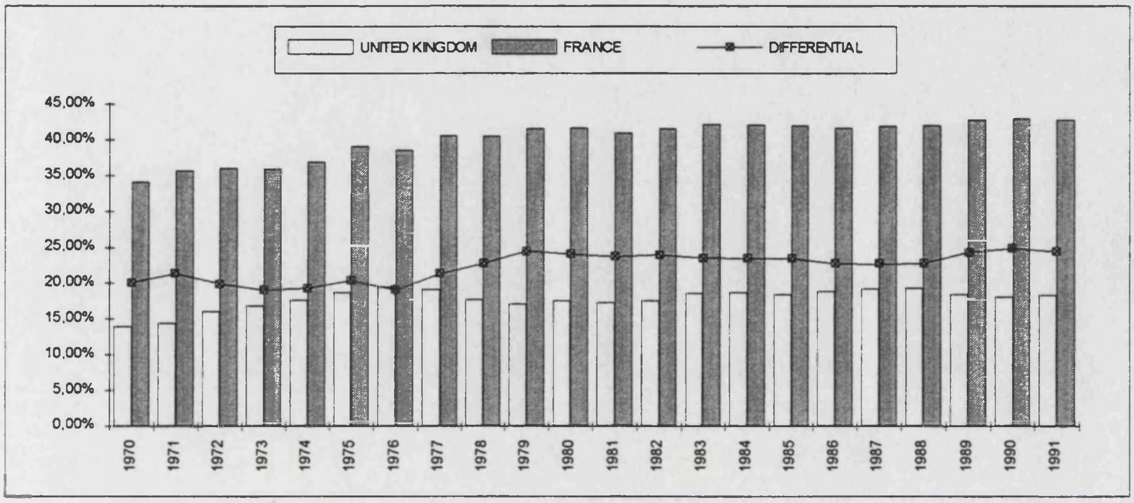


Figure F. <u>*Budget receipts derived from capital taxes*</u>

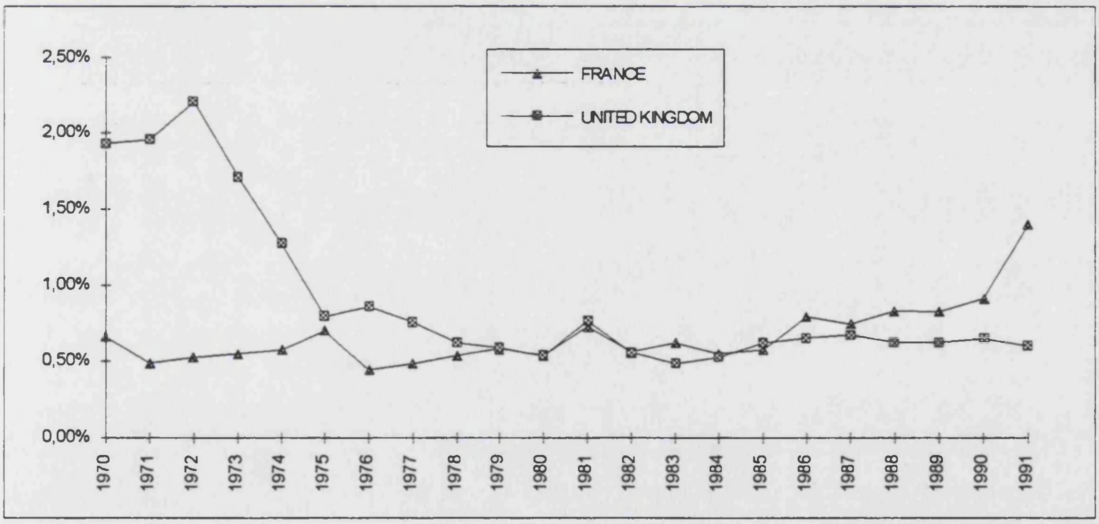
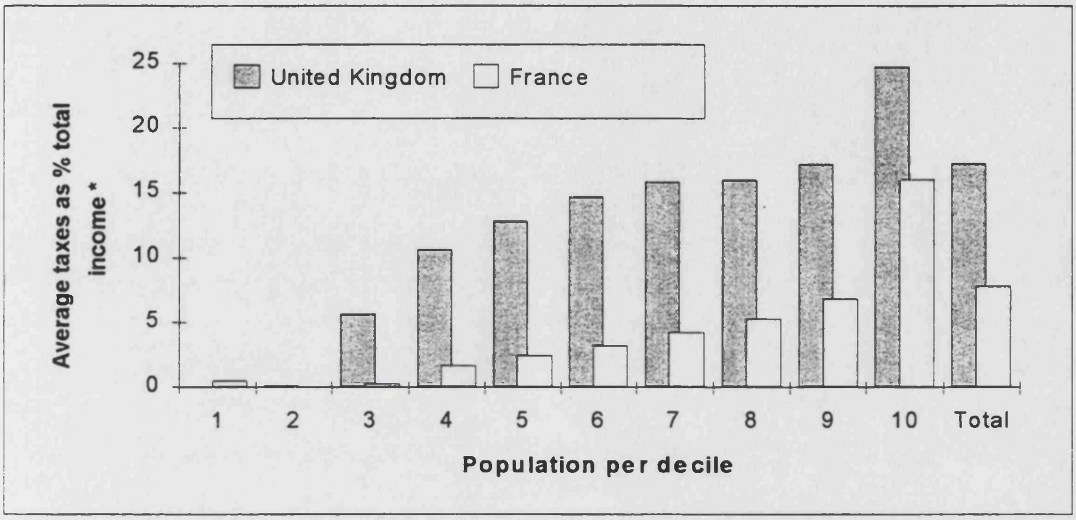


Figure G. *Income tax progressiveness: average net taxes per decile (1987)*



Source: OECD (1990) "The personal income tax base" in *OECD Studies in Taxation* (Paris)

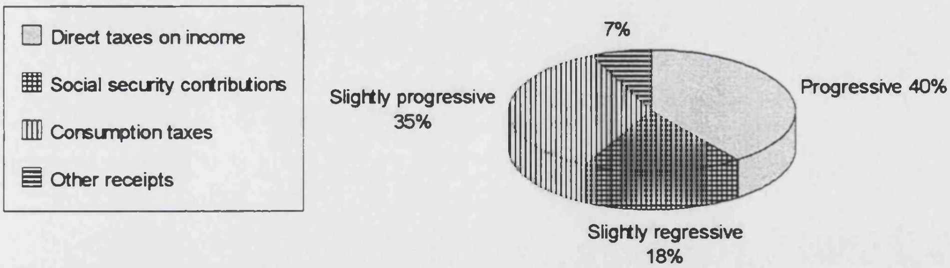
Because of its narrow tax base, its tax rate structure and various allowances such as the family quotient, France is the OECD country where the average income tax is the lowest and where progressiveness is far less than in other European countries. The UK income tax system seems much more developed but the average tax rate occupies a middle position among OECD countries. While the average tax rate for the first two deciles is similar in the UK and France, the attribution of the tax burden among social classes is very different: French tax rules favour low and middle-income taxpayers, while the upper and middle classes contribute to a very large extent to the financing of the UK budget. For instance, the average tax rate for the fourth decile is 10.62% in the UK as opposed to 1.65% in France. Only for very high incomes subject to the 56.8% tax rate (i.e. the 1% highest income earners) is the French personal income tax system progressive.

The following conclusions can be made:

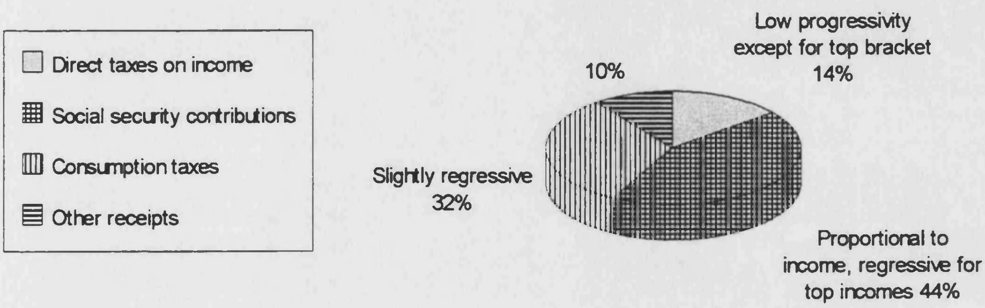
(a) The French tax system is far less progressive than the English. Income tax, is comparatively less developed than in the UK, because of the narrowness of the tax base and the low average tax rate. Second, the French indirect taxation system is slightly regressive, while the British system is slightly progressive because of the extensive use of zero-rating and VAT exemption in the UK. Third, the French tax system relies heavily on social security contributions, which are proportional to income and regressive for very high incomes. Regressiveness of the British social security contributions has less impact on the progressiveness of the whole system of taxation since their share in the financing of the budget is small.

Figure H. *The progressiveness of the British and the French tax systems (1990)*

United Kingdom



France



(b) The French tax system is characterised by a redistribution of income to the middle class to the detriment of low income (because of the impact of social security contributions and VAT) and very high income earners (because of the maximum tax rate). The English tax system favours income redistribution from the middle class to the poorest two deciles of the population. The income tax and the VAT system seem to ensure a high degree of equity for modest income earners.

(c) It is difficult to estimate the overall efficiency of the British and French tax systems. If we define efficiency from the perspective of the tax collector, i.e. as the ability of taxes to raise revenue, we can argue first that British income tax is much more efficient than the French, which is extremely complicated, with numerous deductions, exemptions and tax brackets. The complexity of the French IRPP is not at all a guarantee of its equity, and simpler methods could create similar results. Second, the French VAT system is a good revenue raiser and the system is well perceived. Third, the social security contributions used to be good income raisers in France but are increasingly criticised.

Appendix 2.2

VAT rates applicable in EC members as at 1st April 1987

Member States	Reduced rates	Standard rates	Increased rates
Belgium (1)	1 - 5	17 - 19	25 - 25+8
Denmark (1)	-	22	-
France (2)	2.1 - 4 - 5.5 - 7	18.6	33.3
Germany	7	14	-
Greece	6	18	36
Ireland (1) (3)	2.4 - 10	25	-
Italy (1)	2 - 9	18	38
Luxembourg	3 - 6	12	-
Netherlands	6	20	-
Portugal (1)	8	16	30
Spain	6	12	33
UK(1)	-	15	-

(1) Countries applying a zero rate on some operations
(2) For cars: 28%
(3) Standard rates from 1st March 1990: 23%

Source: Commission of the European Communities (1987)

Appendix 2.3

VAT rates applicable in EC members as at 1st October 1992

Member States	Reduced rates	Standard rates	Increased rates
Belgium (1)	1 - 6	17 - 19	25 - 33
Denmark (1)	-	22	25
France (2)	2.1 - 5.5	18.6	22
Germany (3)	7	14	-
Greece	4 - 8	18	36
Ireland (1)	2.3 - 10 - 12.5	16 - 21	-
Italy (1)	4 - 9	19	38
Luxembourg	3 - 6	15	-
Netherlands	6	17.5	-
Portugal (1)	5	16	30
Spain	6	15	28
UK (1)	-	17.5	-

(1) Countries applying a zero rate on some operations
(2) Standard rate from August 1995: 20.6%
(3) Standard rate from January 1993: 15%

Source: Dessaux, Pierre-Antoine (1993) "Les implications fiscales de l'Europe Communautaire", *Cahiers Français*, 261 (May-June) (Paris: La Documentation Française) : 65.

Appendix 2.4

Excise duty rates applicable in EC Member States as of 2nd January 1991

Member States	Cigarettes (1)	Spirits (2)	Petrol (3)
Belgium	4.67	4,504.94	293.88
Denmark	77.06	1,816.16	285.76
France	2.63	1,123.36	401.60
Germany	30.24	1,247.72	293.58
Greece	1.25	187.53	208.24
Ireland	51.53	2,614.16	361.70
Italy	2.4	401.83	556.22
Luxembourg	2.06	900.59	212.35
Netherlands	26.26	1,378.34	341.98
Portugal	2.73	274.64	523.52
Spain	1.15	556.80	333.62
United Kingdom	49.43	2,456.75	275.98
EC average (4)	21.00	1,205.20	340.79
CEC min rate (5)	15.00	1,118.50	287.00
CEC target rate (6)	21.50	1,398.10	445.00
Ecofin (7)	57% sale price	1,118.50	287.00

(1) Specific part only; per 100
(2) Per hl.
(3) Unleaded; per hl.
(4) Unweighted EC average
(5) Commission's proposal of February 1991, minimum rate
(6) Commission's proposal of February 1991, target rate
(7) Ecofin proposal of June 1991; minimum rates

Source: European Commission (1993), "The economics of Community public finance", *European Economy Report and Studies*, 5: 556.

Appendix 2.5

Minimum excise duty rates in the 1992 Council Directives

Alcohol and alcoholic beverages (1)	Member States to apply minimum rates of excise duties by 1.1.93 - 550 ECU her hl. of pure alcohol with limitations in the reduction of existing rates: where the rate applied is less than 1000 ECU, the rate may not be reduced; where it is more than 1000 ECU, it may not be less than 1000 ECU - 45 ECU per hl. on intermediate products - no minimum on wine - 0.748 ECU per hl. / degree plato or 1.87 per hl. / degree of alcohol of finished product on beer
Tobacco (2)	- 5% retail selling price on cigar and cigarillos or 7 ECU per 1000 items or kg - 30% retail selling price on fine-cut smoking tobacco or 20 ECU per kg - 20% retail selling price on other smoking tobacco or 15 ECU per kg
Cigarettes (3)	57% retail selling price on cigarettes
Mineral oils (4)	- 337 per 1000 litres on leaded petrol - 287 per 1000 litres on unleaded petrol - 18 per 1000 litres on gas oil - 18 per 1000 litres on heating gas - 13 per 1000 kg on heavy fuel oil - 100 per 1000 kg on liquid petroleum gas and methane - 245 per 1000 kg on kerosene

Sources:

(1) Council regulation 92/84/EEC on the approximation of rates of excise on alcohol and alcoholic beverages, 19 Oct. 1992.

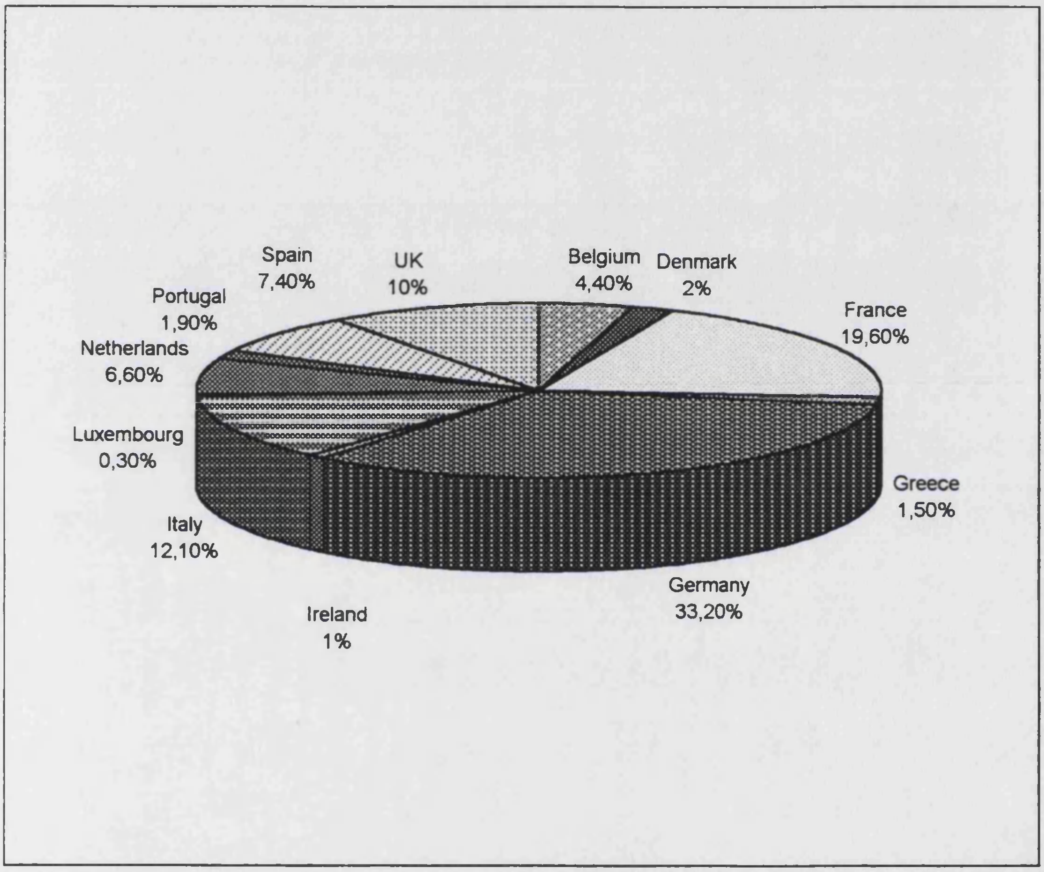
(2) Council regulation 92/80/EEC on the approximation of taxes on manufactures tobacco other than cigarettes, 19 Oct. 1992.

(3) Council regulation 92/79/EEC on the approximation of taxes on cigarettes, 19 Oct. 1992.

(4) Council regulation 92/82/EEC on the approximation of the rates of excise duties on mineral oils, 19 Oct. 1992.

Appendix 3.1

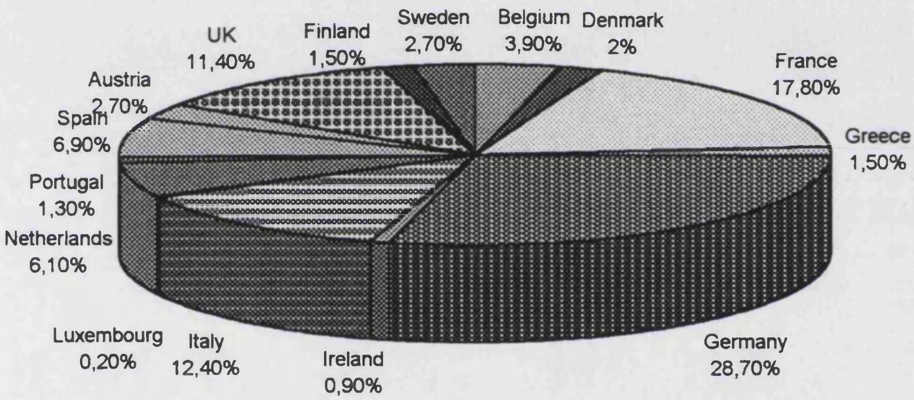
Relative share of individual Member States in the financing of the EU budget (1994)



Source: Ministère de l'Economie, des Finances et du Budget (1996), *Projet de loi de finances pour 1997 - Relations financières avec l'Union européenne* (Paris: Imprimerie Nationale) : 16.

Appendix 3.2

Relative share of individual Member States in the financing of the EU budget (1997)



Source: *Ministère de l'Economie, des Finances et du Budget (1996), Projet de loi de finances pour 1997 - Relations financières avec l'Union européenne* (Paris: Imprimerie Nationale) : 16.

Appendix 3.3.

The growth of the EU budget (1994-1996)

Allocated credits in million ECU

	1994 budget	1995 draft budget	Planned 1995/94 growth	1995 budget	Actual 1995/94 growth	1996 draft budget	Planned 1996/95 growth
CAP guideline	36,465	36,994	1.5%	36,898	1.2%	40,828	10.65%
Structural policies	23,176	25,264	9.0%	26,329	13.6%	29,131	10.64%
- Cohesion Funds	1,85	2,152	8.4%	2,260	22.0%	2,552	12.92%
- Structural Funds	21,323	23,112	16.1%	24,069	12.9%	26,579	10.43%
Internal policies	4,34	4,286	-1.4%	5,053	16.2%	5,082	0.57%
External policies	4,30	4,363	1.3%	4,874	13.2%	5,104	4.72%
Administration	3,61	3,691	2.0%	3,999	10.5%	4,022	0.58%
Reserves	1,53	1,146	-25.1%	1,146	-26%	1,152	0.52%
Total	**73,444**	**75,744**	**3.1%**	**79,846**	**8.7%**	**86,020**	**7.73%**

Sources: Ministère de l'Economie et des Finances (1994), *Projet de loi de finances pour 1995, Relations financières avec l'Union Européenne* (Paris: Imprimerie Nationale) :11 and Ministère de l'Economie et des Finances (1995), *Projet de loi de finances pour 1996, Relations financières avec l'Union Européenne* (Paris: Imprimerie Nationale) :13.

Appendix 3.4.

The Edinburgh Financial Perspectives (1993-1999)

Credits in million ECU at 1992 price levels.

	1993*	1994*	1995	1996	1997	1998	1999
CAP guideline	35,230	35,095	35,354	37,245	37,922	38,616	39,327
Structural policies	21,277	21,885	24,477	26,026	27,588	29,268	30,945
- Cohesion Funds	1,500	1,750	2,000	2,250	2,500	2,550	2,600
- Structural Funds & other programmes	19,777	20,135	22,369	23,776	25,088	26,718	28,345
Internal policies	3,940	4,084	4,702	4,914	5,117	5,331	5,534
External policies	3,950	4,000	4,549	4,847	5,134	5,507	5,953
Administration	3,280	3,380	3,738	3,859	3,974	4,033	4,093
Reserves	1,500	1,500	1,100	1,100	1,100	1,100	1,100
Total	**69,177**	**69,944**	**72,467**	**78,692**	**81,047**	**83,954**	**86,952**

* European Union before enlargement

Source: Ministère de l'Economie et des Finances (1996), *Projet de loi de finances pour 1997, Relations financières avec l'Union Européenne* (Paris: Imprimerie Nationale) :11.

Appendix 4.1

Evolution of Structural Funds payments in France (1989-92)

in million ECU

	1989	1990	1991	1992
Guidance spending in France	187.5	361.9	362.9	455.2
Rate-of-return on Guidance	13.9%	19.8%	19.3%	18.0%
ERDF spending in France	284.2	331.3	323.2	430.0
Rate-of-return on ERDF	7.2%	7.3%	6.2%	5.8%
ESF spending in France	327.7	442.9	513.5	549.0
Rate-of-return on ESF	12.2%	13.8%	13.3%	13.7%

Source: Ministère de l'Economie et des Finances (1995), *Projet de loi de finances pour 1996, Relations financières avec l'Union Européenne* (Paris: Imprimerie Nationale): 32.

Appendix 5.1.

The Common Agricultural Policy

in million ECU

	1990	1991	1992	1993	1994	1995	1996*	1997*
Vegetal sector	14,648	17,461	19,171	21,258	21,853	22,983	25,918	26,338
Livestock	9,667	12,143	10,543	11,657	9,804	10,750	12,934	12,478
Other expenditure	754	1,357	1,405	1,676	1,314	764	1,976	1,989
Total Guarantee section	25,069	30,961	31,119	34,591	32,971	34,497	40,828	40,805
Agriculture guideline	30,630	32,511	35,039	36,657	36,465	37,944	40,828	41,805
Difference **	-5,561	-1,550	-3,920	-2,066	-3,494	-3,447	0	-1,000

* Figures of the 1996 budget and the 1997 draft budget, whereas figures for 1990-1995 show actual CAP expenditure.
** Difference between total CAP expenditure and authorised CAP guideline.

Source: Ministère de l'Economie et des Finances (1996), *Projet de loi de finances pour 1997, Relations financières avec l'Union Européenne* (Paris: Imprimerie Nationale) :18.

Appendix 5.2.

The Structural Funds: allocation per country and purpose (1994-99)

in million ECU at 1994 price levels

Objectives	1	2	3-4	5a (1)	5a (2)	5b	CI (3)	Other
Non-Cohesion countries	**33,930**	**5,847**	**12,106**	**4,306**	**78**	**5,470**	**5,298**	
Belgium	730	160	465	170	22	77	178	
Denmark	0	56	301	127	135	54	87	
Germany	13,640	733	1,942	1,068	66	1,227	1,265	
France	2,190	1,765	3,203	1,742	171	2,238	1,231	
Italy	14,860	684	1,715	680	119	901	1,505	
Luxembourg	0	7	23	40	-	6	6	
Netherlands	150	300	1,079	118	41	212	212	
United Kingdom	2,360	2,142	3,377	361	150	817	814	
Cohesion countries	**59,880**	**1,130**	**1,843**	**326**	**106**	**664**	**4,837**	
Greece	13,980	0	0	0	0	0	990	
Ireland	5,620	0	0	0	0	0	374	
Portugal	13,980	0	0	0	0	0	1,232	
Spain	26,300	1,130	1,843	326	106	664	2,241	
Non allocated funds	**0**	**7,942**	**0**	**514**	**82**	**0**	**3,332**	**1,490**
Total	**93,810**	**14,919**	**13,949**	**5,146**	**820**	**6,134**	**13,467**	**1,490**
Total 1994-99: 149,735								

(1) Objectif 5a agriculture
(2) Objectif 5a fishery
(3) Community Initiative Programmes

Source: Ministère de l'Economie et des Finances (1995), *Projet de loi de finances pour 1996, Relations financières avec l'Union Européenne* (Paris: Imprimerie Nationale): 17-18.

Appendix 6.1.

European funding for transport projects

Type and description of Fund	Possible application / scope	Who may apply	Value of Fund	UK receipts 1993	Financial implications	Examples of existing schemes
European Regional Development Fund (ERDF) This fund is aimed at stimulating economic development in the least prosperous regions of the EU.	All modes of transport including passenger transport initiatives.	ERDF capital or revenue grants may be approved for non-profit making bodies in the public interest.	ECU 2.7 bn 1987-91	ECU 753 m..	Additionality.	East Coast Mainland Electrification. Bradford City Ring Road. Manchester Docks container cranks (?).
European Coal & Steel Community Funds (ECSC) Financial assistance in form of grants, loans and guarantees to improve economic and social conditions in the coal and steel producing regions of the EU which have suffered particular hardship as a result of industrial decline	Projects related to the coal and steel industries or at least involving the creation of job opportunities in defined coal and steel areas. However, this fund is being wound down.	Private and public bodies may take applications direct to the Commission or indirectly through financial agents.	Not known.	Not known.	None. Financed by levy from coal and steel industries.	Eurotunnel has a £200m. long term loan facility.
Cohesion Funds Will supply funds for environment and transport infrastructure projects in Greece, Ireland, Portugal and Spain.	All modes of transport infrastructure. Fund should contribute to interconnection and inter-operability of national network and links with islands, landlocked and peripheral regions.	Though to accept both public and private ventures.	ECU 1.5 bn in 1993	None (cohesion countries only).	None.	Broad schemes in Ireland are currently receiving funds.

Type and description of Fund	Possible application / scope	Who may apply	Value of Fund	UK receipts 1993	Financial implications	Examples of existing schemes
Transport infrastructure programme Relatively small fund with limited scope. Extended for two years to enable establishment of TENs and superseded by TENs in 1995.	Limited to land transport and apart from a few named corridors provides funds for feasibility studies not construction.	Public, private and joint ventures.	ECU 185 m. in 1993 (likely to be ECU 200 m. in 1994)	ECU 13.1 m..	Euro- PES.	Channel Tunnel Rail Link route evaluation study. A55 Aber improvement road project. Doncaster Road/Rail Interchange study.
Trans European Networks funding (TENs) Supports projects contributing to networks in transport, energy and telecommunication. Funding established in the 1995 EU budget.	All transport modes	Certainly public bodies. Not yet known whether private and joint ventures will be funded.	ECU 280 m. in 1995. ECU 2,345 m. 1995-1999.	None	Euro-PES.	na
European Investment Bank (EIB) Provides medium and long-term finance for investments which further the balanced development of the community.	Medium and long-term loans in the infrastructure, energy, services and agriculture sectors.	Public and private borrowers. But all loans must be guaranteed either by institutions or Member State governments.	Around ECU 17 bn in 1992. About 30% went to the Transport sector.	Around ECU 2.5 bn in 1992. Copenhagen European Council also agreed on landing of ECU 8 m..	None.	Channel Tunnel (Eurotunnel plc.). New passenger terminal at Birmingham. International Airport (Eurohub-Birmingham Ltd.) Second Severn crossing.
European Investment Fund (EIF) Loan guarantees agreed at Edinburgh Summit not yet operational	Probably similar to EIB but there are many legal and practical ramifications. Not yet clear when fund will be operational.	Likely to be similar to EIB.		None.	None	na

Source: Department of Transport (1992), *A basic guide to Europes*, July

Appendix 6.2.

Priority transport projects
Final list submitted by the Christophersen Group to the Essen European Council for approval (December 1994)

1. Priority projects

Projects started or meant to start by the end of 1996:

- High speed train / combined transport North-South (I, G, D)
  Nuremberg - Erfurt - Halle/Leipzig - Berlin - Brenner Vérone Axis - Munich

- High speed train (Paris) - Brussels - Cologne - Amsterdam - London (PBKAL)
  Belgium: F/B frontier - Brussels - Liege - B/G frontier
  Belgium: Brussels - B/NL frontier
  UK: London - entry of the Channel Tunnel
  Netherlands: B/NL frontier - Rotterdam - Amsterdam
  Germany: (Aix-la-Chapelle) - Cologne - Rhine/Main

- South high speed train (S, F)
  Madrid - Barcelona - Perpignan - Montpellier
  Madrid - Vitoria - Dax

- East high speed train (F, G, L)
  Paris - Metz - Strasbourg - Appenweier - (Karlsruhe)
  including Metz - Saarbrücken - Mannheim and Metz - Luxembourg

- Conventional rail / combined transport "Betuwe line" (NL, G)
  Rotterdam - NL/G frontier - (Rhine/Ruhr)

- High speed train / combined transport France - Italy (F, I)
  Lyon - Turin - Milan - Venice - Trieste

- Greek motorways (Gr.)
  Pathe: Rio Antirio - Patras - Athens - Thessalonik - Prohamon (frontier between Greece and Bulgaria)
  Via Egnatia: Igoumenitsa - Thessalonik - Alexandroupolis - Ormenio (frontier between Greece and Bulgaria) - Kipi (frontier between Greece and Turkey)

- Motorway Lisbon - Valladolid (P, S)

- Conventional rail link UK - Ireland (UK, Irl)
  Cork - Dublin - Belfast - Larne - Stranraer

- Malpensa airport: Milan (I)

- Rail/road link between Denmark and Sweden (Øresund fixed link) (D, Sw)
  including road, rail and air access infrastructure

- Nordic Triangle (Fin, N, Sw)

- Ireland - UK- Benelux road link (Irl, UK)
  including Holyhead - Felixstowe and Stanraer - Birmingham

- West Coast Main Line (rail) (UK)

2. Other important projects

Projects for which an acceleration is possible so that they are started in about two years time:

- Combined transport in France, Germany, Italy, Belgium, Portugal and Spain
- Spata airport (Athens) (Gr)
- Berlin airport (G)
- Maurienne motorway (F)
- Motorway Marateca - Elvas (P)
- High speed train (D)
- Trans-Alps motorway Bologna - Florence (I)
- High speed train / combined transport of the Danube Axis (G, D)
  Munich/Nuremberg - Vienna - (Budapest - Bratislava)
- Motorway Nice - Cuneo (F, I)

Projects which would require further investigation:

- Fehmarn strait: fixed link between Denmark and Germany (D, G)
- Motorway Bari - Otranto (I)
- Waterway Rhine - Rhone (F)
- Waterway Seine - Escaut (F)
- Waterway Elbe - Oder (G)
- Danube berthing between Straubing and Vilshofen (G)
- High speed train Randstad - Rhine/Ruhr (NL)
  Amsterdam - Arnhem - (Cologne)
- Road corridor Valencia - Saragosse - Somport (S)
- High speed train (Brenner) - Milan - Rome - Naples (I)
- Magnetic support train: Transrapid (G)
- High speed train connection Luxembourg - Brussels (B, L)
- Road corridor Naples - Reggio di Calabria (I)

3. Projects of European dimension

Pilot projects involving setting up new technologies, a better traffic management, and improving the use of infrastructures for all transport modes (earth, sea, air) in several Member States:

- System for the management of air traffic
- Services for the management of road traffic
- Services for the management and the information of sea traffic
- System multi-modal positioning using satellites
- Pilot projects of system of rail management

4. Projects for the connection with third countries

Priority projects (started already or meant to start within two years)

- Berlin - Varsovie - Minsk - Moscow (road and rail)

Other important projects

- Dresden - Prague (rail and road)
- Nuremberg - Prague (Road)
- Fixed link crossing the Danube (road and rail) between Bulgaria and Romania
- Helsinki - Saint-Petersburg - Moscow (rail and road)
- Trieste - Ljubljana - Budapest - Lvov Kiev (rail and road)
- Telematic platform in the Baltic

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THE LONDON SCHOOL OF ECONOMICS
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The Europeanisation of national budgeting in the United Kingdom and France: a study of governmental processes.

by
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a view to obtaining the Degree of Doctor of Philosophy
of the University of London

London, December 1998

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5	**Laurent Garnier**	Head of Health (Bureau 6-B) Sixième Sous-Direction Direction du Budget	8.03.95
6	**Jean-Pierre Guillon**	Head of Agriculture (Bureau 7-A) Septième Sous-Direction Direction du Budget	1.02.95
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