

The EU Budget System after Lisbon: How the European Parliament lost power and how it may compensate (somewhat) for it¹

by Michael W. Bauer, John D. Graham and Stefan Becker

At first glance, the Lisbon Treaty is another milestone in the European Parliament's quest to increase its powers – also with regard to the finances of the European Union, where it has been put on an equal formal footing with the Council in the annual budget procedure. The EU budget system is, however, governed by a multitude of procedures, necessitating a holistic perspective to ascertain the EP's ultimate standing vis-à-vis the other EU institutions. By analysing the four pillars of the budget system – revenues through the 'own resources' system, multi-annual financial planning, annual budgeting and implementation –, the paper shows that, taken together, the EP's formal rights have been curtailed by the Lisbon Treaty. Evidence from recent budget negotiations additionally reveals that the EP's abilities to pursue a common agenda and to bolster its claims with adequate budgetary expertise are currently limited. Following the latter finding, the paper introduces the US Congressional Budget Office as a 'best practice' example and discusses the EP's options for being more assertive in budgetary matters by improving its analytical capacities.

Auf den ersten Blick ist der Vertrag von Lissabon ein weiterer Meilenstein im Machtstreben des Europäischen Parlaments – auch hinsichtlich der Finanzen der Europäischen Union, bei denen das Parlament dem Rat im Jahreshaushaltsverfahren formal gleichgestellt wurde. Das Haushaltssystem der EU wird jedoch durch eine Vielzahl von Prozeduren geregelt, weshalb eine Bestimmung der Position des Parlaments gegenüber den anderen EU-Institutionen eine ganzheitliche Sicht erfordert. Durch eine Analyse der vier Säulen des Haushaltssystems – Einnahmen im Eigenmittelsystem, mehrjährige Finanzplanung, Jahreshaushalte und Haushaltsvollzug – zeigt dieser Beitrag, dass die formalen Rechte des Parlaments durch den Vertrag von Lissabon insgesamt eingeschränkt wurden. Des Weiteren dokumentieren jüngere Haushaltsverhandlungen, dass die Fähigkeiten des Parlaments, eine einheitliche Linie zu vertreten und diese mit ausreichender analytischer Expertise zu untermauern, zurzeit begrenzt sind. Vor dem Hintergrund der letzten Beobachtung stellt dieser Beitrag das Congressional Budget Office in den USA als Positiv-

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beispiel vor und diskutiert die Möglichkeiten des Parlaments, durch eine Stärkung der eigenen analytischen Kapazitäten in Haushaltsfragen durchsetzungsfähiger zu werden.

I. Introduction

The Lisbon Treaty has introduced the most comprehensive reform of the European Union (EU) budget system since the 1970s. It has affected all four pillars of the system, i.e. revenues, multi-annual financial planning, annual budgeting and implementation, thereby significantly altering the overall institutional balance in budgetary matters. For both normative and analytical reasons, the role of the European Parliament (EP) is of particular interest. On the one hand, the right of parliaments to decide about taxes and expenditure is the outcome of a centuries-long struggle, and the supremacy of legislatures in matters of public finance is widely considered a core democratic norm.² The involvement of the supranational parliament is, therefore, an important measure for the *legitimacy* of the EU budget system. On the other hand, the EP is traditionally a pro-spending institution, particularly motivated to provide European public goods.³ The governments represented in the Council, by contrast, perceive budget negotiations as zero-sum games; their priorities are either to increase the national share of EU funds (if they are net receivers) or to limit expenditure (if they are net payers). The role of the EP is, therefore, also important for the *scope and substance* of the EU budget.

Early assessments of the post-Lisbon budget system yield mixed results for the EP's standing. *Hix* and *Høyland*, for instance, stress the opportunity for parliamentarians to further shape policy, given that the EP is now 'equally influential under all budgetary headings'.⁴ *Benedetto* argues the exact opposite, concluding that 'in budget policy [the EP's] powers have generally weakened'.⁵ Lisbon

- 2 The EP as we know it today can partly be considered a result of this norm. When, in the 1970s, the member states decided to provide the EU with resources of its own, it became clear that a parliamentary body at the supranational level would have to give its consent on spending and discharge the executive for duly implementing the budget (*Rittberger, B.: The Creation and Empowerment of the European Parliament*, in: *Journal of Common Market Studies*, 41/2 (2003), 203-225). This eventually led to the first direct election of the 'European Parliament' in 1979, which had previously been a mere 'assembly' of national delegates. Over the subsequent decades, the EP was provided with ever more competences, and the power of the purse has been an essential element in its evolution from a purely consultative institution into a true co-legislator.
- 3 *Lindner, J.: Conflict and Change in EU Budgetary Politics*, New York, 2006.
- 4 *Hix, S./Høyland, B.: The Political System of the European Union*, 3rd ed., London, 2011, 243.
- 5 *Benedetto, G.: The EU Budget after Lisbon: Rigidity and Reduced Spending?*, in: *Journal of Public Policy*, 33/3 (2013), 345-369, 366.

seems indeed to have ‘opened up a new era in the budgetary history of the [EP] and its relations with other institutions’,⁶ but the jury is still out on how the institutions are actually positioned in the new system.

Scholars of the EU budget have so far primarily focused on analysing the formal changes stipulated in the treaties. We seek to complement this debate by highlighting problems of collective action and, more importantly, the role of analytical capacities, which has been largely neglected.⁷ Our argument starts with a basic heuristic for analysing budget politics, outlining the significance of procedures, preferences and capacities. On this basis, we analyse recent budget negotiations, drawing on official documents and interviews with insiders in all the EU institutions involved. We argue that, recently, the EP failed to pursue a common agenda in budget politics and that it also lacks analytical capacities to play an assertive role in negotiations. These deficits exacerbate its weakened formal position following the Lisbon Treaty.⁸ Improving analytical capacities represents a realistic and promising strategy for the EP to quickly regain assertiveness. Against this background, we investigate to what extent the US Congressional Budget Office can serve as a role model.

II. Procedures, preferences and capacities: a heuristic for analysing budget politics

Indispensable compromises amongst an increasing number of member states, cautious trial-and-error strategies and the installation of ‘safety valves’ for national competences transferred to the supranational level have provided the EU with complex decision-making procedures.⁹ But even in the light of standards based on ‘comitology’ and ‘co-decision’, the rules governing the budget appear to be the most complex of all. Basically, the EU budget system has four pillars: raising revenues through the ‘own resources’ system, multi-annual financial planning, annual budgeting and implementation. All of these pillars have specific legal bases, laid down in Articles 310 to 324 TFEU and in further legislation and inter-institutional agreements. The procedures in these pillars allocate different roles to the institutions involved, and actor constellations change accordingly.

6 Corbett, R./Jacobs, F./Shackleton, M.: The European Parliament, 8th ed., London, 2011, 272.

7 But see Dobbels, M.: The European Parliament – A Giant with Feet of Clay?, Dissertation, Maastricht, 2013.

8 Benedetto, G.: Budget Reform and the Lisbon Treaty, in: Benedetto, G./Milio, S. (eds): European Union Budget Reform, London, 2012, 40-58; Benedetto, G.: The EU Budget after Lisbon, op. cit.

9 Becker, P.: Das Finanz- und Haushaltssystem der Europäischen Union, Wiesbaden, 2014.

For the EP, the budget system comprises the full extent of participation rights: being consulted in matters of revenue, giving consent to multi-annual financial planning, co-deciding annual budgets and independently granting discharge for the implementation of the budget. It thus plays many different roles in the budget system, all of which have to be considered when assessing its overall influence.

How the institutions fulfill their roles depends, however, on more than formal rules. Treaties and inter-institutional agreements provide an important framework, but actual behaviour and influence cannot be directly inferred from legal documents. In the EU context, this has, for instance, been exemplified by *Farrell* and *Héritier* for the case of co-decision.¹⁰ The EP and the Council, which together constitute the ‘budgetary authority’, can make different use of their formal rights. Whether they can realize their full potential depends on additional factors. In our analysis, we focus on internal preference homogeneity and analytical capacities.

As regards internal preference homogeneity, many studies of EU politics still perceive institutions as unitary actors. However, the EP’s ability to present a ‘unified front against the Council and the Commission’¹¹ – and vice versa – cannot be taken for granted. Traditionally, no political group is remotely close to having a majority in the EP. The process of aggregating interests to build legislative coalitions is complicated and often involves intense bargaining.¹² In the case of the budget, which affects almost all policy areas, internal conflict seems inevitable. Political groups and single parliamentarians may pursue different agendas, which may ultimately work to the detriment of the institution as a whole. This internal dimension of the struggle between the EP and other institutions has, therefore, to be taken into account when analysing EU budget politics.

The second factor, analytical capacities, can be defined as the resources available to process information. While power is often described primarily in terms of hierarchy, formal rules and procedures, sociological theorists argue that expertise and knowledge are also important sources.¹³ People or institutions that have ‘expert power’ are held in high regard by others. Having access to specialized

10 *Farrell, H./Héritier, A.*: Formal and Informal Institutions under Codecision, in: *Governance*, 16/4 (2003), 577-600.

11 *Hix, S./Høyland, B.*, op. cit., 60.

12 See, for example, *Shackleton, M.*: The European Parliament, in: *Peterson, J./Shackleton, M.* (eds.): *The Institutions of the European Union*, Oxford, 2006, 104-124, 122.

13 *French, J./Raven, B.*: The Bases of Social Power, in: *Cartwright, D./Zander, A.* (eds.): *Group Dynamics*, New York, 1959, 150-167.

knowledge is thus a crucial element of an organization's ability to build consensus and exercise influence. As *Krehbiel* has shown by the example of the US Congress, this also applies to legislatures.¹⁴ The budget is a particularly complex issue that requires much expertise. Actors have to process matters, such as past revenues and expenditures, forecasts of future economic conditions and fiscal outcomes as well as the estimated costs and consequences of new programmatic initiatives and reforms. Indeed, many important legislative conflicts are resolved on the basis of numbers derived from complex mathematical models that require technical expertise. Therefore, in order to be an effective participant in budget politics, legislatures need adequate analytical capacities. In the field of co-decision, *Thomson* and *Hosli* have shown that lack of expertise and technical knowledge is a crucial factor, effectively constraining the EP in negotiations.¹⁵ The same might very well be true for the budget.

III. The post-Lisbon Budget System in action

The following analysis focuses on the role of the EP instead of discussing all the changes in the budget system introduced by the Lisbon Treaty.¹⁶ It builds on existing studies, official documents and interviews with Members of the European Parliament, the EP's Secretariat-General, the secretariat of the Council and the European Commission.¹⁷

1. Revenues: the 'own resources' system

As EU budgets are constitutionally barred from being in deficit (Article 310 TFEU), revenue decisions are of utmost importance. The Lisbon Treaty left the rules governing the 'own resources' revenue system basically unchanged (Article 311 TFEU): the Council decides unanimously after consulting the EP. The only

14 *Krehbiel, K.*: Information and Legislative Organization, Ann Arbor, 1991.

15 *Thomson, R./Hosli, M.*: Who Has Power in the EU? The Commission, Council, and Parliament in Legislative Decision-making, in: *Journal of Common Market Studies*, 44/2 (2006), 391-417.

16 There is also no need to engage in such a comprehensive exercise; there are many accounts that meticulously describe the changes and discuss their implications from a variety of perspectives (*Lindner, J.*, op. cit.; *Benedetto, G./Høyland, B.*: The EU Annual Budgetary Procedure: The Existing Rules and Proposed Reforms of the Convention and Intergovernmental Conference 2002-04, in: *Journal of Common Market Studies*, 45/3 (2007), 565-587; *Giuriato, L.*: Reforming the EU Budgetary Procedure: Is Codecision a Step Forward?, in: *CESifo Economic Studies*, 55/1 (2009), 57-93; *Corbett, R./Jacobs, F./Shackleton, M.*, op. cit.; *Hix, S./Høyland, B.*, op. cit.; *Benedetto, G.*: The EU Budget after Lisbon, op. cit.; *Benedetto, G.*: Budget Reform and the Lisbon Treaty, op. cit.; *Benedetto, G./Milio, S.*: European Union Budget Reform, London, 2012; *Becker, P.*, op. cit.).

17 In total, 11 semi-structured interviews were conducted on 10 and 11 July 2013 in Brussels.

gain for the EP is that its consent is needed for ‘implementation measures’ (for example actions to facilitate money collection), but such powers are of modest significance.¹⁸

From the viewpoint of the EP, keeping the status quo was a disappointing result, as it had repeatedly called for a reform of the ‘own resources’ system.¹⁹ It, therefore, tried to keep the matter on the agenda in the years following Lisbon. Its initial rejection of the 2011 budget was partly ‘due to the EP and Council failing to find agreement on the principles of the reform of budgetary implementation and reform of own resources’.²⁰ The EP issued a resolution that stressed the need to reduce the reliance on national contributions and instead create new, ‘genuine’ resources for the budget.²¹ During the negotiations on the latest Multiannual Financial Framework (see next section), the EP was able to exert further pressure. As one EP interviewee stated, the MFF negotiations opened up ‘a small window’ in the battle for reforming the own resources system.²² By exercising its powers in another pillar of the budget system, the EP put the ‘own resources’ reform back on the agenda.²³ However, its success has been modest so far. The first tangible result was the creation of a high-level group on own resources, made up of several members appointed by the EP, the Commission and the Council, and chaired by former Italian prime minister and EU Commissioner, *Mario Monti*.²⁴ Needless to say, strong doubts remain amongst parliamentarians as to whether this group will find feasible solutions, let alone propose options close to the EP’s position.²⁵

2. The Multiannual Financial Framework

Despite the constraints set by the Council’s decisions on own resources, there is still room for manoeuvre on the revenue side of the budget. Before the negotiations on the latest Multiannual Financial Framework (MFF) for the period 2014–

18 *Benedetto, G.*, op. cit., 44.

19 The last instance before the Lisbon negotiations formally ended was in March 2007: *European Parliament*: Resolution of 29 March 2007 on the Future of the European Union’s Own Resources, P6_TA(2007)0098, 2007.

20 *Benedetto, G.*: Budget Reform and the Lisbon Treaty, op. cit., 40.

21 *European Parliament*: Resolution of 25 November 2010 on the Ongoing Negotiations on the 2011 Budget, P7_TA(2010)0433, 2010.

22 *Interview #1*: Official from the European Parliament, 10 July 2013.

23 *European Parliament*: Resolution of 3 July 2013 on the Political Agreement on the Multiannual Financial Framework 2014–2020, P7_Ta(2013)0304, 2013.

24 *European Parliament*: High Level Group on EU ‘Own Resources’ Launched by EU Institutions’ Three Presidents, 2014.

25 *Interview #5*: Member of the European Parliament, 10 July 2013.

20 began, it was possible to generate and spend up to 1.24 per cent of the EU's GNI (Council Decision 2007/436/EC). It is the MFF that lays the actual foundation for the budgets of the next five to seven years. As it sets spending ceilings for each policy area, it is relevant for revenue *and* allocation, even though much political and public attention is paid to the overall numbers of EU spending. This form of long-term budget planning was invented under *Jacques Delors'* Commission presidency in the 1980s as a means to overcome the recurring major struggles in the annual budget negotiations. After it had been based on inter-institutional agreements since *Delors*, the Lisbon Treaty upgraded the MFF to 'hard law'. The Council must decide unanimously after obtaining the consent of the EP (Article 312 TFEU). This upgrade is widely considered to be a loss of parliamentary influence, because the EP is no longer able to threaten the Council with terminating the agreement and thus loses a bargaining chip in annual budget negotiations.²⁶

The outcome of the first post-Lisbon MFF negotiations confirms the EP's difficulties in influencing the revenue side. The firm stand of net payer governments in the Council – especially the UK, Germany, the Netherlands and Sweden – kept the size of the budget at roughly 1.0 per cent of the EU's GNI, which is slightly less than in the previous MFF and significantly less than the EP's position.²⁷ The EP was, however, effective in using its veto power to make progress on procedural issues that mostly focused on budgetary flexibility.²⁸ The final MFF 2014-2020 compromise features many of the parliamentary demands, including options to bring forward expenditure in specific areas (e.g. youth employment and research), the continuation and establishment of special funds that run outside the MFF ceilings (e.g. the Globalisation Adjustment Fund) and a mid-term review of the MFF that requires the Commission to consider and possibly propose revisions. These outcomes can be considered a partial success for the EP.

In terms of spending levels, however, the latest MFF negotiations are evidence of the EP's struggle to pursue a common agenda. Internal preferences were far from homogeneous. Facing the rigid position of the Council, some MEPs were set on letting the negotiations break down. Many other MEPs were, however, concerned about the financing of programmes of their interest that were being nego-

26 *Lindner, J.*, op. cit., 87. *Interview #9*: Official of the Council of the European Union, 11 July 2013. *Interview #1*: Official from the European Parliament, 10 July 2013.

27 To be precise, it is 3.5 per cent less than in the previous MFF, while the EP's position was somewhere around a 5 per cent increase. *Interview #7*: Official of the European Parliament, 10 July 2013.

28 *Interview #5*, op. cit.

tiated at the same time. They, therefore, put considerable pressure on the budget negotiators to reach a compromise – even if it meant settling for lower overall spending than possible – in order to ensure the start of these programmes in due course.²⁹ As the MEPs were not able to build a ‘unified front’, the EP negotiators held no credible veto threat. In the end, they had to concede and agree to the Council’s proposal.

Yet it were not only collective action issues but also analytical deficiencies that influenced the MFF negotiations. Given that many decisions were being prepared and taken in parallel, the parliamentarians felt immense pressure during this period. One interviewee put it this way:

Then we have ... conclusions, not only on figures but with a lot of details in structural funds, in agriculture policy, about the national envelopes, about compensations, about the levels of co-financing and other ideas, which are touching the co-decision rights of the Parliament for the multi-annual programmes. ... I must say, to have such a huge package to deal with within two years, is far too much for everybody.³⁰

Admittedly, budget negotiations are always intense and all actors involved are prone to stress their work overload. Nonetheless, the impression emerging from the interviews is that there are vastly different capacities on which the institutions can rely to deal with this overload. The asymmetry between the EP, the Council and the Commission is palpable and felt by all the actors involved. Even though they are expressed diplomatically, statements from its counterparts in other institutions indicate the EP’s disadvantage. These officials are rather surprised that the EP ‘somehow always manages’.³¹ This asymmetry has not only ‘hard’ impacts when it comes to arguing over numbers but also ‘soft’ consequences in that expertise can be considered an important source of an actor’s authority. When people are ‘not convinced’ about their counterpart’s knowledge,³² this is likely to have an effect on the conduct of negotiations.

3. The annual budget procedure

The rules governing annual budgets changed considerably with the Lisbon Treaty. The previous procedure was characterized by the distinction between

29 *Interview #7*, op. cit.

30 *Interview #6*: Member of the European Parliament, 11 July 2013.

31 *Interview #10*: Official of the Council of the European Union, 11 July 2013. *Interview #11*: Official of the European Commission, 10 July 2013.

32 *Interview #10*, op.cit.

compulsory spending (e.g. for agriculture, fisheries policy and agreements with third countries) and non-compulsory spending (e.g. for structural and social funds as well as research and environment). While the Council had the last say in compulsory spending, the EP was pivotal regarding non-compulsory spending. This distinction has now been dropped, putting the EP on an equal formal footing in all aspects of the annual budget. What at first glance appears to be a clear victory for the EP – especially its stronger involvement in agricultural policy – has a strong downside. The area of non-compulsory spending is by now the major part of EU spending, so the need for an agreement with the Council amounts to a loss of power for the EP, at least equal to the gain in new powers over the former compulsory spending.

Another important factor regarding the negotiation powers of the institutions in the budget procedure are the fallback options in the event that no agreement can be reached.³³ In the EU, the ‘provisional twelfths mechanism’ is activated: ‘a sum equivalent to not more than one twelfth of the budget appropriations for the preceding financial year may be spent each month in respect of any chapter of the budget’ (Article 315 TFEU). The Lisbon Treaty changed an important aspect of this mechanism. Whereas previously the EP held the power to overrule the Council by a three-fifths majority on proposed increases in non-compulsory expenditure (ex Article 273 TEC), it is now able to co-decide in all policy areas, but only to the extent that it can block increases or vote for a decrease.³⁴ This renders it more difficult for the EP to threaten the Council with the prospect of rejecting the whole budget because even then only the status quo could be upheld or further decreases voted for. A pro-spending majority in the EP has, therefore, lost a central means to push the Council towards its own position.

An additional aspect of the annual budget procedure is the option to put appropriations into ‘reserves’, which is an effective strategy for exerting pressure on the Commission to better justify its budget plans. Under the old procedure, the EP was able to pursue this strategy autonomously. Indeed, one interviewee noted that ‘the Commission feared nothing more than that we put something in reserve’, afterwards ‘[t]hey always ran in our direction’.³⁵ Another interviewee commented that ‘it was always useful to force the Commission to follow the will of the Parliament’.³⁶ Since the Lisbon Treaty, however, the EP has to agree with

33 *Wehner, J.*, op. cit, 770.

34 *Benedetto, G.*, op. cit., 50.

35 *Interview #3*, op. cit.

36 *Interview #6*, op. cit.

the Council on such matters, which has ‘enormously diminished the powers of the Parliament’.³⁷

Apart from these formal changes in the annual budget procedure, the EP is also plagued by the deficient analytical capacities mentioned above. The lack of resources and expertise for processing information negatively affects its bargaining position. As one Commission official put it bluntly: ‘[G]iven my experience in annual budget procedure ... I was not very convinced about the profound knowledge of not only MEPs but the advisors’.³⁸ Most interviewees were more diplomatic, but they shared the same sentiment. Asked whether MEPs and their staffs have adequate budget expertise, a broad majority of interviewees – from all institutions – answered in the negative.

In comparison to the other institutions involved, the informational asymmetry is patent. On the one side, while having a rather small secretariat, the Council is able to make use of the expertise from 28 national governments. Even in complicated areas, such as agriculture, the quantity and quality of information is deemed to be good. On the other side, the Commission employs an enormous and specialized career staff and a whole Directorate-General dedicated to budget issues. The EP is much weaker in this regard. Although it now has well over 6,000 civil servants in the Secretariat-General and the political groups, only a small fraction of its staff is tasked with budget issues.³⁹ The Directorate for Budgetary Affairs in the EP’s secretariat employs around 50 people, including those with clerical tasks.⁴⁰ The number of group staff dedicated to the budget – the second important contributor to the EP’s overall expertise – is also relatively small.⁴¹ One of the two largest groups employed four budget advisors in the last legislative period.⁴² The overall number of group staff dedicated to the budget is, therefore, likely not to be higher than 15. Against this background, there are strong desires amongst parliamentary representatives to boost their own analytical capacities to scrutinize and counter the claims of the Commission and the Council.

This desire is particularly strong as parliamentarians are becoming more disillusioned with the Commission, which they long considered to be an institutional

37 *Interview #3*, op. cit.

38 *Interview #11*, op. cit.

39 *European Parliament: Social Report 2013*, Brussels, 2013.

40 *Interview #7*, op. cit.

41 *Dobbels, M.*, op. cit., 202.

42 *Interview #5*, op. cit.

ally in annual budget negotiations or at least a reliable provider of authoritative information. By now, however, MEPs and their advisors have become rather sceptical of the Commission. There is still the need in the EP for ‘the Commission to provide the figures because we don’t have the kind of capacities to do it ourselves’⁴³, but EP representatives are not satisfied with the quality of information.⁴⁴ Yet, given the state of analytical capacities in the legislature, Commission figures are hardly scrutinized and ‘usually accepted’.⁴⁵ During annual budget negotiations, the EP budget secretariat staff is mostly occupied with ‘procedure’, ‘consolidating texts and amendments’, and does not have any time to ‘reflect’ on the Commission numbers.⁴⁶ MEPs, especially those in policy committees, have therefore hardly any opportunity to create substantiated claims based on own analysis. They have to resort to using the Commission proposals as their point of departure for the negotiation.

The discontent with the Commission goes beyond the quality of information it provides. Amongst the EP representatives, there is also a strong sentiment that its mediating role in the budget procedure is increasingly problematic. It seems to them that in the last budget negotiations the Commission was mainly focused on getting some kind of agreement, and that it was not too concerned with specific areas. It was thus described as ‘too weak’.⁴⁷ From the EP’s perspective, the Commission is currently neither an institutional ally nor a reliable arbiter in the annual budget procedure. Commission officials now also see their institution as being in the middle, sometimes with the Council, other times siding with the EP.⁴⁸

4. Budget Implementation

While the annual budget procedure has been subject to considerable reform, the system of implementation was only modestly altered by the Lisbon Treaty. As in some federal systems (e.g. Germany), the EU budget is implemented by authorities at state, regional or local levels – with significant degrees of autonomy. At the same time, the respective evaluation and accountability links are much looser than in other political systems. Indeed, the Commission used to hold sole respon-

43 *Interview #4*: Official of the European Parliament, 10 July 2013.

44 *Interview #5*, op. cit.

45 *Interview #2*: Member of the European Parliament, 10 July 2013.

46 *Interview #1*, op. cit.

47 *Interview #6*, op. cit.

48 *Interview #11*, op. cit., and *Interview #12*: Official of the European Commission, 11 July 2013.

sibility for the implementation of the budget, which is executed by 28 national and even more sub-national authorities.

Lisbon introduced some important changes in this ‘shared implementation’ system. From now on, the Commission must ‘implement the budget in cooperation with the Member States’ (Article 317 TFEU). The rationale behind this reform is to make national authorities implementing the EU budget more accountable to the EP as the discharging authority. It still remains to be seen how these changes will play out in practice – apart from the fact that the EP and the Council now receive evaluation reports from the Commission in addition to the purely formal ‘budgetary statements’, indicating that the EU funds have been used appropriately.

Yet, even if these reports are of high quality, the question arises whether the EP can absorb the vast amount of additional information and scrutinize implementation adequately. As argued above, there is already much overload in budget issues and the EP’s analytical capacities are rather limited. And it is also a matter of preferences. As one interviewee stated, little attention is paid to implementation and it is hardly a basis for the following budget discussions.⁴⁹ While budget control looks into the past, most politicians are rather forward-looking. Strengthening the link between scrutiny and budget-making is difficult, not least due to the complicated relationship between the two responsible EP committees. Against this background, there is little reason to believe that the shared implementation system will change all that much.

Overall, then, the changes in the EU budget system introduced by the Lisbon Treaty are to the disadvantage of the EP. Marginal improvements in the areas of revenue and supervision are accompanied by losses in the ‘core’ of budget politics. The analysis has further shown that the EP’s internal preference homogeneity, a precondition for successfully negotiating with the Council, cannot be taken for granted. MEPs failed to act in concert during the MFF negotiations. Their institution thus remains considerably inferior to the bargaining power of the Council, which is – at least currently – dominated by a solid majority averse to increased spending. The same is true for the third factor, the degree of analytical capacities. But while in this area the EP is currently far worse equipped than the Commission and the Council, analytical capacities are a potentially effective

⁴⁹ Interview #6, op. cit

lever to quickly increase parliamentary power in the budget system. This can be shown by the example of the US Congressional Budget Office.

IV. More budgetary power through more analytical capacities

1. Lessons from the US Congress

One of the most common institutional strategies used by legislatures to alleviate informational asymmetries in financial matters is to create a non-partisan, professional fiscal office to provide a check on the information prepared by the executive. A prime example is the US Congress. In the US system, the President and the Congress are currently viewed as more or less equal partners in the budget process, but this has not always been the case.⁵⁰

For the first three-quarters of the twentieth century, the US President was increasingly seen as taking the driver's seat in budget matters.⁵¹ The Budget and Accountability Act of 1921 gave prominence to the executive's annual budget submission to Congress and created the federal Bureau of the Budget (BOB) as part of the Department of Treasury.⁵² Simultaneously, Congress created the General Accounting Office (GAO) (now called General Accountability Office) as a means to audit agency expenditures for waste, but the GAO was not seen as a broad-based analytical agency for budgetary affairs.⁵³ The next 50 years are therefore described as a period of 'presidential dominance' in US fiscal affairs.⁵⁴

Under President *Richard Nixon*, the BOB expanded and in 1969 was recast as the Office of Management and Budget (OMB) within the Executive Office of the President.⁵⁵ Unlike many EU member states, which combine taxing and spending authority in a single treasury unit, *Nixon* assigned revenue-raising responsibility to the Department of Treasury (a Cabinet agency) and budgetary/spending responsibility to the OMB (a unit within the Executive Office of the President). The organizational separation of taxing and spending authority is relevant to our EU analysis because the OMB – like the EP – has stronger purview over spending than it does over revenue generation.

50 *Joyce, P.G.*: The Congressional Budget Office, Washington, 2011.

51 *Schick, A.*: The Federal Budget, 2nd ed., Washington, 2000, 14.

52 *Henry, N.*: Public Administration and Public Affairs, 11th ed., New York, 2010, 183.

53 *Mosher, F.*: The GAO: The Quest for Accountability in American Government, Boulder, 1979; *Mosher, F.*: A Tale of Two Agencies: A Comparative Analysis of the General Accounting Office and the Office of Management and Budget, Baton Rouge, 1984.

54 *Haveman, J.*: Congress and the Budget, Bloomington, 1978; *Schick, A.*, op. cit., 14.

55 *Mosher, F.*: A Tale of Two Agencies, op. cit.

Fiscal pressures in the United States grew in the 1960s due to the ballooning cost of the Vietnam War and President *Lyndon Johnson's* new Great Society programmes. President *Nixon*, a Republican, seized on the creative mechanisms of executive impoundment and information control to dominate the Democrat-controlled Congress.⁵⁶ The OMB ultimately grew to what is now a career staff of 500 professionals with close physical proximity to the White House.⁵⁷ Senior OMB officials were becoming more powerful than Cabinet officers.⁵⁸

Advocates of the Congress began to look for new strategies to re-assert congressional power over fiscal matters. In 1974, the Congress passed the Congressional Budget and Impoundment Control Act, which made numerous changes to the congressional budget process. Most importantly for our analysis, the Congress created the Congressional Budget Office (CBO), a non-partisan agency of 250 analysts that simultaneously serves the informational needs of members of Congress and acts as a 'counter bureaucracy' to the OMB.⁵⁹ For example, the CBO was empowered to make five-year fiscal projections related to the federal government, a role that had previously been monopolized by the OMB.

The CBO was to be staffed with non-partisan experts to guide the Congress in fiscal policy and budgetary considerations, with expertise 'similar to the President's Office of Management and Budget'.⁶⁰ Unlike the OMB, which has policy-making and analytic responsibilities, the budgetary affairs committees of Congress protected their formal powers by giving the CBO no formal policy-making authority. The committees thus acquired an independent source of information-processing and analytic power and reduced their dependence on the OMB.

The director of the CBO was to be appointed for four-year renewable terms by the Speaker of the House of Representatives and the President pro tempore of the Senate (the most senior senator of the majority party), following recommendations from the budget committees. The President was given no role in the appointment because the CBO was designed as an arm of the Congress. The director of the CBO was empowered to appoint all other CBO personnel without regard to political affiliation; they would serve at the will of the director rather than have the civil service characteristics of OMB and GAO employees. There

56 *Domitrovic, B.*: History Shows CBO is Partisan, in: Roll Call, <http://www.rollcall.com/new/-44509-1.html>, 2010.

57 *Wilson, J.Q./Dilulio, J.J.*, op. cit., 383.

58 *Henry*, 2010, op. cit., 196.

59 *Henry*, 2010, p. 195.

60 *Joyce, P.G.*, op. cit., 17, quoting the 1974 Senate report on the CBO.

have been thirteen directors of the CBO in its 40-year history, and they are a highly accomplished and respected group of economic analysts.⁶¹

The CBO was authorized to respond to all members of Congress and all committees but was instructed to give priority to the informational needs of the ‘money committees’ – budget, appropriations, ways and means, and finance.⁶² In addition to preparing annual reports on the budget for Congress, the CBO was instructed to prepare cost estimates for new legislation reported by congressional committees, and these estimates had to be included in the committee’s report accompanying reported legislation. On the insistence of the Senate, the CBO’s charge was expanded beyond budgetary analysis to include broad policy analysis of the consequences of legislative proposals.⁶³

In the era of the first CBO director, *Alice Rivlin* (1975–83), three important goals were accomplished. The agency was seen as non-partisan and analytically competent.⁶⁴ The agency exercised the power to initiate studies on topics of its choosing, rather than simply responding to requests from the Congress. And the agency established a practice of producing reports that were aimed at the non-technical reader, thereby broadening the audience and influence of the CBO.

One of the enduring characteristics of CBO reports is that they present analysis and policy options but rarely offer policy recommendations, a role that is seen as being too close to policy-making.⁶⁵ As important as CBO reports are, they are probably less important than the informal influence that CBO analysts exert on congressional committee staff and OMB staff through day-to-day networking.⁶⁶

A recent study of the CBO’s history catalogues numerous CBO successes in exposing weaknesses in executive proposals to the Congress.⁶⁷ Examples include President *Carter’s* 1977 energy plan, President *Reagan’s* 1981 economic plan, President *Clinton’s* 1993 health-care proposal, Vice President *Al Gore’s* 1993–94 ‘reinventing government’ initiative, President *George W. Bush’s* prescription drug benefit for the elderly, and President *Obama’s* economic recovery plan. In

61 *Joyce, P.G.*, op. cit., 46.

62 *Joyce, P.G.*, op. cit., 18.

63 *Joyce, P.G.*, op. cit., 22.

64 *Juffras, J.*: How the Congressional Budget Office Earned its Clout, in: *The Public Manager*, 2011, 10–12; *Khimn, S.*, op. cit.; but see *Domitrovic, B.*, op. cit.

65 *Blum, J.L.*: The Congressional Budget Office, in: Weiss, C. (ed.): *Organizations for Policy Analysis*, Newbury Park, 1992, 218–235.

66 *Hird, J.*: *Power, Knowledge, and Politics: Policy Analysis in the States*, Washington, 2005; *Joyce, P.G.*, op. cit.

67 *Joyce, P.G.*, op. cit., 209.

each case, the CBO exposed major flaws in the analytic case for the President's proposal, and the proposal was ultimately changed or never enacted in the first place.

2. A model for the European Parliament?

Against this background, it is not surprising that the representatives from the EP in our sample are generally in favour of creating a similar institution. As mentioned above, they are aware of the asymmetries in analytical capacities between the institutions. They further acknowledge that resorting to external sources of information (such as lobby groups or think tanks) is hardly an effective strategy for closing the gap. As a result, the EP has increasingly turned to the US for orientation regarding options of institutional development. Two studies have stressed the capacities that US legislators have at their disposal, both in general and specifically in budget matters.⁶⁸ The interest in creating a CBO-like institution in the EU is also evidenced by the fact that a delegation from the European institutions recently (2013) visited Washington, DC, in part to learn more about the US budget process and the respective roles of the OMB and the CBO. At that point, discussions on a similar institution in the EP had been ongoing for three years.

However, some reservations remain. Our interviewees were concerned that the work of a budget office would slow down their own work, which is already carried out under much time pressure. They are also worried that a budget office would be sanctioned or eliminated if it provided information that could cause resentment amongst a sizeable number of MEPs. These concerns thus call for a strong institutional base for the budget office that not only guarantees its independence but also safeguards its smooth integration into everyday policy-making.

First steps towards better analytical capacities in budget matters have already been taken. In January 2014, the EP established a 'new' research service taking the form of a Directorate-General in the parliamentary administration. It has about 200 staff members and brings together directorates for library services and impact assessment – both of which existed before – and a newly created directorate called the 'Members' Research Service'. The latter service has a unit dedicated to institutional, legal and budgetary matters employing around 20 administrators. Given that these experts do not work on budgetary issues alone, this

68 *European Parliament: Building Continent-Wide Democracy*. US-Congress – European Parliament – Functions and Expenditures, Brussels, 2012; *European Parliament: Parliamentary Democracy in Action*, Brussels, 2013.

number seems small compared to the 250 employees of the CBO. Still, depending on the supply and demand of information from the research service, it might eventually develop into something resembling the CBO.

However, preferences again come into play. There has never been broad agreement on the establishment of a CBO-like institution in the EP as a whole. Especially the Budget Committee has been sceptical, given that such an institution could be considered a ‘rival’ rather than a service for this committee.⁶⁹ It appears that some budget experts in the EP would prefer more services in the Secretariat-General to an independent body. This to a certain extent echoes the concern above, that the budget office would only be tolerated as long as it provided information in line with most MEPs’ preferences. It, therefore, remains to be seen whether the budget unit of the newly created research service will actually mature and develop into a more elaborate institution resembling the CBO.

V. Conclusion

The EP has widely been heralded as the major winner of the Lisbon Treaty. While this claim holds true for the expansion of co-decision and the reformed appointment procedure for the Commission president, it has been questionable from the outset in the case of the budget. First assessments, mostly based on formal analyses, were rather pessimistic regarding the role of the EP in the reformed budget system.⁷⁰ However, as *Corbett* et al. argued, the ‘precise impact of this new [budget] framework will only emerge in the lifetime’ of the 2009-2014 Parliament.⁷¹ Taking stock of recent developments, this paper has shown that the EP has indeed lost considerable clout in the budget system.

Our heuristic for analysing budget politics featured three factors. Formal rights are the *sine qua non* for any actor to exercise power. Taken together, the net effect of the Lisbon Treaty is a disenfranchisement of the EP. We have further argued that an institution needs – to a certain extent – homogeneous preferences to make effective use of its formal rights, and we have shown that MEPs do not necessarily pull together in budget matters. Finally, we have emphasized the role of analytical capacities in a policy area as complex as the budget. Comparing the EP with the Commission and the Council, we have found that the former is at a

69 Interview #1, op. cit.

70 *Giuriato, L.*, op. cit.; *Benedetto, G.*: The EU Budget after Lisbon, op. cit.; *Benedetto, G.*: Budget Reform and the Lisbon Treaty, op. cit.

71 *Corbett, R./Jacobs, F./Shackleton, M.*, op. cit., 272.

severe disadvantage. The loss of formal rights is, therefore, aggravated by the heterogeneity of preferences and the lack of analytical capacities.

The analysis has, however, also shown that the EP is not condemned to passivity and can employ creative strategies to play a more influential role in the budget system without waiting for formal treaty changes that are, in any case, unlikely to happen in the near future. It may be able to use its stronger bargaining power in one pillar of the system to obtain concessions in others – as was, for instance, the case in the MFF talks that the EP used to bring the reform of the own resource system back onto the agenda. It may also seek to better align the preferences of its members so as to build a more ‘unified front’ against the Council (and, increasingly, the Commission). As the composition of the EP is becoming more heterogeneous, with an increasing number of EU-sceptic members, this will be a serious challenge. But there is still a broad majority of pro-integration MEPs, and this group will have to find ways to better assert themselves in budget negotiations with the Council. Given that they cannot necessarily rely on the Commission as their ‘natural ally’, they need to improve their own standing.

In this regard, improving analytical capacities appears to be a realistic and promising strategy. It is realistic because the EP can decide on its own how to organize its administration, and there is an informal understanding that EU institutions do not interfere with each other in their own budgets. It is promising because – more so than other policy issues – budgets are highly technical matters where conflict and decision-making are to a large extent based on thorough analysis. Admittedly, more capacities would not solve internal conflicts, but they can inform the debate and make for a more assertive negotiation strategy.

This paper put forward the US Congressional Budget Office, a non-partisan fiscal affairs unit that has left a remarkable imprint in budget politics, as a role model for the EP. To be sure, this institution cannot simply be copied, but it is an idea worthy of further exploration, discussion and refinement. The newly created parliamentary research service can serve as a basis for further institutional engineering. The prospects for a non-partisan fiscal affairs unit in the EP arguably depend on broader developments in the EU’s institutional balance. Against the background of recent developments towards a more parliamentary system in which the executive is elected by and accountable to the legislature – which the ‘*Spitzenkandidaten*’ process’ hinted at – the perceived need for own analytical capacities may recede. From a normative standpoint, however, a well-informed and assertive parliament can only be welcomed. An independent budget office in the EP would be a viable option for this purpose.