

# Reforming the EU Budget

## A Time Series Analysis of Institutional and Partisan Effects

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**Reforming the EU budget:  
A Time Series Analysis of Institutional and Partisan Effects**

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## **1. Abstract**

The marginal involvement of the EU in redistributive policies and its limited fiscal resources have led to a lack of attention to the EU budget and its determinants. In this paper I analyse an original dataset containing yearly data on the main macro-categories of expenditure and how they have changed over the last three decades (1984-2013). Using time series analysis, I find that the ability to form winning coalitions in the Council, the ideological position of the co-legislators, and some ‘structuring events’ - like the adoption of the Multiannual Financial Framework and the accession of the cohesion countries - have a significant role in driving the process of budgetary reform.

## **2. Introduction**

The European Union general budget establishes on a yearly basis how the fiscal resources controlled by the EU are allocated to a range of policies and programmes that are directly financed and generally managed by the European Commission. To date, the EU budget has not attracted much scholarly attention, perhaps because the fiscal resources administered by the EU represent only a fraction of the resources controlled by the member states. The vast majority of studies in this field have thus focused on national budgets: on their changing composition, on the factors explaining budget deficits and on the process of reform. Much more limited research exists on the EU budget and this has mainly focused on distributional issues and conflicts: how the EU funds are distributed across member states (Aksoy, 2010), the formation of interest coalitions in the adoption of multiannual financial frameworks (Blavoukos and

Pagoulatos, 2011), and the general pattern of stability and change in budget reform (Citi, 2013). Much less is known about the *determinants* of budgetary reform, i.e. the factors driving stability and change in the structure of the EU budget.

This paper addresses this question and contributes to the existing literature in three ways. First, it analyses how the reconfiguration of EU-level collective veto-players determined by successive rounds of treaty reforms, and how the enlarging membership of the EU, have made budget reforms less viable. Second, it estimates the impact of the changing ideological composition of the EU legislative bodies and of a number of other theoretically relevant variables on the stability and change of the EU budget. Third, by contrasting and comparing the findings with an earlier empirical analysis on the determinants of policy reform in EU regulatory policies, this paper argues that the variables at play in budgetary and regulatory reform are only partially overlapping, and that partisan/ideological variables play a much more prominent role in budget reforms than in regulatory reform.

This paper relies on an original dataset tracking the evolution of macro areas of expenditure in the EU budget from 1984 to 2013. The reason for developing an original dataset is that the budgetary figure published in the *Official Journal* of the EU are affected to a considerable degree by the problem of ‘repackaging’, i.e. shifting specific sources of expenditure under new or different headings, a phenomenon that can make data collection and analysis unreliable. In order to tackle this problem, this dataset was developed by applying a specifically devised codebook, which keeps constant codes across the whole timeframe. This ensured data consistency and reliability.

The paper develops as follows: in the next section, I discuss some key theoretical and empirical contributions that have dealt with the problem of explaining budget reform and, more generally, policy stability and change. I will focus in particular on those perspectives that study budgetary dynamics as a way to study policy dynamics, and on those theoretical perspectives that hinge on veto-player theory to explain policy stability and change. In the third section I flesh out a set of independent variables that according to the literature have a role in the process of policy change, and specify the hypotheses that I will test within the empirical section. In the fourth section I dwell on the issue of measuring budget reform, and more precisely on how we can capture the magnitude of change in budget appropriations. Here I discuss different types of measures existing in the literature and justify the use of ‘budget distance’ as an

appropriate measurement, illustrating how it is calculated and briefly explaining the codebook upon which it is based. Next, in the section on estimation, I test the hypothesised relationships between the mentioned variables and discuss the extent to which the theoretical expectations developed in the theoretical part of the paper were met. In the conclusion I elaborate on the significance of findings and point out the implications for the existing literature.

## **2.1 Theoretical and empirical perspectives**

Most of the literature on public budgets has focused on two different but deeply interconnected themes: assessing how budgets evolve both in the short and long term, and finding the determinants of stability and change in the composition of public budgets.

The first theme was initially explored by the early incrementalists, who theorised that budgets, and public policies in general, are reformed in small and incremental steps and through a process of ‘muddling through’. This happens – they argued – because policy makers operate under extensive time and information constraints, which severely limit opportunities to design large-scale policy reforms (Davis et al., 1966; Lindblom, 1959; Wildavsky, 1964). Several years later, another group of scholars used the same set of assumptions to develop a new model of budget and policy reform that is nowadays widely known as the punctuated-equilibrium (P-E) model (Baumgartner and Jones, 1993, 2002; Jones and Baumgartner, 2005). The central claim of this model is that public policies *generally* evolve following an incremental pattern of change. However, the same factors that produce incremental policy outcomes (bounded rationality, time constraints and information constraints), are responsible for the ‘neglect and overreact’ behaviour of policy makers. According to this perspective, policy makers tend to neglect policy issues for long periods of time until these issues reach a threshold of severity that ‘force’ policy makers to give them attention and space in the policy agenda. When this happens the general pattern of incremental adjustment is likely to be interrupted - or ‘punctuated’ - by a discontinuous policy change. This model has been successfully tested on a massive dataset tracking the evolution of the US federal legislation and budget over a long period of time (Jones and Baumgartner, 2005), and on other large-n cross-national datasets (Baumgartner et al., 2009; Jones et

al., 2009). As such, the P-E model is nowadays widely accepted as the state of the art in the analysis of budget stability and change.

The second theme is about the *determinants* of budget reform. Different contributors have highlighted different factors at play in the process of budget reform but we can broadly identify two main theoretical approaches: on the one hand, the agenda-setting approach, on the other hand, approaches based on veto-players variables and partisan/ideological variables. The agenda-setting approach, which is a key component of the punctuated-equilibrium model explained above, is a behavioural model of policy choice that is based on the concept of disproportionate information processing (Jones and Baumgartner, 2005: 115–136). Essentially, its main point is that the expansion and contraction of policy issues on the agenda are non-incremental dynamics, which predict (or anticipate) policy change. The partisan and veto-players approaches in contrast predict policy stability and change based on the political positioning of legislative bodies and on the configuration of formal and *de facto* veto-players participating in the legislative process. For scholars belonging to the second approach, agenda setting is not a fundamental factor in explaining policy change unless agenda dynamics are able to reshape the policy preferences of veto-players.

In the EU context, predicting budget reform through the lens of agenda-setting is quite problematic for a number of reasons. One of these is that the ‘EU agenda’ cannot be tracked easily: the Parliament and the Council as the two legislative branches have their own agendas, but neither of them can initiate legislation. The legislative initiative is left to the Commission, which controls its own agenda and, in part, the global EU agenda. The European Council provides an additional layer of complexity: it has no legislative power at all but defines the general political priorities of the EU, and as such it contributes substantially to shaping the EU agenda, although in a very indirect way. Moreover, the current scarcity of data on EU agenda dynamics does not allow a full-blown investigation of its impact on policy (and budgetary) change.<sup>1</sup> In this paper I will therefore take the second perspective by analysing the impact of institutional and partisan veto-players in the process of budget reform.

Several contributions have relied on veto-player theory to analyse the reform of national budgets. Most of them have examined the impact of *partisan* veto-players on

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<sup>1</sup> The only available dataset at the time of writing is the European branch of the policy agendas project, available at: <http://www.policyagendas.eu/>



the budget of specific states: Germany (Bawn, 1999; König and Troeger, 2005), Denmark, Germany, United Kingdom and United States (Breunig, 2006) and on a larger panel of 19 OECD countries (Bräuninger, 2005). In all these cases, the key dimension being investigated was the distance in policy preferences between the parties of the government coalition, or the distance in policy preferences between two successive governments. This distance (which is generally estimated on the basis of party manifesto data or expert survey data) was found to have a significant impact on the stability and change of national budgets in all cases. Nevertheless, we know from veto-player theory that partisan veto-players are not the only type of veto actors participating in the policy process. *Institutional* veto-players, defined as the constitutional configuration of individual or collective actors whose consent is necessary to change the status quo, are at least as important as partisan veto-players (Tsebelis, 2002: 19). Thus, in a larger comparative study Tsebelis and Chang (2004) estimated the impact of institutional and partisan veto-players on the national budgets of 19 OECD countries, finding that both of them have a significant impact in determining budget stability and change. In this paper I follow this line of investigation, studying how these two types of veto-player variables drive stability and change in the composition of the EU budget.

It is worth noting that the vast majority of empirical studies on budget reform are focused on the national level. Only a few studies exist on EU-level budget reform, and these are mainly concerned with distributional conflicts between member states, emphasising either the bargaining behaviour of member states during the budgetary negotiations (Aksoy, 2010; Schneider, 2013), or the patterns of coalition building in the negotiations for the multiannual financial framework (Blavoukos and Pagoulatos, 2011). Taking a different perspective, Citi (2013) has shown that the EU budget is reformed following a pattern that closely approximates the punctuated-equilibrium dynamic (Citi, 2013). However, none of these EU-level studies has identified the factors that explain policy reform and inertia in the EU budget. Not much is known about the extent to which different configurations of institutional veto-players - created or reshaped by successive treaty reforms - have determined more or less stability in the EU budget. In the same vein, it is not entirely clear whether the changing ideological composition of the EU legislative branches, and their changing ideological distance, has determined larger or smaller budget reforms. These questions are particularly relevant if we consider claims in the literature that the EU is a political system whose policies are

increasingly driven by partisan control in the Council and the Parliament (Hix, 2008: 110–136). If this is the case, we should find that the changing ideological composition of EU legislative bodies has an impact on the stability and change of the EU budget. My specific hypotheses are laid out in the next section.

### **3. Independent variables and hypotheses**

#### **3.1 Institutional variables**

The EU budget is adopted following a procedure that was laid out in the budgetary treaties of 1970 and 1975. This procedure closely resembles the ordinary legislative procedure and is composed of several steps, which can be visualized as follows: the Commission starts the process by drafting the preliminary budget, and then it forwards the proposal to the two legislative branches. At this point the Council and Parliament have at their disposal up to two readings each and a final round of conciliation committee discussion for agreeing on a single document.<sup>2</sup> Before the Lisbon Treaty, the legal provisions were such that the Council had the last word on compulsory expenditure (essentially the common agricultural policy), whereas Parliament had the last word on non-compulsory expenditure (all the other expenditure policies). However, considering Parliament's possibility to reject draft budgets in order to extract more concessions (which happened for the 1980 and 1985 budgets), and the practice developed since 1988 of agreeing on common and binding multiannual financial frameworks, both the branches of the legislature have a *de facto* veto power on all the constituent parts of the budget.

Nevertheless, from the perspective of veto-player theory both the Council and Parliament are not individual veto-players but collective veto-players. This means their ability to change the *status quo* hinges on their capacity to build pro-reform coalitions. In Parliament, coalition-building is largely based on loose agreements between the main party groups, which tend to align along the classical left-right axis (Hix et al., 2005). Thus the changing ideological composition of Parliament may change the weight or composition of these coalitions, which in turn may alter the Parliament's position in

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<sup>2</sup> The procedure is regulated by art. 313-316 TFEU. Earlier versions of the same provisions are: art. 271-273 TEC (post-Amsterdam), art. 202-204 TEC (post-Maastricht) and art. 11-12 of the 1975 Budgetary Treaty.

regard to the *status quo*. This variability in the ideological composition of Parliament is well captured by the partisan veto-player variables described below.

Analysing the Council as a collective veto-player is more complex, as coalitions that form during the budgetary negotiations tend to be more unstable and volatile. According to some recent evidence collected by Blavoukos and Pagoulatos, these coalitions are generally *ad hoc* and based on national interests, ideological proximity, or a combination of the two (Blavoukos and Pagoulatos, 2011: 574). Hence, a variable that holds a high potential for predicting budget reform is the ability of Council members to form ‘winning coalitions’ for changing status quo policies. This variable is determined by two parameters: the threshold for qualified majority and the distribution of voting weight between member states. Both these parameters have been subject to change in the last three decades, mostly due to treaty changes that were adopted to accommodate new member states or to reforms that were made to adjust the efficiency of the decision-making process. These reforms have changed the unanimity core and the status quo winset of the Council, making policy reform more (or less viable). For example, the triple-qualified majority vote (henceforth: QMV) introduced by the Treaty of Nice increased the Council’s unanimity core making policy reform much more difficult (Tsebelis, 2002: 270–71). On the contrary, the Lisbon Treaty’s abolition of the triple-qualified majority made QMV easier to reach, and made pro-reform coalitions easier to build (Tsebelis, 2012).

The literature on power indexes has developed a reliable method for measuring the ability to form winning coalitions: a measure that makes use of the threshold (one or multiple) for reaching QMV and the voting weight attributed to each member state to calculate the percentage of winning coalitions out of the total number of possible coalitions. This measure has already been employed in the literature on veto-players’ analysis of the Council’s decision-making (Tsebelis, 2006, 2012). Given the considerable computational task implied in this calculation, the software Indices of Power – IOP 2.0 developed by Thomas Bräuninger - was used to calculate how the percentage of winning coalitions in the Council changed as a function of treaty reform in the last three decades.<sup>3</sup> The resulting score is one of the key independent variables of the empirical analysis. Essentially, a higher score signifies a greater chance of forming

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<sup>3</sup> Available on <http://www.tbraeuninger.de/download/>

pro-reform coalitions, making policy change more likely. The first hypothesis to be tested is therefore:

Hypothesis H<sub>1</sub>: The higher the percentage of winning coalitions in the Council, the higher the budget deviation from the *status quo*.

A second and related hypothesis is that the process of enlargement has had a constraining effect on the ability to reform the budget. This hypothesis, which has surfaced several times in the literature (Hosli, 1999; König and Bräuninger, 2004; Zimmer et al., 2005), assumes that the process of enlargement determines the need to accommodate an increasing variety of demands and sometimes opposing policy preferences. Hence, the process of enlargement tends to produce policy inertia, which is only partially mitigated by the use of QMV. The hypothesis I will test is therefore:

Hypothesis H<sub>2</sub>: The higher the number of member states, the smaller budget deviation from the *status quo*.

### **3.2 Partisan variables**

Political parties have traditionally been characterised by different preferences with regard to fiscal policy and spending priorities. For instance, several papers have established a clear link between the ideological attributes of parties in government and budget deficits (Blais et al., 1993; Roubini and Sachs, 1989). Other contributions have found that the sway of the political pendulum from the left to the right and *vice versa* has an impact on the spending priorities of the government (Bawn, 1999; Bräuninger, 2005; Tsebelis and Chang, 2004). In all these cases, partisan politics has been proven to matter in budgetary reform. However, all the studies mentioned above are focused on the national level. No study, to the best of my knowledge, has yet investigated the impact of changing ideological composition of the two legislative bodies of the EU on annual spending priorities. For this reason, two of the key hypotheses being tested in the empirical analysis are:

Hypothesis H<sub>3</sub>: The changing ideological composition of the European Parliament determines a reallocation of resources across budgetary functions.

Hypothesis H<sub>4</sub>: The changing ideological composition of the Council determines reallocation of resources across budgetary functions.

In order to test these hypotheses I rely on a dataset tracking the changing ideological composition of the EU legislative bodies during the years 1980-2010 (Klüver and Sagarzazu, 2013). The Klüver and Sagarzazu dataset estimates the positioning of the EU legislative branches by means of a multiple-stage procedure: in the first stage all the parties represented in Parliament and in the Council are located on a left-right scale on the basis of a textual analysis of party manifestos. In the second stage the ideological position of the two legislative branches is estimated by computing the weighted average position of all the parties represented in Parliament and the Council. In this dataset a negative score signifies a left-leaning position, whereas a positive score signifies a right-leaning position. Considering that Parliament's composition changes every five years, and that the Council's composition changes every time a member state elects a new government, the Parliament's ideological position is re-calculated every five years, whereas the Council's position is re-calculated every time there is a change in government in one of the member states. This data is then transformed into yearly a time series. The measure of ideological positioning of the Commission, which is part of the original Klüver and Sagarzazu dataset, was not retained in this analysis as the role of the Commission in budgeting is limited to drafting the preliminary budget.

### **3.4 Control variables**

Existing analyses on the determinants of budget reforms usually contain some additional variables to control for a number of 'non-deliberate' changes, i.e. budgetary mechanisms that are in place to respond either automatically or quasi-automatically to changing conditions in the policy environment. For instance, a sharp decline in the growth rate of a country, or a rise in unemployment, or the changing costs of servicing the public debt will normally trigger some budgetary responses that are not necessarily

determined by partisan or veto-players variables, and as such need to be controlled for (Bawn, 1999; Bräuninger, 2005; Tsebelis and Chang, 2004).

However, the EU does not pay unemployment benefits, it does not have specific sources of expenditure for countercyclical measures, nor does it have interest to pay for servicing a debt. In this sense, practically all EU budget changes can be considered as deliberate. Notwithstanding this there exists one type of exogenous event that can determine a significant change in budgetary appropriations: the enlargement of the EU to include countries that are defined as ‘cohesion countries’, characterised by an income that is substantially lower than the EU average and is in need of substantial investment in structural and cohesion funds. Thus, another hypothesis I will investigate is the following:

Hypothesis H<sub>5</sub>: The accession of a new cohesion country to the EU will determine a reallocation of resources across budgetary functions.

In order to test this hypothesis a dummy variable was included in the dataset. The variable takes the value of 1 in the years when one (or more) of the cohesion countries entered the EU and zero in all others.<sup>4</sup> Another hypothesis I test is that the EU is affected by a political budgetary cycle. The literature on public budgets has shown that increasing public spending (especially pork barrel) during electoral or pre-electoral years is quite common in a number democracies (Drazen, 2000; Franzese, 2002; Rogoff, 1990). This is a dynamic that could, at least theoretically, affect the EU as well. Hence the sixth hypothesis is:

Hypothesis H<sub>6</sub>: There is a reallocation of expenditure in correspondence with the EU elections.

This hypothesis is tested with the help of a dummy variable that takes the value of 1 during all the electoral years and the value of zero in all other years.

The final hypothesis is that budget reforms are strongly influenced by the political negotiations leading to the adoption of the Multiannual Financial

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<sup>4</sup> The dummy variable takes the value of 1 during the following years: 1986, 2004, 2007, i.e. for the accession of Spain, Portugal, the EU enlargement of 2004 to include eastern Europe and the enlargement of 2007 to include Romania and Bulgaria.

Framework (MFF). The MFF is an inter-institutional agreement between the Council and Parliament that sets the ceiling for expenditure for the next seven years and establishes some very general priorities for expenditure. The MFF was created in 1988 on the impulse of Parliament, which wanted to have more power over EU expenditure. This development gave Parliament a *de facto* veto power in all the main categories of expenditure in the budget, and the power to influence the general fiscal priorities of the EU. Moreover, considering that the Council adopts the MFF by unanimity and that each member state pushes for its priorities, the process leading to the adoption of the MFF tends to be characterised by hard bargaining between member states. The specific hypothesis being investigated is that a number of intra-EU cleavages and coalitions tend to come into play during the process of adoption of the MFF (Blavoukos and Pagoulatos, 2011), leading to ‘grand bargains’ (Laffan, 2000) that have a structuring effect on the budgets adopted in the next seven years. I test this hypothesis with different dummy variables for each MFF.

### 3.5 The dependent variable: budget distance

Following an approach developed by Tsebelis and Chang for measuring budget reform in 19 OECD countries (Tsebelis and Chang, 2004), I conceptualise the EU budget as a vector in an  $n$ -dimensional policy space, each dimension representing the allocation of budget to a specific jurisdiction. Considering that each jurisdiction is allocated a percentage of the general budget, the annual budget can then be represented as a sequence of percentages ( $a_1, a_2 \dots a_n$ ). Under these assumptions, it is possible to calculate the ‘extensiveness’ of budget reform by summing the squared deviations from the previous year’s allocations to the same jurisdictions, and then taking the square root of the resulting number. The output variable, called budget distance (BD), can be formalised as follows:

$$BD = \sqrt{(a_{1,t} - a_{1,t-1})^2 + (a_{2,t} - a_{2,t-1})^2 + \dots + (a_{n,t} - a_{n,t-1})^2} \quad (1)$$

where  $a_{1,t}$  is the percentage of budget allocated to jurisdiction  $a_1$  at time  $t$ ,  $a_{1,t-1}$  is the percentage of the budget allocated to the same jurisdiction the year before, and  $a_{n,t} - a_{n,t-1}$  is the difference between the budget allocated to the  $n^{\text{th}}$  jurisdiction at time  $t$  and at

time  $t-1$ . In a nutshell, this measure synthesises in one single variable the total amount of yearly changes made to all the jurisdictions of the EU budget. Its general dynamic is represented in Figure 1. The use of percentages instead of real budgetary figures allows to control for three confounding factors that would artificially inflate the budgetary figures: the changeover from ECU to Euro as the official unit of account, the general increase in the extent of budgetary resources determined by the higher number of states that have joined the EU, and the effect of inflation.

**[Figure 1 here]**

In order to make the process of data collection and analysis more manageable, I employed a codebook that classifies the entire set of sources of expenditure into a few jurisdictions, or macro-categories, of expenditure. This is justified by the fact that, despite the wide variety of programmes financed by the budget, the EU has only a limited number of expenditure *policies*: agriculture and fisheries, regional cohesion, research and technology, social policy, external action and expenditure for administration. Moreover, if we want to consistently track the changing budgetary structure of a political entity that over the last thirty years has evolved considerably, acquiring more and more competences and developing new programmes almost every year, we need to use a codebook that remains consistent across the years, and rely on some broad categories of expenditure that were already extant in the base year. Finally, the use of macro-categories allows focusing on the general trends of stability and change in expenditure policies, disregarding the ‘noise’ generated by a number of idiosyncratic smaller-scale programmes that the EU created over the years. The codebook is represented in its essential form in Table 1.

**[Table 1 here]**

### **3.6 Estimation and results**

Before testing the models through OLS regressions, the time series properties of the data were carefully checked. A first visual inspection of Figure 1 (which represents the evolution of the dependent variable in the relevant timeframe) shows no evident trend in the data. This suggests the series might be stationary and suitable for OLS regression.



However, in order to formally test the hypothesis that there is no trend in the series, I ran the augmented Dickey-Fuller (ADF) test for a unit root in the variable budget distance. The test rejected, by an ample margin, the null hypothesis on the presence of a unit root in the series. Moreover, all the time series' included in the models were checked for serial correlation by running the Portmanteau (Q) statistic on the residuals of all the regressions. In all cases, the test failed to reject the null hypothesis of no serial correlation.

Table 2 shows the results of the OLS regressions for the five tested models. The first model is the simplest one, taking into account the institutional determinants only: the winning coalitions variable and the expanding EU membership variable. As the regression table shows, an enlarged membership of the EU produces a significant negative effect on budget distance. This means that at constant voting rules in the Council, an enlarged EU has a lower ability to reform the budget. As to the winning coalitions in the Council, the relevant coefficient in model 1 shows that an increase in the percentage of winning coalitions (and thus a greater ability to form coalitions in the Council) produces a negative effect on the extensiveness of budget reform. This requires some interpretation: while the negative relationship between the size of the EU membership and the extent of budget reform is in line with what was hypothesised in the theoretical section, the relationship between winning coalitions in the Council and budget reform goes in the opposite direction to what was expected following hypothesis H<sub>1</sub>: the evidence shows that greater ability to form coalitions in the Council results in smaller budgetary change. Admittedly this is a somewhat surprising finding, which we can interpret with the presence in the Council of a wide coalition in favour of a budgetary *status quo*. In this case a lower threshold for forming winning coalitions will imply an easier way for the dominant coalition to maintain the *status quo*. In other words, the coalition in favour of the *status quo* will still be able to dominate the game even in the case of defection of some of its members.

**[Table 2 here]**

Model 2 adds the partisan variables to the institutional variables, and more specifically the ideological position of Parliament and the Council. Following the Klüver and Sagarzazu dataset (2013), the ideological position is measured with a

continuous variable ranging from highly negative scores, representing extreme left positions, to highly positive scores, representing extreme right positions. A score of zero or close to zero represents a centrist position. The scores of Parliament and the Council are weighted averages, where the weights are constituted by the size of parliamentary groups in the case of Parliament, and the number of votes available to a country in the case of the Council. As the regression table shows, if we control for the effect of the institutional variables examined above, a one-point increase in the left-right scale (that is to say a one-point movement toward the right) produces a highly significant negative score on the output variable. This means a shift to the right in the ideological composition of the two legislative bodies determines budgetary choices that are more *status-quo* oriented. This finding is particularly interesting in light of some earlier research on regulatory dynamics in the EU, which found that the same partisan variables had no significant impact on regulatory expansion and dismantling (Citi and Justesen, 2013), and implies that the variables at play in budgetary and regulatory reform only partially overlap, and that partisan variables play a more important role in budgetary reforms than in regulatory reform.

Model 3 adds the first control variable: the accession to the EU of new ‘cohesion countries’, characterised either by a per capita GDP that is significantly lower than the EU average, or by a very low level of internal economic cohesion. The literature has presented considerable qualitative evidence showing that the accession of these countries has historically sparked extensive budgetary bargains, which in turn have resulted in re-balancing expenditure priorities (see for instance: Blavoukos and Pagoulatos 2011). However, model 3 tests on a larger-n dataset whether there is a *systematic* relationship between the two variables, while controlling for the institutional and partisan variables. The coefficient of model 3 in Table 2 shows that indeed this is the case: the accession of these countries has led to a statistically significant change in the allocations of expenditure across the main areas of expenditure. Looking more closely at the raw data, one can observe a substantial movement of resources from areas like common agricultural policy to regional policy and the European social fund in correspondence with these enlargement rounds.

Model 4 checks for the impact of another potentially important independent variable: political budget cycles. There is no specific theoretical and empirical literature on political budget cycles at the EU level. However, there is extensive comparative

literature on this phenomenon whereby government spending tends to be skewed toward higher visibility programmes during election years. In this model I tested the hypothesis that there is a reallocation of expenditure in correspondence with EU election years. The regression output reports a non-significant coefficient for this model, implying that there is no clear evidence of such a cycle at the EU level.

Finally, model 5 tests a more complex hypothesis: that the long negotiation rounds leading to the adoption of the multiannual financial framework (MFF) are ‘structuring events’, i.e. moments when the real political cleavages of the EU in fact come into play, structuring the budgetary choices of the following years. The hypothesis is tested by entering the partisan variables and the MFF variables into the same regression. The coefficients of model 5 show that MFFs indeed have a significant impact on yearly budgets (with the exception of the first MFF), and that the latest MFFs with their increasingly negative scores have become much more *status-quo* oriented than earlier MFFs. Interestingly, the variable representing the Council’s ideological composition remains significant in this model, while the corresponding Parliament’s variable becomes insignificant, as a substantial part of the variability is now captured by the MFF variables. Theoretically, this can be interpreted by taking into account that it is exactly during the MFF negotiations that Parliament tends to act as a non-partisan and unitary veto-player, typically deploying its full bargaining power in order to get greater expenditure in all areas of the budget.

#### **4. Conclusion**

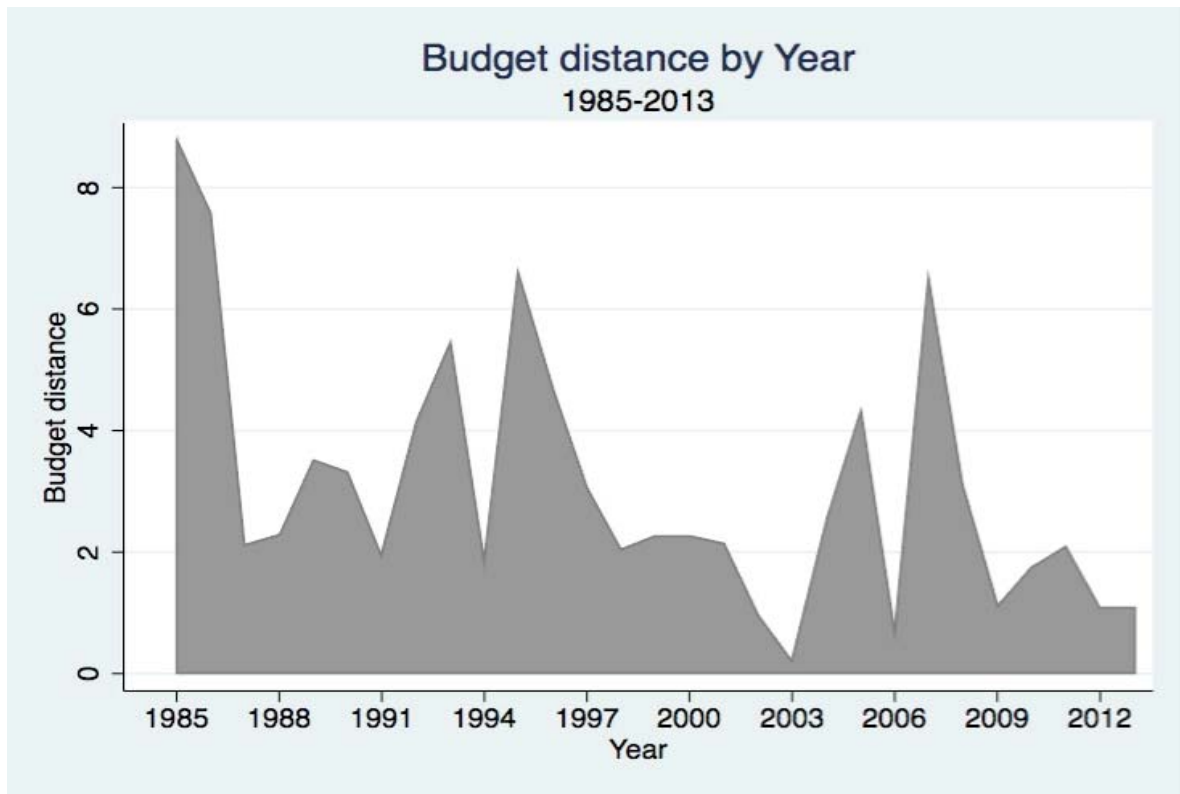
This article has analysed the role of some EU-level institutional and political determinants in the reform of the EU budget. The analysis, based on a new dataset on the evolution of all the macro areas of expenditure in the long run, found evidence that different types of variables drive stability and change in the EU budget. Among the institutional variables, the growing membership of the EU was found to have a constraining effect on budget reform, while the higher percentage of winning coalitions (a measure of member states’ ability to form coalitions in the Council) was not found to make budget reform any easier. This finding, which runs counter to what was hypothesized in the theoretical section, can be interpreted with the existence of a wide

coalition of member states in favour of a budgetary *status quo* which is made even stronger by a more reachable qualified majority.

Among the partisan variables, both Parliament and the Council's ideological composition were found to have an influence on the extensiveness of budget reform when the institutional variables were controlled. More specifically, a positive one-point movement on the left-right axis (that is a movement to the right of the two co-legislators) produced a significantly smaller budget reform, whereas a one-point movement to the left determined a significantly wider budget reform. This finding is particularly interesting if we consider that an earlier large-n analysis of regulatory reform in the EU found no evidence that the same partisan variables have a significant influence on the dynamics of regulatory expansion/dismantling. Hence, we can conclude that the variables at play in budgetary and regulatory reform in the EU only partially overlap, and that partisan variables play a much more significant role in budget reforms than in regulatory reform.

As for the additional variables studied in the five models, the analysis did not find any evidence of the existence of a political budget cycle at the EU level. This finding is relevant both for the literature on EU policy-making and for the broader literature on public budgeting, since there are many instances of comparative analyses on this phenomenon at the level of nation-state, but not at the EU level. Finally, the data showed significant evidence of the role of some 'structuring events' in the reform of the budget. Among these, the accession of cohesion countries to the EU was found to be responsible of some of the most extensive budgetary reallocations. In a similar fashion, the big negotiation rounds leading to the adoption of multiannual financial perspectives (MFF) were found to have an equally strong influence on the rate of reform of annual budgets. On a more general level, the implications of this paper are that the interplay between institutional variables, political variables and highly salient structuring events is something that deserves more attention in further research

**Figure 1.** The time series of budget distance, by year (1985-2013)



**Table 1.** Codes used for coding the EU's macro areas of expenditure

|  |   |
|--|---|
| 1. Common agriculture and fisheries policy | 1.1 European Agricultural Guidance and Guarantee Funds<br>1.2 Rural development programmes<br>1.3 Common Fisheries Policy |
| 2. Regional Policy and cohesion            | 2.1 European regional development funds<br>2.2 Cohesion funds   |
| 3. External relations                      | 3.1 External relations<br>3.2 Trade<br>3.3 Enlargement and neighbourhood policy<br>3.4 Humanitarian aid                   |
| 4. Social policy and social affairs        | 4.1 European Social Fund<br>4.2 Education and youth policy<br>4.3 Other social policies                                   |
| 5. Research and Technology development     | 5.1 Framework programme<br>5.2 Information society and media  |

|                             |   |
|-----------------------------|---|
| 6. Administration and other | 6.1 Administrative expenditure of Parliament, Council, ECJ, and all the other administrative bodies (except Commission) |
|                             | 6.2 All other expenditure   |

**Table 2.** Explaining budget reform in the EU (1984-2013)

| VARIABLES                                 | Model (1)<br>Institutional<br>variables | Model (2)<br>Partisan and<br>institutional<br>variables | Model (3)<br>Partisan and<br>institutional<br>variables with<br>control I | Model (4)<br>Partisan and<br>institutional<br>variables with<br>control II | Model (5)<br>Partisan<br>variables and<br>financial<br>perspectives |
|---|---|---|---|--|---|
| <i>Institutional variables</i>            |   |   |   |  |   |
| Council winning coalitions <sub>t-1</sub> | -0.283**<br>(0.129)                     | -0.237**<br>(0.112)                                     | -0.169<br>(0.107)   | -0.239*<br>(0.117)   |   |
| EU membership <sub>t-1</sub>              | -0.202***<br>(0.067)                    | -0.320***<br>(0.083)                                    | -0.276***<br>(0.078)  | -0.322***<br>(0.087)   |   |
| <i>Partisan variables</i>                 |   |   |   |  |   |
| L-R Council <sub>t-1</sub>                |   | -0.397***<br>(0.133)                                    | -0.344**<br>(0.124)   | -0.400***<br>(0.140)   | -0.455***<br>(0.150)  |
| L-R EP <sub>t-1</sub>                     |   | -0.337***<br>(0.110)                                    | -0.372***<br>(0.102)  | -0.338***<br>(0.113)   | -0.093<br>(0.163)   |
| <i>Control variables</i>                  |   |   |   |  |   |
| Cohesion country access                   |   |   | 2.264**<br>(0.974)  |  | 2.235**<br>(1.006)  |
| Political budget cycle                    |   |   |   | 0.070<br>(0.856)   |   |
| Financial Persp. 1988-92                  |   |   |   |  | -1.719<br>(1.172)   |
| Financial Persp. 1993-99                  |   |   |   |  | -2.591**<br>(1.121)   |
| Financial Persp. 2000-06                  |   |   |   |  | -5.793***   |

|                          |          |           |          |           |           |
|--------------------------|----------|-----------|----------|-----------|-----------|
|                          |          |           |          |           | (1.791)   |
| Financial Persp. 2007-13 |          |           |          |           | -6.100*** |
|                          |          |           |          |           | (1.657)   |
| Constant                 | 8.138*** | 10.867*** | 9.406*** | 10.893*** | 7.543***  |
|                          | (1.709)  | (1.906)   | (1.850)  | (1.975)   | (1.282)   |
| Observations             | 29       | 27        | 27       | 27        | 27        |
| R-squared                | 0.265    | 0.521     | 0.619    | 0.521     | 0.648     |

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Notes: The dependent variable is budget distance, a measure of extensiveness of budget reform. All models are estimated using OLS in Stata 13. Institutional and partisan variables are lagged one year (the budget is adopted the year before its entry into force). Standard errors are in parentheses.

\* significant at .1; \*\* significant at .05; \*\*\* significant at .01

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