European Union summit agrees on austerity budget

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On Friday, after 26 hours of negotiations, the heads of state and government of the European Union agreed on a reduced budget for 2014 to 2020. It must still be approved by the EU Parliament.

Under the agreement, the EU budget must not exceed a maximum of €960 billion in the next seven years. That is €34 billion, or about 3 percent, less than the budget for the past seven years.

In November of 2012, a first budget summit failed. At that time, the EU Commission presented a draft budget of about €973 billion.

The €960 billion figure is only a financial upper limit. The summit agreed to only €908 billion in actual payment obligations. The two numbers are the result of a compromise between British Prime Minister David Cameron, who did not want to exceed €908 billion under any circumstances, and French President François Hollande, who wanted to set €960 billion as the limit.

How the gap between these two sums is to be bridged remains an open question and will be the subject of numerous future EU summits.

The summit participants were obviously determined to reach an agreement, even if it was more symbolic than real. This is due less to the issue of the EU budget itself than to the pressure of the international financial markets and the need to maintain the credibility of the austerity measures the EU is dictating to its member states.

Despite massive opposition from the working class, the governments in Greece, Portugal, Spain, Italy and France have adhered to brutal austerity guidelines, which have thus far kept the international financial markets relatively calm. Speculation against the euro has weakened. An open conflict over the EU budget between European governments would have quickly changed this, while providing new impetus for social resistance against the austerity measures.

This is all the more so since several European governments are highly unstable. Spanish Prime Minister Mariano Rajoy is embroiled in a corruption scandal. Italy faces elections on February 24 that could threaten the continuation of the austerity measures being implemented by Mario Monti, since former Prime Minister Silvio Berlusconi has been making up ground with an anti-EU campaign.

With the first cut to its own budget, the EU has given a clear signal for the continuation of its austerity agenda. Here, Cameron and German Chancellor Angela Merkel have prevailed against Hollande, Rajoy and Monti. The latter had called for an increase in the budget to fund economic stimulus programs. The EU Commission had originally requested a budget well over €1 trillion, but then backtracked under pressure from Merkel and Cameron.

At almost €1 trillion, the size of the budget seems large, but spread over seven years it is less than €140 billion per year. That is less than 1 percent of Europe's overall gross domestic product.

The majority of this will flow into agricultural subsidies (€421 billion in the budget for the last seven years). Another large amount goes to funding for poorer regions (€355 billion). For education, research and science, the EU spent €92 billion over the last seven years. It spent €57 billion each for administration and European foreign policy, and €12 billion for domestic security.

In 2010, Germany was the largest net contributor (€9.2 billion), followed by the UK (€5.6 billion) and France (€5.5 billion). Poland is the biggest net recipient (€8.4 billion), followed by Spain (€4.3 billion) and Greece (€3.4 billion).

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The countries of Eastern Europe, which joined the EU in 2004 and 2007, have received the most money in EU regional development funds, including funding for many infrastructure projects. Some of these countries vociferously opposed any cut in the EU budget, but had no means of putting pressure on Merkel and Cameron. The budget cuts will hit these already impoverished countries especially hard.

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