TRIBUNE 19 NOVEMBER 2012

REFORMING THE EU BUDGET IN TIMES OF CRISIS

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This Tribune underlines the main issues at stake in the perspective of the extraordinary European Council which is to take key decisions on the EU budget for the post 2013 period. It is based on the opening remarks made on the occasion of an expert seminar organized by *Notre Europe - Jacques Delors Institute* in Roma on the 30th of October 2012, in partnership with the *Istituto Affari Internazionali*, the *Centro Studi sul Federalismo* and the *Institut für europäische Politik*.

I am particularly pleased to open this European seminar in the city of Roma and in the premises of the *Istituto Affari Internazionali* that I would like to thank warmly, as well as the other partners of this event, namely the *Centro Studi sul Federalismo* and the *Institut für europäische Politik*.

The objective of this opening address is naturally not and cannot be to cover all the issues we will deal with during our seminar, but rather to focus on the context in which it takes place, so as to try and shed light on our debates. In this regard, what strikes me is that this seminar perfectly echoes the one we have organized in Torino in July 2011, and whose title was "Rethinking EU finances in times of crisis" – we are indeed timely once again: the Torino seminar was probably the first organized at such a scale right after the Commission published its proposal for a new EU "MultiAnnual Financial Framework" one week before; this Roma seminar is organized just before the extraordinary European Council scheduled in three weeks to take decisions on the EU budget for the period 2014-2020.

One thing has changed since our Torino seminar: it is still time to think, but also to propose concrete orientations in the perspective of the decisions on the EU budget to be taken in the coming weeks. Another thing has not changed: the times of crisis have not faded away, and the context is even more difficult on the economic, social and political point of view. In this context, I will then focus this opening address on three series of remarks:

- one on the crisis, which has to been taken into account in the ongoing decision making process;
- a second one on the key objectives of the EU budget;
- the third one on the concept of "political union", given the fact that the EU budget is one of its major tool.

1. Financing the EU in times of crisis

The first element we all have to take into account is that the crisis Europe is facing is probably deeper than what it was one year ago, and that such a situation naturally shapes the decision making process leading to the adoption of the EU budget for the post-2013 period.

It is first a financial, economic and social crisis, born in the USA and hitting many countries in the world, including in the EU and in the Eurozone. It is also a budgetary crisis, marked by huge tensions on the financing and content of national budgets, but also on the current EU budget – the financing of some ongoing European programme, such as the emblematic Erasmus one, is currently under threat. Finally, and maybe above all, it is also a political crisis: it indeed led many European countries to finance aid packages for struggling Eurozone "countries under program", and this revolutionary and welcome effort created important political tensions, both in the countries receiving the aid and in the donor countries. Even if very different types of financing are often mixed[1], in the debates over the EU (guarantees, loans, expenditures, etc.), this "new deal" creates a general climate which has an impact on the ongoing negotiations of the Multiannual Financial Framework.

In such a context, I will say that the lessons drawn at the end of our Torino seminar remain all the more valid:

- the Commission's proposal is a good basis for the negotiations and could probably be a rather good outcome – it's more than ever useless to think about an ideal EU budget in an ideal EU;
- the Commission indeed proposes a good balance between two elements : the austerity the EU and its member states are facing; the need

to introduce innovations, so as to adapt the EU budget to the challenges of the post-2013 period;

- given the pressure exercised on the EU budget, there is a need to promote a wider or "aggregated" vision[2] of European finances: this means promoting the use of other financial but non budgetary tools (the "Connecting Europe Facility", the European Investment Bank loans, the so-called "project bonds"), as well as including in the reflection "europeanised" expenditures which are not in the EU budget;
- the management of the EU expenditures is also a key issue, which should not be underestimated; it is even more striking when dealing with the situation of Greece, both because we can wonder if a good use has been made of all the structural funds received by this country and because the decision to increase the EU "co-financing rate" has been a good contribution to help concretely this country;
- finally and more generally, the issue of the "narrative" is central for the current negotiations: the EU budget is indeed quite small and can not then contribute to all the expenditures in all the sectors – hence the need to define clearly its key objectives.

2. What are or should be the main objectives of the EU budget?

To try and shed light on the debate around the objectives of the EU budget, I will refer to the research project "How to spend better together" we have launched one year and a half ago. This project, whose synthesis will soon be published, is partly based on the classical concepts of "subsidiarity" and added value – in my view, it brings at least two interesting contributions to our debates.

The first contribution concerns the usual dilemma "solidarity versus growth" we will deal with in our first two round tables. The "Delors packages" adopted in 1988 and 1992 perfectly illustrate the fact that these objectives are not contradictory at all, and that they can be well combined, on the basis of the famous triptych "Competition – Cooperation – Solidarity" – the key point is to find the good balance at the European level.

When mentioning growth, we can refer to the "Growth Compact" adopted last June by the European Council to reassert that it is first and foremost at the national level that the key decisions and efforts have to be made – what happened in Germany or is happening in Italy is a perfect illustration of this basic statement. We may also consider quite easily that the EU's contribution to growth relies mainly on the legal tools it can use: the adoption and implementation of the Single Market Acts I and II could bring a new positive contribution in this perspective. The EU financial input is naturally needed as well: it can be very substantial in the smaller countries or to finance specific areas (the Trans-European Networks for example), but it will remain limited roughly speaking, given the size of the EU budget (1% of the European GDP).

The situation is far different as regards solidarity: this notion is indeed one of the key elements of the EU budget construction over time, on the basis of large packages in which the structural funds played an essential role. It was particularly true in the 1980s, so to accompany the adoption of the Single European Act and then the establishment of the Single Market; particularly striking as well at the beginning of the 1990s, with the creation of the Cohesion Fund to help the less advanced countries to join the Economic and Monetary Union. Critics on the way all this money has been spent and proposals to use it better are naturally fully legitimate; they should not make us forget that, on the principle, the redistributive dimension of the EU budget is of central political importance.

I would like to draw your attention on a second element of our research project: it concerns the added value of the EU budget in our "European federation of nation states". A basic statement we can share is that expenditures are mostly centralized in the agriculture sector in Europe (which is also the case in other federations), but that they are rather not centralized in the other fields (including some where such centralization exists is other federations, for example the external relations). These differences reflect the specificities of the European political context, which have been taken into account in the set of publications we have issued on several sectors, so as to identify where more EU spending would be conceivable and desirable.

The four main Policy Papers we published respectively deal with the financing of "energy infrastructures and networks", of "research, higher education and innovation", of "development aid policy" and of "defence expenditures". I will not mention their recommendations in detail in this opening address but will only underline the fact that the external action at large is certainly one of the sectors in which there are margins of manoeuvre as regards a more Europeanised financing, with a large support from public opinions.

It is then not surprising that we have chosen to focus on such perspective in the third round table of this seminar.

3. Spending together: one of the expressions of our "political union"

My last set of opening remarks leads me to insist of the fact that "spending together" is one of the dimensions of the European "political union" we will deal with in our fourth round table.

I want to underline that this political union is already a reality: our member states indeed share competences, and common institutions have been put in place to use them, under the control of the European citizens. Moreover the EU budget should be protected and promoted as one the symbolic tools of this political union: "spending together" is another word for "living together". We then need to fight against the temptation to promote cuts at the EU level, because these cuts will have a limited impact on national budgets, given the small size of the EU budget; and we need to promote the idea that "spending together" would be more efficient, precisely in this period of crisis, when "unity makes strength".

Another thing we should assert even more firmly is that we are also already in a "transfer union", based on a budget whose "redistribution function" is central: not to admit such "transfer" dimension is a way not to comply with the very foundations of our political union. Finally, we need to stress the need to create a new own resource for the EU budget[3], so to make things clearer politically speaking: the project of financial transaction tax recently launched could be a very good news in this perspective, even if its scope and use remain to be defined more precisely.

This leads me to my final remark: the welcome idea to create a budget dedicated to the Eurozone countries should not interact negatively to the ongoing negotiations on the Multiannual Financial Framework. I will take one example to stress this point: the report of the "Tommaso Padoa-Schioppa group"[4] we have recently published proposes the establishment of a "Cyclical Adjustment Fund", designed to help countries deriving far from their average growth rates or unemployment rates; this new Fund should clearly be complementary to the EU budget and would not replace any of the current European expenditures. It is important to resist the temptation to organize any transfer from the EU budget to the new Eurozone budget to be put in place, because such transfer could affect the broad package deals that shaped the EU budget, and then affect the cohesion of the EU at large. The challenge of political differentiation is ahead of us – we should not forget that it has to be fully addressed, including in its budgetary dimension.

I hope these opening remarks will be useful and wish you all a fruitful and enlightening seminar.

1. "Solidarity within the Eurozone: how much, what for, for how long?", Sofia Fernandes and Eulalia Rubio, *Policy Paper Nr. 51, Notre Europe*, February 2012.
2. "Thinking the EU budget and public spending in Europe: the need to use an aggregate approach", Amélie Barbier-Gauchard, *Policy Brief Nr. 29, Notre Europe*, June 2011.
3. "Europe for Growth : Towards a radical change in financing the EU", Report Haug, Lamassoure, Verhofstadt with contributions from Notre Europe and CEPS, April 2011.
4. "Completing the Euro: A road map towards fiscal union in Europe", Tommaso Padoa-Schioppa Group, *Studies and Reports Nr. 92, Notre Europe*, June 2012.

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Eulalia Rubio, *Tribune, Notre Europe – Jacques Delors Institute*, November 2012

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