

EUROPEAN BUDGET 2014-2020: SEVEN YEARS OF BAD LUCK?

Marie Billotte | *Trainee at Notre Europe - Jacques Delors Institute*

Nadège Chambon | *Senior Research Fellow at Notre Europe - Jacques Delors Institute*

Guy Verhofstadt, Member of the European Parliament and Leader of the Alliance of Liberals and Democrats for Europe, spoke on 9 March in Paris during an event organised by the Maison de l'Europe in partnership with Notre Europe - Jacques Delors Institute. You will find below a selection of the main elements of his talk and of the ensuing debate.

Guy Verhofstadt intervened to promote his new book with Daniel Cohn-Bendit, Debout L'Europe ! (Arise, Europe!). His talk, introduced by Catherine Lalumière, President of the Maison de l'Europe de Paris, and presented by Éric Maurice, Editor-in-Chief of presseurop.eu, was a call to break with the "small steps" method in favour of a "great leap forward" in European integration. This was followed by a lively debate with the large audience gathered to hear the MEP. Representatives from the CNAM, Notre Europe - Jacques Delors Institute and the Representation of the European Commission in France asked questions about the 2014 elections, the European budget negotiations and the European Defence Community, which led to a passionate call to overcome fear of the European project.

His talk and the ensuing debate gave Guy Verhofstadt the opportunity to share his opinions on the main topics of the following analysis.



The European question has never been so relevant; it is more than ever a question for the future. With **Debout l'Europe**, Daniel Cohn-Bendit and I wanted to analyse the true causes of the current crisis by taking a radical stance. Europe needs a true integration plan, not small steps forward. It needs a fiscal, social, political and defence union.

1. Solving our problems through the reinvention of European sovereignty

1.1. Lack of integration led to the current crisis

We created a monetary union when we established the euro, but we forgot to create an economic, fiscal and political union. The lack of these unions caused the current crisis. We need to reinvent European sovereignty in order to end this crisis.

In order to better understand the situation in which European construction find itself today, let's take a step back and look at American history. At first, **the United States was a confederation of thirteen states**. This confederation did not operate well because it was constantly blocked by the particular interests of individual states. Votes had to be made unanimously and the whole operation only ran thanks to national contributions. It was a failure. In the end, the states joined together under a federation which only needed a majority of nine states to move forward. **The federal government established own resources: the US Treasury, which issues federal government bonds, was born.**

In Europe we have done the opposite: we started with the euro and then realised that we were missing the instruments that went with it, such as a common treasury, bond market and economic strategy. Competitiveness in Europe has become more and more divergent and Member States have wildly different interest rates and yield rates of their sovereign debts (spreads). Mr. Monti's defeat in the Italian elections is a telling consequence. No European head of state was willing to help him in his reforms by mutualising part of the debt. He lost because half of Italian taxpayers' money is used to pay interest rates

to debt holders outside the EU. Europe needs a common bond market. Otherwise, who will buy government bonds from Slovenia?

We need a bigger Europe to solve our problems. People are afraid of losing their national sovereignty. But ask the people of Greece and Spain what national sovereignty means to them now. It doesn't mean much at all.

1.2. A great leap forward in overcoming the current crises: fostering solidarity

Europe is being governed more and more by the European Council, which meets five or six times and makes decisions for the entire Union, on a unanimous basis. This is a catastrophe. The debt of the United States is far greater than ours, but the American system does not come crashing to the ground because of it. Japan's national debt is equal to 226% of its GDP, but the yen is backed by a true state and a true bank. Those who buy Japanese bonds do not worry about being reimbursed one day.

What is behind the euro? The European Council. This is exactly what needs to change. We must make a great leap forward towards European federalism or the Union will not be able to function. It is absurd to think that we can have a single currency without increased integration. I remain optimistic, however, because the crisis is forcing us to do something that European leaders would otherwise not wish to: **transfer power to the European level.**

The obstacles to resolving the euro crisis are political. Personally, I do not believe we will see any change before the German elections. German politicians have told German voters that their money was used against their will to help others out of a crisis. Yes, we must be fiscally responsible, but we also need solidarity. More concretely, the Economic and Monetary Union (EMU) needs a redemption fund for European debt and bonds. This would mean less interest would be paid to debt holders, who are currently paid with taxpayers' money.

The mutualisation of debt through a redemption fund is a familiar system because it was invented in Germany. In the European Parliament, we spent seven months blocking an agreement on the "Two-Pack" because the Council refused to agree to the creation of a debt redemption fund. They responded that it was up to the Commission to create such a fund. Has this ever been said to states? An agreement

was recently reached where the feasibility of the creation of a European sovereign debt redemption fund was evaluated. Now is the time to make a great leap forward and stop taking small steps.

2. The European Parliament favourable to reshaping the Financial Framework 2014-2020 plan

The current financial framework will not allow us to solve the problems of tomorrow; it is simply a copy of the previous framework. I would like to point out that **the EU budget represents 1% of European GDP while in the United States, the federal budget is equal to 24% of national GDP.**

In order to obtain a compromise on this multiannual framework, we purchased the support of each Member State with discounts and checks. There are 53 exceptions in the framework, versus 42 in the previous one. **What has happened to European interests?** They have taken a backseat to national interests. And why? While the Treaty of Rome provided for financing through own resources, the budget still operates on national contributions. But with this system, Member States follow the so-called principle of "fair return" which destroys the essence of the common budget.

The European Parliament will not accept this framework. A resolution has been drafted and negotiated among the four main political groups. The Council's proposal will be rejected next week at the plenary session in Strasbourg. We would like to impose the following four conditions on the Council:

- First, we would like to have own resources implemented. These could take the form, for instance, of a **tax on financial transactions**. Eleven countries have already chosen to apply this in the guise of enhanced cooperation. Two thirds of this tax will go to the European Union and in return, Member States will benefit from an equivalent reduction to their national contribution. The remaining third will go to the Member State. We also request the implementation of a **European VAT**. A concrete plan to create a system of European VAT in 2021 was proposed by the Commission. Note that this will not constitute an increase in VAT. The idea is that part of the taxes currently collected at the national level will be distributed directly to the

EU. **These two points were excluded from the final decision.** We wish to revisit this. If the European Union is not capable of having its own resources, it is difficult to imagine constructing a real democracy. It is a bit paradoxical for a liberal to say this, but in a certain fashion, democracies have been created through taxation.

- Second, **we reject the creation of an additional deficit.** While it is forbidden by the treaty, the framework being prepared would create a new deficit stemming from the difference between commitment appropriations and payment appropriations. We are being asked to reduce our national debts, but it is apparently acceptable to create new debts at the European level!
- Third, we would like the possibility to make changes within the draft budget in order to increase the amount accorded to investment and to **growth policy, innovation and solidarity.**
- Finally, it is essential that the Parliament accept a multiannual framework which the Parliament elected in 2014 will not get to modify. In order to avoid this, we need a **compulsory review clause.**

We also have strong wishes for the fight against youth unemployment. For example, we are still waiting for the “Erasmus for everyone” programme to receive the budget initially forecast by the Commission. Now is the time to make the right decisions because this framework will tie our hands for the next seven years! This is why we must fight. When I was Minister for the Budget, the only word I knew was, “no”. I do not yet know how the negotiations played out, but I will refer to the four conditions I spoke of earlier. **Are the States ready? We will not give our approval unless they are. For the first time, it will be up to the Council and the Member States to change their stance.**



3. Reinventing Europe's place in the world

3.1. Changing the outlook on the EU in the face of globalisation

We must improve Europe's place in the world, otherwise the G8 of tomorrow will take place without European countries! In 20 years, or 30 years, Member States will no longer be among the global powers, so we must take our fate in our hands and defend our interests in the face of the growing role of China, India, etc. We must unite.

If we want to survive in tomorrow's world, it will be with the European Union, which constitutes a civilisation like others. India is home to 2000 ethnic groups, twenty-some languages and four major religions. It is a continent in itself and the largest democracy in the world. This is also true of the United States, a true example of a multicultural state. **In Europe, we also form one civilisation.** Our architecture, literature and languages have the same roots! In tomorrow's world, that will be our strength. I predict a new era of empires, not in the old sense of the word, but in the sense of a **sub-continental grouping of multiple nations.**

3.2 Towards a European Defence Community

In 1954, the French National Assembly signed the death warrant of the **European Defence Community.** Today, however, a European army would be very welcome. We saw this during the Iraq invasion, but also during the Libya intervention, and we are seeing it again today with Mali. It is useful to remember that **European defence spending is 45% of American defence spending.** However, in Europe, we are only able to carry out 10% of the military operations led by the United States.

During the outset of the Iraq war, there was a new attempt to create a European Defence Community. A headquarters was created that was never used because the United Kingdom used its power of veto every time. **Creating a European Defence Community is a building block towards creating unity.** This tool would also foster the establishment of a true foreign policy. At the time, the question of Iraq was settled in 45 seconds because we did not have joint tools.

4. Towards a critical discourse in view of the 2014 elections

Politicians must try to develop a vision and convince their public. I believe that **politicians can shape opinions on European policy**. For the time being, European elections have essentially been a national affair. We must change this. Allowing citizens of a Member State to elect their commissioners themselves would also bring more representativeness.

Saying that the European Union brought peace is no longer meaningful to the current generations, who were not alive during the World Wars. Franco-German friendship alone does not justify the Europe of the future. I criticise Europe as much as Eurosceptics, but to a different end: for a stronger Europe. I think for 2014, we need a new type of pro-European campaign.

The EU's biggest mistake is the lack of a European education policy. Our plan for the future is to create a **new Convention** in 2015, after the elections. This convention should not lay out a "Constitution" because that does not sit well with the public. The

word "Treaty" has a similar connotation because it refers to an intergovernmental mode of functioning. It would be preferable to do as in Germany and speak of a "**Fundamental Law**". A European-wide popular consultation should also be organised in order to fully engage European citizens.

We must cease the "à la carte" Europe because it is killing Europe. As it is practiced today, Europe comes in a multitude of configurations. Sometimes it is a Europe of **six**, the Europe of the founding fathers. Other times it is a Europe of **nine**, the number of States needed to implement enhanced cooperation. **At twelve**, it is the Europe that ratified the Fiscal Compact. **At seventeen**, it is the euro. **At twenty-five**, it is the European Patent. And what about **Schengen Europe**, which does not include all Member States, but does include some non-Member States?

Mr. Cameron is killing Europe. The role of the new Convention will be to respond to this threat and decide once and for all who are **full members** and who are **associate members**.

On the same themes...

IS THE STUPIDITY PACT STILL STABLE?

António Vitorino, *Tribune - Interview ahead of the European Council, Notre Europe - Jacques Delors Institute, March 2013*

THE EU BUDGET: TAKING A SECOND LOOK

Yves Bertoncini and António Vitorino, *Tribune - Viewpoint, Notre Europe - Jacques Delors Institute, February 2013*

SPENDING BETTER TOGETHER: ANALYSES AND RECOMMENDATIONS

Amélie Barbier-Gauchard and Eulalia Rubio, *Synthesis, Notre Europe - Jacques Delors Institut, November 2012*

REFORMING THE EU BUDGET IN TIMES OF CRISIS

Yves Bertoncini, *Tribune, Notre Europe - Jacques Delors Institute, November 2012*

EU BUDGET NEGOTIATIONS: NEED FOR A HEALTHY AND CONSTRUCTIVE DEBATE

Eulalia Rubio, *Tribune - Viewpoint, Notre Europe, April 2012*

Managing Editor: Yves Bertoncini • The document may be reproduced in part or in full on the dual condition that its meaning is not distorted and that the source is mentioned • The views expressed are those of the author(s) and do not necessarily reflect those of the publisher • *Notre Europe - Jacques Delors Institute* cannot be held responsible for the use which any third party may make of the document • Translation from French: Sarah Hunt • © *Notre Europe - Jacques Delors Institute*