An Outlook on the European Budget: From Financial Solidarity to Budgetary Solidarity?

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The debt crisis which was triggered off at the beginning of 2010 in Greece and temporarily brought under control in the spring started up all the more vigorously in Ireland in the autumn; this completely overturned the optimistic prospects that were still in view in January with regard to the European budget. At the time – about a century ago – the Lisbon Treaty had just provided the European Union with new competences, obliging the Commission to put forward the funding of the latter via the revision of the ongoing multiannual financial framework for the period 2007-2013. The same treaty finalised provisions for the European Parliament to participate fully in the budget – which extended so far as giving it the final word in the event of conflict with the Budget Ministers. In the meantime, the end of the recession facilitated the perception of tax revenue in the Member States which were the main contributors to the Community budget.

Bang! In one blow, the Greek tragedy turned the builders into firemen. Putting out the fire, guaranteeing the protection of households at all costs, wielding the axe on budgetary spending, and trying at the same time to limit tax increases in a bid not to put a complete halt to the timid start of economic recovery: this single objective mobilised national leaders to the full. Those who the day before had their foot to the floor on the accelerator, fighting over who was the most determined, i.e. to be the biggest spender in support of growth, slammed on the brakes vying with each other over the virtue of saving. Everyone agreed on one point: the same effort towards savings was necessary with regard to the European budget.

In these circumstances, the results of the 2011 budget negotiations were given right from the start. In the place of the 6% increase in payment appropriations put forward by the Commission the Council painfully came to agreement in August, by an extremely narrow majority, on a 2.91% increase. Even this figure has to be considered from a relative point of view, since appropriation payments are the obligatory application of prior decisions. Commitment appropriations, those which are the expression of political decisions, were reduced to a homoeopathic increase of 0.2%.

From that moment on it was clear that Parliament could not achieve any more: how could it ask Greece, Ireland, Portugal and Spain for an increase in their respective contributions? Making a virtue of necessity, Parliament put forward an unprecedented political agreement: in exchange for the adoption of the Council's figures for 2011 down to the last euro, the Council was invited to accept the principle of joint work to ensure durably, starting from 2012, the funding of post-crisis European policies. Politically, an agreement such as this one was difficult to refuse. Unfortunately the agreement could only be concluded with the approval of the European Council, as its scope went beyond the remit of the "modest" budget ministers. In October the latter was again absorbed by the financial blaze that had flared up once again. After delaying its decision beyond the normal deadline planned for in the treaty, Parliament finally approved the 2011 budget on 15th December, contenting itself with written declarations of good will on the part of the Commission on the one hand and the future Hungarian and Polish Presidencies on the other.

Stalemate

The basic problem however remains. The European budget is not under threat of financial bankruptcy – it is statutorily balanced– but it is on the verge of political collapse. The Lisbon Treaty has been in force for one year, it includes many new competences (foreign policy, common energy policy, space activity, common immigration policy etc ...). Not one additional euro has been planned for their funding, either in 2010, or in 2011. Even more surprising is that six months after the enthusiastic adoption of the "Europe 2020" project by the European Council, neither the Commission nor any other body in the Council has even started thinking about its funding - whilst the previous project, the Lisbon Strategy, launched with the same enthusiasm in 2000 failed pitifully due to a lack of funding.

The truth is that Europe no longer has the means to fund either the Union's own competences nor the common goals that the Member States establish together in Brussels. It is all just hot air. Verbal inflation, the inflation of words, solemn commitments, and grandiose, illusionary goals are just as pernicious as financial inflation. It gradually wears away confidence and not only that of the financial markets. It is also wearing away that of our main foreign partners: in November in Lisbon Barack Obama, who has been adulated on the old continent, devoted two days to the NATO summit and barely two hours, without a press conference, to the EU/USA summit. This is how the confidence of the European citizens themselves is finally being exhausted.

Coming out on top in 2011?

Which cards do we still hold to emerge from this stalemate? The crisis itself! Last May within 48 hours it was the debt crisis which led the German leaders, the ECB and even the Constitutional Court of Karlsruhe to interpret article 122 of the present treaty in exactly the opposite way from how they had been interpreting it since 1992: the EU now had the right to help a State in the euro area, the ECB had the right to purchase Member States' sovereign debt, and Germany was not prohibited from borrowing in Greece's stead if the country's collapse threatened Germany directly. This was how the first financial stability mechanism was born, followed by its enhancement and consolidation at the end of the year.

Unlike the financial crisis in 2008 and the recession of 2009, the debt crisis in 2010 was no longer worldwide but isolated to Europe alone. It was a crisis of doubt. The most serious financial operators – whose status obliges them to buy safe assets, starting with government bonds – doubt the solidarity of European States when one of them finds itself in difficulty. Although the decisions taken at the end of 2010 make it possible to guarantee financial solidarity in times of crisis, this is not enough; European States must also be able to show their solidarity as they prepare for the future.

The world crisis hit Europe harder and longer because the European economy had been weakened by the malignant deficiency of slow growth; over the ten years prior to the recession in 2009, the euro area's annual growth rate barely rose above 1%! The ten years of the Lisbon Strategy constitute a lost decade. Without a return to a minimum growth rate of between 2.5% and 3% none of our problems can be solved: neither the deficits, nor the debt, nor the funding of retirement pensions, nor the integration of young people from the suburbs. Hence it is absolutely necessary to succeed, with "Europe 2020" where we failed in the previous decade and to take full advantage of "the dividends of Europe".

If Europe is considered with the short-sighted lens of the budget administrations it appears to be a continual source of spending. If we reverse this using the long-term vision of Europe we discover extraordinary possibilities to make savings.

– By giving the EU competences which are cheaper and more effective on a European level. Ultimately, a well invested euro in Brussels enables us to save 27 € in the Member States. A couple of dozen European agencies have been created for air and rail safety, food safety, immigration control, the fight against drugs etc, and so we should do away with the national agencies which duplicate these. Likewise, in 17 countries there is one single currency: why do our national central banks, which no longer have any political function, still have a representation in Tokyo? Another example: in line with the Lisbon Treaty, the EU has set up its own diplomatic service employing 3,500 civil servants present in over 100 countries in the world: this makes it possible to do away with an equal number of diplomatic posts in our national representations.

– By encouraging the pooling of spending between two or several States – even 27 – that one country alone can no longer afford. Defence is the first target here. A first agreement – be it anecdotal or historic - was concluded in autumn by France and the UK. In the long term, the two countries will merge their air/naval forces. The possibilities are enormous. Since there are no longer questions about whether cuts should be made in the military budget or not, it is more a matter of whether we continue alone on a domestic level- finding ourselves with 27 mini armies- or whether due to the crisis, 20 years after the end of the Cold War, we should pool what we have to provide the European family with the instrument that is necessary for its security in the 21st century.

– Finally, by encouraging several countries to join forces on an individual basis in order to reach a critical size, below which public spending is ineffective. Here, we may think quite naturally of scientific research: the European framework programme is excellent, but it concerns only 10% of Member States' total public spending on research. The same applies to development cooperation: the significant budget devoted by the EU (around 8 billion €) is only a tenth of all national aid together. How many developing countries complain of the meagre, poorly coordinated distribution of manna which flatters rather more the conscience of the donors than the ills of the recipients!

This all leads us to one concrete proposal.

As part of the financial solidarity mechanism that was decided upon in December 2010, a coordination procedure with regard to national budgetary policies is going to be set up, the so-called "European Semester". In principle this coordination will be limited to hunting down deficits and reducing debt. We should widen its scope. Apart from balances we should look at budgetary content. We should invite each one to look at his own budget and that of the others, in order to spot any potential "European dividends" and to ensure that each does "his homework", his share of the funding of the Europe 2020 project. Of course we should put the "28th budget" on the table, the European budget, which completes the others although it is financed by them. And finally we should invite, together with the ministers, the representatives of the Parliaments: their absence is an incredible loophole as budgetary issues are the core of parliamentary competence in our democratic traditions.

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As from next spring the so-called "European Semester" could therefore begin with an inter-parliamentary financial conference that would look at public finances in Europe from scratch. It would ensure the combination of budgetary discipline and secure future policies. If need be, there could be a new distribution of tasks between national budgets and the European one, the latter being funded by new resources. Launched by the European Parliament's Budgets Committee, this suggestion has officially been adopted by the leader of the French National Assembly, with the support of the German Bundestag and the Polish Diet. This would be the best way to prepare the negotiations on the future financial framework for 2014-2020 as well as the reform of the European budget's own resources, the two key subjects on which the European Commission promised to put forward formal proposals before 1st July 2011.

After 2010, the year of financial solidarity, let's make 2011 the year of budgetary solidarity!