The Budget: For a European Solidarity Pact

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Neither public opinion nor even, unfortunately, the main political leaders are aware that the community budget is an area in which, for about twenty years, European integration has been moving backwards. Successive enlargements to include countries that are particularly dependent on Union aid, and the half dozen treaties that have extended the jurisdiction of the latter have not benefited from the corresponding budgetary translation. On average, all mandatory contributions amount to 40% in Member States, half of which goes to the budget of the State itself. After coming close to 1.20% of European GDP, the Union budget has been frozen at 1% for several years – i.e. a quarter less than the amount that Margaret Thatcher herself accepted a quarter of a century ago for the small, pre-single market Europe!

The European budget and the crisis: the essential debate on own resources

How has this been possible? It will be interesting for historians and political sociologists one day to consider an incoherence such as this. In 1992, in every country, the main political leaders (head of State in France, heads of governments elsewhere) had the will and the ability to overcome the strong hostility of their ministers of finance, their central banks and, in some cases, their public opinion, (particularly in Germany) to impose the historic abandonment of the national currency. But, since then, none has wanted, or been able to force its national budgetary fortress to provide Europe, once and for all, with its own system of resources, independent from national budgets. And yet such is the principle set by European treaties from the very first day and which was applied over the course of the first three decades: in those openly protectionist times, customs duties alone were sufficient to finance the small, mainly agricultural, community budget. When the competence of the Union increased and its necessitous members increased too, the gap was made up by national contributions calculated theoretically in proportion to the wealth of each country. Thus, for the past twenty years, the Union has no longer been financed by autonomous resources, but almost 90% by contributions from national budgets.

Already paralysing before the financial crisis, this system has now become an unbearable yoke, since the public finances in most Member States are in a comatose state. This has reached a point where the credibility of the entire European policy is now at stake. Thus, at the end of 2010, when it was thought that the mechanism to aid Greece and the establishment of a European Financial Stability Facility would bring a lasting response to the debt crisis, our wish was that in 2011 priority would go to the budgetary question.

This wish has not been granted. New financial fires have been started which have continued to lock our leaders into their role as firemen. A considerable step forward has been made, however: the basic problem is now posed in public and a few proposals for solutions are on the table. Under pressure from the European Parliament at the end of June the Commission presented its budgetary framework proposals for the 2014-2020 period, combining them for the first time with a project to create new own resources for the community budget: allocation of one VAT point, as well as the creation of a tax on financial transactions, intended gradually to replace national contributions from 2018.

In the meantime, the successive relapses of the Greek disease and the threat of contagion to other major continental countries, have created the necessary temperature and pressure conditions to ensure that leaders, even the least daring, cannot exclude successfully solving the crisis, i.e. by means of a new stage in European integration. Within just a few weeks, a former secretary general of the RPR admitted that he no longer excluded the "federalist" route, the CDU's European wing revived the idea of the United States of Europe, David Cameron solemnly declared that reinforcing the organisation of the euro zone was of vital importance for the United Kingdom and Helle Thorning-Schmidt, winner of the Danish elections, declared that she wanted to put joining the single currency and the Schengen area to referendum: could this astonishing European autumn be the forerunner to a new Union spring?

Maybe. But only if we can get through the winter. That means dealing once and for all with the loss of confidence from financial operators and citizens in the Union's ability to overcome the simultaneous crises suffered by many of its members. In 2010, already, we witnessed the euro zone leaders' slowness in taking the right decisions, without which the Greek bush fire would never have reached the proportions of a Biblical plague. 2011 revealed another defect in European governance: once political leaders reach an agreement they do not implement their decision! They do it in the end, but not immediately. We are democracies: when public finances are to be committed, a vote by national Parliament is needed. It took three months for the modest agreement of 21st July (strengthening of the Facility created the previous year) to be ratified by the 17 parliaments in the euro zone, at the cost of political suicide by the Slovakian government. Three months of intense speculation on the markets, of concern about the solvability of States and their banks, three months of credit slowdown, a brake on recruitments, suspension of investment projects and, finally, general doubt as to the future of the Union.

For a European solidarity pact

In such a climate, the budgetary problem can no longer be detached from the basic question: how can solidarity between Member States within the Union be made credible? I propose a European solidarity pact. By that I mean a political agreement supplementing the Lisbon Treaty, just as the stability pact supplemented that of Maastricht. It would be in two parts.

A financial aspect, itself in two chapters, designed around the motto "one for all and all for one!"

– "One for all". A commitment by all to budgetary discipline: everyone commits to doing their utmost never to have need of assistance from their partners. Since the text of the treaty has not been sufficient, this means that everyone introduces this “gold rule” into their own Constitution. That’s the essential condition to ensure that Germany and other well managed countries agree to help the others.

– In return, the Union will commit to come to the assistance of any Member State in great difficulty, despite its efforts: that is the “all for one” part. As for the necessary mechanism, any name would do (Facility, Agency) and the status is not important (inter-State, community). Any number of variations are possible based on what has already been set up over these past two years. Finalisation of the mechanism will require a unanimous decision ratified by all parliaments. However, once created, its speed of action must be as fast as that of the ECB. Those in charge of it must have the necessary autonomy: market time is not that of the politicians, so they need a laser weapon which works just as fast.

Alongside financial solidarity we need budgetary solidarity too. This is the second aspect, also in two parts.

– An agreement on lasting financing of the European budget itself, which does not worsen the Member States’ debt. Proposals tabled by the European Commission can be used as a basis. The pact must be an opportunity to mark a return to the principle that says that European policies engendering European expenditure must be financed by the Union’s own resources. Reducing national budgets by as much.

– An agreement on the way in which one ensures that the 28 budgets – the 27 + the community budget – will work together to finance joint European objectives.

In fact, the financial markets themselves are starting to remember that sustainable solvability of a debtor does not only depend on its immediate situation but also on its ability to create wealth in order to honour future reimbursements, so, for all our European States to regain the path to growth and competitiveness. That’s why it is everyone’s duty to reduce functioning expenses as much as possible, whilst maintaining the resources for future policies: innovation, education, research, network infrastructures, renewable energies: all flagship actions contained in the “Europe 2020” programme the financing of which, to date, no-one has paid any attention to. If we are unable to obtain a significant increase in the community budget by then, we will at least have to mobilise national budgets which will have to cover most of it.

The annual “European semester” conference undoubtedly provides the easiest and best suited opportunity to keep careful track of the harmonising of national budgets. Its political scope would be greatly increased if national parliamentarians and the ministers were involved: at the end of the year they are the ones who will have to take the final decision on their respective budgets. The European conference, organised on 20th and 21st October 2011 by the Polish presidency and the European Parliament, acted as a kind of feasibility trial for a meeting of this sort. Participants at the meeting deemed it a success.

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Solidarity at a time of crisis, solidarity to prevent it from happening again, solidarity in order to lay the foundations for new European growth: this is the commitment that all Europe needs. It does not need either a global increase in its expenditure, currently unimaginable, nor any modification to its treaties, something that is currently out of immediate reach. That is a realistic objective for 2012.