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Budgetary crisis: How can we protect the future of Europe?

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SUMMARY The funding of European policies is in stalemate. The collapse of the share of the community budget financed by the Union's own resources to the advantage of contributions from the Member States has encouraged the latter to demand "*a fair return*" on their contributions they make which are also capped. This system which by its very nature is anti-Community has dealt a blow to confidence and solidarity within the Union and endangers European chances of rising to new international challenges.
However, an increase in the Community budget would not necessarily lead to a general rise in public spending. On the contrary, the lack of a significant community budget prevents Europe from making substantial savings which were set when it was originally introduced. During this time of crisis making savings seems to be of relevance more than ever before. In addition, this situation forces Member States to increase ad hoc funding sources which orbit the budget: a complication that is both a source of injustice and inefficiency.
It seems therefore that a reorganisation of European finances between national, Community and other sources of funding is required. This issue should be addressed at an inter-parliamentary conference that would be best placed for an exchange of opinion on good budgetary practice to take place. It might also look into the establishment of true democratic supervision of any action that is co-funded by the Member States including those which escape the scrutiny of the European Parliament at present.

SUMMARY 24 European countries have derailed from the Stability and Growth Pact criteria. Several of them have a deficit beyond 10% of the GDP, others have a public debt over 100% of the GDP. Across the entire Union, all local authorities have initiated savings plans that are unprecedented since the last war. In a situation like this how can we fund the European policies that the Union needs, the new competences given to it by the Lisbon Treaty and also the joint goals adopted in July by the European Council under the cover of "*Europe 2020?*"
This unprecedented situation ought to provide us with an opportunity to debate an issue that has never been discussed before: relations between the national and European budgets. Which are the key elements of this?

1. THE FREEZING OF THE COMMUNITY BUDGET AND ITS CONSEQUENCES.

The funding of European policies is in stalemate. Because they have failed to provide the Union with adequate own resources, as planned for in all the European treaties, the Member States have condemned themselves to being its only subscribers: national budgets fund the European budget to a total of over 80%. This system which is anti-community by its very nature obviously encourages every Finance Minister to ask for a "*fair return*" on their contribution. The result is that, nearly twenty years after a political agreement that set the European budget at 1.24% of the Union's GDP and in spite of four new treaties, which considerably extended the Union's competences, together with three waves of enlargement which doubled the number of its "*poor*" members, this budget has remained set at 1% of the GDP.
For their part, national parliaments find it increasingly difficult to understand why they should raise their taxes,

or increase their country's debt to fund policies that are decided on elsewhere and without their consent.

However, we are at a point when Europe can no longer sustain itself on this strict diet.

A European diplomatic service is now being established in line with the Lisbon treaty under the authority of Lady Ashton in view of undertaking a common policy: a minimum budget will be necessary for it to function and be operational.

The treaty also extends the Union's competence with regard to energy, research, space policy and immigration: without money we may as well abandon everything immediately. Even more seriously, vital industrial programmes that were decided upon several years ago, such as the satellite network Galileo (the European GPS) and the world research centre on fusion energy, ITER, may very well be brought to a standstill because of inadequate funding. The "*Europe 2020*" project includes several other programmes of this kind, such as green growth and the knowledge economy.

And yet in the face of the crisis, governments do find the means to fund new policies decided upon at the European level.

At the beginning of the year, the European Council decided to devote the trifling sum of 2.4 billion € per year starting in 2010 to helping developing countries counter the greenhouse effect. This sum will be brought together thanks to a contribution made by every Member State according to an ad hoc distribution index, which is different from the one usually employed by the Community.

Likewise, the aid to Greece that was decided in May by the euro area States will be funded by loans granted by some of them (Slovakia withdrew), without using the Community budget nor even any other community financial intermediary such as the EIB.

In September at the UN Aid and Development Summit, José Manuel Barroso, President of the European Commission announced an increase in the EU's share of 1 billion € to be taken in principle from unused monies in the European Development Fund.

One can understand this point of view: since in any case it is the national taxpayer who will contribute, why go via the Union's budget? However there is an extremely simple means to call on national budgets and that is to provide Europe with new own resources. The resolution adopted on 29th March 2007 by the European Parliament made an initial review of this subject that has been taboo for a long time and a formal appeal was made to the States. Since then, the protection of the environment and the prevention of financial crises have been vying for space within the fiscal imagination. France distinguished itself in particular when it announced within the space of just a few months – a domestic carbon tax, a "*foreign*" carbon tax, levied on imports from third countries, a financial transaction tax, obligatory payment by banks as protection against their failure to pay as well as a tax on bonuses. Berlin joined Paris in the idea of a Tobin type tax, whilst London joined in the rhetorical competition over other bank taxes. The European Commission was not to be outdone as in spring 2010 it published a communication relative to "*innovative funding*" that listed more than a dozen new possible means of funding, both fiscal and similar methods.

Sadly, all of these considerations have their limits: these resources are seen as the means to feed the national budget and then a hypothetical world fund but never the Community budget which is still a black hole in the European political debate. As I write, the European Commission announces a more audacious written communication for mid-October.

The decision remains in the hands of the governments. If they prefer to ban any further spending and tax in their crisis recovery plans, the Union will have no choice but to tow the line. But, if they deem it necessary to launch new budgetary initiatives, then the Union has to participate.

And this is because we forget what is vitally important. Everywhere the budget is the tool whereby we measure the idea of solidarity – and the European budget also measures how much confidence participants have in the joint adventure – the affectio societatis within the family. Capping the budget means capping confidence in Europe which means putting a halt to solidarity between Europeans. The unpleasant controversy over the very principle of aid to Greece was a sad illustration of this. As long as a Member State has to bargain under pressure, in an ad hoc manner and that aid can only be decided upon unanimously from every point of view, those pulling the financial strings will have every reason to doubt solidarity within the Union.

2. THE INTEREST OF A JOINT EUROPEAN APPROACH TO NATIONAL BUDGETS: "EUROPE'S DIVIDENDS".

The European aspect could help Member States recover from the crisis from the top as they balance their finances and enhance the efficiency of these. Basically, this is simply about applying the subsidiarity principle to finance. Every time the Union implements a competence instead of a Member State, not only must this be undertaken without incurring any further taxation but it should lead, all things being equal elsewhere, to the reduction of overall spending. This is what major industrial groups do: they pool their services to take advantage of the significant savings which ensue.

And so there are two ways of seeing the Union's new external action service. Between the idea of a 28th diplomatic network and the merger of 27 existing national networks within a unified European service the range of possibilities is wide: for all Member States to be represented in Washington and Beijing is understandable but four embassies plus that of the Union in Botswana are three too many. The same applies to the consular services, since the Schengen Agreements and the European Treaties set the same unlimited consular cooperation principle between Member States.

Savings that are relatively meagre in the case of diplomatic and consular services could be greater in other areas - either simply by the transfer of similar competences to Brussels or quite simply by the systematic comparison of action undertaken by one or the other in an attempt to avoid the duplication of capacities.

Hence in terms of research the Union grants significant sums yearly – around 8 billion € - towards a framework programme. But to this is added national spending, most of which is decided upon without any knowledge of what our neighbours are undertaking, with unnecessary duplication and competition.

The same applies to development aid: the sum of the national budgets leads to a total ten times that of the Community budget – which is duplicated by the intergovernment fund – the European Development Fund. In the field, Member States' representatives and those from the various competent services of the Commission work unaware of and in competition with one another regardless of good management and even good diplomacy. Lean times mean that this wastefulness is no longer possible. If we limit ourselves to the example of the Israeli-Palestinian conflict, Europe is by far the main donor of aid in the region. The European Union alone funds all of the salaries of the civil servants within the Palestinian Authority including the teachers in the Gaza Strip. The result of this is that the Community budget pays 30,000 European civil servants based in Brussels, Luxembourg and Strasbourg – and 80,000 Palestinian civil servants! We should add to this substantial direct aid from all of the major European countries. For this price Europe is not even present at the negotiation tables alongside the American mediator.

The area of defence is even more propitious. The risk of duplication between the EU and NATO, which is constantly pointed out by our American allies, should raise a smile given the plethora of replications that exists between our national forces. Our 27 armies total 1.8 million men in uniform – i.e. 500,000 more than the USA. But less than 3% of European soldiers are able to undertake "*high intensity action*", as we modestly call "*combat*". The budget devoted to wages which is superior to that of the USA condemns the countries of the Old Continent to a total expenditure that in terms of equipment, research and development is four times less than that of the USA.

The Cold War has been over for twenty years. We have only taken partial advantage of the "*dividends of peace*". On this side of the Atlantic the "*dividends of Europe*" are missing. The unprecedented crisis that has struck all of our national budgets provides us with a unique opportunity to do what common sense tells us and what public opinion is expecting – polls show that the pooling of defence means is approved everywhere on the continent – and even our military chiefs, accustomed to twenty years of international cooperation, advise on this: role sharing, with NATO and between Europeans, for the defence of Europe in the modern world.

During the autumn of 2010, all States will be cutting swathes from their military equipment budgets but Europe still has three redundant fighter plane programmes, four different models of aircraft carrier, six competing submarine programmes, a dozen ideas for new infantry equipment, around twenty armed vehicles projects and it is looking into as many drones projects as Europe has companies able to manufacture airframes, engines and electronics. How in 2010 can we justify this stockpiling of sundry means, some modern, others obsolete and always in excess to requirement the cost of which is out of all proportion with its potential effectiveness which incidentally we will never be able to gauge? The Afghan theatre is a cruel illustration of the comparative military capabilities of all NATO members. Only true European cooperation can lead us to make significant savings in defence without compromising our security.

3. THE GREAT COMPLEXITY OF THE FUNDING OF EUROPEAN POLICIES.

Contrary to what we might think the Union's budget is far from being the only tool used to fund European policies and, beyond that, action associated to common European goals. Indeed there are no less than seven types of source that all obey different rules.

3.1. The European Budget itself.

Since the Lisbon treaty entered into force, the budget is adopted by an agreement between Council and Parliament according to a specific codecision procedure. In 2010, it totals 123 billion € i.e. equal to the budget of an average European country. Since 1988 the annual budget is part of a multi-annual framework that limits spending in five areas. The on-going framework covers the period 2007-2013.

3.2. The European Development Fund (EDF)

This is specific aid for the so-called ACP countries –Africa, Caribbean, Pacific – a polite acronym that designates former European colonies. Complementary to the much greater sum granted by the Community budget, the EDF is an inter-state fund managed under the close political control of the European Parliament. Everyone agrees that, in the long run, it aims at integrating the Community budget but every successive presidency soon abandons the idea: the distribution index of funds between Member States is different from the Community index and its renegotiation is only foreseeable as part of an overall reorganisation of European finance.

Governments have tried to repeat this kind of ad hoc method: they have taken to it almost in secret to provide funds promised by the Union to developing countries to counter the greenhouse effect. But, unlike the EDF, these are not funds that have been given a status, operational rules nor democratic supervision. Governments have simply agreed on the principle and the amount of aid and how it is spread amongst the Member States without involving the Community budget.

3.3. Official payments by Member States to the funding of European policies or institutions.

This is quite a vast, heterogeneous section:

- national co-funding to Community programmes which require it: structural funds, cohesion policy, research framework programme in particular;
- national funding to complete Community programmes or which are completed by the latter: the funding of European Space Agency programmes, which have a specific status and the operational programmes of a majority of European Community Agencies are examples of this;
- spending pledged by the States for action parallel to that of the Union is one aspect of this category: hence for peacekeeping missions, whose civilian expenditure is taken on by the European budget, according to adapted procedures, whilst each State retains the responsibility for its own operational military spending. The States which accept participation in such operations pay twice (from their national budget and in the shape of the participation in the common budget), to this we have to add human losses: it is an area in which a great deal of progress could be made in terms of Community solidarity ...;
- enhanced cooperation agreements and permanent structured cooperation, set out in the Lisbon Treaty, can also give rise to research funding, the distribution of which has to be debated between participants.

3.4. National spending which contributes to the achievement of joint European objectives.

Undoubtedly this is the most important category as far as volume is concerned but it is also the most difficult to define precisely.

By "*European objectives*" we mean areas in which both legal and financial competence remains national in the main, but with regard to which Member States agree on the same goals: the Lisbon Strategy, extended to the "*Europe 2020*" agenda, the energy/climate plan, the Union's security strategy are the best examples of this.

Identifying spending and assessing it is a necessary exercise for two reasons. On the one hand, given the extreme difficulty in augmenting the European budget it is the only means of ensuring that these major goals receive funding; on the other hand, the good use of these funds is an issue of democratic supervision and therefore of coordination between national parliaments, which enjoy this, and the European Parliament, which is responsible for monitoring the achievement of these objectives.

3.5. Expenditure made by Member States for the Union's citizens who want to enjoy the benefit of public services.

This totally new problem has never been examined within the Community context. However, five years ago, the Watts decision delivered by the European Court of Justice triggered it off: the Court obliged the NHS, the British healthcare system, to pay a French hospital the fees incurred by the treatment of a British citizen who had not been able to receive the appropriate care in her own country. The jurisdictional ratification of the "*right to medical tourism*" had such effect that Member States were obliged to accept, with great reticence, the provision, by means of a directive, of a legal framework to cross-border healthcare.

But the problem is not just restricted to this area: since community law now abolishes the means-testing which every European citizen had to submit to in order to be able to stay in another Member State of the Union, the distribution of the responsibility of social aid will have to be negotiated between States, either bilaterally, multilaterally or at Community level. Undoubtedly, a type of clearing house will be necessary. It might be better to look into this and agree on a solution before the number of cases rises out of all proportion. The unpleasant controversies that started in the summer of 2010 over the distribution of responsibility with regard to Romany nomadism have raised awareness, or should we say the knowledge that this problem exists.

3.6. E.I.B loans

These fund Community projects and are often a complement to European funds. An original institution, founded by the Rome treaty but whose only shareholders are the Member States, the EIB is a powerful fund provider for investments decided in Brussels. Its role can but grow in a period of low budgetary ebb.

3.7. There is now another type of loan, granted by some Member States to others which find themselves in financial difficulty.

The treaty planned for an aid mechanism by the Union to the States that found themselves in exceptional difficulty (article 122). Since the Greek crisis, it is now possible for state loans to be granted by some governments, even to a euro area country, according to a distribution index on a case-by-case basis. National parliaments have been notified of the legal and political ratification of this decision but since this involves the exercise of European solidarity and the running of the euro area, their intervention must not be exclusive of that of the European Parliament. This is another area which is new for inter-parliamentary cooperation.

3.8. New Funding?

Has the time come for a new type of funding? The financial turbulence of 2010 has witnessed the emergence of European loans proposals or Eurobonds, since the politicians do not want to be outdone by the economists.

The above covers at least three different ideas ranging from a simple increase in EIB loans, guaranteed by the Community budget to the issue, by the Commission of European bonds guaranteed by the same budget, and even the joint issue of bonds by some euro area States guaranteed by the national budgets involved.

The negotiation on the future multi-annual financial framework post-2013 should provide an opportunity to open public debate over this type of method. This has strong economic and political justification: since every State is obliged to make its own payment to European policies by increasing its debt why not simplify matters by employing a direct European loan for everything that involves research and investment spending at least?

4. A PROPOSAL TO MOVE FORWARDS: AN INTER-PARLIAMENTARY CONFERENCE

With regard to the budget, the most common parliamentary practice in the euro area separates policy debate, which generally takes place in the spring, from the vote in itself, which takes place in the autumn. Why not invite national parliaments to hold a common debate prior to the specific policy debate? This would take the shape of a video-conference: since everyone feels more at ease at home and this would make it easier to mobilize national press.

The simple fact of holding a debate such as this has three evident advantages:

- debate would obviously be based on joint economic hypotheses: estimates relative to the GDP, interest rates, the rate of the euro, the price of oil, etc. would be the same. This would herald significant progress in comparison with present practice whereby each chooses the estimates that facilitate his choice;
- the launch of national debate on budgetary policy which takes account of a European point of view and each partner's estimates would be a significant guard against the temptation to disengage;
- finally, this would obviously provide an opportunity to take stock and make mutual comparisons with regard to the way each honours his European commitments whether this implies the Stability and Growth Pact or policies associated with the Europe 2020 strategy for example without further sanction or encouragement other than the right for others to observe these.

This kind of proposal fits easily into the "*European Semester*" designed to be part of the new economic governance procedure. But this supposes that this is not limited to a simple examination of national budgetary balances and that it also extends to the presentation and comparison of major lines of expenditure. The use of national comparisons was the focus of the "*Lisbon Strategy*". But governments opposed its publication – which was other than confidential – of the individual results of the Member States which would not have been flattering for the national pride of some. This comparison, this benchmarking, is however a vital tool. Motivation on the part of parliaments is the best guarantee to its wider distribution amongst the media and public opinion.

This kind of debate would be the first step towards tidying up the distribution of European policy funding between the Community and national budgets and funding from sources such as the EIB.

At the same time this would provide an opportunity to look into the establishment of true democratic supervision of co-funded activity. Let us take a real example that might arise at any time in the future.

Suppose the Union is involved in a peacekeeping operation. It would be powerful thanks to the Lisbon treaty - the High Representative would coordinate action undertaken by the military forces paid by voluntary States, Member States' means of cooperation together with those of the various services of the Commission involved. If necessary, it would suspend aid negotiations and even trade talks started by the Commission with one of the parties involved in the conflict. The Union's involvement would be global. It could therefore be monitored and judged as such. At present however neither the national parliaments nor the European Parliament are able to do this: each individual nation is restricted to the perspective of using its own funds. Hence more than 20 European states have sent soldiers to Afghanistan - but has any parliament really set up global supervision of the international political and military action in the region? On this side of the Atlantic no one has. Each is happy to laud the role played by its national contingent, to enhance it, to maintain it, to reduce it and withdraw it unilaterally without bothering to consult with his European partners.

Another example: the rise in natural disasters has led the Commission to look into the creation of a European Civilian Protection Force. Again will there be a mix of national and Community means: who will supervise what?

And if some States launch so-called "enhanced cooperation agreements", whichever area this may imply, the means will have to be found to combine the supervision of national parliaments with the Community perspective.

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