COMMENTARY
Thinking ahead for Europe

4 May 2018

The Multiannual Financial Framework, where continuity is the radical response

Jorge Núñez Ferrer and Daniel Gros

Despite the fanfare accompanying its announcement, the Commission's proposal for the EU budget period 2021-2027 offered an old-fashioned budget in an old-fashioned presentation.

In a long-awaited speech, Commissioner Günther Öttinger presented the EU Multiannual Financial Framework 2021-2027 (MFF) to the European Parliament on May 2nd, reciting the challenges ahead and calling for a "modern budget for a Union that protects, empowers and defends". Despite the hype and adrenalin rush created by the leaked figures slightly in advance of his presentation, the actual numbers look eerily similar to the present MFF 2014-2020. So much so that it is necessary to superimpose the two budgets on top of each other and hold them up to the light in order to discern any change between the two versions.

But let's try to contain our emotions for the moment and look more closely to see if we can detect the changes. The total budget for the period is €1,135 billion in commitments in 2018 prices. This is higher than for the current period (also in 2018 prices), which, at €1,087 billion, brings the budget to 1.11% of GNI, instead of 1.03% today, and in payments €1,105 billion, compared to €1,026 billion today, or 1.08% compared to 1.03% of GNI. This is indeed an increase, despite the departure of the UK as a net contributor. There is, however, the particular detail that the European Development Fund (EDF), previously absent from the EU budget, has brought in, which means that over €30 billion of the increase in the payment appropriations is not new (or €26 billion, if we remove the UK contribution to the EDF). Thus, the EU budget is more about what will *not* be cut, rather than what *will* change.

On the headings, the European Commission has (correctly) separated the centrally managed research and innovation funding and Connecting Europe Facility into a new heading, named "Single Market, Innovation and Digital". This new MFF heading is increasing in line with its predecessor, "Competitiveness for Growth and Jobs", and thus is growing – but not in a revolutionary way.

Jorge Núñez Ferrer is Senior Research Fellow and Daniel Gros is Director at CEPS. The views expressed in this contribution are those of the authors alone and do not necessarily reflect the view of CEPS. As an institution, CEPS takes no official position on questions of EU policy.

What seems more 'radical' is the separation of the Justice and Home Affairs budget into "Migration and Border Management" and "Security and Defence", accompanied by with a considerable increase.

Other novelties are a welcome addition, such as €25 billion for technical support to member states to implement reforms and a €30 billion potential back-to-back loan facility to protect priority investments in case of asymmetric shocks. This is a new extra-budgetary line that seems to be the direct successor of the European Financial Stabilisation Mechanism (EFSM), in which the EU borrowed on behalf of the member states suffering from the financial crisis. The fund is able to raise financing from the financial markets thanks to the EU's collective backing.

Funding for economic, social and territorial cohesion dips in the first year and then rises slowly to a level below the present level in real terms, while agriculture maintains its slow relative decline in real terms, by keeping it stable in nominal terms. Thus, both are cut in real terms, with economic and territorial cohesion taking a more frontal hit.

It is disappointing to note the continuation of the CAP policy, with the slow cut through a freezing of the overall amount in nominal levels. Here the Commission reveals that it is not ready to 'take the bull by the horns'. It does not even propose co-financing. The CAP is, in fact, regressive by design (big farms and old wealthier member states receive more), thereby leading to the odd situation in which ¾ of CAP direct payments return to the very countries that contributed them. In other words, most of the CAP is a circular transfer to farmers through Brussels. Farm lobbies would not like to have the 'redistributive' nature of the payments revealed too clearly, and thus there is strong pressure for the Commission to retain the opacity of the CAP budget. Given the high percentage of round-tripping in the CAP, member states should perhaps have been asked to provide co-financing. But the Commission does not propose any of this, only a cap on payments to very large farms.

And well… On numbers, that's about it. A bit more of the new, a little bit less of the old and continuing very much along the same lines as the old budget. The changes will be inside the box (or boxes of different headings): the ground-breaking reforms announced in streamlining and coherence are designed to avoid being visually detectable. We will have to wait for precise details in legislative packages to understand their real importance, but these risk being partial improvements, often combined with additional layers of complexity, which tend to perpetuate some fundamental distortions. A single rulebook for EU support is being announced to simplify excessive complexity and reduce fragmentation and duplication, but based on the Commission's track record, the question arises if it is going to be a single massive compendium of complex rules or an actual simplification.

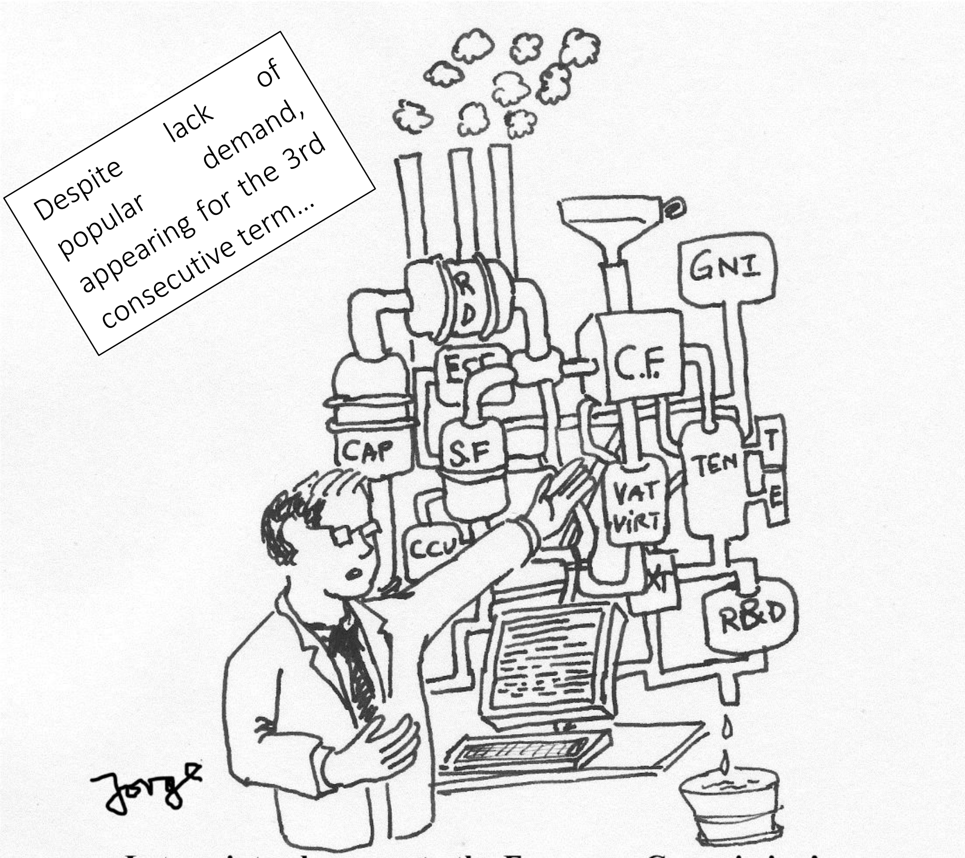
There is the much-discussed and disputed link of EU funding to the rule of law, and there is no indication if this covers all headings including the CAP or only structural funds. The Commission seems to interpret the 'rule of law' as meaning that the financial interests of the Union are protected. The justification to block payments would thus be that the legal structure of the member state in question does not safeguard the financial interests of the EU. This may seem to imply that countries where the judiciary is no longer independent, or media freedom has been curtailed, have little to fear as long as they keep controlling the spending of Structural or other Funds.

Another novelty is the proposals to increase the 'Own Resources' of the Union, i.e. funds that do not come from national budgets. The purpose here seems to be to ensure that Brexit does not lead to an increase in (direct) contributions by member states, cushioning the impact on national budgets. Potential own resources include a levy for non-recycled plastic packaging, a share of the Emissions Trading System revenues and a revenue based on the receipts from a Common Consolidated Corporate Tax base (when established). Most of these seem rather unlikely to become a reality in the near future.

An especially unfortunate and glaring omission is any sign from the Commission that what matters is the overall dimension of the level of investment, and the interplay between the EU budget and the support by the European Investment Bank (EIB) and national promotional banks. Today, we get much more bang for each euro by improving the risk sharing between the private and public sector and mobilising other resources. Funding mobilised with the assistance of the EU budget far outweighs the shortfall resulting from the UK's withdrawal. By focusing attention only on the funds flowing through Brussels from national treasuries as a measure of investment and benefits, the proposals neglect many savings that can be coupled with a more effective mobilisation of public funding. This approach by the Commission reinforces a net-balances view of the EU budget.

Verdict: Öttinger's proposal for 2021-2027 offered an old-fashioned budget in an old-fashioned presentation. We will have to wait for the detailed regulatory proposals to learn if these conservative figures are anywhere near capable of meeting the needs of modern Europe. Time will tell if this strategy of continuity, at least in form, will be a winning one.

In conclusion, to capture the essence of the new budget proposal, it is appropriate to offer a cartoon originally drawn by this author for the 2007-2014 MFF and which has already been resurrected once for the 2014-2020 MFF.



Let me introduce you to the European Commission's latest tool, 'the MFF-Generator'. We feed it all new resolutions, all new objectives and it creates in a couple of years a revolutionary, different new EU budget which does the same as the previous one.