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Commentary

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The next EU budget: firmly rooted in the past?

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An enormous political battle has just begun in the European Union (EU). On 2 May, the European Commission presented its proposal for the next Multiannual Financial Framework (MFF), the EU budget, for the period 2021-27. This kicked off a lengthy and complex negotiation process. Throughout 2018 and 2019, probably even beyond, we can expect a discussion on the highest political level, involving the European Parliament and the member states, about the priorities and direction for the EU. As before, this will likely turn into horse-trading whereby competing interests are translated into actual figures – at the cost of the agreed grand objectives.

A changed world

Could the outcome of the negotiations be different? It should be. Both the internal and international contexts framing this upcoming political tug of war call for a change. The UK's decision to leave the EU, creating a sizeable budget gap, should provide the needed urgency to re-think the EU's future finances and spending. At the same time, the EU suffers from low productivity and investment. Inequality between people is rising. Migration, demographic trends, security challenges, and climate change are casting a shadow on the continent creating significant uncertainties. If European leaders still fail to recognise that Europe and people's needs have changed, they are deceiving their people.

The global context has also dramatically changed. In 2015, EU and other global leaders committed themselves to the 2030 sustainable development agenda and the Paris Climate Agreement. Together, they set a clear direction of travel with goals to be achieved. For the sake of its credibility and moral leadership on the international stage, the EU's budget must reflect these commitments. Failing that would undermine the Union's role as a global leader in sustainable development and climate action. Our time thus warrants a decisive move to transform and modernise the EU budget to address the needs and challenges of today.

Some progress but falling short

Sadly, the starting point for the negotiations is pragmatism, rather than vision. The Commission is avoiding the controversy, pre-empting the views and objections of the member states, and perpetuating current structures and the *status quo*. The Commission's proposal may provide a politically realistic basis for an EU-wide discussion, but it is not ambitious enough to address Europe's challenges. The Commission should have mustered the courage to assert a bolder vision and initiate a more profound overhaul of the EU budget.

There is some progress, nevertheless, on which the member states and the Parliament should build on. The Commission suggests increased funding for migration and security. It proposes more support for research and innovation as well as digitalisation, both of which, if used well, can help to enhance Europe's competitiveness. Climate mainstreaming across all EU programmes, with a target of 25% of EU expenditure contributing to climate objectives, is also an important signal. Credit also goes to the Commission for simplifying the revenue side by removing all rebates. Politically, it has also shown some backbone by asking to link the budget with observance of the rule of law.

However, the proposal falls short by a margin. It earmarks roughly 60% of the €1,135 billion budget for the Common Agricultural Policy (CAP) and cohesion policy. By only moderately reducing these traditional spending areas, the

Commission chiefly proposes preserving structures that have been inefficient in delivering wellbeing for people. More worrying than the figures themselves is what will be done with the money, and what has (not) been learnt from past mistakes. CAP has been widely criticised for failing to limit its adverse effects on the environment and climate, and for the absence of health considerations. Similarly, studies show that cohesion policy has often provided only short-lived benefits for regions. Moreover, those that lag socio-economically often lack the needed capacities to apply for or make good use of available funding. There is no clear indication to what extent the Commission is ready to address these inefficiencies and inherent contradictions.

What should happen now?

The Commission's botched attempt to make the budget an instrument of modernisation is a missed opportunity. This calls for the European Parliament and the member states to step up their game. Moving forward, three considerations are paramount.

First, smart spending requires putting an end to subsidies that are evidently harmful for people's wellbeing, health, the environment and climate – and thus costly for the economy and society as a whole. The EU's support for livestock farming and fossil fuel infrastructures are a case in point. Justifications for financing either of these today are hard to find.

Second, smart spending calls for financing measures that will provide added value to the EU and its citizens, in line with the sustainable development goals (SDGs) and the Paris Climate Agreement. Payments must be tied to meeting the core objectives of the EU and achieving long-term prosperity. For example, unconditional direct income support to farmers is manifestly absurd in today's world when it maintains uncompetitive farming practices that have negative implications for the climate, the environment or people's health. Member states' disagreement on the size of the overall EU budget and the sectoral appropriations misses the point: the debate should be about the justification and leverage of proposed expenditures. Beneficiaries should demonstrate the EU payments' added value for Europe and how they help to address (rather than exacerbate) the Union's challenges. If this is not the case, funding must be phased out. Also, implementation matters. For example, achieving climate mainstreaming will require both learning from past errors and avoiding greenwashing.

Third, developing new own resources, for example by pricing pollution in line with the EU's broader aims, is worth exploring further. The Commission's proposal to use revenue from the Emissions Trading System and the levy on non-recycled plastics packaging waste is interesting but raises a myriad of questions about collection feasibility, predictability of revenues, and possible negative externalities. They each demand careful scrutiny.

The EU budget is no magic wand. The EU's spending alone does not determine its future. With about 1% of the bloc's gross domestic product, it obviously cannot solve all of the EU's problems. But in terms of direction setting, it matters enormously. Where the EU puts its money shows to Europeans and the rest of the world what its priorities are. The Commission has failed to exhibit needed leadership. It now falls on the European Parliament and the member states to do the job. From the start, the Parliament must put political pressure on the member states to go beyond the protection of narrow national interests. The outcome must be an EU budget that is coherent with the EU's principles and goals. It must offer real added value in the face of internal and international pressures and deliver results in line with the SDGs and the Paris Climate Agreement.

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