CEPS COMMENTARY
Thinking ahead for Europe

The EU budget needs fundamental reform

An open letter to the European Council, the Council, the European Parliament and the European Commission

From the CEPS Task Force on Aligning the EU Budget with the Europe 2020 Competitiveness and Growth Objectives

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In June 2011, the European Commission is expected to present its proposals for the Multiannual Financial Framework starting in 2014. The discussions so far in the European Commission and the member states have not shown evidence of a clear common vision for reform. In the meantime, the EU has formulated a large number of important long-term objectives with distinct European value added, but which lack adequate funding.

The public budgets of the EU member states are under strain and in need of structural reform and modernisation if they are to face the difficult economic, environmental, social and political challenges ahead. This exercise is especially crucial for the EU budget, whose potential impact goes well beyond its size. At present it does not reflect the needs and objectives of the 'Europe 2020' agenda, the EU's defining strategy for growth for the coming decade.[1] Failure to meet these objectives will lead to stagnation, resulting in under-investment in EU priorities and ultimately lower growth, lower employment and a weaker Europe overall – more vulnerable to economic, energy, social, international and environmental crises.

The EU budget review did not undertake a serious assessment of present expenditure or conduct an evidence-based analysis to guide discussions on policies. It has thus not offered any appropriate vision on future expenditure. Nevertheless, we welcome the review's focus on results and the creation or expansion of non-budgetary financial instruments.

The main priority of the EU budget should be to finance EU programmes with a high European value added, and to do so efficiently. The common budget needs to focus on expenditures that generate market integration, economies of scale and added value for Europe, over and beyond the programmes that are financed nationally. In the case of budgetary transfers under the solidarity principle, funding should focus on helping member states with weaker fiscal capacities to fulfil their obligations of membership and to grow economically, and sustainably, in the long term.

[1] For more information on the Europe 2020 agenda, see http://ec.europa.eu/europe2020/index_en.htm

This open letter presents the key reflections of the Chairman, members and rapporteur of the CEPS Task Force on "Aligning the EU Budget to the Europe 2020 Competitiveness and Growth Objectives" at its inaugural meeting on 17 May 2011. The Task Force is composed of senior representatives of business and industry, NGOs, research institutes, business associations and other stakeholders and is chaired by Daniel Tarschys, Professor Emeritus in Political Science and Public Administration, Stockholm University and Chairman of the Board of the Bank of Sweden Tercentenary Foundation. Over the coming months, the Task Force will deliberate on the budget and refine its ideas until December 2011, when it will publish its final report drafted by rapporteur Jorge Núñez Ferrer (for more information, see http://www.ceps.eu/taskforce/aligning-eu-budget-europe-2020-competitiveness-and-growth-objectives).

Achieving the goals of Europe 2020 requires better targeting and concentration of EU spending programmes and an expansion of non-budgetary instruments. With the overarching aim of **deploying funding towards areas of long-term sustainable growth and competitiveness**, there is a need for serious reform of policies and a redistribution of funds along the following lines:

1) **A more coherent and balanced approach to industrial and environmental policy**
    - More and better funding for RD&I (research, development and innovation) and demonstration and deployment of new technologies
    - Appropriate level of EU funding for the Strategic Energy Technology (SET)-Plan
    - Adequate funding to promote the single market by developing the necessary European infrastructure
    - A stronger focus on the European dimension of education and lifelong learning
2) **Deepening the reform of the Common Agricultural Policy (CAP)**
    - Rationalising the funding of the CAP in order to free resources for other priorities
    - Refocusing the policy and the level of finance towards European public goods
    - Improving the CAP's role in R&D and introducing better risk management instruments
    - Continuing the efforts to increase the market orientation and promote the competitiveness of European agriculture
3) **Fundamental improvement of Cohesion Policy**
    - Focus the policy on development needs rather than redistribution
    - A clearer focus on transport, energy, climate change and human capital to promote long-term sustainable growth

An EU budget without reform along the lines outlined above will undermine the credibility of the EU and the governments of its member states. An erosion of citizens' confidence in the EU will spill over into a loss of public confidence in national institutions, fuelling narrow protectionist policies and weakening Europe in the long term, both economically and politically.