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A Budget for the Eurozone: An Idea Fast Maturing

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The notion of a financial facility designed to help eurozone member states was initially perceived as a side topic and a bargaining chip during the negotiations on the Multiannual Financial Framework 2014–2020 (MFF). But it is quickly taking shape, as demonstrated by President Barroso's blueprint from 28 November on deepening the economic and monetary union and by Van Rompuy's report from 5 December. The proposals highlight the necessity of inter-country transfer mechanisms within the more intensely integrated eurozone to tackle asymmetric shocks. Poland's government should assess the long-term impact this facility would have on cohesion policy.

The weakness of the euro area revealed during the ongoing financial and economic crisis has accelerated the reform of the overall design of the economic and monetary union. In the course of reshaping the eurozone a raft of measures have been approved. The efforts of member states, the European Commission and Parliament resulted in a new regulatory framework for member state economies, including the financial and banking sectors, fiscal stability, prevention and correction of macroeconomic imbalances. The next steps will probably cover a deeper coordination of taxation policies.

Emergence of the EU Agenda. The idea of a separate facility (alternatively named fiscal capacity) for the euro-area countries appeared on the political agenda out of nowhere on 12 September with Van Rompuy's paper. Prior to that debate had been limited to the academic world. Of course, this document suggested broaching the discussion, without details, but the timing was unfortunate because negotiations of the next MFF had just entered their final stage. Several countries spotted the linkage between the EU and the eurozone budgets, and the new facility was seen as a bargaining chip for eurozone members vying to lower the ceilings of the financial perspective. Following the agreement that these two issues were largely unrelated and would be considered separately, the issue received limited attention from member state officials: the discussions were simply overshadowed by the banking union and MFF negotiations.

It took the publication of Barroso's blueprint on deepening the Economic and Monetary Union from 28 November and Van Rompuy's report from 5 December to show that the topic had not gone away. These papers clarified how this facility might be designed, both agreeing that a temporary Convergence and Competitiveness Instrument (CCI) should precede a fully-fledged fiscal capacity. The mechanisms would also involve the European institutions in the process of means distribution. They would also come on top of the MFF ceilings or be treated independently. Most importantly, the temporary instrument would be strictly bound to economic governance mechanisms and delivered to interested countries on the basis of a contract between them and the Commission in a defined period, projected for 2013–14.

Duration, Size and Management. The institutions thus present the facility as a temporary measure. But of course many instruments, especially taxes, have initially been sold as temporary solutions. The transformation from an interim measure to a permanent structure will likely happen in the present case because it is difficult to believe that the imbalances, for instance in current accounts, would be alleviated in a sustainable way among the Member States. The example of Greece supports this supposition—a country that will be reliant upon foreign assistance for decades to come due to extremely high debt levels and due to the entrenched lack of competitiveness of its goods and services. This leads to the unwanted spectre of a "transfer union" with relatively fixed direction of flows. The documents already talk of complementing the CCI after the initial period with a cross-country unemployment insurance facility and further risk-pooling mechanisms, thus making a fully-fledged eurozone budget, to alleviate asymmetric shocks.

As to the size of the facility, it is difficult to gauge the means necessary for the facility to operate properly. Most likely, the publicized sum of €20 billion will be much too low and reflects an effort to make the proposal palatable to the public and major governments. In the academic debate, there has been talk of an effective funding level of 2% of eurozone GDP (much more than now on the table in the context of MFF negotiations)—something that net contributors would reject. The mechanisms for contributing and receiving funds are not firmly set, of course, but the general flow of money would most likely be from North to South, the criterion of excessive unemployment clearly favouring the southern countries. The mechanism will, however, allow member states and institutions to scrutinise recipients' performance. The conditions attached to the contractual agreement between the receiver and the other members/EU institutions will likely depend on the clout of the recipient.

This all highlights the fact that the entry into force of the fiscal capacity will affect individual member states differently. That fact also pertains to non-euro members, and the European Commission and European Parliament will face a major challenge if asked to manage an instrument designed for a sub-set of member states only, since their legitimacy lies in the pursuit of the general interest of the EU-27. This is especially important in terms of integration processes, which could be substantially weakened when considering the evolution of relations between the eurozone members, the "pre-ins" and the rest of the EU. Some countries, like the United Kingdom, will again encounter the tension between their support for further eurozone integration and their growing concern over the emergence of a powerful core of members. The efforts of the EU institutions to alleviate this tension are currently complicated by the fact that the views presented by Van Rompuy and the Commission are divergent in several issues.

Conclusions and Recommendations. Poland's top priority at the moment is the negotiation of a new MFF, expected in February. The amount of future funding secured under the MFF will affect the pace of Poland's economic convergence with other EU states. However, the Polish government should not neglect the fiscal capacity issue even if it is not currently a member of the eurozone. Barroso's blueprint proposes the CCI as a part of the EU budget, albeit one above the ceiling, just like the European Globalisation Adjustment Fund or the European Development Fund. On the one hand, this solution might be good for Poland, because it means the Parliament and Commission will be included in the decision-making process. On the other hand, this will tempt several countries to include the facility under the MFF ceilings. This is not a threat for now, but it may become real during the budget review tabled for 2016.

What should really ring alarm bells for Polish officials is the fact that there is not only a possible overlap of functions with the EU's cohesion policy, but that the target group is different—not the poorest regions or countries, but those with the biggest debt and unemployment problems. Hence, for instance Slovakia or future eurozone member Poland would benefit little from such an instrument. Contrary to the assurances of EU officials to the effect that the fiscal capacity and the EU budget would not have an impact on each other, the crowding out of cohesion policy would surely follow. This will hurt the east of the EU the most, even after these countries become members of the eurozone. Moreover, the money will not be distributed to regions as is the case under cohesion policy, but to national-level authorities responsible for structural reforms.

Many things may happen during the 13–14 December summit where the fiscal capacity will be discussed, and it is difficult to specify how this instrument will develop. This fluidity provides an opportunity for Poland to secure the transformational aims of cohesion policy in a longer perspective by saying that both instruments in reality do similar things, including the indirect strengthening of economic governance, which will work to the benefit of the EU. Thus, the distribution criteria of the facility should be similar to those within the structural funds, albeit with more accent on unemployment reduction efforts. In particular, the criteria should include not only benchmarks pointing at the imbalances, but also the criteria of economic development and productivity. Moreover, Poland should stress the importance of contractual arrangements, which would help to re-structure economies in trouble as opposed to a risk-pooling facility, which could lead to moral hazard in some countries.