Global Counsel

A budget for the 2020s or a return to the politics of 1997?

Blog post by Director Tom White, May 19 2020

Franco-German proposals to increase the 2021-27 EU budget could be their most significant since the 2018 Meseberg Declaration on euro zone governance. They provide clear political backing for European Council president, Charles Michel, and European Commission president, Ursula von der Leyen, both of whom have bet their reputations on EU funding for economic reconstruction. They also commit the two largest member states to EU-level action after months of the Brussels institutions being overshadowed by national responses to covid-19. But they also came at a crucial time in the EU's transition to a 27-member block, ahead of debates on treaty change at the Conference on the Future of Europe, and need to be read in the context of a 30-year debate about how an enlarged EU can avoid political paralysis.

The most obvious interpretation is that France and Germany are reclaiming their role as the brokers of a 'grand compromise' that a majority of other member states can live with. By this reading, Angela Merkel is spending the last of her political capital to ensure Germany's EU vocation is independent of the constitutional court's understanding of monetary policy, while Emmanuel Macron is preparing his pitch for re-election. Both have been worried about a lack of direction in EU politics ever since the Dutch-led formation of a 'Hanseatic League' stymied the plans articulated at Meseberg, and with Poland and Hungary self-confidently proclaiming alternative political and economic models. In those terms, yesterday's proposals are highly significant, adding a dedicated €500 bn 'reconstruction fund' to the Multiannual Financial Framework. It would be spent across the EU27 by the European Commission, in addition to the euro zone-specific commitments to mobilise the European Stability Mechanism and the European Investment Bank. It therefore means money for Poland, on top of its large share of climate change 'transition' funding within the main budget. It means grants – not just loans – for Italy and Spain due to allocating money according to the economic damage from covid-19. There are reassurances for the Dutch and their allies: this would be a one-off uplift, and linked to economic reform, although via the European Semester process rather than intrusions that could recall the loathed IMF-ECB-Commission "Troika" for Athens and Lisbon.

However, these proposals also revive Franco-German preferences that are deeply unpopular with Eurosceptics in Northern Europe, calling for minimum tax rates and a common corporate tax base in the EU. They also promote EU-wide minimum wages that are anathema to Eastern European countries that regard wage competition as a draw for inward investment.

Overall, these proposals could therefore be seen as a last throw of the dice for a policy agenda that can unify the 27 member states. If they succeed, there will be a precedent for large-scale fiscal transfers and shared debt across the EU, not just the euro zone, addressing a core weakness of the single market. Should they be rejected, however, it will be harder to face down the calls in both

Paris and Berlin for a core group of member states that moves faster than the rest to share sovereignty and resources. Veterans in the council from the 1990s will recall the last attempts to agree such multi-speed integration, and the granting of 'opt-outs' to more reluctant member states through the Maastricht and Amsterdam treaties. The legacy of those decisions still divides opinion and repeating it could call into question the continued membership of some countries, particularly if it led to further divergences within the euro zone.