# Slashing the EU's budget won't fix the crisis

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The EU's proposed budget for 2014-20 has already sparked fierce wrangling between member governments, with the UK, Germany and France reportedly backing a freeze. **Mikołaj Dowgielewicz** argues that it will be crucial to Europe's economic development and global competitiveness

$0Although Europe is slowly emerging from the deepest recession since the Great Depression of the 1930s, the crisis has led to profound fiscal deficits in many EU countries. Governments have often found themselves forced by the financial markets to cut budget expenditure, so now a major question is should we adopt the same approach in the case of the common EU budget? More fundamentally, the question that faces us is whether or not we see the European Union as holding the solution to Europe's economic recovery.

A crucial first step when addressing this would be to highlight the different nature of the EU budget when compared to national ones. The EU's budget mostly covers investments in our continent's future. Not just investments in infrastructure, human capital, scientific research or environmental protection, but also investments in external and internal security. All these areas will determine the prosperity of our continent in the years ahead. The future EU budget should therefore be ambitious, and because of its exceptional character the debate on it should differ from the current discussions on national public finances that have been dominated by pro rata cuts. Now that the Lisbon treaty has widened the EU's powers, this should be reflected in the size of outlays from the common budget.

Second, re-defining the EU's budget means re-defining the EU itself. The European Union and its actions are heavily dependent on the budget that the member states agree on – so defining the new financial perspective means defining the goals of the Union for the next decade. The budget represents the EU's level of ambitions, and discussion between EU governments should not consist of setting top-down expenditure limits. On the contrary, the size of the budget should result from their discussion of the policies they want and then their assessment of the financial needs involved. And third, the EU's budget mostly covers investments in our continent's future. Working together through the EU budget in many cases allows for savings, better co-ordination and economies of scale.

The crisis has undoubtedly influenced the macroeconomic fundamentals of the EU. To keep their economies afloat, a majority of EU countries have implemented costly stimulation packages, followed by deep-cutting austerity measures. Yet although budget consolidation will be of major importance to all member states for the next few years, if Europe is to remain globally competitive the policy focus may not only be on repaying the debts incurred during the crisis. In the post-crisis situation, the goals of the Europe 2020 strategy will be of major importance to the wellbeing of European citizens – economic growth and employment are and should remain the overriding objectives of EU's policy.

The message is simple; everything we do should be aimed at growth. Of course the economic crisis is a challenge, but if properly dealt with the EU could enter a new growth path.

This sort of growth strategy ought to be implemented through such proven delivery mechanisms as cohesion policy and the Common Agricultural Policy. The compromise achieved by member states back in December 2005 and during earlier negotiations still has enabled the EU to create a budget that offers a fair distribution of policy objectives, with 30% of funding allocated to cohesion measures inside the EU, 40% for agricultural support and environmental protection and the remaining 30% for all other policies. This balance should be maintained in the future, but this doesn't mean that we should ignore the need for change, but these changes should chiefly take place at the micro level so as to better target funds for the EU's Europe 2020 growth strategy.

EU cohesion policy emerged in its present shape when the single market was being created in the late 1980s, and the need for it is still just as great. Markets create winners and losers, but the most important thing of all is to prevent a widening of the gap between the EU's richest and poorest regions in which the poor regions become poorer still. Future cohesion policy should go on embracing the whole of the EU, but it should also remain the main EU instrument for promoting growth and employment in all regions.

Although the importance of agriculture to the European economy has been declining for many years, it is a sector that continues to be special. In no other sector are revenues so variable because they depend on so many factors like the weather or animal or plant diseases. Direct subsidies therefore constitute a stabilising element for farmer's incomes, which are generally lower than those earned by Europe's urban population. We should also not forget that in the future European agriculture is going to have to face stronger competition from exporters in the U.S., Brazil, Argentina and other emerging markets.

The EU's agricultural sector therefore still needs a strong rural development policy. Countries like Poland or Romania can focus more on modernisation and the concentration of farms to become competitive in the single market, while the richer EU member states can allocate greater resources for environmental protection. Europe's rural development policies should also focus more on renewable energies and on innovation and adjustment to counteract climate change.

Supporting agriculture still makes sense, but the current system which is complicated and lacks uniformity – has exhausted itself. The future EU subsidies system should ensure equal competition conditions between member states' agricultural sectors.

The EU's founding fathers wanted the budget to be chiefly financed from "own resources", and this was supposed to reflect its dual character of being both an intergovernmental organisation and a citizens' union with its own directly-elected parliament. The reality has proved somewhat different. The EU's own resources decrease every year, in large part because reductions in customs tariffs result in lower revenues for the EU's coffers. Direct contributions from member states currently account for nearly 80% of the EU's budget even though this state of affairs runs counter to the spirit of the European treaties and promotes the logic of juste retour, which of course fails to accommodate the wider European interest. This is why Budget Commissioner Janusz Lewandowski, who is Polish, was right to initiate a discussion on how in future the European budget should be financed. Some of the possible solutions that have been aired would be unacceptable for Poland too, a good example being the idea of "eurotax" based on $CO_2$ emissions. Such a solution would hit the citizens of new member states most severely of all because their power sectors are often based on coal. It's going to be a difficult discussion, but it is certainly legitimate and may even prove highly beneficial for the Union as a whole.

"The only thing we have to fear is fear itself", said Franklin Delano Roosevelt during his first inauguration speech in 1933, when the U.S. and the world were in the grip of the Great Depression. Those words sound just as true today. This is the time for Europe to perform and to deliver, not to succumb to doubt. We Poles believe we have brought just this kind of enthusiasm to the European Union, and that all Europeans should appreciate once again what it is that Europe has to offer. Only an ever-closer union can help the European Union to redefine and rebuild itself after the wake of the economic crisis.

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