

## MFF post-2020: Towards a two-speed Europe?

Written by Roberts Zīle on 21 May 2018 in Opinion  
Opinion

The new EU budget risks enlarging the east-west divide, warns Roberts Zīle.



Roberts Zīle | *Photo credit: European Parliament audiovisual*

The Commission's recently unveiled proposal for the next EU long-term budget contains few surprises. As it had been rumoured in the financial press and hinted at by Brussels diplomats, the 2021-2027 multiannual financial framework will be less about cohesion and more about other 'priorities', including 'values'.

The arguments that the budget proposal merely reflects new realities and challenges do not stand up to scrutiny. As total spending increases - both in real terms and as a percentage of EU GNI - it makes no sense for cohesion funding to decrease. If the budget hole caused by Brexit is to blame, then financing for other priorities should be lowered too.

Once the negotiations over the budget begin, one can expect certain donor countries to ask - as always - for the total funding to be capped near the sacred one per cent of the EU GNI figure. This could further endanger the cohesion envelope, which currently faces shrinking by five per cent.

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If implemented the Commission's way, the next EU budget will be about shifting more money away from the EU's eastern member states, as new priorities will be included within the policy, such as integration of migrants and fighting unemployment.

Southern EU countries will, in future, be able to absorb larger amounts of money and the competition for scarce funding will become ever tougher. The additional hoops - called "values" - to be presented in more detail could further complicate eligibility for some EU countries.

A member state will be required to adhere to certain political norms in order to preserve funding. The eastern EU countries will also be expected to contribute more to the EU budget due to Brexit.

There is no question that, among other things, reducing youth unemployment is a noble cause. However, using the EU money to fight unemployment in the south is a misguided approach. It may fail to improve the situation there, as more jobs or higher wages would attract migrant workers from the east who are willing to do work locals are not doing. It could also lead to outright discrimination if unemployment is tackled via schemes that only employ nationals of certain countries.

It will also be hard for politicians in eastern member states to explain to their voters that the years of painful austerity and living without budget deficits were all for nothing. The countries that mismanaged their finances during the boom years and are still unable to adhere to the EU macroeconomic framework will be rewarded instead.

With this strategy there is of course a short-term gain. French President Emmanuel Macron will have managed to convince the transfer of money to the debtor countries. Meanwhile, Germany's long-standing current account surplus may decrease, enabling the country's finance minister to counter critics asking for fiscal integration of the eurozone.

For the eastern member states, however, the new EU budget sends a clear signal that catching up with wealthier countries is no longer one of the Union's top priorities. If Macron reflects the wider view of the EU's west, this should not be surprising.

Last month in Strasbourg when addressing the European Parliament, he noted that cohesion money has "in some places" essentially led to fiscal and social dumping, whereby countries use the funds to bring down their taxes and thus compete against others.

Unfortunately, the reduction of cohesion money will lead to more “dumping”, to use Macron’s term. As has been the case during the last economic downturn, the Poles, Latvians and others will vote with their feet. The region’s youth will be the first to get the message that their countries have no future. The already bleak demographic situation of the eastern EU countries will become grimmer still.

Conversely, the wealthier EU countries are set to benefit the most from the new EU budget reforms. There will more nurses and doctors for Germany and more taxpayers for France, helping solve the social expenditure challenges.

Given the dire demographic situation for all of Europe, in the medium term western EU member states will be taken care of thanks to immigration from the EU’s east. For the countries of the latter region, however, there is no solution for the demographic problem.

The bigger picture is that the European Commission, with its bigger budget for bigger ambitions in a smaller EU, is helping to turn the option of multi-speed Europe into a reality. Such a multi-speed approach will lead to a weaker Europe.

Yet this correlates with Commission President Jean-Claude Juncker’s recent comment that Europe is already “a small and weak part of the universe.” That is not the EU leadership we deserve.

## About the author

Roberts Zīle (ECR, LV) is a Vice-Chair of Parliament’s special committee on financial crimes, tax evasion and tax avoidance

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