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# Is a separate Eurozone budget a good idea?

Richard Crowe

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### Abstract

The sovereign debt crisis served to highlight the limitations of trying to use a Union budget in which all Member States participate to perform functions corresponding to a monetary union in which not all Member States participate. In this context, a debate has arisen about whether the Eurozone should rather have its own budget, separate from the Union budget. There are good arguments to support the view that a new budgetary capacity should be developed at European level to support the monetary union, but this paper defends the view that it is preferable to develop such a capacity within the Union budget, or, to the extent that this is not yet feasible, to keep it as closely aligned to the Union budget as possible. In this respect, the Commission's latest EMU and MFF proposals are a welcome first step in seeking to pursue such an integrative approach, within the constraints of the current Treaties. Looking to the future, a European public finance convention could be considered to prepare more ambitious reforms, including targeted treaty revisions, for adoption in the 2020s.

**Keywords:** Eurozone budget; fiscal capacity; budgetary capacity; EMU; EU budget; MFF

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## Introduction

The impulse for the creation of both the economic and monetary union (EMU) and the Union's unique budgetary system originated almost 50 years ago in the same landmark summit of Heads of State or Government at The Hague in 1969. At that time, progress towards EMU and the development of a federal-style European budget, which would also perform an economic stabilisation function, were perceived as intertwined objectives. By the time European Council President Van Rompuy launched the idea of a fiscal capacity for the Eurozone in Autumn 2012, however, the debates on the budgetary dimension of EMU, on the one hand, and the development of the Union budget of 28 Member States, on the other, had become disconnected. This paper argues that it is time to reconnect those debates.

At present, the Union's public finances are in a state of flux and transition. The legal framework governing the Union budget of 28 - soon to be 27 - Member States is too rigid to easily accommodate the differentiated public finance solutions required for the Eurozone, while the proliferation over the past decade of intergovernmental or quasi-intergovernmental Eurozone-specific mechanisms around the Union framework has entailed a fragmentation of the European-level public finances. To borrow from Deirdre Curtin's famous critique of the Maastricht Treaty, the Union's public finances appear to be made up of 'bits and pieces'.<sup>1</sup> In this context, it may be tempting to imagine that a way forward for the Eurozone could consist in simply making a clean break and starting again from scratch with the creation of a separate Eurozone budget, accompanied by new institutional structures.

However, such an initiative appears neither politically feasible nor desirable, most especially since it would intensify divisions between Member States at a moment when one country is already leaving the Union. Following UK withdrawal, the Eurozone will represent 85% of EU GNI and 76% of the Union's population,<sup>2</sup> and all but one of the remaining non-Eurozone Member States have a legal obligation to join the single currency. The idea of a Eurozone budget may have its merits, but the Union already has a budget, which should also serve as the budget of the EMU. Pending the enlargement of the Eurozone to encompass all, or almost all, the Member States, it is preferable to develop any new Eurozone budgetary capacity within the Union budget, or, if this is not yet feasible, in close alignment to it. In this regard, the Commission's proposals for EMU reform of 6 December 2017 and its proposals for the post-2020 multiannual financial framework (MFF), due on 2 May 2018, represent welcome first steps in seeking to pursue an integrative approach, whereby a new Eurozone capacity should, as far as possible, be financed through a line in the Union budget.

Against that background, this paper first traces the origins of the debate on a budget or fiscal capacity for the Eurozone, before going on to highlight the main legal and institutional constraints that must be taken into account when seeking to establish Eurozone-specific mechanisms within the Union budget under the current Treaties. In light of those constraints, it will be suggested that any Eurozone capacity created in the current round of reforms is likely to be modest in scale and scope. Looking to the future, it will be suggested that the current round of reforms should be followed by a longer-term reflection, possibly through a targeted European public finance convention, on the future public finance architecture of the Union and the EMU. Such a convention could provide the impulse for a further package of reforms, including targeted treaty revisions, to be implemented during the 2020s.

## The budgetary dimension of EMU

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<sup>1</sup> Deirdre Curtin, 'The Constitutional Structure of the Union: A Europe of Bits and Pieces', 30 *Common Market Law Review* (1993) pp. 17–69.

<sup>2</sup> See Guntram Wolff, 'Eurozone or EU budget? Confronting a complex political question', Bruegel blog post, 29 June 2017: <http://bruegel.org/2017/06/eurozone-or-eu-budget-confronting-a-complex-political-question/>.

Early reflections on the budgetary dimension of EMU focused on two main issues, namely the size of the European budget needed to support the EMU, and the appropriate level of influence of European institutions over the national budgets of the Member States. The Werner Report of 1970<sup>3</sup> envisaged an enhanced role for the Community budget in the EMU, but also acknowledged that 'its economic significance will still be weak compared with that of the national budgets, the harmonized management of which will be an essential feature of cohesion in the union.'<sup>4</sup> Indeed, the Werner Report cautioned against 'excessive centralisation' of budget policy and noted that the distribution of powers 'must allow for a differentiated budgetary structure operating at several levels, Community, national etc.'<sup>5</sup> Moreover, '[i]n view of the fact that the role of the Community budget as an economic instrument will be insufficient, the Community's centre of decision must be in a position to influence the national budgets, especially as regards the level and the direction of the balances and the methods for financing the deficits or utilizing the surpluses.'<sup>6</sup>

The Marjolin Report on EMU of 1975,<sup>7</sup> which is as doom-laden as any report written during the crises of the past decade in its discussion of 'the urgent problems which endanger the existence of the European Community',<sup>8</sup> advocated 'the establishment of a Community budget on such a scale that the important transfers which the maintenance of EMU will require can take place and be financed out of Community taxation.'<sup>9</sup> The report bemoaned the minute size of the Community's budget (0.5% of EEC GDP in 1973), which it considered to be an impediment to the creation of an EMU.<sup>10</sup> The MacDougall report of 1977 on the role of public finance in European integration<sup>11</sup> went a step further and sought to quantify the size of the Community budget that would be required to accompany the future EMU. It was estimated that a Community budget of the order of 5-7% of Community GDP 'could provide sufficient geographical equalisation of productivity, living standards and cushioning of temporary fluctuations to support a monetary union.'<sup>12</sup>

The Delors Report on EMU of 1988<sup>13</sup> remained silent on the possible need to expand the size and functions of the Community budget following the transition to EMU, although the Delors Commission did simultaneously push for the establishment of a Cohesion Fund to tackle economic and social disparities between the Member States. Above all, the Delors Report prioritised the surveillance and coordination of national economic and budgetary policies,<sup>14</sup> and the Maastricht Treaty would pursue this same approach. As it transpired, not all Member States would participate from the outset in the monetary union. Furthermore, a practice would develop in the context of the seven-yearly MFF negotiations of setting a cap on expenditure at just over 1% of EU GNI. The full consequences of these choices would only become evident years later, when the Eurozone sovereign debt crisis struck.

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<sup>3</sup> Report to the Council and the Commission on the realisation by stages of Economic and Monetary Union in the Community (Werner Report), Luxembourg, 8 October 1970.

<sup>4</sup> Ibid, p. 10-11.

<sup>5</sup> Ibid, p. 11.

<sup>6</sup> Ibid, p. 12-13.

<sup>7</sup> Report of the Study Group 'Economic and Monetary Union 1980' (Marjolin Report), Brussels, 8 March 1975.

<sup>8</sup> Ibid, Preface, p. II.

<sup>9</sup> Ibid, p. 6.

<sup>10</sup> Ibid, p. 32.

<sup>11</sup> Report of the Study Group on the role of public finance in European integration (MacDougall Report), Brussels, April 1977.

<sup>12</sup> Ibid, p. 14.

<sup>13</sup> Report on Economic and Monetary Union in the European Community (Delors Report), Brussels, June 1988.

<sup>14</sup> Ibid, p. 20.

It was clear from the early stages of the crisis in 2010 that the limited legal options available under the Union Treaties to create dedicated Eurozone rescue mechanisms, the rigid legal framework governing the Union budget of 28 Member States and the constraints of the own resources and MFF ceilings would make recourse to rapid intergovernmental financing solutions a more attractive option for the Eurozone Member States. Deliberations at high-profile Euro Summits and Eurogroup meetings provided the impulse for the creation of intergovernmental Eurozone rescue mechanisms, the adoption of an intergovernmental Treaty on Stability, Coordination and Governance in the EMU, and the elaboration of Union legislation which strengthened surveillance over the management of national budgets. Not surprisingly, voices also started to emerge in favour of pushing further to create a Eurozone budget or fiscal capacity, possibly together with a Eurozone treasury and finance minister, and even a dedicated Eurozone parliamentary body.<sup>15</sup>

This debate acquired a particular momentum from October 2012, when President Van Rompuy presented to the European Council an Interim Report of the Four Presidents which introduced the notion of a 'fiscal capacity' for the Eurozone.<sup>16</sup> Having recalled the progress already made in strengthening the rule-based framework for fiscal policies in the EMU, the Interim Report observed that strengthening discipline alone is not sufficient. It would also be necessary, in the longer term, to strengthen economic governance by developing a fiscal capacity for the EMU.<sup>17</sup> Such a fiscal capacity 'would support new fiscal functions which are not covered by the multiannual financial framework'.<sup>18</sup> In particular, one of its functions 'could be to facilitate adjustments to country specific shocks by providing for some degree of absorption at the central level'.<sup>19</sup>

Since then, numerous official reports have advocated the creation of a Eurozone fiscal capacity, without providing clear details on what form such a capacity should take. The Interim Report of 2012 was followed by a resolution of the European Parliament,<sup>20</sup> the Commission's Blueprint for a deep and genuine EMU,<sup>21</sup> and the final report of the Four Presidents,<sup>22</sup> all of which advocated the creation of a Eurozone shock-absorption function at the central level. Similarly, the Five President's Report (this time including the President of the Parliament) of June 2015 proposed, *inter alia*, the introduction of a fiscal stabilisation function for the Eurozone, noting that 'all mature Monetary Unions have put in place a common macroeconomic stabilisation function to better deal with shocks that cannot be managed at the national level alone.'<sup>23</sup>

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<sup>15</sup> An early and influential report raising these ideas was presented in 2012 by Jean Arthuis, now Chair of the European Parliament's Committee on Budgets, upon the request of the French Prime Minister. See Jean Arthuis, 'Avenir de la zone euro : l'intégration politique ou le chaos', March 2012. Report available online at <http://www.ladocumentationfrancaise.fr/rapports-publics/124000129/index.shtml>.

<sup>16</sup> Towards a Genuine Economic and Monetary Union, (Interim) Report by Herman Van Rompuy, in collaboration with the Presidents of the Commission, the Eurogroup and the ECB, Brussels, 12 October 2012.

<sup>17</sup> Ibid.

<sup>18</sup> Ibid, p. 5.

<sup>19</sup> Ibid.

<sup>20</sup> European Parliament resolution of 20 November 2012 with recommendations to the Commission on the report of the Presidents of the European Council, the European Commission, the ECB and the Eurogroup 'Towards a genuine Economic and Monetary Union', P7\_TA(2012)0430.

<sup>21</sup> Communication from the Commission, 'A blueprint for a deep and genuine economic and monetary union Launching a European Debate', COM(2012) 777, Brussels, 30 November 2012.

<sup>22</sup> Towards a Genuine Economic and Monetary Union, (Final) Report by Herman Van Rompuy, in collaboration with the Presidents of the Commission, the Eurogroup and the ECB, Brussels, 5 December, 2012.

<sup>23</sup> Ibid, point 4.2.

Meanwhile, outside the institutions, a whole host of academics, think-tanks and groupings of intellectuals have contributed to the debate.<sup>24</sup> Several of these initiatives have advocated a separate budget and institutions for the Eurozone. For example, the draft Treaty Democratizing Euro Area Governance (T-Dem), published by a group of French intellectuals, including economist Thomas Piketty, envisages the creation of a separate Eurozone budget financed by revenue from corporation tax, which would in time be incorporated into the Union framework following future treaty revisions. However, European political leaders have for the most part shied away from such radical proposals. The most notable exception is of course French President Macron, who in the early stages of his presidency called for the creation of a fully-fledged Eurozone budget, worth several percentage points of Eurozone GDP.<sup>25</sup> In contrast, Commission President Juncker used his State of the Union speech in September 2017 to propose the creation of a 'Eurozone budget line' within the Union budget.<sup>26</sup>

Mr Juncker's proposal was consistent with the Commission's Reflection Paper on the Deepening of the EMU,<sup>27</sup> which envisages the development of a Eurozone capacity within the Union framework. The Reflection Paper presents a Eurozone stabilisation function as part of a broader toolbox, including funds from the Union budget and economic policy coordination mechanisms, which should be developed as part of a renewed economic convergence process within the Eurozone. It is suggested that a Eurozone budgetary capacity to counter an asymmetric shock affecting a single Eurozone Member State, but threatening the stability of the Eurozone as a whole, could take the form of a European investment protection scheme, a European unemployment scheme or a rainy day fund.<sup>28</sup> The Reflection Paper envisages that such a stabilisation function should be fully operational by 2025.<sup>29</sup>

The Commission's signal that it intends to present a proposal for a Eurozone economic stabilisation function as part of its MFF package in May 2018 has been welcomed with enthusiasm in some quarters, for example by the Managing Director of the International Monetary Fund,<sup>30</sup> but has also been met with scepticism in certain national capitals, notably in the Netherlands and in other smaller northern countries.<sup>31</sup> Some economic experts question whether a stabilisation function is needed at all,<sup>32</sup> while it appears some governments might be more open to a Eurozone capacity concentrated

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<sup>24</sup> See, for example, Jean Pisani-Ferry, Erkki Vihriälä, Guntram Wolff, 'Options for a euro-area fiscal capacity', Bruegel Policy Contribution No 2013/01, January 2013; Eulalia Rubio, 'Budget de la zone euro : trois fonctions, trois instruments', *Revue de l'Union européenne*, No 567, April 2013, pp. 214-217; Glienicke Gruppe, 'Aufbruch in die Euro-Union', *Die Zeit*, 17 October 2013; Groupe Eiffel, 'Pour une Communauté politique de l'euro', *Le Monde*, 13 February 2014; Eulalia Rubio, 'Fédéraliser la zone euro : vers un véritable budget européen?', Notre Europe Policy Paper No 155, January 2016; Stéphanie Hennette, Thomas Piketty, Guillaume Sacriste, Antoine Vauchez, *Pour un traité de démocratisation de la zone euro (T-Dem)*, Éditions du Seuil, Paris, 2017; Guntram Wolff, 'Beyond the Juncker and Schäuble visions of euro-area governance', Bruegel Policy Brief No 6/2017, November 2017; 14 French & German economists, 'Reconciling risk sharing with market discipline: A constructive approach to euro area reform', CEPR Policy Insight No 91, January 2018.

<sup>25</sup> 'Macron calls for powerful Eurozone budget', EU Observer, 31 August 2017: <https://euobserver.com/economic/138841>

<sup>26</sup> Jean-Claude Juncker, State of the Union Address to the European Parliament, Strasbourg, 13 September 2017.

<sup>27</sup> Reflection Paper on the Deepening of the Economic and Monetary Union, Brussels, 31 May 2017.

<sup>28</sup> On the respective merits of these different options, see Guntram Wolff, *supra*, note 2.

<sup>29</sup> See Reflection Paper, *supra*, note 27, Annex I.

<sup>30</sup> Christine Lagarde, 'A Compass to Prosperity: The Next Steps of Euro Area Economic Integration', Speech at the German Institute for Economic Research, Berlin, 26 March 2018.

<sup>31</sup> See, for example, Mark Rutte, 'Underpromise and overdeliver: fulfilling the promise of Europe', Speech at the Bertelsmann Stiftung, Berlin, 2 March 2018. See also the Joint Statement on EMU issued by the Finance Ministers of Denmark, Finland, Ireland, Latvia, Lithuania, the Netherlands and Sweden on 6 March 2018.

<sup>32</sup> See, for example, Adriaan Schout, 'The EMU does not have any flaws: A Critique of the European Commission's Reflection Paper on the Deepening of the EMU', Clingendael Institute Article, November 2017.

on providing support for investments and structural reforms rather than performing an economic stabilisation function.<sup>33</sup> Even if sufficient political support does emerge to establish a new Eurozone capacity, however, a number of legal and institutional constraints will in any event limit what can be achieved within the current Union framework. These constraints are explored in the next section.

### **Legal and institutional constraints**

In some respects, the current period in the development of the Union's public finances is reminiscent of the era of the 'third pillar' in justice and home affairs, with intergovernmental and hybrid (Union and Member State) financing mechanisms and procedures co-existing alongside the core Union budget. As in the case of the old third pillar, this state of affairs may be viewed negatively, as undermining the unity of the Union's public finance framework, or it may also be viewed in a more positive light as a necessary transitional phase in a highly sensitive policy domain, which should ultimately culminate in the 'communitarisation' of the funds and mechanisms concerned, following future revision of the Treaties.

In the meantime, it is necessary to find pragmatic solutions to overcome the problems that arise on account of the non-uniform participation of Member States in the monetary union and in the Union budget. In this regard, the Commission's intention to propose a dedicated stabilisation capacity for the Eurozone, financed through a Eurozone line in the Union budget, will provide an interesting case study. It is not yet clear how exactly the proposal will be structured, but it is clear from the outset that a number of legal and institutional challenges will have to be overcome. This section draws attention to a few of the most obvious constraints.<sup>34</sup>

In the first instance, it will be necessary to find a legal basis in the Treaties for the legal act establishing such a Eurozone capacity. In accordance with Article 310(3) TFEU, the implementation of any expenditure shown in the Union budget requires the prior adoption of a binding legal act corresponding to that expenditure. In accordance with the Court's case-law, the appropriate legal basis for an act is determined in light of its aim and content.<sup>35</sup> Depending on which of the various options for a Eurozone capacity is pursued - such as a stabilisation capacity taking the form of an investment protection scheme, a rainy day fund or an unemployment reinsurance scheme, or a mechanism of contractual arrangements to support investments and structural reforms - a legal basis would have to be sought that corresponds to the aim and content of the proposed instrument.

For example, to establish a capacity focused on investments and structural reforms, it might be interesting to explore possibilities for relying on an industry policy basis (Article 173(3) TFEU) or a social and economic cohesion policy basis (Article 175(3) TFEU), possibly in conjunction with Article 352 TFEU. In conformity with the principle of conferral, the scope of action of any Eurozone capacity would be restricted by the scope of the corresponding legal basis. Moreover, representatives of all the Member States in the Union institutions would take part in the decision-making process leading

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<sup>33</sup> The German coalition agreement of 7 February 2018 sees a Eurozone capacity as 'a point of departure for an investment budget for the Eurozone.'

<sup>34</sup> The analysis that follows was drafted having had the benefit of hearing the presentation of Andrea Westerhof-Löfflerová, entitled 'How could a fiscal capacity for the Eurozone relate to the EU budget?', at the ERA seminar on 'The Future of EU Finances Post-Brexit', Brussels, 26 February 2018. See also Luca Lionello, 'Establishing a budgetary capacity in the Eurozone: Recent proposals and legal challenges', *Maastricht Journal of European and Comparative Law*, 24(6), 2017, pp. 822-842; David Martinez Garcia & Paolo Vacca, 'Strengthening and deepening the EMU within the current Treaties: possibilities and limits', EUF Policy Brief No 1/2015; René Repasi, 'Legal options for an additional EMU fiscal capacity', Study for DG IPOL, European Parliament, January 2013.

<sup>35</sup> *Commission v Council (Titanium Dioxide)*, C-300/89, EU:C:1991:244, point 10.

to the establishment of the Eurozone capacity. The legal options to get around the participation of representatives of every Member State in the decision-making process are limited. The specific Eurozone legal basis of Article 136 TFEU concerns mainly economic coordination and surveillance of national budgets, and thus does not appear to provide an appropriate legal basis for a central capacity. It is also questionable whether it would be appropriate to establish a dedicated Eurozone capacity through an enhanced cooperation under Article 20 TEU, not least since enhanced cooperation is a last-resort mechanism which must remain open to the participation of all Member States.

If a legal basis can be found in the Treaties, past experience suggests that various possibilities then exist for the financing of a Eurozone capacity. In line with the preference of Mr Juncker, it would be possible to create a line in the Union budget corresponding to the legal act establishing the capacity. The necessary appropriations could be entered on this line on an annual basis through the annual budgetary procedure of Article 314, which again would necessarily imply the participation of representatives of all Member States. The capacity could also take the form of a permanent fund, which would be built up over time through annual contributions from the Union budget, following the model of the European Fund for Strategic Investments Guarantee Fund.<sup>36</sup> Once the threshold amount for provisioning the permanent Eurozone fund is reached after a number of years, any shortfall resulting from fund's investments would thereafter be replenished on an annual basis through the Union budget line, while any surpluses arising from returns flowing back to the fund would be transferred back to that line in the Union budget.

In accordance with the principle of budgetary universality, the corresponding Union budget revenue under either of these scenarios would ordinarily be drawn from the common pot of Union revenue, to which all Member States contribute. It can be expected that the non-Eurozone Member States would resist having to contribute to a capacity that only benefits the Eurozone. Nevertheless, Article 311 TFEU is formulated in a broad manner and appears to leave a large room for manoeuvre to the Council in shaping the system of own resources. Article 311 TFEU does not appear to exclude, *prima facie*, a system in which revenue is not collected in a uniform manner across all Member States. Indeed, the current system of rebates and corrections already represents a form of differentiation between Member States on the revenue side of the budget, even if those rebates and corrections are subject to frequent criticism, notably by the European Parliament, for precisely that reason. The possibility of revising the Own Resources Decision to create dedicated resources for a Eurozone capacity, such as the *seignorage* income of the European Central Bank, could also be explored.<sup>37</sup>

If a substantive reform of the Own Resources Decision is not feasible, another possibility to allow only the Eurozone Member States to contribute revenue for the capacity could be to rely on the derogation from the principle of universality provided for in Article 21 of the Financial Regulation, namely external assigned revenue.<sup>38</sup> The external assigned revenue method is used mainly in the fields of research and external aid to allow individual Member States to contribute additional amounts to specific Union actions.<sup>39</sup> The appropriations are not authorised through the annual budgetary procedure of Article

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<sup>36</sup> Regulation (EU) 2015/1017 of the EP and of the Council of 25 June 2015 on the European Fund for Strategic Investments, OJ 2015, L 169/1, Articles 12-13.

<sup>37</sup> As suggested in the Final Report of the Monti High Level Group on Own Resources, January 2017, pp. 56 and 68.

<sup>38</sup> Regulation (EU, Euratom) No 966/2012 of the EP and of the Council of 25 October 2012 on the financial rules applicable to the general budget of the Union, OJ 2012 L 298/1.

<sup>39</sup> In order to allow the Eurozone Member States to make contributions to a Eurozone capacity as external assigned revenue, it may also be necessary to amend the Financial Regulation to add these contributions to the list of instances of external assigned revenue laid down in Article 21(2) of the Financial Regulation.

314 TFEU, but are contributed directly to a given item of expenditure on a voluntary basis by the contributing Member State. The Eurozone Member States could conclude an agreement between themselves in which they would undertake to contribute pre-defined amounts to a Eurozone capacity as external assigned revenue. However, in contrast to own resources, the Commission would have few powers of enforcement if Member States do not make their agreed payments on time. Moreover, since the appropriations are not authorised by the budgetary authority, the European Parliament would be excluded from decision-making on the allocation of the funds.

Another option for a Eurozone capacity could be to establish a guarantee-based mechanism backed by the Union budget, which might have no paid-in capital but which would have a borrowing capacity. Following the model of the European Financial Stability Mechanism (EFSM), the capacity could be guaranteed up to the own resources ceiling, with the necessary contributions being called up from the Member States as needs arise. *Pro memoria* budget lines could be created on the revenue and expenditure sides of the Union budget for the entry of any appropriations called up from the Member States pursuant to a call on the guarantee. However, two main difficulties arise with this approach. First of all, a guarantee backed by the Union budget would imply that all Member States, including non-Eurozone Member States, would have to contribute in the event of a call on the guarantee. This issue already arose in 2015 with regard to EFSM bridge-financing to Greece, when the non-Eurozone Member States insisted on introducing a provision into the EFSM Regulation which would require intergovernmental compensation from the Eurozone Member States in the event that they would have to make additional contributions to the Union budget following a call on the guarantee.<sup>40</sup> The second difficulty is that such an approach may require a higher own resources ceiling, which would be politically difficult to agree in the context of UK withdrawal.

It follows that there are no especially straightforward options for the establishment of a Eurozone capacity within the current legal framework governing the Union budget. First of all, the scope of action of any such capacity will be restricted by the scope of the legal basis chosen. Furthermore, representatives of non-Eurozone Member States will most likely have to participate in the decision-making procedure leading to the establishment of the capacity, although this may not prove an insurmountable political obstacle if a proposal for a Eurozone capacity is presented as part of a package together with new initiatives to support the non-Eurozone Member States. As for the financing, non-Eurozone Member States will almost certainly resist incurring any financial liability for a capacity that only benefits the Eurozone Member States. There are ways around this, such as the use of external assigned revenue, but they deviate from the standard budgetary procedure laid down in Article 314 TFEU and cannot be considered ideal. In order to create dedicated resources for the Eurozone, moreover, a fundamental reform of the Own Resources Decision would be required.

In addition to these legal and institutional constraints, it is also necessary to take account of the political context. Faced with the uncertainties accompanying the expected loss of UK contributions to the Union budget, and given the relatively tight calendar for concluding a deal on the next MFF by 2020 at the latest, the negotiating parties already appear to be shying away from any ambitious reform of the MFF and own resources system. Instead, there are indications that they will aim towards a result which would maintain the global MFF ceiling at just over 1% of EU GNI, possibly with a small increase,<sup>41</sup> while keeping support for core Union policies at amounts as close as possible to current levels for the

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<sup>40</sup> See Council Regulation (EU) 2015/1360 of 4 August 2015 amending Regulation (EU) No 407/2010 establishing a European Financial Stabilisation Mechanism, OJ 2015, L 210/1, Article 1.

<sup>41</sup> The European Commission has indicated it will propose a post-2020 MFF of 1.1(x)% of EU GNI.

EU27.<sup>42</sup> As a result, the amounts available to finance a Eurozone capacity within the next MFF are likely to be modest, and even a Eurozone capacity of modest volume would be difficult to squeeze under the anticipated MFF ceilings without necessitating corresponding cuts to other Union policies.

In light of these considerations, it might be no surprise if any Eurozone capacity ultimately agreed in the current round of reforms would have some form of hybrid nature, possibly combining a legal basis in the Union Treaties with a more intergovernmental mode of financing – which would be counted outside the own resources and MFF ceilings - similar to the Single Resolution Fund in the banking union.<sup>43</sup> The Eurozone Member States might even wish to establish a Eurozone capacity on an fully intergovernmental basis, although the European Parliament would no doubt raise objections and could draw a political link with its consent for the MFF. In any event, it cannot be excluded that the creation of a new Eurozone capacity might lead to an expansion of the ‘galaxy’ of intergovernmental and hybrid funds and instruments around the Union budget.<sup>44</sup> Against that background, it is clear that the process of reform will in any event have to be carried forward beyond the forthcoming MFF negotiations and into the 2020s. The final section explores how this might best be done.

### **Towards a European public finance convention?**

When they assembled at The Hague in 1969, the Heads of State and Government deliberated around the themes of ‘completion, enlargement and deepening’ of the Community project.<sup>45</sup> The Community’s public finances were central to the debates on all three themes. As a core element of completion, the leaders agreed progressively to replace the financing of the Community budget from national contributions with a system of own resources.<sup>46</sup> The imminent enlargement of the Community to new Member States like the UK, which could be expected to resist budgetary reform, created added urgency in this regard.<sup>47</sup> In parallel, it was agreed that the budgetary powers of the European Parliament would be strengthened and it was noted that the Council would continue to study options for direct elections to that institution. Under the theme of deepening, meanwhile, the leaders called for a plan to be drawn up for a staged transition to EMU.

As we approach the 50<sup>th</sup> anniversary of the Hague Summit in December 2019, by which time a deal on the post-2020 MFF should ideally have been concluded, it may be worthwhile to reflect on how the process of reform might be carried forward into the 2020s. In particular, the targeted approach to public finance reform pursued in the early to mid-70s on the basis of the Hague Communiqué could provide an interesting precedent for our times. The Hague Summit was followed by a series of targeted but significant reforms, not all of which involved treaty change, including the adoption of the first Own Resources Decision in 1970, the targeted Treaties of Luxembourg (1970) and Brussels (1975), and the

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<sup>42</sup> The European Parliament, in its resolution of 14 March 2018 on ‘Preparing the Parliament’s position on the MFF post-2020’ (P8\_TA(2018)0075), calls for a post-2020 MFF of 1.3% of EU GNI, with cohesion and agriculture funding to be maintained at current levels for the EU27.

<sup>43</sup> Regulation (EU) No 806/2014 of the EP and of the Council of 15 July 2014 establishing uniform rules and a uniform procedure for the resolution of credit institutions and certain investment firms in the framework of a Single Resolution Mechanism and a Single Resolution Fund, OJ 2014, L 225/1, Article 67.

<sup>44</sup> Richard Crowe, ‘The European Budgetary Galaxy’, *European Constitutional Law Review*, 13: 428–452, 2017; Peter Becker, ‘The next Multiannual Financial Framework and the Unity of EU Budget’, Study for DG IPOL, European Parliament, November 2017.

<sup>45</sup> Richard T. Griffiths, ‘A Dismal Decade? European Integration in the 1970s’ in Desmond Dinan, *Origins and Evolution of the European Union*, Oxford, 2006, pp. 169-190 at pp. 172-173.

<sup>46</sup> Communiqué of the meeting of Heads of State or Government of the Member States at The Hague (1 and 2 December 1969), point 5.

<sup>47</sup> Richard T. Griffiths, *supra*, note 45.

adoption of the European Electoral Act in 1976. Similarly, targeted amendments to the treaty provisions governing the EMU and the Union budget, ratified in preference by national parliaments, could open the way for significant advances in creating a more coherent public finance architecture for the Eurozone and the Union in the 2020s.

In order to prepare such reforms, the possibility of convening a targeted European public finance convention could be considered. In formal terms, a convention convened on the basis of Article 48(3) TEU should examine specific proposals for revision of the Treaties, but there appears to be no legal obstacle to enlarging the mandate of a convention to cover also other matters that do not necessarily require treaty revision. In that light, a European public finance convention could be mandated to conduct a global deliberation on the interconnected issues of Union budget reform, reform of the EMU (including surveillance and coordination of national budgets) and democratic oversight of the European public finances.<sup>48</sup> It could examine possibilities not only for targeted treaty revisions, by full or simplified revision procedures, but also reforms on other matters - such as a restructuring of the own resources system or the abolition of the cap on Union expenditure at just over 1% of EU GNI - which do not require treaty revision, but which are nevertheless so fundamental that they warrant a considered deliberation of sufficient duration among representatives of Union citizens at various levels of governance, including – importantly - representatives of national parliaments, who remain the custodians of their national public finances.

Following the departure of the Member State where the very legitimacy of Europe's public finances is most frequently contested, the question for the remaining Member States today is not so much whether European-level finances are necessary, but rather how the European system of public finance in a global sense should be organised, bearing in mind the transitional challenge of non-uniform participation of Member States in the single currency and in the Union budget. An open and representative deliberation in a public finance convention could even serve a cathartic function in the post-sovereign debt crisis Union. During the crisis, divergent narratives of European public finance developed, notably between the wealthier northern Member States, where many felt they were being forced to take on the risks of a profligate south, and the southern Member States, where many perceived themselves as victims of austerity imposed by northern countries who had designed the EMU to benefit their own interests. These resentments persist and have not yet been given a constructive pan-European forum for expression, apart from occasional high-profile debates in the European Parliament.<sup>49</sup> Instead, they are expressed through votes for anti-establishment candidates in national elections. A convention would certainly not be a panacea in this regard, but it might help.

As far as the post-2020 calendar is concerned, it is striking that the Commission's proposals of 6 December 2017 on EMU are based on a roadmap for reform running up to 2025, whereas the Commission will almost certainly propose a post-2020 MFF running up to 2027. Ideally, the calendars for reform of the EMU and of the Union budget should be aligned, with a view to facilitating a global approach to the budgetary dimension of EMU and reform of the Union budget. In light of the uncertainties associated with UK withdrawal from the Union, one option in this regard could be to treat the forthcoming post-2020 MFF as a shorter, five-year, 'transitional' MFF to get over the period of UK withdrawal. A package of targeted reforms could then be prepared by a convention in the early-

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<sup>48</sup> The idea of a European public finance convention has been advocated in the past by Alain Lamassoure MEP, notably when he was Chair of the European Parliament's Committee on Budgets during the negotiations on the 2014-20 MFF.

<sup>49</sup> Notably the debate following the address of Greek Prime Minister Tsipras to the European Parliament on 8 July 2015, when the conflicting narratives of north and south were passionately aired in a single chamber.

2020s, with a view to a coordinated entry into force of reforms to the EMU and to the Union budget at the start of a post-2025 programming period.

Alternatively, if a seven-year MFF is maintained, coordinated reforms could also be introduced together with a mid-term revision of the post-2020 MFF. As Iain Begg has pointed out, the true budgetary impact of UK withdrawal may only be felt around the mid-point of the next MFF, when UK payments to settle the commitments entered into during the 2014-20 period will cease.<sup>50</sup> For that reason, a significant mid-term revision of the post-2020 MFF may anyway be desirable.

A European public finance convention would be composed of representatives coming from all 27 Member States, but special arrangements could be made within its structures for the composition of organs deliberating on Eurozone-specific issues. To the extent that they may not have already been resolved in the current round of negotiations, possible themes to be addressed by a future convention could include:

- Eurozone economic stabilisation: Is an ambitious Eurozone stabilisation function necessary? If so, how might it be given a secure legal foundation in the Treaties and within the Union budget? Could a targeted treaty amendment be considered, for example to introduce a dedicated legal basis?
- Risk-sharing in the Eurozone: Is it necessary and how should it be pursued? Are targeted treaty revisions needed?;
- Eurozone assistance mechanisms: What future legal status and role for the European Stability Mechanism / European Monetary Fund? What form of parliamentary oversight? What relationship to the Union budget?;
- Eurozone accession support: Are any reforms needed to facilitate the adoption of the euro by all Member States?;
- Reform of the own resources system: Should a distinction be drawn between Union and Eurozone own resources, thereby allowing for dedicated Eurozone mechanisms to be financed through their own resources within the Union budget? Should new own resources be introduced? What amendments should be made to the Own Resources Decision?;
- Expenditure priorities: Which priorities are best financed at Eurozone or Union level and which at national level? Is the current profile of Union expenditure appropriate? Is the traditional cap on Union expenditure at just over 1% of EU GNI appropriate and should it be maintained?;
- Surveillance and coordination of national budgets: Are current rules and mechanisms adequate and appropriate? Is the current European Semester process effective? How might it be improved? How could the parliamentary dimension (European and national) be enhanced? Would targeted treaty revisions be desirable or are legislative revisions sufficient?;
- Institutions: Is it necessary to adapt current institutional arrangements to allow for Eurozone-specific composition of institutions when deciding on Eurozone-specific matters? Is there a need for a central treasury and finance minister? Or other new Eurozone bodies? Are any treaty amendments needed in relation to existing Union public finance institutions, such as the European Central Bank, the Court of Auditors, the European Investment Bank?;
- Democratic oversight of the Eurozone and Union finances: What improvements are desirable? Are new structures needed or should existing structures be changed?

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<sup>50</sup> See Iain Begg, 'The EU's Finances: can the economically desirable and the politically feasible be reconciled?', Paper presented at the EUI School of Transnational Governance / College of Europe event 'The New EU Multi-Annual Financial Framework', Bruges, 30 November 2017.

The latest EMU and MFF proposals of the Commission are a welcome first step in pursuing a more global approach to the European public finances and they provide a sound basis from which to chart a course towards a more coherent and comprehensible European public finance architecture, including dedicated Eurozone instruments within the Union budget. Ultimately, however, there is only so much that can be done within the constraints of the current Treaties and targeted treaty revisions will one day be required. A European public finance convention could serve as a useful format in which to carry forward the reflections on EMU and Union budget reform into the 2020s.