1988-2028: will a second major European financial reform take place?

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A public budget shall reflect a political project. The budget of the European Union is a fine-tuned balance between ambitions and necessary compromises, an equilibrium influenced by enlargements and emerging challenges. It is above all the result of gradual sedimentation marked by significant inertia: priorities add up more than they are being replaced over time; the benefits gained by Member States, in terms of expenditure or revenue, are difficult to call into question. Each negotiation of a Multiannual Financial Framework (MFF) tends to take the existing one as a starting point.

The temptation to draw up what the Member States could most usefully do together in an environment marked by ever more rapid and profound changes exists in academic circles, but that is not the way it works in real life for policymakers. Objective criteria, such as added value, subsidiarity, additionality, or proportionality, do not belong to the vocabulary of the political negotiations. Net balances are their cornerstone, much more so than any general European interest.

The first European financial reform dates back to 1988. The so-called Delors I package, followed a few years later by the Delors II package, put an end to a period of crisis, characterised by conflicts between the Council and the European Parliament, as well as tensions around the question of budgetary imbalances and the inadequacy of resources to cover growing expenditure needs. The enlargement to Spain and Portugal and the conclusion of the Single European Act provided a new political stimulus. The financial reform consisted in setting up political priorities, the so-called financial perspectives, introducing a new, more equitable own resource based on the Member States' relative prosperity, and creating Cohesion Policy with pluriannual programming as one of its core principles. It required political will, an out-of-the-box way of thinking and an ability to engineer the negotiations.

40 years later, with a new MFF starting on 1 January 2028, the question is whether a second major European financial reform may take place. At least, the ingredients are in place: a situation of poly-crises, a need to invest massively to not put our security, stability, and competitiveness at risk, and a high degree of awareness that business as usual is no longer a way forward.

The current EU budget has been pushed to its limits by Russia's war of aggression against Ukraine, as well as by global competitiveness challenges, climate change, and irregular immigration. A new global order is in the making, a technological revolution is ongoing, and climate change ought to be addressed urgently.

Massive investments are needed. There is a need to modernise the carbon-based industrial base and move to more energy efficient means of transport and buildings, to seize opportunities coming from artificial intelligence and the new digital economy, as well as to step up public investments in security and defence.

In this context, the Commission has announced its intention to put forward a policy-based post-2027 MFF, moving the focus from programmes to policies. It has also called for the MFF to be simpler, more agile, and more flexible, to adapt to new needs and unforeseen challenges, allowing the emergence of a stabilisation role for the EU budget. The performance-based approach of the RRF adopted in the midst of the COVID-19 crisis in 2020 is likely to infuse the design of some of the main EU policies. Current reflections also investigate ways to optimise resources by developing new funding sources, improving co-financing arrangements, using blending options and budgetary guarantees effectively.

But the magnitude of the challenge is such that even an ambitious MFF, in its volume and structure, would not be enough. In the Conclusions of the 17-18 April Special EUCO, Leaders recalled that "investments in key strategic sectors and infrastructures require a combination of both public and private financing working together" and that "the EU budget and the European Investment Bank Group continue to play an important role". There is indeed a need to pool resources to tackle the challenges and to make the best use of any single available euro.

The call from Enrico Letta for a "Savings and Investments Union", developed from the incomplete CMU, goes in that direction. This is key, to not only keep European private savings within the EU but to also attract additional resources from abroad, and channel them efficiently.

The path to greater competitiveness and prosperity lies in a holistic approach that brings together all players, to leverage the strengths of both the public and private sectors, at the EU as well as national level. The time has come to connect the dots in the most efficient manner possible. That will require political will, not only in Brussels but also in capitals, and, equally important, the ability to put in place an efficient negotiation strategy. The big question is whether the Union has the will and capacity to engineer a new 'Delors' moment.