The long-awaited Commission's proposal on the Multiannual Financial Framework (MFF) 2021-2027 was presented the 2nd of May this year. **Although there are questions that still need to be clarified, which will be the task of the three legislative packages that the Commission will publish by the first half of June, there are already elements that allow us to picture what the MFF 2021-2027 will look like**. One year ago, the Commission itself set the debate by presenting five future scenarios to the European public. The scope of the scenarios ranged from increased cooperation in new policy areas based on a more generous budget to substantial budget cuts that would radically change European integration from a policy perspective. The concrete proposal, in the end, consists in a middle way. Let us see why.

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The bigger picture: the budget in numbers

A discussion on the MFF should always start with figures from the budget and a comparison with previous MFFs. In this regard, the 2021-2027 proposed total figure does not fall far from the current MFF: the total budget, in 2018 figures, will amount to 1.135 billion of euros in commitments, 1.11% of the EU 27 total GNI. This represents a slight increase from the 1.087 billion of the 2014-2020 budget, which corresponded to 1.03% of the EU 27 total GNI (2018 figures).

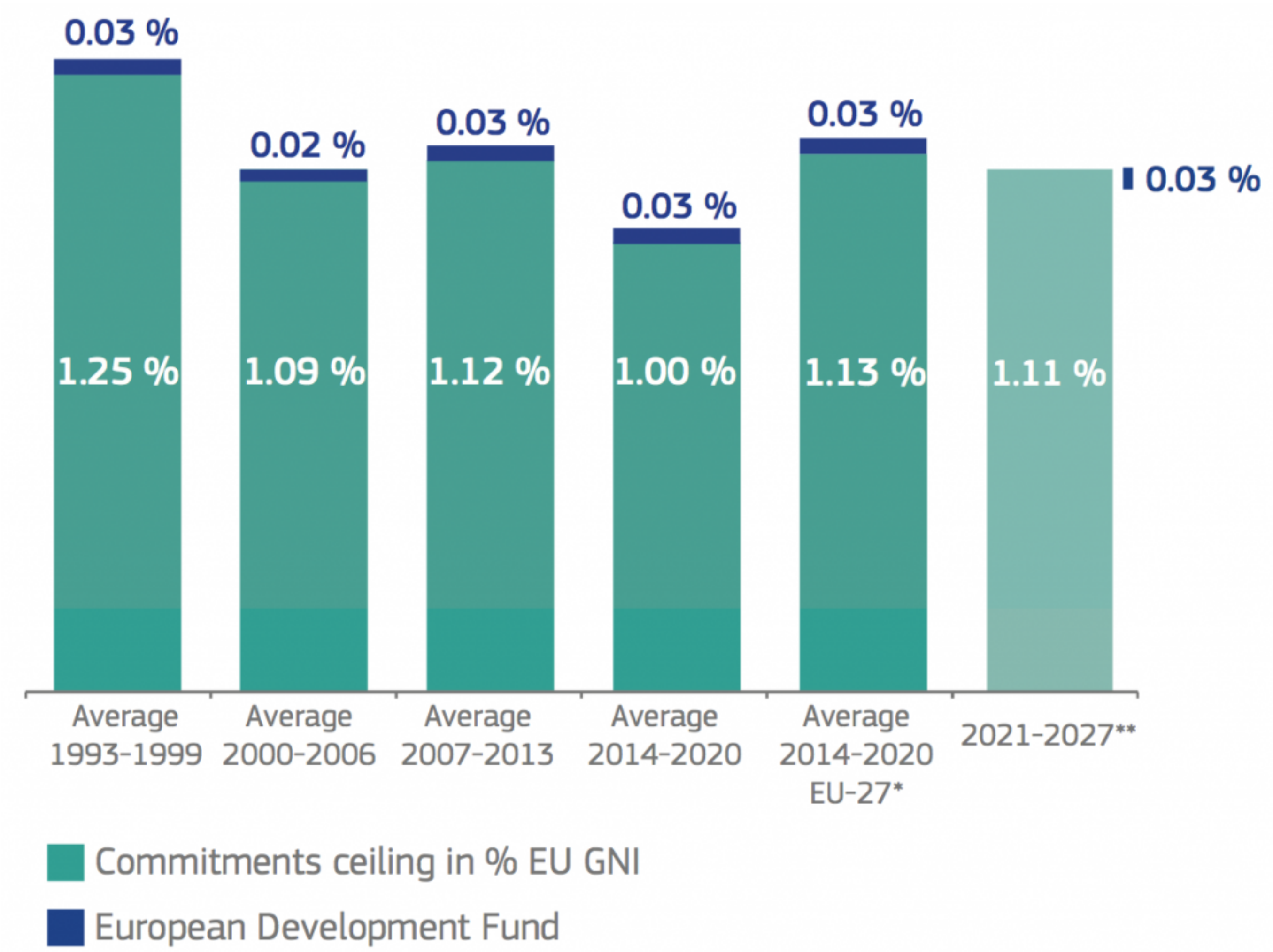

Figure 1 – The size of the EU budget as a percentage of gross national income (elaboration by the European Commission)

The comparison would change slightly if we exclude the UK expenditures from the current MFF, as figure 1 shows. With this adjustment, the 2014-2020 budget accounts for 1.13% of the EU 27 total GNI. Moreover, when the European Development Fund — currently outside — is included in the MFF, as in the 2021-2027 proposal, the figure is going to decrease further in relative terms. As Núñez Ferrer and Gros from the CEPS observed, “the EU budget is more about what will *not* be cut, rather than what *will* change.” This is especially true when we look at past policy prescriptions on the EU budget. In the late seventies, reflecting on a budget that could sustain economic and monetary union (EMU), the MacDougall Report proposed a budget amounting to 5-6% of the EU GNI in the initial phases of EMU. In 1993, a second expert group proposed a more modest 2% total budget, comprising a 0.75%-1% automatic, grant-based stabilisation function that would contribute to shelter EMU from asymmetric economic shocks.

As for social cohesion, the resources of many existing social schemes, such as the ESF and the FEAD, are going to be pooled into a comprehensive programme named European Social Fund Plus, which will amount to 101 billion of euros

In the coming months, the Council will instead debate whether a budget exceeding the 1% of the EU 27 total GNI is financially feasible, hence focusing on 0.11% additional expenditure.

The devil is in the details: Economic and social cohesion

The Commission also proposed to substantially change the allocation of different spending priorities. In general, the EU budget will reinforce the existing thematic priorities in the field of research, environmental policies, youth policies, migration and borders, security and external action. On the other hand, as picture 2 shows, the future budget will reduce the expenditures both for Economic, Social and Territorial Cohesion and for the Common Agricultural Policy (CAP). Although the proposal does not quantify the reduction, Darvas and Moës from the Bruegel think tank estimate that the CAP will be cut by 4%, corresponding to a 15% reduction in real terms, while cohesion spending will have a 6% nominal increase. but a “7% constant price decline”.

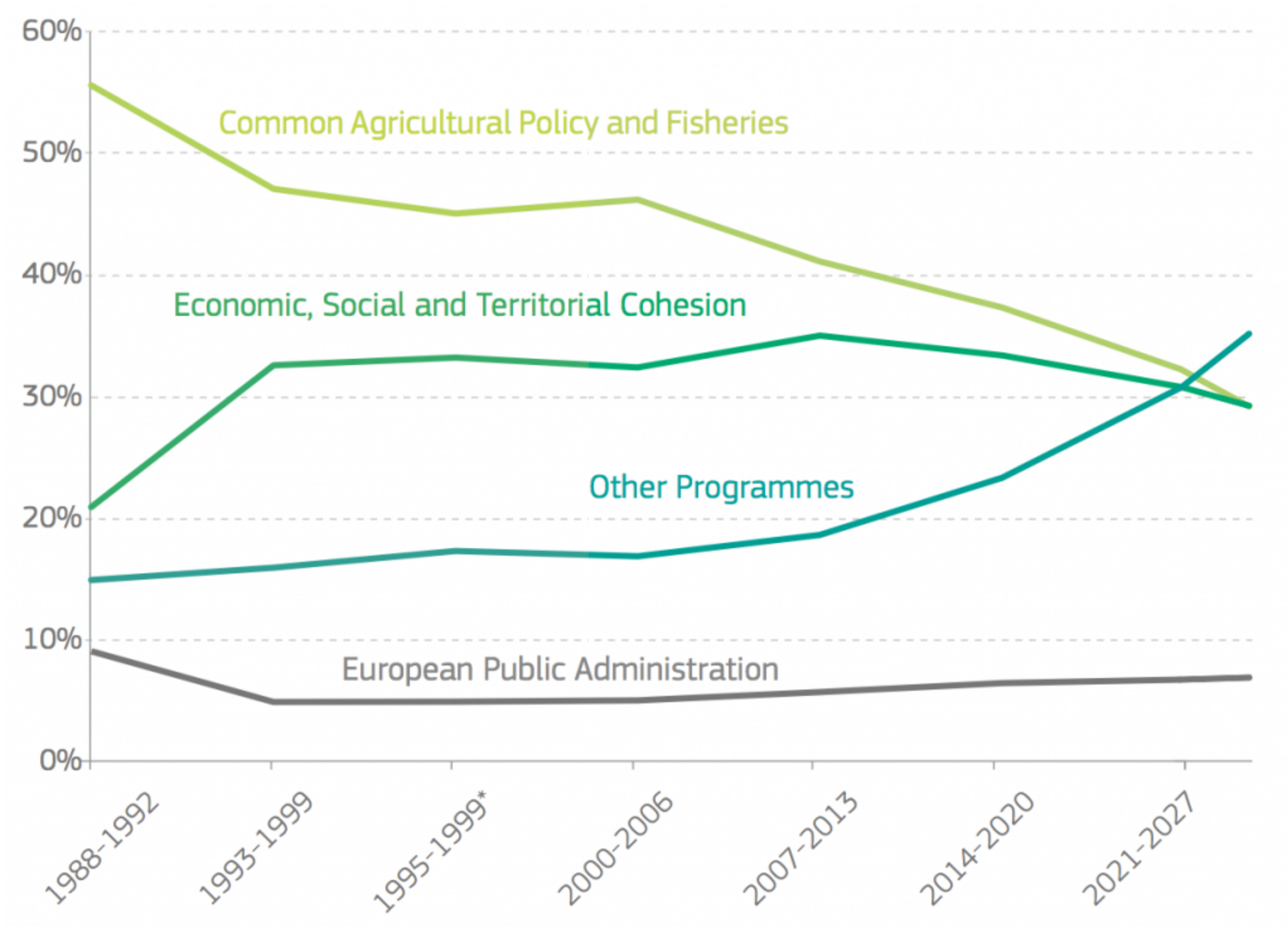

Figure 2 – Evolution of main policy areas in the EU Budget (elaboration by the European Commission)

By looking at the single thematic priorities, the theme that is most interesting for the EUVisions' conceptual framework is "Cohesion and Values", which encompasses Territorial, Economic and Social cohesion, and "Migration and Border Management". Overall, in what concerns cohesion, the proposal states that "the relative per capita GDP will remain the predominant criteria for the allocation of funds", but also adds that "other factors such as unemployment … climate change and the reception/integration of migrants will also be taken into account." This could imply to substantially change the "Berlin" formula that is currently used in calculating funds distributed in the regions, which, in turn, could change the redistributive pattern of cohesion policy. As for social cohesion, the resources of many existing social schemes, such as the ESF and the FEAD, are going to be pooled into a comprehensive programme named European Social Fund Plus, which will amount to 101 billion of euros. Nominal changes aside, the share of resources would pass from 8.82% on the 2014-2020 MFF to 8.91% in 2021-2027, the increase most likely regarding the "stronger youth focus" with a doubled Erasmus+ programme.

Concerning "Migration and Border Management", the Commission proposal seeks to strengthen the protection of common external borders, as a prerequisite for "ensuring a safe area for the free movement of persons and goods within the Union

With regards to economic cohesion, the MFF proposal strengthens the existing link between the EU budget and EMU. On the one hand, the "Reform Support Programme" (25 billion euros) will offer financial aid for key reforms at the national level that are **part of the European Semester**. On the other hand, the new European Investment Stabilisation Function (EISF) will "complement existing instruments … to absorb large asymmetric macroeconomic shocks." The new instrument is unconditional and automatic, as in the aforementioned 1993 expert group report. In contrast to the 1993 report, however, the instrument will be based on loans, "of up to EUR 30 billion". Clayes, from the Bruegel think-tank, has criticised the EISF, observing that the new facility "would mechanically reduce the lending capacity" of the other "existing instruments" at EU level, since it is a loan-based instrument, and since the program is not additional, "as it does not increase the lending/borrowing capacity of the EU".

On the other hand, the instrument is subject to strict eligibility criteria: only Member States that pursued sound macroeconomic policies during the period preceding the economic shock can access the EISF. This seems to rule out the assistance towards Member States with problems of debt sustainability, and only cater for liquidity problems. The proposal is akin to the preferences expressed by the former German Finance Minister Schaüble in his non-paper on the reform of EMU. The introduction of an automatic and unconditional supranational stabilisation facility is still a relevant change of pace. As argued by the 1993 report, only automatic stabilisation can fulfil "the crucial requirement of prompt intervention", since "discretion judgement of the Community authorities is time-consuming" – a fact that the recent crisis has extensively vindicated.

The fact that the next European Parliament elections are going to coincide with the MFF negotiations, as the Commissioner Oettinger observed, is going to increase the politicisation of the negotiations themselves, making them more difficult

Concerning "Migration and Border Management", the Commission proposal seeks to strengthen the protection of common external borders, as a prerequisite for "ensuring a safe area for the free movement of persons and goods within the Union." In doing so, it will create a new "Border Management Fund", providing "reinforced support … in the shared responsibility of securing the common external borders." A reinforced Asylum and Migration Fund (AMIF) will be the second arm of the policy, providing support to member states in the immediate reception of migrants and asylum seekers. The overall expenditure in this area will be increased by a 2.6 factor from the current 12.4 billion to 33 billion euros.

The future role of conditionality

The ex-Commissioner Andor recently defined "political conditionality" as the "*Zeitgeist* today". In this sense, the MFF proposal introduces a new type of political conditionality which allows "a suspension of budgetary commitments concerning Union funds" in the case of "generalised deficiencies as regards the rule of law in the Member States". In the Commission proposal "On the protection of the Union's budget", rule of law is defined as "a transparent, accountable, democratic and pluralistic process for enacting laws" and "effective judicial protection by independent laws." When lacking "principles of sound financial interests of the Union" in particular "proper functioning of … public procurement", "prosecution of … breaches of Union law" could be endangered, which is the rationale for applying this form of conditionality. When introduced alongside the existing (and largely controversial) macroeconomic conditionality, this new form of political conditionality would confirm a trend: EU expenditure is becoming increasingly conditional, trapping what could be an expression of the substantive value of EU solidarity in a "cage" made of formal and instrumental rationality. Also according to Andor, "the question is whether poorer regions should suffer because of nasty governments", hinting to the "illiberal counter-revolution" promoted "inside the EU" by "problematic constitutional changes” made by Poland and Hungary.

Whereas the adherence to core European values is not as strong as before in many parts of Europe, new formal rules, in the place of increased solidarity, are introduced to keep the EU cohesive

In a nutshell, the Commission has acknowledged two relevant facts. On the one hand, the Commission has been particularly cautious in proposing an increased budget. The fact that the next European Parliament elections are going to coincide with the MFF negotiations, as the Commissioner Oettinger observed, is going to increase the politicisation of the negotiations themselves, making them more difficult. On the other hand, the Commission has also acknowledged that resolving many of the issues the EU has faced in the recent past, such as those related to migration and EMU stability, can possibly not involve the budget. Hence the decision to concentrate fewer resources in traditional policy areas, such as the CAP, and more in policy areas that are at the forefront in the current debate about the EU, such as migration, EMU and the Social Union. Finally, the role of conditionality: whereas the adherence to core European values is not as strong as before in many parts of Europe, new formal rules, in the place of increased solidarity, are introduced to keep the EU cohesive.

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