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Cohesion and progressivity: the Multiannual Financial Framework and Just Transition

by [Dencho Georgiev](#), [Tatiana Houbenova-Delisivkova](#) and [Irena Ilieva](#) on 5th March 2020

The European Council failed to agree last week on a new budget. The optimum MFF cannot emerge from zero-sum bargaining.



Dencho Georgiev

The legislative proposals on the [new Multiannual Financial Framework](#) and the [Just Transition Fund](#) pose a threat to the fundamental objectives of economic, social and territorial cohesion and solidarity among member states. They also contravene such [values](#) as equality, democracy and the [rule of law](#), enshrined in the [treaties](#) of the European Union, which constitute the *contrat social* among the peoples of Europe.

Cohesion is much more than just one of the internal policies of the EU. It is one of the fundamental objectives listed in article 3 of the Treaty on European Union. And article 175 of the Treaty on the Functioning of the European Union requires that the 'formulation and implementation of the

Union's policies and actions and the implementation of the internal market ... shall contribute' to its achievement.



Tatiana Houbenova-Delisivkova

An important contributor to inequality in previous MFFs has been the Common Agricultural Policy, with its discriminatory system of payments to beneficiaries, with national co-financing by new member states only. This has increased inequalities and has not contributed to cohesion.

And a major problem with the legislative proposals for the new MFF is that once again not all policies and actions envisaged comply with article 175 TFEU. The proposed Just Transition Fund is about to become another major factor for divergence among member states. The underlying problem is that with its proposals the European Commission appears to strive for *juste retour*, rather than the solidarity among member states prescribed by article 3 TEU.



Irena Ilieva

Progressive financing

To solve the problem of compliance with EU objectives and values, a reform of the finances of the union is needed. This would eliminate, or at least reduce, the **regressive** features of the system and introduce progressivity in the financing of the various EU policies and actions.

On the revenue side, in the union's system of 'own resources', progressivity could be introduced for member states' contributions, based on gross national income (GNI), with a coefficient which would reflect the percentage deviation of the respective member state from EU average GNI *per capita*.

Such a change, however, would require unanimity in the Council of the EU, which is unlikely to be achieved. Efforts to make the system simpler and fairer should, therefore, concentrate on countering the [attempts](#) by the commission to make the system more regressive by reintroducing rebates on some member states' GNI-based contributions.

Moreover, the proposed new categories of own resources would not contribute to the achievement of the policy goals claimed and would not compensate the loss of revenue following 'Brexit', as is sometimes suggested. These new own resources—by reducing the share of the GNI-based resource, which is simpler and much fairer than the newly proposed ones—would only make the system more regressive.

Ensuring compliance

On the expenditure side—the financing of EU policies and actions—a suitable way of ensuring compliance with the objective of cohesion and with the requirements of article 175 TFEU would be a combination of EU funding with progressive national co-financing, respectively increasing or decreasing in proportion to the deviation of the given member state from EU average GNI *per capita*.

For example, the financing of the CAP, which still accounts for a large part of EU expenditure, could be made to comply with article 175 TFEU by introducing progressive national co-financing by member states with a *per capita* GNI above some threshold, such as the 90 per cent threshold of protocol 28 TFEU on economic, social and territorial cohesion. Such progressive national co-financing should be introduced for direct payments, which should be the same for farmers in all member states, and for rural development.

If the Just Transition Fund and other funds of the new MFF are to be truly just and comply with article 175 TFEU, they should provide for progressivity. Progressivity could be ensured by replacing the complicated and disguised regressivity of the [allocation method](#) of the Just Transition Fund by a simple and genuinely progressive mechanism, based again on the respective member state's deviation from EU average *per capita* GNI.

Political bargaining

Progressivity should not be the result of case-by-case discretionary decisions by EU bodies nor of political bargaining among member states. It should apply automatically in the form of ‘progressive automatic stabilisers’, so as to help overcome economic inequalities among the member states and thereby progressively reduce and eliminate the amounts of—and, ultimately, the need for—financial transfers between them.

In order to comply with the rule of law, there should be no discretionary decisions by the commission or by other bodies on the distribution of funding. The allocations among member states (or to beneficiaries within them) should be fixed in advance in the MFF—for the various programmes and overall—and there should be no ‘flexibility’ to move funding between member states. Funding not used by a member state should not be returned to the EU budget but should remain available to that state in the next budgetary period, including for other policies or programmes.

The Green Deal seems to pose more problems than it can solve, especially for cohesion. Even with an increase of the MFF to 1.3 per cent of EU gross domestic product (as the European Parliament proposes), the prospect seems to be that cohesion will fall victim to the MFF and the Green Deal.

It is to be regretted that progressivity, which could be a solution to [the problems of cohesion](#), is not a topic under consideration by the group of the [Friends of Cohesion](#). Member states of that group could try to rescue cohesion by making a proposal in the council—for example by using the procedure of article 241 TFEU—to introduce progressivity in the 2021-27 MFF. As the challenge of reducing the gaps between the centre and the periphery and effective compliance with article 175 TFEU—indeed, compliance with core objectives and values of the EU—cannot be achieved without progressivity, the [European Parliament](#) could add it to the conditions for accepting the MFF.