FINANCIAL TIMES – 28 LUGLIO 2025

EU’s budget is setting it up for geopolitical marginalisation

di Martin Sandbu

Earlier in July, the European Commission fired the starting gun on a 30-month marathon negotiation on the EU’s next seven-year budget. Brussels has proposed a nearly €2tn common spending pot it claims faces up to Europe’s “new and emerging challenges”. Does it?

First, the good. Brussels has taken some steps towards reallocating funds to today’s priorities: infrastructure, defence, security, research and energy and industrial resilience. The exact numbers are already the subject of fights, even inside the commission itself. But just as important is the lack of controversy around the methodological changes to the budget.

The commission rolls agricultural subsidies and transfers to poorer regions into new national plans, to be proposed by governments, approved by the EU and checked against delivery to release funding. This marks a major shift, modelled on the post-pandemic recovery fund. Grumbles can be heard about insufficient funding and a power grab by national governments from local officials. But not about the basic principle of cash in return for demonstrable, mutually agreed reforms.

That is a quiet revolution from the habit of simply sending checks to farmers and local governments; the most remarkable thing about the budget draft was the least remarked upon. Another change seemingly received without objection is the streamlining of the budget into fewer funding streams. This simplification should speed up disbursement and ease planning and co-ordination.

Next, the bad. The commission has reprioritised its budget with a view to the changing geopolitical landscape. The commission’s new spending priorities show it has listened to warnings in the Enrico Letta and Mario Draghi reports. But is has missed the opportunity to integrate budget politics more closely with strategic calls to unify the single market and boost productivity. A case in point is the ill-judged idea of lump-sum taxes on EU companies with large turnover. Brussels is right to seek new revenue sources. But any business levy should be designed within its planned pan-EU corporate code. Getting a share of the corporate tax base from companies choosing this regime is better than slapping a new tax on top of existing ones.

The budget also fails to address the need for more equity funding for companies in key strategic sectors, set out convincingly in a report by the European Policy Centre that proposes an off-budget instrument resembling an EU sovereign wealth fund making equity investments in the bloc. This is a good idea. So is the EPC’s call to securitise EUfunded common European industrial and infrastructure projects. Both would boost the growth of badly needed pan-EU capital markets.

A third weakness is the commission's lack of attention to providing investors with pan-EU safe benchmark securities. The budget draft does nothing to promote this. More common debt is a politically explosive idea. But it need not be raised for subsidising poorer members; a stronger justification is to fund an EU sovereign wealth fund.

Finally, the ugly. Brussels commits the statistical sin of using nominal numbers, which mainly reflect inflation, to claim a large increase in the budget. The relevant measure of resources is the share of gross national income the budget allocates to common priorities. The last budget came to a little over 1 per cent of EU GNI. Adding in the special post-pandemic debt-financed fund, the total came to 1.7 per cent. The new draft budget is for 1.26 per cent of GNI, but after deducting the money needed to pay down common debts, it's a mere 1.15 per cent — an amount that will be further whittled down in talks. A pro- posal to spend one-third less of an already tiny share of resources makes a mockery of all the strategic evangelis- ing. This is a budget that ensures continued geopolitical marginalisation.

As the great American philosophers Ralph Waldo Emerson and Omar Little have argued, if you "come at the king, you best not miss". If the EU wants to hold its own in world affairs, it must give itself the resources for it. Getting more now will be much harder after its initial lowballing. Success is more likely for off- budget ideas such as the EPC's, common borrowing for a sovereign wealth fund and a delay to paying down existing debt to free up funds. Both EU and national leaders accept they face unprecedented, perhaps existential, risks. They must now admit those cannot be addressed on the cheap.