

°210

Time Has Come to Develop European Public Goods

Now that the EU has a newly elected Parliament and a new Commission, what should be its agenda? Traditionally, its focus has been on economic integration, for example through the single market, the euro or banking union. The EU budget is small and still mostly spent on agricultural and transfers to poorer regions. Nearly seventy years after the Coal and Steel Community, however, this emphasis is increasingly odd. European integration delivers benefits (and disintegration has costs), but it is not a sufficient answer to the challenges Europe faces today.

Times are changing: the race for new technologies intensifies; Europe can no longer rely on the US for its defense; global rivalry between the US and China is reshaping international relations; national migration policies fail to cope with pressure; there is need to change gear on decarbonization. Confronting these challenges requires a new division of labor between the European and the national levels.

The response is not ‘more Europe’, but an ability to select fields where there is a potential for European public goods. The EU should do more in policy areas where it delivers more value than the member states acting individually. This is the case where economies of scale are important or where effects of policies in one country strongly affect other countries.

Examples where European public goods make sense

An area where the EU already has key competences but should do more is international economic relations. It is time to end official indifference to the use of the euro beyond our borders, and to make it attractive globally through the granting of swap lines to partner central banks and the introduction of a common safe asset. In investment policy, when common security is at stake, the EU should have the power to block a foreign investment by qualified majority.

In climate change mitigation, the potential for joint action is not fully used. Without waiting for a European carbon tax system, the EU should be able to set by qualified majority binding corridors for carbon prices. This would allow it to comply with its international obligations at the lowest possible cost.

Cyberattacks ignore national borders. The EU needs to pool its resources to protect cybersecurity and make sure that it is able to preserve its digital infrastructure. We think that a high-level group should be urgently mandated to propose a strategy for safeguarding Europe’s digital sovereignty.

Technological leadership requires frontier research. A European DARPA (defense advanced research projects agency) should focus exclusively on pathbreaking projects – without consideration for distribution across countries – and be able to terminate unsuccessful projects abruptly.

Refugees come to Europe, not to a particular member state. A lasting solution should include a common border protection system, a common legal framework for asylum, common principles for allocating persons to whom asylum has been granted, and common policies for resettling persons to whom immigration have been denied. Eventually, the Schengen area the common migration policy area will coincide.

Development cooperation and financial assistance to third countries is another policy area with strong spillovers and size advantages. Chinese inroads have made the case for a common approach stronger. The EU should choose between bolstering the out-of-area mandate of the EIB (European Investment Bank) and leveraging its participation in the EBRD (European Bank for Reconstruction and Development).

Europe should also get its act together on foreign policy and external representation as well as military procurement and defense. The case for a European foreign policy is strong, but there are deep policy divergences. Initiatives to strengthen the European soft power, savings-oriented back-office cooperation, and regular European Foreign Policy White Books would be practical steps to make progress. For European defense efforts should be made towards common procurement, shared infrastructures, common arms export policies and joint defense initiatives. Achieving all of this will not be easy.

Three levers to enhance implementation

First, the enhanced provision of European public goods requires funding. It should not increase the overall tax burden for EU citizens but shift resources to the European level. There is an ongoing debate about new financing instruments for the EU budget. But the provision of European public goods would be delayed if it was linked to a reform of EU finances. For the time being new European public goods should be funded through higher GNI (Gross National Income)-based resources.

Second, acting at the EU level is only possible if the preferences of the member states are not too different. In policy areas where they differ too much some countries will move first and others may or may not follow. Germany and France should take bilateral initiatives where necessary, always inviting other countries to join in.

Third, critics will complain that more European public goods provision will undermine national sovereignty. But this view is often just complacency in disguise, and it is certainly behind the times. In the policy areas we have described, the choice is not between national and European sovereignty. It is between European sovereignty and no sovereignty at all.

Clemens Fuest
Professor of Public Economics and Finance
President of the ifo Institute

Jean Pisani-Ferry
Owner of the Tommaso Padoa-Schioppa-Professorship at the
European University Institute
Senior Fellow at Bruegel

Published under the title "Europe can take a bigger role in providing public goods", www.ft.com, 5. Dezember 2019.

THREE LEVERS TO ENHANCE IMPLEMENTATION

How to push forward the case of European public goods



**Don't increase overall
tax burden**



Allow first movers



**Don't disguise behind
national interests**