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European Public Goods

Their Contribution to a Strong Europe

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Their Contribution to a Strong Europe

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Contents

Executive Summary

Over the last decade, the European Union has been hit by multiple crises of various kinds. Although the coronavirus pandemic, with its health, social and economic consequences, currently dominates policy perception and action in Europe, it is only the latest in a series of challenges. The EU's limited ability to respond effectively to such challenges has highlighted the need for reform. The project "A strong Europe in a globalized world" proposes to advance the reform process by means of the concept of European public goods. In the present paper, we provide a definition of this concept and illustrate its potential in the debate on future models for a stronger and more sovereign Europe.

The concept of European public goods draws on the welfare-economic concept of public goods (or common goods). In contrast to private goods, public goods justify the provision of services by the state when at least one of the following forms of market failures occurs: no rivalry between buyers, no exclusion of individual consumers, natural monopoly.

Within a federal system, public goods can be provided by different levels of government. The theory of fiscal federalism offers an economic approach for the allocation of tasks to different government levels of a federal state. Applied to the EU - which is not yet a federal state, but has gone far beyond the confederation of states -, it entails that a public good should be provided by the central level if the following criteria are met: Europe-wide benefits, Europe-wide homogeneous preferences among the inhabitants of the Community and most cost-effective realization at the European level due to economies of scale. In this case, we speak of European public goods.

However, the above three criteria could point in opposite directions and, thus, provide no clear-cut argument for or against the Europeanization of a public task. A weighing up decision is then necessary. This could be supported, for example, by a cost-benefit analysis, which derives the European added value of a public good by first determining for each criterion the difference between the benefits of the European and national provision, and then aggregating the resulting three "partial net benefits" into an "overall net benefit". Such a procedure meets not only the inherently important requirement of justifying shifts of competence as well as possible, but also the demand for political transparency.

The concept of European public goods described here presupposes that, in order to increase the Community's capability to act, the right task priorities must first be set for the respective time and problem context. Today more than ever, it is important that each level of government in Europe takes on the public tasks for which it is best suited. In recent years, the Union's current field of action has been increasingly assessed in the light of the theory of fiscal federalism. An overview of the findings suggests that the EU’s financially relevant action priorities focus too much on regional or even local public goods and too little on European public goods.

A successful implementation of the concept also requires that consideration be given to how to get there. From today's perspective, three aspects in particular are important for the further analysis: (i) the governance issues associated with the catchword "connectivity" arising from the provision of European public goods within a multi-level system; (ii) the creation of new financial leeway for European public goods already within the next multi-annual financial framework 2021-2027; (iii) breaking the alleged taboo of treaty changes.

A. Introduction

European integration is currently confronted with several crises affecting key policy areas. Since spring 2020, the coronavirus pandemic, with its health, social and economic consequences, has dominated European policy perception and action. The scale of this crisis could overshadow the other problems. However, Europe's further challenges have certainly not disappeared because of Covid-19, at best they are temporarily in a dormant state. Some crisis factors have even become more acute, while problem-solving capabilities need to focus on the pandemic. At the forefront are the re-emerging Brexit crisis and the ongoing rule-of-law crisis, the latter exemplifying a partly fully-blown, partly burgeoning populism crisis. But also the other latent crises in Europe awaiting a solution could flare up again at any time - in particular, the refugee crisis, the terrorism crisis, the Ukraine crisis and, last but not least, the Eurozone crisis, which was not resolved before the outbreak of the coronavirus pandemic and which is worsening again in the wake of the current recession.[1] These events, with their economic and social implications, have contributed to fuel widespread scepticism towards the European institutions - or at least their ability to deliver - which is gradually undermining their political legitimacy.

Multiple crises...

Crises are nothing new in the European integration process.The dense concentration of crises in times of Covid 19 is nevertheless unique. The European Union (EU), in its present form, is the result of a process in which it has evolved in response to prevailing economic and political challenges. Today, Europe is once again called upon to cope with multiple crises. This was already the subject of intense discussion before the coronavirus pandemic; the latest crisis has further heightened the urgency of the reform debate. Although there is a general consensus that Europe needs reform, there is little agreement on the direction to take.

...and multiple reform wishes

As Thöne and Kreuter (2020) show, the solution space is already filled with a number of models. Reform proposals are often presented as an alternative between "more Europe" or "less Europe". On the one hand, there are those who call for the transfer of more competences to the EU. On the other hand, others want to secure Member States their competences and advocate a shifting back of competences.

More or less Europe?

However, as Tabellini stressed as early as 2002, the key problem of the EU when it comes to such matters lies in the definition of the Union's tasks within the existing European legal framework and beyond. The scope of EU tasks needs to be redefined from time to time in view of the specific time and problem context. In order to create broader acceptance for European policy through high problem-solving capability, new task allocation should be guided by criteria of efficient centralisation - which at the same time is also efficient decentralisation. The discussion about a redefinition of European tasks on the basis of economic efficiency criteria gains new impetus under the heading of *European public goods*.

New layout for EU tasks

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1 For an overview of the external and internal challenges facing Europe today, see Paper 2 of this Series: M. Thöne and H. Kreuter (2020), "New models for Europe's future: scoping of tasks and approaches", Vision Europe Project, Bertelsmann Stiftung, Gütersloh and Berlin.

Research based on the theory of fiscal federalism has repeatedly shown that the current EU tasks and the resulting spending priorities are at odds with these criteria. Distorted incentives in the budgetary process lead to a sub-optimal allocation of responsibilities between the EU and its Member States (Heinemann, 2016). As a result, the EU's financially relevant action priorities focus too much on regional or even local public goods and too little on European public goods.

More European, less local goods

The need to adjust task and spending priorities seems all the more important given the structural budget gap expected with Brexit. This gap, caused by the departure of the fourth largest contributor to the EU budget after Germany, France and Italy, will amount to about 13 billion euros per year. In 2020 such fiscal issues will seemingly be put into perspective by the budget holes torn by the coronavirus pandemic and recession. De facto, however, the need for medium-term consolidation and the need for structural renewal of European funding add up.

Corona and Brexit tear budget holes

In a way, despite and because of Covid 19, there is today a real opportunity to tackle these problems. Even before the pandemic, European policy actors from several Member States were expressing a growing willingness to prioritise European public goods, as illustrated by the German-Italian (Altmaier and Padoan, 2018) and Franco-German (Lamy and Weizsäcker, 2018) proposals for restructuring the EU budget. With the pandemic and in the ensuing changed world, the Union and its Member States will all the more need to act efficiently and decisively. Only if all actors become more effective than they are today and mutual blockades are avoided will Europe be able to master its still growing challenges. It is necessary to overcome together and simultaneously the most serious economic plight since the end of the war, to push ahead more vigorously with the necessary transformations into digitalisation as well as climate and resource protection, and finally to make Europe a sovereign player in an increasingly multipolar world (Ebert and Schmidt, 2020). Because Europe will only be capable to act externally if it is also strong internally, new models for the allocation of tasks according to the criteria of European common goods play an important role. Today more than ever, it is crucial that each level of government in Europe concentrates on the tasks for which it is best suited.

Real chance to tackle the problems

The negotiations on the multiannual financial framework (MFF) for the years 2021 to 2027 offer a good starting point for reform. In 2018 the European Commission submitted a first MFF proposal that in part already addressed the strengthening of European public goods. The new MFF proposals presented at the end of May 2020 against the background of the coronavirus pandemic go even further. Although the agreement reached by the European Council in July 2020 provides in turn for cuts in some key areas (e.g. Horizon 2020, Digital Europe), it still represents a first step towards rebalancing EU tasks. Overall, however, it should be noted that the emerging further European development is mainly due to the fight against the pandemic through the large recovery fund financed via joint debt.

Europe indeed tends to change more often and more thoroughly under crisis conditions than in good times. In the remainder of 2020 and in 2021, attention must be paid to the fact that the forthcoming adjustments to the European model will not *exclusively* be shaped by a successful management of the coronavirus crisis. At the same time, this real opportunity must be seized to tackle structural problems and achieve a more capable-to-act and sovereign Union, both internally and externally. At the heart of this agenda can be the concept of European public goods - as a concept for a strong Europe.

The rest of this paper is organised as follows. First, we outline the competences of the EU according to the European treaties. This is followed by a description of the basic economic concepts underlying European public goods: "public goods" (Section C) and "European goods" (Section D). After a brief glance at the current EU budget (Section E), we examine the policy fields that should be considered first for Europeanisation (Section F). The paper concludes with a few remarks as to which questions are likely to become essential for further discussion from a fiscal and budgetary perspective.

B. Competences of the European Union

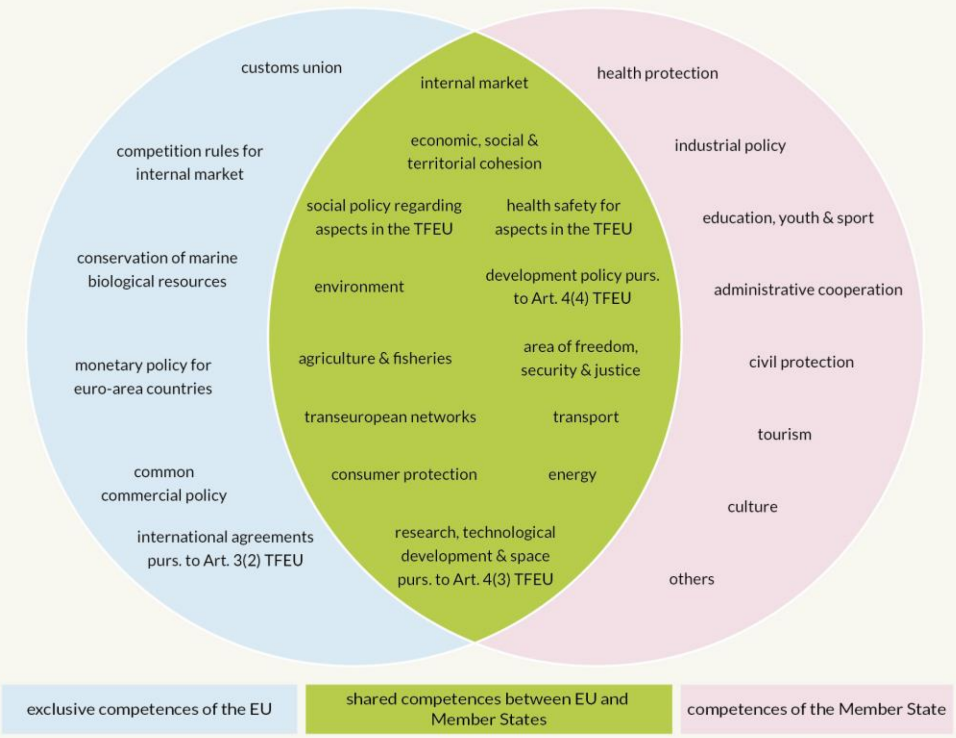
According to the *principle of conferral* enshrined in Article 5 of the Treaty on European Union (TEU) “(…) the Union shall act only within the limits of the competences conferred upon it by the Member States in the Treaties to attain the objectives set out therein”. The EU cannot therefore identify and exercise competences on its own; a treaty mandate is always required.

The Treaty on the Functioning of the European Union (TFEU) divides EU competences into three main categories:

Three categories of competences

- *exclusive competences*: Only the EU is entitled to legislate and adopt legally binding acts.
- *shared competences*: The Member States can legislate and adopt legally binding acts if the EU has not done so.
- *supporting competences*: The EU has only the right to support, coordinate or supplement actions of the Member States. It cannot adopt legally binding acts requiring Member States to harmonise their laws or regulations.

FIGURE 1: **Division of competences in the European Union**



Source: Articles 3-6 TFEU, own representation (FiFo). | BertelsmannStiftung

The EU has exclusive legislative competence in only a few areas (Article 3 TFEU): customs union, setting competition rules for the internal market, monetary policy for the Member States of the eurozone, conserving marine biological resources under the common fisheries policy, the common commercial policy and - under certain conditions - concluding international agreements. These are mostly areas sometimes referred to as "negative freedoms" in the common Europe: the Union provides European services by safeguarding residents and businesses in the single market from national (competition) barriers. The exclusive competences of the Union play a subordinate role on the expenditure side of the European budget, as they mainly involve regulatory instruments or - in the case of the customs union – revenue-side instruments.

Negative freedoms

Legislative powers shared with the Member States, on the other hand, cover a wider range of policy areas (Article 4 TFEU), as depicted in Figure 1. Compared to exclusive legislative competences, these policy areas are also largely implemented through EU budget expenditures.

Shared competences

Everything else is regulated at the national level, although possibly with the help of the EU (Article 6 TFEU). Exceptions are the coordination of economic, employment and social policies and the common foreign and security policy, to which specific procedures apply (Article 5 TFEU).

National competences

The exercise of the above mentioned Union competences is limited by two complementary principles. All types of competences are subject to the *principle of proportionality*, according to which EU action "shall not exceed what is necessary to achieve the objectives of the Treaties" (Article 5 TEU).

Principle of proportionality

For non-exclusive competences, the *principle of subsidiarity* also provides that the EU "shall act only if and in so far as the objectives of the proposed action cannot be sufficiently achieved by the Member States, either at central level or at regional and local level, but can rather, by reason of the scale or effects of the proposed action, be better achieved at Union level" (Article 5 TEU). Decisions should therefore be taken at the lowest possible political level. EU institutions should only step in when they promise to act more effectively or more efficiently.

Subsidiarity principle

C. Public goods and government tasks

The concept of public goods or common goods is traditionally used in public economics to justify government activity as such in a market economy system and to identify areas where the collective provision of goods and services is preferable to market provision. Building on this, the economic theory of fiscal federalism has developed criteria as to which state level should best provide which public services.

A new narrative of strengthening the EU and its Member States through the enforced provision of European common goods draws on these basic economic notions. It is important to know the strengths of the concept and the related democratic and economic advantages. Equally important it will be to point out the limits of this concept with a view to further European development. In a social market economy, the provision of public goods offers also at the national level a good *narrative* for welfare-enhancing government action. Here, however, the concept cannot always be translated into clearly applicable *criteria* as to when and how exactly actual government action is allocatively efficient in this sense. The distinction between general justification and reliable criteria will also play an important role for European public goods.

Public goods as narrative for state tasks

In accordance with neoclassical economics, textbooks define public goods as the opposite of private goods. The latter can be well provided via competitive markets. If the market conditions for the supply and demand of private goods are not guaranteed, the state has a subsidiary obligation to intervene. Goods can be well provided via decentralised markets if (a) they are "rival" in consumption, (b) others can be excluded from consuming them and (c) competition with several suppliers is possible on the relevant market. If these conditions are not met in whole or in part, market failure occurs. Public goods are defined *ex negativo* from this market failure. Their provision by the public sector - in place of the market - is indispensable or at least more efficient. A pure public good has two key characteristics, both of which entail market failure: non-rivalry in consumption (Samuelson, 1954) and non-excludability in consumption (Musgrave, 1959).

Three conditions for public goods

Non-excludability means that no one can be prevented from using an available public good. Classical examples are street lighting and a clean environment. The fact that nobody can be excluded from consumption induces the selfish economic actor to wait for others to provide the good and then participate in its use free of charge. Yet, since every actor has this incentive to free ride and therefore waits tactically, no market demand arises, even though the goods would actually be desirable.

Non-excludability

Non-rivalry

Non-rivalry, on the other hand, means that different individuals can consume a common good at the same time without diminishing each other's benefits. Involving additional users will not incur any extra costs. Here, too, there are incentives for economic actors to tactically downplay their interest in consuming the good and their willingness to pay for it. Hence, the price mechanism cannot work and no efficient market comes about.

Mixed goods

Most public goods are not pure in the sense that they fulfil both of the above properties simultaneously: impure public goods are either non-rival ("club goods") or non-excludable ("the commons"). Impure public goods, too, must either be provided directly by the state or their market provision must be regulated and possibly supported by the state. A more general way of looking at impure public goods (also known as "mixed goods"), which is very relevant to practical government activity, is via *externalities*. For certain goods, market failure is partial rather than total, because non-excludability and/or non-rivalry relate only to certain features of a good or its production process.

External effects: positive spillovers

Goods and services with *positive* externalities create benefits for uninvolved third parties. Such “spillover” benefits to third parties are welcome and increase overall social welfare. However, as these externalities occur on the side and do not involve any compensation, they are not taken into account by market suppliers. Therefore, from the point of view of society as a whole, a purely market-based supply would provide too little of the service concerned. Common examples of activities with positive externalities are private research and development: indeed, even the best patent protection cannot stop good ideas from spreading. Nor would it be sensible to prevent such positive externalities from unfolding. Public goods and positive externalities are closely related: the higher the share of external benefits in the overall societal benefit of a service, the closer the service comes to a public good. A service with one hundred percent positive external benefits is a pure common good. Conversely, only a good with one hundred percent “internal” benefits is a pure private good. The broad spectrum between these pure forms points to many justifications for weaker or stronger interventions in market processes on the ground of common benefit considerations.

Negative externalities and bads

The partial market failure of goods and processes with *negative* externalities is also of great practical relevance for government action: in this case, the market exchange produces as a side-effect adverse consequences for uninvolved third parties. Classic examples are environmental pollution and climate damage caused by private activities, without the resulting harmful effects being reflected in the cost calculation and thus in the market price. While in the case of positive externalities the pure market supply provides too little of the services concerned from the perspective of society as a whole, negative spillovers have the opposite effect. The free interplay of supply and demand leads to a market supply that is too high in comparison to the overall social optimum. Government action against this form of market failure is aimed at reducing, regulating or even preventing market provision. Again, different proportions of external costs to the costs of a good considered in the market process are conceivable. Activities with (almost) one hundred percent external costs are sometimes referred to as pure “bads”. However, it would be more obvious to speak directly of a burden or an evil.

The conceptual charm of regarding the allocative activities of the state primarily as dealing with positive and negative externalities also lies in the fact that not only economically consistent justifications for state action are given or demanded here. The analysis also provides guidance on which instruments would be better suited to address market failure most efficiently. In the case of positive externalities, purely market-based provision generally leads to goods being offered in too small a quantity and, thus, at too high unit costs. The optimal instrument for *internalising* these externalities is often subsidies, which can increase the earnings of suppliers to such an extent that they produce the good concerned in the "right" (i.e. higher) amount for society as a whole.

Internalisation of externalities

Conversely, negative externalities call for internalising taxes that drive up prices of harmful activities until their benefits and costs are in an optimal relationship from the perspective of society as a whole. In this respect, environmental protection subsidies and environmental taxes, for example, are by no means equivalent instruments for resource protection. Both change the *relative* price between environmentally harmful and environmentally friendly behaviour in the direction of internalising external costs. Yet, only environmental taxes raise the "unnaturally" low price of environmental damage due to negative externalities and, thus, change the *absolute* price in the right direction.

Finally, the concept of externalities pursued to the end also provides a bridge to non-market instruments for correcting market failures. For example, if the negative externalities of an activity far exceed the market-relevant costs and prices, then the internalising tax is an unreasonable alternative to a simple ban. An extreme example illustrates this best: there exists a “market” even (or especially) for the hunting of animals directly threatened with extinction. In this example, the market-conform instrument of an (exorbitantly) high species-protection tax would be a bad choice in comparison to a simple *ban* reinforced by severe sanctions. A similar conclusion emerges from the legal assessment of these instruments: legally, taxes intended to stifle an activity are regarded as an illegal abuse of statutory forms. Economically they are inefficient: whoever wants to ban should ban and not take expensive detours.

Bans?

Statutory regulation is not only in extreme situations a permanent alternative to economic instruments that, in the form of subsidies or taxes, aim at direct price effects. The introduction of regulations as instrumental alternatives[2] automatically adds a second dimension to the efficiency analysis: along with *allocative* efficiency targeted at correcting market failures, the direct *operational* efficiency of government action is now also at stake.

Regulation as an economic instrument

A third form of market failure is the so-called "natural monopoly": due to economies of scale in the production of a good, a single supplier can produce more cost-effectively on the relevant market than two or even more suppliers. The free interplay of supply and demand leads to a supplier monopoly in such markets. In order to protect consumers from monopolistic exploitation with excessively high prices and poor supply of goods, the provision of services by the state - or the strict regulation of private sector production - can be beneficial to the welfare of society as a whole even in the case of private goods.

Natural monopolies

[2] Historically, bans, commandments and the numerous regulatory stages in-between are of course much older than market-oriented instruments such as subsidies or internalising taxes.

Network externalities

Economies of scale can also arise on the demand side; this is often the case with network externalities. A network becomes all the more useful for everyone involved the more actors participate in it. This is how "winner takes it all"-markets for providers come about. Monopolisation tendencies e.g. in social networks or messenger services illustrate this effect. In long-established networks (e.g. electricity, drinking water, roads), services are often provided directly by the state. As technology progresses, such networks may sometimes be reconverted into state-regulated competitive markets. Examples include fixed-line telephone networks, electricity and gas supply, and rail transport.

Allocation and stabilisation

Distribution and equity

The above outlined simple taxonomy of public goods and state activities justified by externalities or monopolies does not cover the entire spectrum of public activities. According to the traditional classification, which dates back to Richard Musgrave, these allocative tasks are supplemented by stabilisation policy and redistribution policy. Both are again geared to deficits in decentralised markets, albeit from very different perspectives. Stabilisation policy is intended to counter economic volatility and its consequences for employment and investment. The redistribution of income among individuals and private households, on the other hand, concerns a dimension that markets and decentralised coordination mechanisms cannot achieve from the outset. Even functioning markets do not necessarily lead to outcomes that meet the socially prevailing goal of social justice. Here, in line with the economic paradigm, the state has a duty to intervene correctively in the distribution of income and wealth. As actual markets do not automatically lead to non-discriminatory outcomes either, this area further includes the establishment of equal opportunities by preventing discrimination on grounds of religion or belief, disability, age or gender identity.

Understanding of the state ex negativo

As already mentioned, public goods and occasions for state intervention are economically justified *ex negativo*: wherever markets - or other forms of decentralised coordination in the family, circle of friends, neighbourhood, religious community and other free associations - do not function or lead to visibly unsatisfactory results, the state is called upon to act. The entire understanding of the state is *subsidiary*.

Subsidiary and residual

This *residual* understanding of the state entails a broad and very heterogeneous spectrum of tasks for the public sector. None of these duties has arisen from a *positive* definition of state tasks. In other words, the provision of common goods and other public services is ascribed to the state, without it being known *a priori* whether and how well it can provide these services. The economic literature is rich in theoretical and empirical evidence that hierarchical and collective decision-making mechanisms - as typical within democracies - are by no means a guarantee that public services would always be provided in the best possible quality and quantity. In the residual heterogeneous field of state tasks, an "optimal budget" (Mackscheidt, 1973) with throughout efficient provision of all public goods is hardly attainable.[3]

The subsidiary state is both restrained and

Of course, this does not mean that the state should limit itself to fulfilling only those tasks, that it can handle well. The numerous proofs of its often unsatisfactory performance compared to the economic ideal - ranging from Arrow's famous impossibility theorem to the

[3] To avoid misunderstandings: the evidence for state services provided under non-democratic conditions is even worse. This is particularly true when the needs and preferences of people are taken as the yardstick for necessary and wished-for government services. In the absence of the mechanisms of free, equal and regular elections, there is no indispensable forum in which the demand for collective goods can develop at all.

daily anecdotal observation of "government failure" - do not alter at all the book of government tasks. Market participants can call for the state to intervene if they fail. The subsidiary state, however, cannot call upon the market or the individual, because it only intervenes when decentralised coordination via markets or civil society reaches its limits. The subsidiary state is both restrained and latently responsible for everything.

universally responsible

Yet, the subsidiarity principle does not only reflect the concept of public goods. In addition to the question of which goods and services the state should provide, it also helps to address the question of which government layer in a multi-level system should decide upon and provide a service. Thus, the subsidiarity principle also plays an important role in the definition of *European* public goods.

Which level does what?

D. Criteria for European public goods

Each public good scatters its benefits more or less far in space. A streetlight, the textbook example of a local public good, makes light only up to a few dozen metres away. Every tonne of greenhouse gas that is saved has, on the other hand, a pervasive global effect. The spatial dispersion of the benefits of public goods and publicly provided mixed goods lies between these two poles. In the Europe of the four fundamental freedoms, national borders no longer automatically delimit the extent to which public infrastructures and other services exert their effect and spread their benefits. When applied to the spatial dimension, the doctrine of public goods becomes the theory of fiscal federalism.

From local to global public goods

This theory offers an economic approach for the allocation of tasks to different levels of a federal state. Although the European Union is no longer a confederation of states, but not yet a federal state either – the literature speaks of a "federal entity", the German Federal Constitutional Court (1993) of a "federation of states" –, the spatially oriented doctrine of public goods can easily be applied to it as well.

Actually, the theory of fiscal federalism does not only provide guidance on how public tasks can be apportioned among the *existing* levels of government. Just as well – if not even better, because more precise – it can be used to identify the ideal spatial extension for certain public goods and to define a tailor-made public service unit for them.[4] From a simple economic perspective, these are two sides of the same coin. If, on the other hand, historical, political and legal framework conditions are taken into account, the question of whether one thinks in terms of the common good or in terms of the existing level of government gains considerable weight. As will become clear later, this is particularly true for European public goods and European integration.

The right government level for each public good

At the heart of the theory of fiscal federalism are again externalities, which are considered here in their spatial dimension. Spatial externalities are regarded as a sign of deficits in the supply structure of public services. If a service is provided by a government level whose territory is significantly smaller than the extent to which the public benefit of the service

Spillover effects determine the proper government layer

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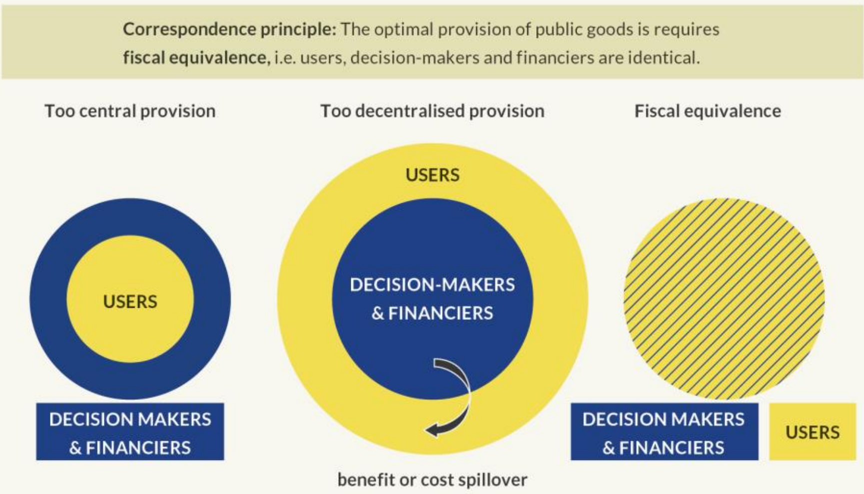
[4] In the political science theory, the distinction between "federalism" and "functionalism" is based on this logical sequence. Under functionalism, public service units are set up for public goods; under ideal-type federalism, public goods are allocated to existing government levels as “aptly” as possible. See Kreuter and Thöne (2020).

scatters (see Figure 2, centre), these “benefit spillovers” can lead to mismanagement in two respects. On the one hand, the "too decentralised" public provider does not take into account the wider dispersion of the service’s benefits, so that too little of the service is provided. It may also be that the quality and differentiation of the service do not meet the needs of what is actually a large user group. On the other hand, only members of the "too decentralised" government level are involved in the tax financing of the public service, entailing an unfair burden-sharing that does not reflect the true dispersion of the benefits. As a result, it quickly comes to an undersupply of the public service concerned.

Europeanisation of too decentralised tasks

Examples of “too decentralised” tasks are cultural facilities in large cities, such as museums or operas, which are also frequented by the inhabitants of the surrounding area or the wider region. Moreover, nature conservation in rural regions, which causes local (opportunity) costs by foregoing intensive land use, is another example of benefit spillovers. The existential and recreational value of nature accrues to more people than the direct inhabitants alone. Nature conservation policies implemented exclusively at the local level would probably be weaker and more prone to compromise than those implemented at a higher level. With a view to European public goods, benefit spillovers from services provided at a too decentralised level (here the national level) are the key economic starting point for greater Europeanisation.

FIGURE 2: **Correspondence principle: optimal centralisation and decentralisation**



Source: Own representation (FiFo). | BertelsmannStiftung

“Too centralised” tasks

The counterpart to a “too decentralised” provision is a “too central” provision. In the latter case, the circle of users is noticeably smaller than the circle of those who decide on the service and finance it (see Figure 2, left). This violation of the subsidiarity principle not only leads to unfair burden-sharing as non-users have to co-finance the provision of a service and are allowed to co-decide on it. A too central decision also becomes allocatively inefficient by virtue of the fact that it is not only those affected who decide on the quantity and quality of the public service. The multi-level governance system, with its distribution of power between federal, regional and local government tiers, can show its strengths particularly well when the services demanded by citizens differ among local units. Such heterogeneous preferences can be better met if decentralised government levels enable such a differentiation without further ado.

Heterogeneous preferences

From the perspective of spatial externalities, the ideal level for providing a public good is therefore the one that can guarantee fiscal equivalence (see Figure 2, right). According to the correspondence principle derived from this fiscal equivalence, the provision of a public good should be assigned to the government level, where decision-makers, users and (tax) payers coincide.

Correspon-dence principle

In addition to finding the government tier in the multi-level governance system that best suits the structure of demand for a public good, there is also the consideration of economies of scale on the supply side. The so-called *economies of scale* can, as illustrated above, justify public provision of a good in order to prevent the concentration of power of a "natural monopoly" in private hands. From a federal perspective, this consideration goes one step further: the (already) public options to provide a service through different levels of government are compared with each other. It's no longer a matter of justifying state intervention as such; but of making a simple comparison between production technologies. Just as a large factory for a conventional consumer good can achieve lower unit costs than many small manufacturing plants due to economies of scale, so a central government unit can provide the same quality and quantity of a service at lower costs in the presence of economies of scale. Economies of scale often also play a role in the fiscal federalism framework when the costs of a public undertaking become so large that they are perceived politically as a natural monopoly. A striking example is space travel and its joint implementation in Europe as well as internationally.

Economies of scale

For the concept of European common goods, positive economies of scale in particular play a potentially important role. However, negative economies of scale should not be ruled out from the outset. So-called *diseconomies of scale* occur when the optimal size for implementing public services is exceeded and the "big is beautiful" judgement is turned on its head. Diseconomies of scale are brought about by complexity costs: either communication costs rise disproportionately, or the public provider of a service and the users of the same service are too far apart from each other, or a "bureaucratic hydrocephalus" emerges. Both types of economies of scale – positive as well as negative - should, thus, be taken into account when assessing the advantages and disadvantages of centralisation from a fiscal federalism perspective.

Big or small is beautiful

Can these criteria of the theory of fiscal federalism be used to outline a kind of "metric" that - at least theoretically - allows to clearly identify (i) which of the goods made publicly available in Europe should actually be provided *by* the EU itself and (ii) which services should definitely (no longer) be provided at the European level? No, it will not be possible to meet the high demand for a clear and theoretically well-founded metric. However, much better criteria than simple rules of thumb will be found.

A kind of metric…

A clear and simple metric cannot be adopted because the criteria presented do not all apply to one and the same dimension. According to the preceding arguments, a European public good (EPG) should:

…and basic criteria for EPGs

- *display pan-European benefits.* If this is not the case, the minimum requirement for a common good provided at the European level should be that its benefits extend well beyond the borders of individual Member States. For public goods whose benefits extend far beyond the EU's borders (e.g. climate protection), the EU is the best possible

Pan-European benefits

provider from a European perspective as long as more fiscal equivalence cannot be achieved (e.g. by a powerful global actor).

- *display spatially homogeneous preferences of all Europe's inhabitants as a whole.* If this cannot be guaranteed, spatially homogenous preferences should be clearly identifiable, at least well beyond the borders of individual Member States.

European Preferences

- *be realized most cost-effectively at the European level due to economies of scale.* The minimum requirement for an EPG in this respect is that the provision through the Community cannot be more expensive than the sum of the costs incurred by the individual nation states. Moreover, services that can be provided most cost-effectively in even more far-reaching international cooperations should be implemented as EPGs as long as the perfect cooperations are not feasible. Whenever such collaborations can be achieved or are already in place, the EU is the designated representative of the European partner.

economies of scale at the European level

The theory of fiscal federalism is not about meeting these three criteria all at the same time. The criteria are not cumulative. But they are not strictly substitutive either. At least one of the criteria should be met if a public good is to be provided at the European level. In other words, existing European services, to which *none* of these three criteria applies, should be transferred back - i.e. decentralised - to the Member States as part of an EPG strategy.

The criteria are not cumulative

At the same time, the fulfilment of only one of the above three criteria is a rather weak requirement for EPGs, as long as we do not know how it relates to the other two. The three criteria concern three different dimensions of the economic analysis; they are incommensurable. Since the three criteria do not depend on each other or are not in a fixed proportion to each other, no "objective" best compromise can be calculated. If, for a particular public good, the three criteria point in opposite directions and no clear-cut "pro EPG" or "contra EPG" argument is discernible, then one has to resort to what is ultimately always the decisive factor in multidimensional decisions: a weighing up decision has to be made.

Weighing up the three dimensions

How does the economic perspective help in such a weighing up decision? Does the economic concept of European public goods still bring added value even when it does not set out clear maxims? Two fictional examples may help to answer these questions.

- First example: In view of economies of scale and potential benefits that can hardly be geographically *limited* to individual Member States, European space travel is likely to be confirmed as an EPG on two out of three criteria. But what would happen if the preferences of Europeans were to differ spatially so much that parts of the continent would have no interest in a Community-funded space programme? Are we in the presence of a European public good?
- Second example: The benefits of securing the EU's Baltic external borders against infiltrating irregular troops - such as those that have destabilised eastern Ukraine since 2014 - vary widely within Europe. Possibly, people's preferences for securing these

If the criteria point in different directions...

borders show a similar East-West pattern[5]. On the other hand, the economies of scale associated with securing these borders via defence policy - especially the guarantee of credible deterrence – clearly speak for a cohesive and common solution, as the one offered today by the transatlantic alliance. How much longer could these security services still be regarded as a European (or transatlantic) common good if surveys on their benefits and polls on people's preferences were to produce a different picture?

Both examples illustrate that clear-cut "pro EPG" or "contra EPG" decisions – without giving up at least one criterion - are unlikely. Such constellations will occur frequently in the case of European public goods; that much prognosis can be dared. At the end of an assessment of whether a public service should be provided at the European level, a political decision for or against an EPG represents the decision of the democratically legitimate holders of public responsibility. If the criteria do not clearly point in the same direction, a weighing up is necessary.

... one must drill deeper and look more closely

However, both examples also illustrate that such a weighing up should not be done at the beginning. It should form, in the end, the basis of an informed decision. As soon as it becomes apparent that the basic fiscal federalism criteria do not lead to a direct conclusion, questions arise as to more and better information: How different are the preferences for space travel exactly? How is the defence benefit, which in the second example hypothetically declines moving from East to West, operationalised? Such questions can often not be answered without further ado. They call for an analytical, and, if possible, empirical in depth examination. Ideally, a cost-benefit analysis should determine the *European added value* of a public good tested for "Europeanisation".

European added value meets...

A study by the Bertelsmann Foundation conducted such an exercise in 2013 (Bassford et al., 2013). To this end, it laid down two criteria for public spending at the EU level: „ For one, it should entail positive net benefits, i.e. the benefits should exceed the costs of public spending." This is a low-threshold requirement that is common to common goods and publicly provided services, as described above in Section C. „Second, it should entail European added value (EAV) of public spending, i.e. the net benefits of public spending at the European level should be larger than those at the national level. In other words, EAV essentially compares the net benefits of spending by national governments with those that arise from spending in the same category at the European level. In this sense, added value is technically the difference between the net benefits of spending at the EU level and the national level." The concept of European added value, which is here defined in *expenditure* terms, can also be applied by analogy to public goods and services that are not implemented through fiscal instruments but primarily through regulatory instruments.

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5 Indeed, a recent Pew Research Center survey (Fagan and Poushter, 2020) recorded quite heterogenous preferences across the populations of NATO members regarding a military response in favour of the allies to a hypothetical Russian attack. Spatial patterns play only a minor role here, however. In addition to the remarkable differences in the willingness to engage with neighbouring countries, the survey also reveals a further weakness of the unbalanced military partnership in NATO: among all European members of NATO the preference of the respective populations for military assistance in favour of allied neighbouring Member States lies well below the expectation that the US would take over this defence. In many countries these differences are small, but in some countries they are strikingly large. In Germany, for example, only a third of those surveyed advocate for a deployment of their own Bundeswehr; almost two thirds expect the US forces to come to the aid of Germany's neighbours. In Italy, Greece and Spain these differences are even more pronounced.

...the three basic criteria

In the case of a European public good, this added value, expressed as the greater net benefit at EU level, is to be understood as the result of pooling together the findings for the three basic criteria discussed above. Thinking things through, the performance of a European solution in terms of spillovers, preference heterogeneity and economies of scale must be compared with the respective performance of the national solution. The resulting three "partial net benefits" are then added up to a "total net benefit". If the latter is positive, European added value exists.[6] But this is very theoretical.

The derivation of a total net benefit will often not suceed. As illustrated above, the three basic criteria for European public goods can rarely be summarized into a single dimension without an evaluative decision having to be made.

The added value of looking for European added value...

The added value of a conceptual justification for European public goods and of a systematic weighing up of costs and benefits does not primarily lie in the fact that objective, purely scientific judgments are passed. It lies in the fact that the evaluative decision is not made up front, but only *at the end – after* the pros and cons have been discussed on the basis of consistent and, for all parties involved, clear criteria.

It goes without saying that the criteria presented here in abstract terms can still not meet the demand for great clarity. The practical implementation of the abstract criteria in relation to concrete tasks is a key step in the process aimed at bringing public goods more to the fore of European activities and further integration. Apart from the inherently important claim to justify the transfer of public tasks to the European level as well as possible, there are above all political arguments for it.

... does not always lie in waterproof results, but rather in political transparency.

Indeed, shifts in competence are inevitably also a matter of balance of power. The federal level, which is to hand over tasks, will experience such a cutback in competences as a loss of power - and will tend to resist it. Conversely, the government level for which an expansion of tasks is being envisaged are often assumed to be motivated primarily by power considerations. Especially when it comes to the transfer of tasks to the European level, this reproach is the rule rather than the exception. It should be noted here: in itself, the competition between different federal levels for the fulfilment of certain tasks and for the associated political influence and the required resources is a healthy sign of a lively democratic constitution. But, the competing will to power does not provide any criterion as to how tasks are to be distributed. If the balance of power is decided solely on the basis of power considerations, existing structures are usually preserved. Even if - for example in a major crisis - tasks can be allocated according to purely political calculations, this alone is no guarantee that the new balance of power will be better than the old one in the medium and long term. Here, the fiscal federalism criteria for or against the Europeanisation of common goods, which are to be specified in each individual case, offer independent yardsticks. They, thus, create transparency in situations that would otherwise be perceived - and wrongly dismissed - as "turf war".

[6] This approach differs from the one in Bassford et al. (2013). By applying the idea of Bassford et al. (2013) to EPGs, we deviate from the procedure presented therein. Bassford et al. (2013) propose to first determine a total benefit of Member State implementation and a total benefit of European implementation and then to compare the two quantities in order to derive the net benefit. Science is thus called upon to make an evaluative decision that it should actually not make itself. We, on the other hand, assume that a "total benefit" can hardly ever be measured in view of the three incommensurable basic criteria. The necessary evaluative decision is made here more transparent and left to the legitimized politicians.

The criteria-based examination is not only of scientific interest. It can also be politically decisive in separating relevant from non-relevant fields of action and in identifying the welfare-enhancing solution in political stalemate situations. Given the discussed need to make weighing up decisions at the end, if the criteria do not allow to reach a clear-cut conclusion, special attention must be paid to the *balance* of the test procedure. In particular, it should be avoided to conduct the criteria-based examination as a one-sided "test for Europeanization" of a task. If a public service can possibly be provided better or more efficiently at the European level, the "burden of proof" should not lie solely in the concept of European public good. After all, for the reasons outlined above, evidence beyond all reasonable doubt can rarely be expected from the outset in the face of multi-layered criteria, which are not always clearly measurable. Setting the bar so high just for a *change* in the allocation of tasks artificially favours the status quo. This, of course, applies to issues of centralisation as well as to issues of decentralisation. Such a bias in favour of the status quo can easily be avoided; it is only important to observe the following maxim: the fiscal federalism criteria for the best level of provision of a particular public service are not to be used primarily as objective criteria; they are to be understood in *relative* terms. In other words, a state task should not only be regarded as a European common good when the EPG criteria *prove* this to be the case. It is sufficent if, in comparing the EU level and the Member State level, the same criteria show sufficiently clearly - although not necessarily "unambiguously" - that the central level is better suited than the national level to fulfil the task concerned.

Balance of the procedure, no one-sided burden of proof

E. The expenditure of the European Union

On its website, the German Bundestag uses an old catchphrase to define the federal budget: the budget is the "government programme in figures". Taking up this perspective, one could argue that the fulfilment of EU tasks is reflected on the expenditure side of the EU budget.

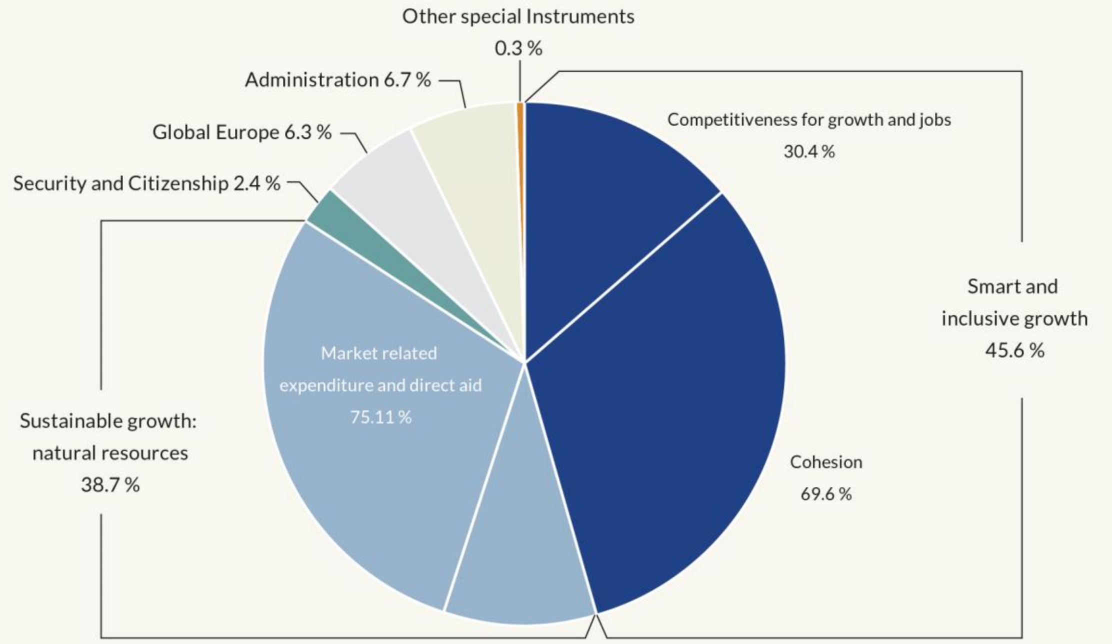
The EU budget is adopted every year jointly by the European Parliament and the Council of the European Union on the basis of a proposal from the European Commission. However, the budget is part of a multiannual financial framework (MFF), which sets the maximum annual amounts that the EU can spend in each policy area. The current MFF covers the seven years from 2014 to 2020. At the end of May 2020, the European Commission presented an ambitious proposal for the next multiannual financial framework 2021-2027, which featured significant changes compared to previous multiannual financial frameworks. To a large extent, these changes are due to the coronavirus pandemic, its implications and the countermeasures taken by the Union. Nevertheless, the Commission’s proposal also envisaged substantial spending increases in policy areas with characteristics of European public goods - for example Digital Europe, Horizon Europe or the InvestEU facility. The political compromise reached by the European Council in July 2020 has in turn cut some of these very EPG-expenditures. Such a decision has been criticised by the European Parliament, which must ultimately give its consent to the MFF as well. Whether and to what extent the final multiannual financial framework will strengthen European common goods is therefore still an open question.

"Government programme in figures“

Thus, in our view, the actual EU budget of the last "pre-coronavirus-year" (2019) offers a solid basis for characterising the established structures of European task fulfilment. Total expenditure of the 2019 EU budget amounts to 148.2 billion euros, about 0.9 percent of the EU's statistical gross national income (GNI) and about 2 percent of total public expenditure in the EU.[7] Thus, the EU budget remains well below its ceiling: the total own resources used to finance the EU budget may not exceed 1.2 percent of aggregate GNI.[8] Figure 3 shows the distribution of 2019 EU expenditure across the six policy areas underlying the current MFF.

0.9 percent of GNI

FIGURE 3: **EU spending by policy area 2019**



Source: EU Commission, own presentation (FiFo).

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Agricultural policy and economic, social and territorial cohesion policy together account for 61 percent of all EU spending. Although the funds allocated to the Common Agricultural Policy (CAP) have been significantly reduced over the years, they still make up 29 percent of the total budget.[9]

61 percent for agricultural policy and cohesion policy

Around 20.5 billion euros were spent on "Competitiveness for growth and employment". This policy area covers, inter alia, large infrastructure projects (2.1 billion euros), the Common Strategic Framework for Research and Innovation (11.3 billion euros), the Erasmus+ programme for education, youth and sport (2.6 billion euros) and

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7 EU annual budgets distinguish between two types of appropriations: in addition to the *payments* considered here (money actually paid out in a given year), they specify, in parallel, the so-called *commitments* (funding that can be agreed in contracts in a given year). In 2019, the latter exceed the former. Total commitments of the 2019 EU budget were set at 165.6 billion euros (= 1.0 percent of GNI).

8 The expenditure of the Union is also well below the central government expenditure of federal states, which on average accounts for more than 50 percent of general government expenditure (Cottarelli, 2016; Caiumi, 2019).

9 In figure 3: 75.11 percent out of 38.7 percent.

the Connecting Europe infrastructure facility (1.7 billion euros). A further 9.4 billion euros was used to finance EU external actions, including pre-accession aid, European Neighbourhood Policy and the Development Cooperation Instrument. The remaining expenditure is incurred in the areas "Administration", "Security and citizenship" and "Other" (special instruments in response to unforeseen events and crises).

Are these EPGs?

Do these spending items correspond to European public goods? For such broadly defined policy areas, it is not always possible to make direct assessments. As will be illustrated in the next Section, the public finance literature identifies quite a few services in the EU budget that would be better classified as regional or even local public goods.

Looking at money alone can be misleading

With a view to the Union's actual task profile, however, the sustainability of the popular approach among public finance policy-makers and scholars to equate the budget with the government programme (i.e. with the material objects of European policy), must first be examined. The catchphrase "government programme in figures" is correct, but incomplete. Politics - especially European politics - is far from being implemented solely through fiscal instruments. Looking only at money gives a partial and thus distorted picture.

More foreign policy without more money

This becomes just as visible in European foreign policy as in European "domestic policy". In European foreign policy, joint initiatives on development and security issues are also reflected in EU expenditure. But in traditional foreign policy, which operates through diplomatic activities and international agreements, "more Europe" does not automatically mean more European spending - at least not proportionally more spending. The intensity and ultimately the success of a common EU foreign policy can only be gauged to a limited extent by how much money is spent on it.

The four fundamental freedoms as European common goods

A similar situation can be observed in the case of domestic policy. Here, too, there are key European policies that are implemented without clear spending counterparts. This applies first and foremost to the area of so-called "negative integration", in particular the safeguarding of the four fundamental freedoms of the internal market: the free movement of goods, persons, services and capital. These freedoms - by their very nature undoubtedly European public goods - are of the utmost importance for the function and self-image of the European Union. However, their impact on the European budget is, at best, a weak echo of such importance. After all, the fundamental freedoms are implemented primarily through regulation, not through expenditure.

Positive integration without expenses...

But even in the realm of "positive integration" - where the expansion of European public goods is often recommended (see Section F) - equating areas of expenditure with fields of EU action would be incomplete, sometimes even misleading.

... exemplified by climate protection

This can be well illustrated by the example of climate protection. As already mentioned above, climate protection is a global public good. In the absence of an assertive world parliament, it is – as a second-best solution - clearly a European public good. In the field of climate protection, as with almost all environmental protection, the polluter pays principle (Art. 191 TFEU) should apply. Policy instruments enforcing the polluter pays principle are taxes, levies and certificate trading on the one hand, and conditions and regulations on the other hand. Public spending on climate protection follows, instead, the burden-sharing principle, the opposite of the polluter pays principle. It is certainly true that there are scenarios in which climate protection subsidies may also represent an economically sensible choice of instrument. But this is the exception. Instruments that address climate protection burdens and obligations in a way that is compatible with the polluter pays principle can normally be regarded as superior. These superior instruments of the common good "climate protection", however, are not at all reflected in the EU budget when they take the form of regulations. As levies or certificates, they affect the revenue side of the budget. Thus, if EU spending on climate protection increases, is that good news or bad news from the point of view of European public goods?

EU budget still provides important guidance for the development of EPGs

This does not mean that a budget-oriented analysis in the context of EPGs is superfluous. The EU budget is a reference point in those areas where policy is implemented via fiscal instruments. Such guidance is also valuable insofar as there is no comparable measurability of European engagement in the field of legislative and administrative regulation. Nevertheless, it is important for a consistent EPG policy based on the efficient use of instruments to always be aware of the limited explanatory power of the EU budget, so as to avoid otherwise obvious misconclusions.

F. Europeanisation and decentralisation of public tasks in the light of European public goods

If one considers the current catalogue of EU tasks in the light of the theory of fiscal federalism, it becomes evident that its components can only in part be justified on economic grounds (Heinemann, 1999; Caesar, 2006).

CAP and cohesion policy: no EPGs

The most important policy areas in the budget - CAP and cohesion policy - do not display clearly recognisable characteristics of a European public good (Fuest et al., 2015). The CAP maintains high subsidies and import duties for an industry that today contributes very little to the EU's gross economic value added (less than two percent). However, its actors represent a politically influential interest group in key member states. Cohesion policy finances numerous local projects in countries that do not need EU support - such as, for example, in Germany the rehabilitation of drinking water reservoirs in Brandenburg, the conversion of brownfield sites in Nürnberg or support for IT investments by small and medium-sized enterprises in Baden-Württemberg (Fuest et al., 2015).

Regional policy: national public goods plus fiscal equalisation

While the promotion of economic and social cohesion in economically *strong* countries is often identified as a public service that would be better implemented at the national or regional level, the same policy in economically *weak* countries is rather viewed as an area of European engagement (see also Figure 4). Here, two perspectives come together: if regional and structural policy, by their very nature as goods, are not regarded as European common goods, then there is no distinction between rich and poor. This is a redistribution issue: if a public good can best be provided at the national level, but the nation state lacks the economic or fiscal strength to do so, the efficient solution is a fiscal equalisation scheme that addresses this problem at its roots. Efficient decentralisation of the present EU regional and structural policy involves both economically strong and weak member states, supplemented by a centrally organised financial equalisation scheme (Thöne, 2017).

On the other hand, the Union's catalogue of tasks neglects components with a more obvious European character (Heinemann, 2016). In defence policy, for example, Europe could achieve economies of scale through enhanced cooperation - possibly even joint armed forces – and, thus, ensure defence capability at lower costs. In migration policy, EU involvement could correct inefficiencies resulting from uncoordinated national implementation in combination with cross-border negative/positive externalities. In foreign policy as well as in the case of large investment projects (e.g. trans-European networks) only a European activity could create the conditions for an adequate fulfilment of the tasks. Following the initial experiences with national responses to the coronavirus pandemic, European epidemic prevention and control is now also in the spotlight.

Many candidates for more EPGs

FIGURE 4: **Assignment of central policy areas to EU or national level**

Policy area	Authors	Assignation
Agricultural policy (direct payments)	Berger et al. (2017) Gros (2008) Bassford et al. (2013) ECORYS et al. (2008)	national
Asylum and refugee policy, immigration	Berger et al. (2017) Fuest / Pisani-Ferry (2019)	Europe
Defence	Gros (2008) Berger et al. (2017) ECORYS et al. (2008) Bassford et al. (2013) Fuest / Pisani-Ferry (2019)	Europe
Digital sovereignty	Fuest / Pisani-Ferry (2019)	Europe
Promoting economic and social cohesion in economically strong countries	ECORYS et al. (2008) Busch (2018) Fuest et al. (2015)	national
Promoting economic and social cohesion in economically weak countries	ECORYS et al. (2008) Busch (2018) Fuest et al. (2015)	Europe
Trans-European networks	ECORYS et al. (2008)	Europe
Rail freight transport	Berger et al. (2017)	EU oder national
corporate taxation	Berger et al. (2017)	Europe
Development cooperation	Berger et al. (2017) Fuest / Pisani-Ferry (2019)	Europe
Research and development (especially major projects)	ECORYS et al. (2008) Gros (2008) Fuest / Pisani-Ferry (2019)	Europe
Unemployment insurance	Berger et al. (2017)	Europe
Foreign policy	ECORYS et al. (2008) Bassford et al. (2013) Fuest / Pisani-Ferry (2019)	Europe
Environmental policy and climate protectio	ECORYS et al. (2008) Fuest / Pisani-Ferry (2019)	Europe
Epidemic prevention and control	Kastrop/Wieser (2020) Jordana/ Triviño-Salazar (2020)	Europa

Source: Own presentation.

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Figure 4 gives an overview of the findings and recommendations of central studies and contributions on both sides of the discussion: the Europeanisation of services with an EPG character and the decentralisation of those services provided at the European level, which, by virtue of their impact, are rather national or even regional public services. Given that the discussion about European public goods has gained considerable momentum since 2019 - and now again with the coronavirus pandemic - these findings must be regarded as preliminary. Furthermore, not all of the assessments presented here rely on a differentiated criteria-based analysis, as characterized above in Section B.

Causes of the undesirable developments

From the perspective of economic theory, the EU is too focused on local or regional public goods. An increased provision of European public goods by the EU would be desirable. An argument often put forward for such an imbalance is that local public goods lead to visible benefits in individual Member States, while the benefits of providing EU-wide public goods are less directly visible (e.g. Fuest et al., 2015). Indeed, decisions on the budget are taken by national governments in the Council and by directly elected members of the European Parliament. These political actors have an incentive to primarily implement programmes that benefit their voters. Local public goods offer an attractive "value for money" in politico-economic terms, as their provision is focused on the respective constituency, but is financed through the "common pool" of the EU budget. This allows Member States to improve their net balance position – i.e. the difference between the contributions paid to finance the EU budget and the transfers received from the budget – vis-à-vis the EU (HLGOR, 2016).

"Juste retour" logic

The division of tasks between the EU and the Member States has grown historically. Although the Commission recommended already in the early 1990s to use "European added value" as a benchmark for the reform of the EU budget, the veto power of decision-makers following a "*juste retour*" logic has led to this problematic division of labour between government layers.

Do EU taxes help?

The key question is then: how can the distorted incentives be corrected? Bordignon and Scabrosetti (2016) argue that a reform of the revenue system can help to promote the provision of "genuine" European public goods. In particular, they advocate the introduction of an EU tax[10] paid directly by the citizens to the EU budget. Such budget financing could impose greater accountability upon the EU institutions. However, it would entail a dynamic political strengthening of the Union vis-à-vis the Member States, which in turn could trigger opposition from the Member States and thus hamper reforms.

Or can EPGs be made directly more attractive for policy-makers?

Heinemann (2016), on the other hand, doubts that new sources of revenue can steer the incentives of budgetary decision-makers in the desired direction (see also Osterloh et al. 2008). To address the problem of too local spending priorities, he maintains that reforms are needed which directly increase the relative attractiveness of European public goods over local projects with local impact.

[10] Possible options for an EU tax proposed in the literature are: CO_2 tax (European Commission, 1992 and 2011; Macron, 2017), fuel taxes (Thöne, 2016), electricity tax (Konrad, 2016), digital tax (European Commission, 2017), financial transaction tax along the lines of the British stamp duty (Macron, 2017).

These include strategies "which (a) directly try to make the benefits of EPG more visible, (b) increase the costs of local goods relative to EPG, or (c) strengthen those actors in the budgetary process who have a less parochial perspective"[11].

G. Prospects and open questions

As has become apparent, the concept of European public goods is actually a very old approach. For several decades now, economists have repeatedly resorted to the theory of fiscal federalism when assessing the task profile of the European Union - and previously that of the European Community - in terms of its efficiency and future orientation. Against this background, it is all the more pleasing, that an eminently political discussion, no longer confined to academic circles, is emerging today. This recognises the implementation of precisely more European public goods as the way to revitalise the - at times weak - European integration. In place of defensive reaction patterns in a debate paralysed by Brexit and other populist movements, a productive counter-image of a *more European Europe* becomes discernible, which through a clever exchange of tasks and competences between Member States and the Union can ideally strengthen both sides.

A more European Europe

Yet, this new great interest in European public goods also makes plain that many open questions still need to be answered and many approaches still need to be further developed, if the convincing idea of new integration via European public goods is to be translated into effective practice. At times, it also takes a willingness to break with possibly cherished old habits and to openly address – if necessary, overcome - some of the taboos that have always been carefully avoided. With the coronavirus pandemic and the subsequent surge, at all levels, in the need and willingness to make and implement bold decisions, the chances of real progress even on structural European issues increase.

New interest, open questions, old habits and a taboo

Of the interesting questions that are relevant to the further discussion, we will touch here upon three selected aspects, which are important from today's perspective: (1) the governance issues associated with the catchword "connectivity"; (2) conditions for more European public goods already with the multiannual financial framework 2021-2027; (3) the alleged taboo of treaty revision. Without denying the current dominance of the manifold problems brought about by the coronavirus pandemic, these are issues that were already central before Covid-19 - and are even more so "with Covid-19".

Three dimensions of the upcoming discussions

(1) Realize "connectivity", by implementing European public goods in and *with* the Member States. As has become apparent, the paradigm of European public goods can prove to be a strong driver for further European integration. However, this will indeed be the case only if the theoretical concept of public goods is confronted with the European reality in two respects. On the one hand, the abstract concept must be filled with policy tasks that are demonstrably more effective if carried out at the European level

Implement EPGs with the Member States

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11 With regard to point (c), Fuest et al. (2015) suggest that the MFF should only set the total amount of the EU budget. Decisions on the use of the funds (up to a fixed ceiling) are entirely left to the annual budgetary procedure with its joint decision-making by the Council and the Parliament.

rather than at the Member State level, i.e. policy areas with a "European added value". Impulses are provided by the research findings summarised in Section F, which should be deepened by means of concrete case studies. On the other hand, it must be clarified how the implementation of European tasks in a multi-level context can be realistically approached and which governance issues arise.

Dual federalism is not a model for Europe

As far as the first point is concerned, the present paper shows that the scientific and political discussion is already productively under way. The issue here is how "Europe can deliver" - to use the title of the Bertelsmann Foundation study by Berger et al. (2017) - by optimizing tasks in line with the EPG concept. But this first step does not yet adequately answer the very question of how *Europe can deliver*. The doctrine of public goods, applied to the allocation of tasks within the European multi-level system, is implicitly based on a clear division of tasks among levels of government ("dual federalism"): each level of government regulates its own tasks, finances them from its own resources and also implements them itself. This concept, however, does not fit well with European reality.

For some coomon goods, such an American-style separation of spheres may be the optimal solution in the long term. For many other European public goods, however, it is not a sensible solution to concentrate the decision-making, administration and financing competences all at the European level. On the one hand, the EU has hardly any on-site administrative structures of its own. On the other hand, it must also be asked whether the provision of EPGs should only be considered when an original European financing option is at hand.

Vertical cooperation is typical for Europe

Even in long-established federal states, there is often no textbook separation between the three dimensions (decision-making competence, administration competence and financing competence). Various forms of vertical cooperation take its place. Some are cooperative, others clearly hierarchical. German federalism, which is at times described as very closely intertwoven, provides ample evidence on how public goods are regulated, financed and provided within multi-level governance systems.

Connectivity marks a sore point of emerging conflicts

This issue is addressed here under the heading of the *principle of connectivity*, which marks a particularly sore point of emerging conflicts in the cooperation across levels of government. Where vertical cooperation takes the form of a higher level defining tasks and a lower level implementing those tasks, governance and financing must be linked in such a way that adequate financing and incentives for cost-effective conduct are simultaneously taken into account. This is not easy to achieve. In the vertically cooperative federal state of Germany, compliance with or violation of the principle of connectivity is a constant source of conflict between government levels. The persistent difficulties in controlling the cohesion funds give also Europe a taste of the necessary debate.

Problems of missing connectivity are more present than the term

In German federalism, these issues culminate in different perspectives on the so called principle of connectivity: causal connectivity ("who orders, pays") as the *politically* incentive-compatible principle is here in conflict with the execution connectivity ("Who implements, pays") as its *administratively* incentive-compatible counterpart. The term connectivity may sometimes be familiar only to experts. The problems resulting from inadequately implemented connectivity, on the other hand, can quickly become existential for entire levels of government. This applies not only to the administrative and financial capacity, but also to its democratic acceptance. The European refugee crisis of the years 2015 and 2016 provided a vivid example.

The explicit issue of connectivity and the related design and governance issues are still rather alien to the relationship between the Union and its Member States. This will have to change with more European public goods. It is necessary to further explore this "*second thought*" - following the discussion of European public goods - in economic, institutional and governance terms.

The understandig of EPG may still change in the light of vertical cooperation

Finally, such an analysis can also lead to a new perspective on European public goods themselves: if one assumes that, despite all connectivity problems, many EPGs can be sensibly implemented only by partial or complete delegation of the administrative execution "downwards", some of the regulatory tasks of the present Union may well appear in a new light.

(2) Preparations and negotiations on the multiannual financial framework 2021-2027 had been rather slow for some time when the coronavirus pandemic brought all relevant processes to a standstill at the beginning of 2020. However, the thread was quickly resumed. At the end of May 2020, the Commission presented the guidelines of its new and, under coronavirus conditions, substantially expanded proposal for a multiannual financial framework 2021-2027. On 21 July 2020, the European Council agreed on a 1,074 billion euro multiannual financial framework, which will continue to be primarily financed through the EU's GNI-based own resources. At the same time, EU leaders also agreed on a 750 billion euro recovery fund to be financed through market borrowing by the European Commission. For the Commission to tap markets, the own resources ceiling will be temporarily increased from the current 1.2 percent to 2 percent of EU members' GNI. In order to repay the capital raised by the Commission early, the Council plans to introduce new own resources.

Much of the envisaged expenditure increase is related to the management of the Covid-19 crisis. The financial leeway for EU common goods, on the other hand, has shrunk considerably compared to the Commission's proposal of May 2020. And the latter - without wanting to diminish its strengths - was already not a very broad agenda for implementing European public goods. This makes the remaining task all the greater now: a strengthening of European integration through more and/or better European public goods should already be pursued during the next MFF period. This is not just a "nice to have" desideratum; it is an essential prerequisite for the strengthening of Europe, both internally and externally, to become a reality. Common good perspectives, which can only be reflected in the subsequent financial framework from 2028 onwards, come too late in terms of global politics: the multipolar world is not waiting for the Europe of a 2028-2035 MFF.

EPGs cannot wait for the 2028-2035 MFF

The developments towards the MFF 2021-2027 so far are both intentional and problematic. Public budgets develop in an evolutionary way. They should (and must) not make any radical changes if they are to fulfil their democratic and constitutional functions. However, normal budgets cover one year, the multiannual financial framework seven years. Despite all the merits of the medium-term concept, the desired predictability and discipline of the MFF will, when it comes to EPGs and their deeper European understanding, above all become an obstacle to developing Europe faster and more in line with its challenges than in the seven-year cycle.

EPG-compatible, flexible MFF?

Against this background, the options to make the 2021-2027 MFF "EPG-compatible" within a realistic framework must be explored. Shortly after the Council meeting, the European Parliament threatened to reject the multiannual financial framework in its present form. Among other things, it criticised cuts to future-oriented programmes. However, whether the European Parliament in the current situation will actually delay the vote on the Council Decision is questionable. Probably only small changes are still to be expected. Hence, one of the central tasks in the future will be to explore also options for making the MFF more *flexible* and to clarify to what extent European public goods can also be implemented *alongside* the MFF. It will have to be discussed to what extent more flexibility is an essential prerequisite for an EPG-oriented “politicisation” of the European budget and which mechanisms can be used to still ensure the integrity of the European budget.

EPGs require Treaty changes

(3) The taboo of treaty change: Without an amendment of the European treaties, a strategy to consistently strengthen European public goods cannot be pursued. Both the tasks to be centralised at the European level and the tasks to be transferred from the European level back to the Member States will, in the vast majority of cases, hardly be feasible without Treaty amendments. A project that regards European common goods as the key European perspective is thus inevitably a project that entails a far-reaching revision of the European Constitution.

The elephant in the room

This observation is as obvious at the end of this paper as it is problematic for the process. Indeed, hardly any assessment is more widely accepted than the one that treaty changes are politically completely unimaginable. Under the European political constellation of 2019, this was a realistic assessment. Whether this will change as a result of the coronavirus pandemic and its consequences in 2020 and 2021 is not foreseeable. It still seems that treaty change can easily become the proverbial "elephant in the room", whose presence dominates everyone's perception, but which no one really addresses. The problem is not concealed, but nobody really talks about it either. Obviously, this is not a solution. At the same time, this representation as “EPG paradox” leads to excessive pessimism.

Short- and medium-term options for more EPGs needed

In the long term, the treaties will indeed have to be amended. In the short and medium term this is difficult, though, after the coronavirus experience, it is no longer unimaginable. On the one hand, the opportunities for strengthening European public goods *without* treaty change lie in a stronger framework-giving function for Member States’ activities (see Calliess, 2019). Here, one will have to weigh up whether EPGs with regulation by the Member States is perceived more as part of a future-oriented Union - or as an expression of the old "Brussels is meddling everywhere"-cliché. On the other hand, options must be explored pursuing more EPG integration *alongside* the European treaties rather than within them, as is the case, for example, with the European Stability Mechanism (ESM).

Thus, the goal of strengthening European public goods ultimately leads to the question of which measures are realistically conceivable for *all* members of the Union and which measures are more likely to be achieved through flexible integration, e.g. through a "Europe of clubs". It may sound contradictory at first to want to strengthen Europe by *not* strengthening it *for all*. But even from the economic concept of European public goods it does not follow that the best possible framework for a European common good must always be the post-Brexit EU 27.

EPGs need flexible integration

Politically, it is always desirable that any integration is a truly community act. This would be all the more desirable as the Corona crisis, through border closures and sometimes very nationally oriented reactions, has not brought this Europe so much closer together as one might expect from a jointly experienced disaster. But the wish will often enough remain a wish. Pragmatically, however, it is rather a positive, because more realistic, vision for Europe to restrict further integration to those who want it and not to involve those who do not want it. In a European Union that has learned its lessons from Brexit, it should be easy today to acknowledge this simple fact. This opens the way to think about European public goods with creative optimism, to discuss them in a participatory manner and finally to implement them for as many European citizens as possible in their Member States.

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