

Extract from:

Christian von Hirschhausen, "Financing Trans-European Energy Infrastructures - Past, Present and Perspectives", Policy Paper Nr. 48, Notre Europe, November 2011.

Presentation of the project: “How to spend better together”

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The negotiations of the post-2013 EU Multi-Annual Financial Framework take place at the moment when many member states are making extraordinary efforts of fiscal consolidation. In these circumstances, it is not surprising that calls for “applying austerity” at the European level resurge with force. And yet, due to its limited size (1% of the EU GNP and 2.5% of European public spending), we cannot expect major savings from cutting spending at the EU-level. A more intelligent response to the austerity challenge is to look at what we spent in aggregate terms – that is, at both national and EU level – and to explore whether we can have efficiency gains by re-organising spending tasks or better coordinating national and EU spending.

This is the purpose of the series of publications that *Notre Europe* launches under the title “How to spend better together”. The analysis undertaken in these publications is original in at least three respects:

- First, the papers do not narrowly focus on what happens at the EU level but take into account what is spent in aggregate terms – that is, at both national and EU level – and explore potential synergies between EU and national budgetary interventions;
- Second, each paper focuses on a particular policy domain and it is written by an expert of this policy domain;
- Finally, the analysis goes beyond the question of “spending more or less” to address the question of “spending better”. Thus, rather than focusing on the amount of euros spent or potentially saved, the authors reflect on the appropriate design of budgetary interventions in a given domain and the merits of public spending vis-a-vis other types of public interventions.

1. The aggregate approach: an intelligent response to the austerity challenge

As said above, one element that characterises these publications is the adoption of an aggregated approach to study ways of improving the efficiency of public finances in Europe. Thinking in aggregate terms means having a broad picture of how much is spent at the EU, national and sub-national levels in a given policy domain, as well as on how these different levels of spending interact with each other.

As explained by Amélie Barbier-Gauchard in her contribution to this project¹, adopting an aggregated vision of public finances in Europe has multiple advantages. In discussions about the EU budget, it is common to treat EU spending in a quasi-exclusive manner. Thus, it is for instance frequent to criticize the current profile of EU spending on the grounds that it does not adequately reflect the hierarchy of challenges and policy priorities set up by the EU authorities. These types of comments disregard the

1. Amélie Barbier-Gauchard, “Thinking the EU budget and public spending in Europe: the need to use an aggregate approach”, *Policy Brief No. 29, Notre Europe*, June 2011.

fact that EU spending represents only 2.5 percent of all public expenditures in Europe. As Amélie Barbier-Gauchard rightly points out, a broader picture allows us to make more well-founded judgements on the hierarchy of resources devoted to different policy priorities in Europe. It also enables us to compare the composition of public spending in Europe with that observed in other confederal or federal entities (such as the USA).

But the aggregate approach can be also very useful to improve the efficiency of public spending in Europe. As said above, the EU budget is very small. It amounts to 1 percent of the EU GDP, while national spending in the EU-27 account in average for 50 percent of national GDP. Reducing the EU budget will thus not be the “panacea” to redress national public finances. A more promising approach is to explore whether we can have efficiency gains by re-organising spending tasks between the EU and the national level or better coordinating national and EU budgetary actions.

Re-organising spending tasks is in fact about asking one of the eternal questions in EU budgetary debates: “who should do what?”. Many studies have addressed this question before. What distinguishes our exercise is that we focus on particular policy areas. Thus, rather than identifying the policy domains in which more supra-national action seems desirable, we try to identify, for one particular policy area (see §-2), which concrete spending tasks would be better carried out at the EU level than at the national level.

As concerning coordination, one should note that most EU spending is carried out in fields of competence “shared” with member states, and/or submitted to national co-financing. In these circumstances, improving the efficiency of EU spending depends very much on our capacity to organise in an efficient manner the overlapping involvement of EU and national spending action.

Finally, we believe there is a need for a serious reflection on ways to improve horizontal coordination between national budgetary actions. As pointed out by Amélie Barbier-Gauchard, we frequently hear about the need to use the EU budget to implement the EU2020 strategy, but we should not forget that implementing this strategy is mostly a national responsibility. Until recently, national efforts to achieve the EU2020 goals have been coordinated through the so-called Open Method of Co-ordination, but it is time to incorporate more explicitly the spending element in these efforts of coordination, including the national one. Beyond the framework of EU2020, coordination of national spending actions might also provide important efficiency gains in other policy fields characterised by large cross-country externalities or economies of scale (i.e. security and defence, immigration).

2. The sectoral approach: bringing sectoral expertise into EU budget debates

Another characteristic of this project is the fact that each publication focuses on a specific policy area and is written by an expert on this policy area. Our choice for a sectoral approach is based on various considerations.

First of all, EU spending debates are too much focused on numbers and money and very few on the content and design of the policies financed at the EU level. By offering a sector-based analysis, we aim to reverse this logic, that is, to put more emphasis on the rationale, goal and design of public interventions at both the EU and national level, and less on how much do they cost. In other words, we want to move beyond the question of “spending more or less” to address the question of “how to spend better”. Notice that, by emphasizing the quality of spending over the amount of spending, we do not under-estimate the magnitude of the austerity challenge to which we are confronted. We see “better spending” as a more sustainable and sophisticated EU response to the “austerity challenge”

than generalized cuts in EU finances. Unlike cuts, better public spending translates into better results in terms of growth, cohesion, security, welfare... which eventually turns into less spending needs in the future and, therefore, more sustainable public finances.

Another reason why we privilege the sectoral approach is that we believe the assessment of the fiscal federalism criteria needs sectoral expertise. Identifying spillovers from policies or the existence of economies of scale is not easy. A good knowledge of the public challenges and the nature of public interventions in a given domain is required in order to assess whether there are cross-national challenges requiring action at the supra-national level, whether public interventions are characterized by increasing returns to scale or what is the degree of heterogeneity in policy preferences among member states.

Finally, while we think sectoral experts provide an interesting insight to debates on EU spending, we are also aware of the limits of their analysis. Policy experts are not necessarily versed in issues of public finance. They may not know in detail the functioning and outcomes of EU spending programmes. Our goal hence is not to finish with precise propositions for the forthcoming EU financial perspectives, but rather to provide some reflections and general recommendations which can differ from those that circulate among EU budgetary experts.

3. The enlarged approach: looking beyond the EU budget

Lastly, while the project aims to contribute to current debates on the post-2013 EU financial perspectives, the analysis is not confined to the EU budget. The latter is treated as one amongst a broad spectrum of policy instruments available at the EU level, including political and regulatory interventions but also other types of EU financial interventions taking place out of the budget.

Adopting an enlarged approach is important for two reasons.

First, we believe that there is a scope to improve the efficiency of national spending through EU non-budgetary interventions (i.e. by removing barriers to competition or by strengthening the coordination of national budgets). By including non-financial EU action into the analysis, the authors can reflect on these other ways of improving the efficiency of public spending.

Second, contrary to what many people think, the EU budget is far from being the only tool used to finance EU actions. A non-negligible part of EU-level spending takes place out of the EU budget, be in form of funds or programmes managed by EU institutions but not included into the EU budgetary process – such as the European Development Fund, providing assistance for the so-called ACP countries, or the Athena mechanism, financing joint military operations – or in form of programmes created by intergovernmental agreements – such as the OCCAR, an intergovernmental mechanism financing joint programmes on military research and equipment². To these various programmes and funds, one should add the use of other EU financial instruments, such as the loans provided by the European Investment Bank (which amounted to €72 billion in 2010) or the more recent “Marguerite Fund”, a pan-European equity fund launched in 2010 to finance long-term energy, climate change and infrastructure investments in Europe. To have a complete picture of these various ways of “pooling resources” at the European level is important, as each type of instrument might be more appropriate in different domains.

2. Amélie Barbier-Gauchard, Yves Bertoncini, “[Les dépenses européennes et non communautaires : une réalité substantielle et en devenir ?](#)”, *Note de veille n° 105, Centre d'analyse stratégique*, juillet 2008.