



POLICY CROSSOVER FLASH

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HOW A STRONG EUROPE COULD CREATE MORE NATIONAL SCOPE OF ACTION

KARL AIGINGER

Abstract

New challenges can only be overcome internationally. If small countries want to play a role, the European level needs to be consolidated. However, if common solutions are poorly communicated or if there is too much interference in national priorities and individual living conditions, they will be rejected as edicts from Brussels and a return to national solutions will be demanded. In extreme cases, this can lead to exits from the EU; even if this fails to contribute to solving the problem and actually further reduces the available options and the prospects of success.

We highlight that Europe-wide regulations can actually lead to a greater scope of action at the national level. Innovative, problem-specific solutions can be developed based on national priorities due to the fact that international restrictions and leakage effects are eliminated. We demonstrate this in the case of tax regimes, fiscal and climate policy, and for globalization. Best practice examples of European policy which provided funds not feasible at the national level, but at the same time increased the options at the regional or national level and which were more efficient, can be found in the EU's regional and research policies. From these, we derive principles for overcoming the contradiction which currently prevails between the need for common rules and the desire for decentralized solutions on the regional or national levels.

THE REQUIREMENT, THE PROBLEM AND POSSIBLE SOLUTIONS

The quest for cooperation

People in Europe are striving for a better life despite the prevailing economic and political setup becoming increasingly difficult: Climate change, political instability, migrant flows and new technologies are jeopardizing welfare or are at least contributing to rising uncertainty. These problems could be tackled more efficiently by means of cooperation, both globally and within the EU. Stronger European policy coordination could both reduce unemployment and inequality and provide Europe with a leading role in efforts to combat climate change.

The problem of distrust

Distrust, however, is rising; distrust both of European policies, which are perceived as being centralist, and of globalization, which is regarded as externally controlled. Positive trends, such as the decline in absolute poverty and infant mortality or rising life expectancy, are not seen as positive results of coordinated policy efforts. On the other hand, European regulations interfering even into narrow national or even particularistic interests, are clearly perceived as being a consequence of purposeful international policy (and the negative aspects exaggerated).

Three principles to solve the dilemma

European policies which aim to be successful must first visibly contribute to solving top-priority problems such as unemployment, inequality and climate change. Secondly, they must concentrate on issues which can be better addressed by means of joint and coordinated efforts and which relate



directly to living conditions. And thirdly, they must be shaped in such a way that they widen the potential for technical, social and environmental innovations at the national level.

FOUR PROPOSALS

On the basis of four proposals, we demonstrate how carefully targeted European measures could expand the scope for action at the national level. The principles relied upon in these proposals can also be applied in other areas ranging from security policy to migration. Best practice examples of where European initiatives already facilitate regional initiatives and preferences, can be found in the areas of research and regional policy. The Paris 2015 Climate Agreement also intelligently combines common objectives, in this case actually global objectives, with decentralized implementation. It contains mechanisms which monitor the success of the Agreement and revise these in the case of any lack of ambition in terms of national implementation.

Proposal 1: Cornerstones of national tax regimes

Tax regimes – taxation levels and their structure – represent an important area of national autonomy. European regulations, however, should form a framework in which every Member State can more closely align its tax regime with economic, social and environmental targets and, as a result, need to pay less attention to tax avoidance and diversionary effects (untaxed imports, fuel tourism, etc.). One cornerstone of a framework helping to improve the designs of national tax regimes would be minimum rates for value added taxes, carbon emissions and corporate taxes applicable for all EU Member States and the harmonization of the assessment basis for certain forms of taxation. A second cornerstone would be bans on, or at least transparency in terms of, agreements which reduce the tax burden on specific companies. A third cornerstone would be a mandatory country-by-country reporting of activities.

Despite the fact that this increases unemployment, taxation of labor is the main revenue source today. Wealth and inheritance, on the other hand, are low taxed or in some member countries even exempt from taxes due to the fact that they can potentially be transferred to tax havens. Member States currently furthermore impose very low taxes on activities which have negative impacts in terms of health and the environment due to the fact that the base for these taxes could be relocated to other countries.

Proposal 2: Principles of an innovative climate policy

Europe has committed to phase out fossil fuels by 2050 and could potentially exploit this target in order to become the global technology leader in the areas of energy efficiency and alternative energies. The policy of the Member States, however, remains heavily influenced by existing energy providers, conventional technologies and the infrastructure already in place.

A revival of European emissions trading, the coordination of electricity grids, and a ban on subsidies for fossil fuels and nuclear power would enable the development of alternative energies, new propulsion systems and zero energy buildings as well as innovations in terms of regional and urban development planning. Every Member State could be most innovative in those areas where it identifies the greatest potential. The currently low level of carbon taxes accounts for coal plants being brought online to resolve temporary energy bottlenecks. Subsidies for nuclear power and diesel are postponing the competitiveness of renewable energies or at least boosting the level of public subsidies required to promote new technologies. Given that innovation is a “discovery process”, bottom-up approaches supported by a higher taxation on emissions – including those on aviation and shipping – would also prove more technologically successful than low taxes for the old technology plus subsidies for specific new ones (where government does not know which is the most promising in the long run).



Proposal 3: European coordination as the key to anti-cyclical policy

When a small Member State increases its level of investment, domestic demand rises only under proportionally because this investment leads partly to rises in demand in other countries. An anti-cyclical demand management policy at the European level would be more effective. The long-term impact would be even greater if the expenditure relates to intangible investment (skills and innovation) given that the initial fiscal deficits would be compensated by higher levels of economic growth later.

European fiscal coordination is currently based on the Annual Growth Report, the European Semester and country-specific recommendations. This architecture fails due to the prevailing economic and political inequalities between the Member States. Consequently, Europe in contrast to the USA, only managed to return to pre-crisis economic performance levels in 2016. Common rules as to when deficits can be increased or are to be constrained would also reduce unemployment. Mutual public debt financing (up to a limit, maybe 80 % of GDP) throughout Europe would also reduce interest rates. Focusing expenditure on improving living conditions would lead to dynamics, jobs and environmental excellence.

Under the abovementioned conditions of coordinated fiscal policy, every country has the choice either to cut taxes or increase public its expenditure and assess its public sector debt based on the returns generated by investments and/or by the feasibility of reducing administration. At present, the economic policies of the individual Member States are constrained by potentially high interest burdens and the fear of negative reactions on the part of financial markets.

Proposal 4: Asserting European values in the globalizing world

The dynamics of new industrialized countries is reducing the influence of Europe in international bodies. The largest Member States individually represent less than 5% of global economic output; the smaller countries around one percent. Due to the growth enjoyed by its new Member States, however, the EU is still the world's largest economic area. It could support European preferences via international or bilateral agreements and shelter them from being challenged at courts.

Only a common European policy is capable of delivering standards which are based on European values or which are generally in accordance with the preferences of countries with high income levels (social welfare benefits, environmental protection, codetermination of workers, etc.). Courts should not be able to revoke standards based on the EU's societal preferences. "Upward harmonization" of standards would also promote European technological exports as well as social and environmental innovations. They should be treated separately from regulations protecting national monopolies and leading to high prices which indeed should be eliminated through international agreements and the courts.

Globalization losers in industrialized countries – low-qualified workers in simple industrial jobs – need to be retrained in time. While internal migration of skilled workers within Europe from countries with very high unemployment to those with skill shortages due to their ageing populations may bring temporary relief, higher qualification levels for all will be necessary in the long term. European initiatives in the area of employment policy (apprenticeships, life-long learning, etc.) help, particularly if experiments and social innovations are also fostered.

Europe is in a stronger position than its individual Member States to direct international agreements in the interests of welfare-based globalization. Priorities will need to be defined and separated from market barriers before entering into negotiations. This type of agreements would allow every Member State to finetune social and environmental priorities which are not hidden barriers to trade. It is superior to putting a brake on globalization, which would reduce product diversity and increase prices, particularly the prices of goods typically purchased by those with low incomes.



BEST PRACTICE EXAMPLES

EU regional and research policies are areas in which more funds are available as a result of European policy than would be the case in national budgets. Secondly, European policies in these areas definitely increase the efficient use of funds. Thirdly, they encourage convergence. European policies therefore correct market failures, provide public goods (European research area, mobility of researchers, rail networks, etc.) and internalize external effects.

Regional policy

The European regional policy resolves the problem of national policies not being sufficiently differentiated by region and income level. In addition, low-income regions are mostly in poorer countries which only have limited resources for investment and innovation. Access to European funding is made conditional on regional implementation concepts. This bolsters the bottom-up principle, making regional potential, preferences and identities visible (e.g. Burgenland).

Research and education

A European Research Area is being created – one which is the key to mobility and excellence. Even where there are “mission-oriented programs” supporting societal needs or European initiatives for “key technologies”, funds are made available based on tendering; national co-funding furthermore increases the potential for regional priorities and strengths. The Europe 2020 strategy defines targets for the reduction of school drop-out rates, raising pre-school education levels and the share of tertiary education; targets which can be adapted at the national level. In a related effort, the OECD assesses the performance of the education system (PISA ratings) by country, and socio-economic background, enabling Member States to improve their school systems where needed.

Paris Agreement 2015 (COP21)

The Paris Agreement is a diplomatic masterpiece due to its very ambitious targets (limiting global warming to under two degrees and largely abandoning the use of carbon-based fuels). Despite their widely varying starting situations, resource bases and technical means, the Agreement was signed by no fewer than 195 countries within a year. It defines common targets but leaves the countries themselves to decide how to reach these. If the first proposals are insufficient, which has already proven to be the case, then national-level programs have to be revised. This approach highlights the national responsibility of every country (‘ownership’), allows for different foci and approaches, and also makes it possible to learn from best practice examples. A system of centralized monitoring will ensure that the aggregate of the efforts is consistent with the target and that every country cannot simply rely on others (free riding).

PRINCIPLES AND IMPLEMENTATION

Many new challenges have a global dimension. Climate change, security, migration and new technologies all require international responses. Global and European policy, however, are perceived as interference in individuals’ lives and the ability of nations to shape their “own policy”. This is a consequence of declining levels of trust in politics, experts and facts, and supports “give us our country back” campaigns and exit movements from the EU. A new approach therefore requires better focused goals, appropriate implementation principles and favorable economic conditions.



Focus on demonstrable benefits

A successful policy needs to concentrate on areas in which it can achieve provable and measurable benefits. These include internalization of the external effects of emissions, the economies of scale offered by the European Research Area or the provision of public goods such as mobility and security.

Principles for expanding scope of action at the national level

As the proposals for the four policy areas and the best practice examples highlight, the following policy principles can simultaneously increase the scope for action at the national level, by:

1. Differentiating between principles and implementation
2. Allocating funds conditional on the presentation of regional concepts
3. Assigning mandates to the European Commission only after defining societal priorities
4. Boosting the rights of initiative and control of the European Parliament

A new vision and a new European Narrative

The acceptance of a common European policy is dependent on identifiable objectives for the integration project and on a visibly positive impact on real living conditions. This requires a Vision Europe 2050 and – after the successes of the peace project, the implementation of the single market and the common currency – a new European Narrative.

In a Vision 2050, Europe should define its goal of becoming a region characterized by high and rising quality of life. Success should be measured in terms of 'beyond-GDP' objectives. These can be grouped together to form three pillars: economic dynamics, social cohesion and environmental excellence (cf. [WWWforEurope Synthesis Executive Summary](#)). Quality of life – defined by the Beyond GDP goals – would supersede gross domestic product (and GDP growth) as the benchmark of success. This new performance measure would be more closely linked to actual living conditions.

A new narrative for Europe could be to establish a new type of globalization based on European values. This includes adherence to social and environmental standards and implicitly rejects protectionism, fences and walls.

Accelerating internal dynamics

Internal dynamics need to be bolstered. A dynamic Europe will reduce debt levels and inequalities, promote new technologies and energy efficiency, and make the continent the global leader in decarbonization. Reducing inequality and promoting environmental excellence are the keys to improving living conditions and could simultaneously be the drivers of greater dynamism. This increases the scope for differentiated preferences and policies and boosts trust in the European project.

External stability

The refugee problem requires greater levels of cooperation with Europe's neighbors. European investments in the neighborhood ("ERP 2020") and cultural exchanges ("Schumpeter scholarships") could help to create political stability and a dynamic market which, combined, also reduce the need for migration. Similar programs in the USA after the Second World War expanded the options available to European countries, making the Europe a partner and providing the US access to a larger market.



The prospects of a European century

Despite the bumpy start, the chance exists that the 21st Century could be 'a European century'. Through the priority it gives to quality of life, social inclusion and environmental excellence, Europe has a better model to offer high income countries than those prevailing in Asia or America. A combination of centralized policies and decentralized implementation is the key to success and acceptance.

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BACKGROUND NOTES provided by: Kurt Bayer, Cornelius Hirsch, Alexander Hudetz, Vanessa Koch, Johannes Langthaler, Stefan Schaller, Helene Schuberth, Gunther Tichy and Karl Aiginger.

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