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How a Strong Europe Could Create More National Scope of Action

European citizens often assess EU policy as too centralistic and bureaucratic, causing them to vote for populist parties which promise to take “my country back” or even exit from the union. However, many problems – from climate change to the refugee problem – could be better solved at the European level. European policy should try to set rules which enable member countries to address different preferences based on national priorities. Best practices show that this strategy combining centralised policies and decentralised implementation is both feasible and welfare enhancing.

Many new challenges for European countries can only be overcome by policy measures at the European or even global level. 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 top-down, bureaucratic decisions from “Brussels”. Calls for a renationalisation of policy will become the inevitable consequence, and isolated policies calling for “my country first” will grow increasingly popular. This approach may lead to exits from the EU and will fail to contribute to solving the problem; instead, it could actually further reduce the available options and the prospects of success.

It is argued here 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 while also avoiding international restrictions and leakage effects. We demonstrate this in the case of tax regimes, fiscal and climate policy, and globalisation. European policies have been implemented with funds not feasible at the national level, but at the same time they have increased the options at the regional or national level. From these “best practice examples”, we derive principles for overcoming the contradiction between the need for common rules and the desire for decentralised innovations.

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The requirement, the problem and possible solutions

People in Europe are striving for a better future, but the prevailing economic and political setup has made this increasingly difficult. Climate change, political instability, migrant flows and new technologies are contributing to rising uncertainty and potentially jeopardising welfare. These problems could be tackled more efficiently through global or EU-wide cooperation. Stronger European policy coordination could both reduce unemployment and inequality and solidify Europe’s leading role in efforts to combat climate change.¹

Distrust, however, is rising; distrust both of European policies, which are perceived as being centralist, and of globalisation, which is regarded as externally controlled. Positive trends, such as the declines in absolute poverty and infant mortality or rising life expectancy, are not seen as the beneficial results of coordinated policy efforts. On the other hand, European regulations interfering even into narrow national or particularistic interests are clearly perceived as be-

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1 Background to this argument can be found in K. Aiginger: Harnessing competitiveness for social and ecological goals, in: F. Allemand, P. Chiocchetti (eds.): Competitive solidarity. Developments and challenges of the European socio-economic model, forthcoming; and K. Aiginger: Political Rebound Effects as Stumbling Blocks for Socio-Ecological Transition, in: American Journal of Business, Economics and Management, forthcoming; as well as the recent “Juncker White Paper”, J.-C. Juncker: White Paper on the Future of Europe, European Commission COM2017(2025), 1 March 2017.

ing a consequence of purposeful international policy (and the negative aspects of these actions are exaggerated).

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 increase the potential for technical, social and environmental innovations at the national level.

Four proposals

On the basis of four proposals, this article aims to 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 European initiatives which already facilitate regional initiatives and preferences can be found in the areas of research and regional policy. The 2015 Paris climate summit serves as an inspiration here, in the way it intelligently combines common objectives, in this case acutely global objectives, with decentralised 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. It is in this spirit that national cooperation and problem-solving within the EU should be enhanced.

Proposal 1: Cornerstones of national tax regimes

Tax regimes – namely 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, pay less attention to intra-EU tax avoidance and other diversionary effects such as untaxed imports or fuel tourism. 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; furthermore, the assessment basis for certain forms of taxation should be harmonised.² A second cornerstone would be bans on, or at least transparency for, agreements which reduce the tax burden on

² For a detailed discussion, see M. Schratzenstaller: Multilaterale Ansätze zur Lösung multilateraler Problem. Gemeinsame Steuerpolitik ermöglicht nationale Handlungsspielräume, ÖGfE Policy Brief 10'2015, March 2015.

specific companies. A third cornerstone would be a mandatory country-by-country reporting of fiscal activities.

Despite its often negative effect on employment, taxation of labour is the main source of fiscal revenue today. Wealth and inheritance, on the other hand, are taxed lower or in some member states even exempt from taxes due to the fact that they can potentially be transferred to tax havens. Furthermore, member states currently impose very low taxes on activities which have negative impacts in terms of health and the environment due to the fact that the industrial 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 specific policies of the individual member states, however, remain heavily influenced by existing energy providers, conventional technologies and the infrastructure already in place.³

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. Each member state could be most innovative in the areas in which it identifies the greatest potential. The currently low level of carbon taxes explains why coal plants are still being brought online to resolve temporary energy bottlenecks. Subsidies for nuclear power and diesel are postponing the competitiveness of renewable energies, or are 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 combined with subsidies for specific new ones (recognising that the government does not know which will be the most promising in the long run).

Proposal 3: European coordination as the key to countercyclical policy

When a small member state increases its level of investment, domestic demand rises disproportionately, because this investment leads partly to demand increases in

³ K. Aiginger, J. Vogel: Competitiveness: from a misleading concept to a strategy supporting Beyond GDP goals, in: Competitiveness Review, Vol. 25, No. 5, 2015, pp. 497-523.

other countries. A countercyclical 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.⁴

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 US, only managed to return to pre-crisis economic performance levels in 2016. Common rules as to when deficits can be increased or when they must be constrained would also reduce aggregate EU unemployment. Mutual public debt financing (up to a limit, maybe 80% of GDP) throughout Europe would also reduce interest rates. Focusing expenditures on improving living conditions would lead to dynamic economies, more jobs and environmental excellence.

Under the abovementioned conditions of coordinated fiscal policy, each country has the option to either cut taxes or increase public 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 globalising world

The increased dynamism of newly industrialised countries is reducing the influence of Europe in international bodies. The largest member states individually represent less than five per cent of global economic output, while the figure for the smaller countries is around one per cent. Due to new members and the high growth they enjoy, however, the EU is still the world's largest economic area. It could support European interests via international or bilateral agreements and shelter them from being challenged if local governments change abruptly.

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 coun-

4 See M. Buti, K. Pichelmann: European Integration & Populism – Addressing Dahrendorf's Quandary, LUISS School of European Political Economy Policy Brief, 30 January 2017; D. Rodrik: There is no need to fret about deglobalisation, Financial Times, 4 October 2016; and M. Schratzenstaller, op. cit.

tries 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 harmonisation" 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.

The losers from globalisation in industrialised countries – low-qualified workers in unskilled industrial jobs – need to be retrained. While internal migration of skilled workers within Europe from countries with 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.⁵ European initiatives in the area of employment policy (apprenticeships, lifelong 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 globalisation. Priorities will need to be defined and separated from market barriers before entering into negotiations. This type of agreement would allow every member state to fine-tune social and environmental priorities which were not hidden barriers to trade. It would be superior to putting a brake on globalisation, 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 a cohesive European policy than would be the case relying solely on national budgets. Moreover, European policies in these areas arguably increase the efficient use of funds and undoubtedly encourage convergence. European policies therefore correct market failures, provide public goods (European Research Area, mobility of researchers, rail networks, etc.) and internalise external effects.⁶

5 D. Rodrik, op. cit.

6 For further reading, see I. Gill, M. Raiser: Golden Growth: Restoring the Lustre of the European Economic Model, Washington DC 2012, The World Bank, available at <http://www.worldbank.org/en/region/eca/publication/golden-growth>; and A. Hemerijck: Social Investment and the European Monetary Union, WWWforEurope Lecture Series, 2014, <http://www.foreurope.eu/index.php?id=878&L=0>.

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 (for example, the Burgenland region of Austria).

Research and education

The creation of the European Research Area is the key to mobility and excellence. Even where there are “mission-oriented programmes” 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 increasing the share of tertiary education graduates; these are targets which can be adapted at the national level. In a related effort, the OECD assesses the performance of education systems (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 that sets out very ambitious targets (limiting global warming to less than 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 allows the countries themselves to decide how to reach them. If the first proposals are insufficient, which has already proven to be the case, then national-level programmes have to be revised. This approach highlights the national responsibilities of every country (“ownership”), allows for different focuses and approaches, and makes it possible to learn from best practice examples. A system of centralised monitoring will ensure that the aggregate of the efforts is consistent with the target and that no country can simply rely on others (the problem of free riding).

Principles and implementation

Many new challenges have a global dimension. Climate change, security, migration and new technologies all re-

quire international responses. Global and European policies, 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 it supports populist campaigns that promise to “give us our country back” and that support an exit from the EU. A new approach therefore requires better focused goals, appropriate implementation principles and favourable 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 the internalisation of the external effects of emissions, the economies of scale offered by the European Research Area and the provision of public goods such as mobility and security.

Principles for expanding the 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:

- differentiating between principles and implementation
- allocating funds conditional on the presentation of regional concepts
- assigning mandates to the European Commission only after defining societal priorities
- 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 the formulation of a Vision for 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 for Europe 2050, the EU should define its goal of becoming a region characterised 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 cohe-

sion and environmental excellence.⁷ 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 globalisation 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 decarbonisation. 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 crisis requires greater levels of cooperation with Europe's neighbours. European investments in the neighbourhood and cultural exchanges (such as Schumpeter scholarships or Erasmus exchanges) could help to create political stability and a dynamic market which, combined, also reduce the need for migration. Similar programmes in the US after the Second World War expanded the options available to European countries, making 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 other high-income countries than the models currently prevailing in Asia or America. A combination of centralised policies and decentralised implementation is the key to success and acceptance.

⁷ See K. Aiginger: New Dynamics for Europe: Reaping the Benefits of Socio-ecological Transition. Synthesis Report Part I. Executive Summary, WWWforEurope, Vienna and Brussels 2016, available at <http://Synthesis-Summary.foreurope.eu>.