EDITORIAL
By Antonio Missiroli

A summer of tough love

Political seasons in the EU used to peak in March, June, October and December. These are the dates when more or less regular Summits take place and common decisions are expected to be finalised. June 2011, however, has been hardly conclusive – although the appointment of Christine Lagarde at the head of the IMF has closed an embarrassing and potentially dangerous gap while reassuring those who feared an anti-European shift at a highly sensitive time.

On the one hand, meetings of the European Council have become ever more frequent. As a result, major decisions are taken in stages and through successive instalments, so to speak. The process is phased in more gradually, and the brinkmanship and drama of all-nighters in the Justus Lipsius building - the last one took place on 9 May 2010 over the first package for Greece - have now become less likely or even necessary.

On the other hand, the sense of urgency and the pressure to make momentous choices are surely not gone. The European Council of 23-24 June did agree on a number of important issues and laid the ground for further decisions to be implemented in the weeks to come. For their part, the Member States (starting, but not stopping, with Greece) are expected to deliver on their commitments regarding budgetary adjustments and domestic reforms as articulated in the European Semester.

All of these are going be painful for many but also indispensable to weather the current crisis and reassure partners, inside and outside the euro zone. And political leaders in the capitals will have to take the heat – on top of the usual summer peaks – for measures that are as unpopular as they are necessary. Europe needs to move on from the current lethal combination of bailout fatigue and austerity fatigue.

For its part, the Commission has just delivered its draft proposal for the Multi-Annual Financial Framework (MFF), which will constitute the basis for a EU-wide debate that is due to start right away and is likely to last for at least one year. This issue of BEPA Monthly Brief intends to contribute to this debate by addressing how the EU does and/or should spend its money, and why – in full awareness that this is just a starting shot. Indeed, ce n’est qu’un début …
Especially after the launch by the Commission of its draft proposal for the Multi-Annual Financial framework (MFF), the EU enters a debate on how its budget could and should be shaped in the future to serve its citizens. Such debate will last many months and will involve a number of key stakeholders like the European Parliament and the Member States. Just looking at the budget (or the costs side) without considering the benefits common EU policies bring risks leading to biased and, above all, sub-optimal trade-offs.

To help prevent this, BEPA has undertaken an investigation into how and where EU actions, policies, and in particular expenditure can add value to its citizens and Member States – above and beyond, that is, the crude operating costs involved. It has done so only through a limited number of examples of common policies – but one which already paints a revealing picture. This research focuses primarily on the macro impact of broad policy schemes and complements the staff working document prepared by the Secretariat-General; now attached to the Commission’s proposals for the MFF.

To start with, it is worth reminding that the EU budget amounts to less than 1% of the Union’s gross national income (GNI), i.e. a small fraction of government spending at national level, which ranges – among the 27 – from 30% to over 50% of GNI.

Nonetheless, testing the added value of EU spending is a useful exercise that enhances the accountability of institutions to citizens and Member States alike. As President Barroso outlined in his letter to the President of the European Parliament of 26 November 2010, European added value is “a key test to justify spending at the EU […]”. The Commission will also fully take into account the European added value as well as the synergies between the EU and national budgets for specific policies, and the corresponding savings, in its proposals on the next Multiannual Financial Framework”.

Over the years, some Member States have used the notion of “fair return” (juste retour) as a political argument, especially when negotiating their contributions to the EU budget. In accounting terms, however, the notion is questionable. Researchers have demonstrated why and how such calculations lack rigour and are at times even meaningless. More fundamentally, they have pointed out that European integration is not a zero-sum game in which amounts “paid” or “received” by Member States net out – especially given the specific value that integration creates.

Furthermore, it is highly debatable whether policies that have a non-economic goal (for instance, redistribution, environmental protection, security, freedom of movement) should be assessed solely in terms of economic cost/benefit analysis. President Barroso’s letter stressed i.a. that “the value added of a political project cannot be reduced to a balance sheet”.

Large as they may seem, the payments made by the “net contributor” Member States generally amount to less than 0.5% of their GNI. In 2000–9, the one with the largest net contribution as a share of its economy was the Netherlands: it amounted to 0.40% of GNI. The next largest “net contributors” (Sweden, Denmark, Luxembourg) reached 0.31/0.34% of their respective GNIs.

Such sums are dwarfed by the benefits of the EU to Member States. Among the 15 examples of EU added value identified and assessed by BEPA, several yield larger benefits individually than the total costs of the EU budget. For instance, evaluations by various research and academic organizations suggest that the added value of the Single Market alone is at least 2.15% of GDP; that of competition policy 3.2%; the liberalisation of air travel 4%; and the euro 10% of GDP. Overall, it is undeniable that the benefits of the Union to the Member States far outweigh the material costs of the EU budget.
For example(s)
If one delves more deeply, the following examples highlight three types of impact:

- key policies at the core of a Europe-wide open, free, competitive and innovative single market: single market policies, trade policy, competition policy, enlargement, the euro, freedom to work across Europe, and research and innovation policies. If one assumes that adding up the individual effects of these policies is representative of their combined impact, their total added value is in the region of 10–20% of GDP;

- sectoral policies, such as airline travel and air traffic management, telecommunications and energy. Adding up the individual effects of deregulation and network interconnection policies in these sectors would give an estimated added value of 5% of GDP;

- policies with regional or local impact: these include cohesion policies as well as the sheer incidence of European institutions on regional economies. For instance, Objective 1 funds boosted the growth of convergence regions by 12% from 1995 to 2006; and the European institutions contribute 13% to the economy of the Brussels region.

While data on the impact on labour markets is incomplete, the cumulative effect of these selected examples amounts to at least 12 million extra jobs, or about 5% of EU-27 employment.

Needless to say, all these common policies also bring huge non-economic benefits – such as increased personal freedom across Europe, stronger solidarity between European regions, more effective action against climate change, bigger clout in global negotiations and, last but not least, a more peaceful and secure Europe.

Combined with some country-specific information (such as net contributions to the EU budget), these examples can help convey a first rough picture of not only the nominal costs but also the real benefits of EU policies.

Net indirect benefits for some net contributors
Germany, to start with, is a leading exporter in and to Europe, with more than 85% surplus balance realised within the single market. Every fourth job in Germany is dependent on exports. The positive effect of the euro, in particular, on the German economy has also been remarkable. German exports to the euro zone grew impressively over the years thanks to that: 3% per annum from 1990 to 1998, 6.5% from 1999 to 2003, and 9% from 2004 to 2007.

Often neglected are also the benefits that the UK derives via the central role that the City of London plays across Europe, especially in wholesale banking and financial markets. Such a role is greatly facilitated by EU regulations on free trade of services and the European passport, i.e. the principles of mutual recognition – which allows financial services operators legally established in one Member State to provide their services in other ones without further authorisation requirements. London’s financial sector and exports make a large contributor to the UK’s balance of payments: trade in services with EU-27, in particular, has been in surplus for five of the last six years, growing strongly to record a net surplus of £ 9.2 billion in 2009. On top of that, the City employs more than 300 000 people in Greater London.

For its part, the Netherlands benefits significantly from the EU’s enlarged single market in two ways. First, Dutch exports represent 84% of its GDP (2008), more than 80% of which is directed towards European countries. The Dutch Central Plan Bureau estimated the contribution of the Single Market in the range of 4 to 6% of GDP (2008), equalling 1500 to 2200 EUR per inhabitant per year. Second, the Port of Rotterdam prides itself to be the gateway to Europe, and indeed has seen its throughput increase by 50% since the introduction of the Single Market in 1992. In 2010 the economic importance of the Port of Rotterdam can be expressed in (in)direct added value of 22.2 billion EUR (3.3% of GDP) and (in)direct employment for 145 000 people.

These selected examples show how much value the EU already adds to all its citizens and Member States – and how much more can come in the future. The fresh debate on the MFF is a perfect opportunity to explore new ideas and new trade-offs.
The debate on the EU budget beyond 2013 is now beginning in earnest. Despite the current budget’s well-documented, much-bemoaned and readily-apparent shortcomings (and in apparent obliviousness to the consequences of the economic, financial and debt crisis), few experts expect the kind of major refurbishment that might be called for at this stage. Even after years of verbal pledges to make Europe a “dynamic knowledge-based economy” and to build an “Innovation Union”, it looks as if – once again – vested interests will triumph and organised opposition will combat even the most modest efforts to modernise budgetary priorities. In many ways, the budget exemplifies everything that is wrong with Europe – a keen awareness of the need to change, on the one hand, versus the stubborn and illogical allegiance to the status quo, on the other.

In the absence of any expectation that budget priorities will change fundamentally in the next Multiannual Financial Framework (MFF), what could be some innovations and new approaches that would at least mark some progress and measure of reform?

From subsidies to investments
First, the entire intellectual underpinning of the European budget needs to be re-thought and re-evaluated. In the ideal world, we would move from a logic of open-ended subsidies and ill-defined goals of “redistribution” towards a logic of strategic and targeted investments of limited duration. This would necessitate two things:

• firstly, fewer grants and more loans. Loans should serve better than grants in incentivising recipients to ensure that there will be a proper return on investment (ideally, a sustainable effect in terms of growth, employment and innovation). Some stake in accepting funding – as would be the case with a loan because it needs to be paid back – would have the potential to result in dramatically improved business plans, execution of projects and impact monitoring – not least because the loan-granting entity wants to ensure success, as that makes servicing the debt more likely. Currently, there are insufficient means to reprimand grant recipients who do not deliver value and impact;

• secondly, re-think the practice of letting recipients decide how money is spent. While there are (nominally) some requirements on how to use EU funds, in practice there is too much leeway in letting politicians and fonctionnaires at Member State level decide on spending priorities. The result has been an excessive focus on large-scale domestic (pet) building projects, which may serve well as vote-getters for local politicians but which have hardly facilitated structural change, modernised economies and provided lasting value in terms of employment and growth.

That needs to change as European citizens and taxpayers rightly wonder why some of the largest recipients of EU cohesion funds – namely Greece, Ireland and Portugal – are the very countries they now need to bail out. There are limits to “solidarity”, especially when the concept is abused and countries stubbornly use the money to subsidise the unsustainable. By doing so, the budget – and the larger European project – will continue to lose credibility.

From push to pull
So if local leaders and fonctionnaires should not decide unilaterally how to spend the money, who should? In general, we need more pull and less push: money should go into areas where there is genuine and demonstrable demand and where other actors – such as the European Investment Bank or non-public entities (private companies, financial service providers and venture funds) – are also prepared to take a stake. They would serve as a sort of quality control because they are only prepared to channel money into projects that they deem fund-worthy and successful over time. Many EU-funded projects are not sustainable as they are unable to secure other sources of

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funding or become self-sufficient: they simply collapse after EU funding is withdrawn. By trying to prevent these “white elephant” projects from ever getting off the ground, and recognising the need to ensure upfront that projects are viable, the Commission’s DG REGIO is now rightfully pushing the concept of “smart specialisation”. In a nutshell, it means that regions need to adopt a more bottom-up, entrepreneurial and demand-based rationale behind projects, rather than the top-down, publicly funded wish-list of local politicians. It’s a subtle but profound shift from using public funds to essentially crowd out private initiatives to embracing co-creation and collaboration between public and private actors. In other words, more pull and less push – more public-private partnerships and fewer public-sector solo acts.

From domestic to European
The future MFF needs to have more of a pan-European dimension. It is in the interests of all to spend more where “Europe” can make a difference, such as cross-border transport, energy, and ICT projects. The reason why going European in these areas makes sense is twofold:

- first, it would be more costly to fund these projects individually at national level – which is not advantageous at any time, but is particularly inappropriate now in the midst of a financial and debt crisis;
- second, most Member States by definition are more intent on domestically focused spending priorities, so it is natural that the EU needs to fill this gap and help make the smart energy grid, the 21st century broadband infrastructure and the Europe-wide sustainable transport systems a reality.

Against this backdrop, the plans for a “Connecting Europe Facility” that will provide a policy roadmap and accompanying financial framework for ambitious Europe-wide projects is long overdue. Such a vision for long-term investment in strategic areas would not only demonstrate policy commitment but also give the necessary assurance to private investors (e.g. pension funds) of becoming involved in such projects.

From juste retour to own resources
The current system of juste retour, meaning that Member States try to get as much out of the budget as they put in, has rendered the EU’s financial framework dysfunctional, short-sighted and prone to political manipulation. The only way to overcome the dependency on national contributions to the EU – and lessen the exposure to national egotisms that so often stand in the way of doing the right thing for the common good – is to raise more funds from so-called “own resources”. To be sure, this is not about increasing the total EU budget: it is only about raising funds in a manner that is commensurate with the challenges ahead, which call for more strategic investment in the wider European interest. A tax on financial transactions and allocating part of the European Emission Trading scheme to EU coffers are both good proposals. And if the Member States spike the proposals for own resources, they forgo their right to complain about the EU budget.

From policy to politics
As is always the case, however, the ultimate test of reform will not be the policy, the intellectual arguments, the evidence presented – but the politics, the down-and-dirty of interest group wrangling, the Member States’ ability and willingness to act beyond their immediate short-term interests.

To be sure, this MFF is about something much larger than the actual amount of money, which (as we all know) is comparatively small. This MFF is about what we as EU want to stand for in the 21st century; it is about demonstrating to our citizens and our global partners that we collectively have the ability to embrace change and embody modernisation – and that we are prepared to walk the talk of the Europe 2020 Strategy.

Europe is at its best when it supports movement and mobility, exchange and collaboration, renewal and entrepreneurship. These are the areas that are in need of financing, and where even modest EU disbursements could make a profound difference. It is high time to put our money where our mouth is.
The contribution of 16 European think tanks to the Polish, Danish and Cypriot Trio Presidency of the EU Council

This publication provides a thorough overview of the prospects of economic growth, aspects of economic governance and challenges in the fields of security and JLS that the Polish, Danish and Cypriot Trio Presidency could face in the next eighteen months. In an in-depth study of the Trio’s role – both front-stage and back-stage – as it develops in the context of the Lisbon Treaty’s implementation, each chapter aims to take stock of the initiatives adopted in the last eighteen months identifying challenges that have emerged and formulates concrete short- to medium-term proposals for rapid progress in Commission policies. In doing so, the authors analyse direct and indirect developments on a sector-by-sector basis and examines the role of the Presidency in shaping inter-institutional relations.


Privatisation is no salvation

While the Greek government is eager to privatise public assets, this commentary argues that privatisation is a mirage. Solvency and liquidity should not be confused. Privatisation cannot limit public debt, especially if it has to be done at distressed prices. Selling assets can only be a short-term solution to help the current government reduce the debt service burden. Future governments, however, will lose important sources of revenues that could contribute to an increase in the risk premium of longer-term debt or to the reduction of the value of existing claims of long-term creditors. Although a tempting prescription, large scale privatisation has already been tried unsuccessfully in Argentina prior to the onset of its crisis. The article concludes that due to privatisation the return to capital markets might be even less plausible.


Debt restructuring in the euro area: A necessary but manageable evil?

This article explains measures aimed at providing a safety net to the Greek economy. There is a low possibility for the government to borrow from the market. Moreover, the author points to the impossibility of official lending with potential voluntary private sector participation (Plan A) being successful, since it risks hoarding the debt and further deteriorating the political situation. However, coercive and pre-emptive, or post-default restructuring of privately-held Greek government debt (Plan B) is necessary because it might reduce the size of the sovereign debt. Yet, it could lead to the exchange rate collapsing and problems with access to capital, liquidity and credibility of banks. The report recommends that the EU takes decisive action in debt restructuring and the strengthening of the Greek banking system through stress-testing and recapitalisation.


The European Security Strategy: Reinvigorate, revise or reinvent?

This paper argues that a strategic discussion on the EU’s external action is overdue and that the future of the European Security Strategy should be central to this discussion. The nature of an eventual new strategy, the chosen process for revision and its intended effects remain still unclear. The new security strategy should fulfil three functions: have political appeal and thus a potential to inspire; serve as a guideline for daily bureaucratic work; and serve as a way of communicating the EU and its views to a broad audience (inside and outside the EU). The report examines arguments for and against revisiting the strategy; points to the importance of learning from the past when drafting a revised strategy; and assesses three options for addressing the current one: reinvigoration, revision, or reinvention.

Stronger after the crisis – Strategic choices for Europe's way ahead

This paper argues that Europe is at a crossroads: either European leaders succeed in re-energising European integration or the EU will no longer be relevant to its citizens and will be unable to shape their future. The resolution of the euro crisis is a *sine qua non* condition for the future of the European project. A reactive approach will not suffice: once the debt crisis is contained, the EU will need to proactively reignite integration, rebuild consensus, and link the leadership ambitions of key actors at national and European levels. Four potential strategic projects are suggested: (1) the completion of an integrated internal market; (2) the establishment of a common migration and asylum policy; (3) the revitalisation of the European social model; (4) the establishment of a “Defence Union”.


Innovation activities and competitiveness: Empirical evidence on the behaviour of firms in the new EU Member States and candidate countries

This paper attempts to identify the factors and forces influencing the ability of firms from several transition economies in Central and East European Countries (CEECs) to compete effectively in globalised markets and to expand their market share. The results indicate that competitiveness of firms is enhanced with improvements in their cost efficiency, productivity of labour, investment and their previous business experience while stronger competition has a negative impact on it. This study concludes that even though competitiveness is dynamic, the current behaviour of firms in CEECs does not fundamentally differ from the transition period. Moreover, despite progress achieved in the CEECs, innovation activities can enable Croatian firms to also catch up with CEECs despite their advanced stage of transition.


Death of an institution: The end for Western European Union, a future for European defence?

This report reviews the 57-year lifespan of the WEU to assess its achievements and legacies. An initial post mortem on the WEU’s achievements could credit its role in early post-war consolidation; its political ambition to construct a European security identity and further transatlantic relations since the 1980s; and its support in cementing common approaches in crisis management. However, the EU has proved unable to absorb and improve on three aspects of the WEU’s legacy: true collective defence guarantees of the Modified Brussels Treaty; openness towards Turkey and other non-EU Allies; and the maintenance of a specialised parliamentary assembly for defence and security. The post-WEU situation could see new security challenges leading to greater defence integration; or longer-term security potential better served without ‘hard’ military traits.


Divided we fail: Time for the EU to speak with one voice to Belarus

This report argues that EU attempts to draw Belarus closer to the EU have failed. Active engagement with the regime has not resulted in democratisation nor in a rapprochement with the EU, any more than the policy of isolation had. This failure is partly due to persistent divergences among EU member states and their perceptions of Russia’s role in the shared neighbourhood. This trend should urgently be reversed, since it plays into the hands of the regime and pushes Belarus into Moscow’s sphere. Instead, the EU should speak with one voice – through a coalition of the willing – in a language that the authorities understand: pragmatism. Provided that Minsk frees political prisoners, a roadmap for conditional support of economic reforms and gradual regime evolution could be negotiated.

Arrivées et départs
Le 1er juillet Eric Peters rejoint l’équipe Analysis du BEPA en tant que conseiller. Auparavant, il était conseiller spécial au sein de la Représentation permanente française auprès de l’UE. Lauren O’Connor est la nouvelle assistante de l’équipe EGE depuis le 9 juin.

Dans le cadre du BEPA “Visitors Programme”, nous accueillons à partir de la mi-juin et pour une période de deux mois, Sony Kapoor, le directeur du think tank Re-Define. Son travail portera sur trois thèmes: le coût de la non-Europe, la régulation financière et la gouvernance économique européenne.

Le BEPA souhaite la bienvenue à ses nouveaux membres.

Matti Maasikas quitte l’équipe Outreach du BEPA à la fin du mois de juin pour devenir le Représentant Permanent de l’Estonie auprès de l’UE. Nous le remercions pour ses services et lui souhaitons une bonne continuation.

Evénements
Le 7 juin, le BEPA en coopération avec le Carnegie Endowment for International Peace a organisé le 2e forum annuel sur les relations entre l’UE et la Russie. Les débats ont porté sur les processus en place – aussi bien au niveau national en Europe et en Russie qu’à l’étranger – pouvant poser des défis dans les relations des ces deux acteurs importants, tant au cours de l’année prochaine que pendant la prochaine décennie. Des experts européens, russes et américains se sont notamment concentré sur le rôle de la Russie d’ici 2020, les relations énergétiques entre l’UE et la Russie et les priorités transatlantiques.


Le même jour, le BEPA en coopération avec le Centre for European Studies (CES) a organisé une table ronde intitulée “À la recherche d’un nouveau récit européen” où les auteurs de trois études – des experts faisant partie de groupes de réflexion formés par le CES pour analyser trois problèmes majeurs d’intérêt européen – ont eu l’occasion de présenter les résultats de leurs analyses. Les études portent sur le recalibrage de la relation transatlantique dans le contexte d’un monde multipolaire, les relations UE-Russie et l’avenir du commerce mondial.
Finalement, ce même jour, le BEPA participait à un déjeuner avec des représentants de laboratoires d'idées se spécialisant sur les perspectives financières. Le BEPA a aussi reçu une délégation d'assistants parlementaires de Membres du Congrès américain qui était en visite à Bruxelles.

Activités à venir
Le 1er juillet; le BEPA et la DG Recherche et Innovation organisent conjointement une conférence sur “L'espace Atlantique géopolitique et géo-économique: possibilités et défis communs” rassemblant des participants de l'Afrique, l'Europe et l'Amérique du Nord et du Sud. L'objectif principal de cet événement est d'identifier les tendances émergentes dans les relations entre différents pays et acteurs des deux rives de l'Atlantique (aussi bien au nord qu'au sud) et d’examiner les implications politiques et les pistes futures dans le monde de la recherche qui y découlent.

Le 12 juillet, le BEPA organise en collaboration avec une organisation humaniste un colloque sur le thème “Jeunesse – éducation – culture” afin d'explorer les perspectives d'intégration de la jeunesse à la construction de la société européenne et de discuter des politiques européennes de jeunesse et des instruments et objectifs de la Commission à ce sujet.

Le 14 juillet, le BEPA organise une séance informelle de brainstorming rassemblant un petit groupe d'experts et de leaders d’opinion européens pour un échange de points de vue sur “l'état de l'Europe”. La réunion vise à rassembler et à bénéficier de l'expertise européenne tant sur des sujets d'actualité que des thèmes et des priorités qui domineront l'agenda politique de l'UE dans les prochains mois.