SYNTHESIS 20 NOVEMBER 2012

PROJECT "HOW TO SPEND BETTER TOGETHER"

SPENDING BETTER TOGETHER ANALYSES AND RECOMMENDATIONS

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In June 2011, *Notre Europe – Jacques Delors Institute* launched a research project entitled "How to spend better together". The aim of this project was to look at what we spend on aggregate terms - that is, both at the EU and national level – and to explore the potential for efficiency gains by re-organising spending tasks or better coordinating national and EU spendingin selected policy areas.
As explained by the two coordinators of the project in this synthesis, the "Spending better together" publications tell us that the Community budget is only one of several factors in a broad spectrum of financial intervention methods available at the European level. They provide the reader with a broad overview of the varying degrees of budgetary integration and of the different instruments for financial intervention that exist at the European level. They also provide interesting in-depth analysis of the political and legal obstacles to "better spend" in each area of intervention, and put forward recommendations to improve the efficiency of EU and national spending in different areas of intervention (research, higher education and innovation; energy infrastructures, development aid, defence).

As the European Union (EU) experiences a crisis unprecedented either in scope or in duration, numerous member states' public finances are encountering major difficulties in supporting business and jobs in any lasting way due to the absolute priority which they need to assign to getting their public accounts back into shape. That is the backdrop against which the financial framework for 2014-2020 is being so hotly debated.

In view of this, the issue of rationalising public finance in a European perspective is more topical and sharper than ever. "How can we spend better together?" That is the question to which *Notre Europe – Institut Jacques Delors* has sought to provide a series of answers in an attempt to spark a debate on the reorganisation of public spending in the EU.

"How to spend better together?" means asking ourselves questions on the possibility of transferring certain tasks from the national to the European level, and on how to improve coordination between national and Community expenditure. This new governance of certain aspects of public spending would allow us to increase its effectiveness, but these issues are particularly tricky and complex to address because, of course, they mean that we have to also ask ourselves questions on:

- the real benefits of a transfer of competences: what is the EU's added value? Rubio[1] highlights all the difficulties involved in grasping this concept of "European added value".

- the form it should take this transfer of competences. What instruments should be used? The Community budget is one element among many in a broad spectrum of instruments available at the European level (subsidies, loans, "project bonds", regulatory intervention, funds managed by a specific structure and so forth). It is a matter of finding the right instrument for achieving each target.

- the way in which national and Community operations should dovetail: how to ensure the coordination between the national and Community levels? It is absolutely essential to study the synergies possible between forms of budget intervention at every level[2]. In the EU, vertical coordination (between the national level and the Community level) is just as crucial as horizontal coordination (among the various member states at the national level).

Basing its work on expert reports, *Notre Europe – Institut Jacques Delors* presents a series of publications shedding new light on this as yet little addressed issue. The approach adopted is unique to many of the titles. First of all, the aggregated approach espoused in each of the studies allows the reader to gain a view of the entire spectrum of funding in the EU at both the national and Community levels. This approach offers a better vision of the current share out of public spending in the EU, a fact highlighted by Barbier-Gauchard[3]. In addition to this, the sectoral expertise provided in each study brings the reader closer to the concerns and issues specific to each area of intervention and allows him to more accurately identify those factors capable of encouraging a transfer of competences to the European level (the existence of externalities, of potential economies of scale and so forth), as well as the level and quality of the coordination between national and Community spending in each area of intervention. Lastly, the "spending better together" publications tell us that the Community budget is only one of several factors in a broad spectrum of financial intervention methods available at the European level. They provide the reader with a broad overview of the varying degrees of budgetary integration and of the different instruments for financial intervention that exist at the European level *(section 1)*. A sectoral perspective makes it then possible to paint a picture broken down by area of intervention *(section 2)*.

1. The need for a broader vision of European spending

1.1. Overview of the current governance of public spending in the EU

As Barbier-Gauchard, Le Guilly and Mareuge[4] explain, the governance of public spending in the EU is de facto a multi-level governance inasmuch as the European institutions do commit to expenditure (albeit a modest amount) alongside member state spending.

Sure enough, the importance of Community spending is fairly limited overall. The national level continues to account for over 98% of European public spending, whereas such spending is far more centralised in other fiscal federations (63% in the United States and 37% in Canada). Aside from social protection and health spending (which occurs at the national level in the EU), Community expenditure now accounts for 3.5% of overall public spending in the EU.

TABLE 1 ► The multi-level governance of public spending in the EU in a few figures

	PUBLIC SPENDING		TOTAL
	COMMUNITY EXPENDITURE	NATIONAL EXPENDITURE	
In millions of euro	118,345	5,985,115	6,103,460
As % of GDP	1.0	50,9	52
As % of overall public spending	1.9	98.1	100
As % of overall public spending (aside from social protection and health)	3.5	96.5	100

Sources: Eurostat, EU Official Journal L68 2011, CAS calculations

Source: Barbier-Gauchard, Le Guilly and Mareuge (2012)

Moreover, the **hierarchy of spending at the Community and national levels** is largely in reverse by comparison with national spending, as we can see from Table 2. While education, operating costs (including interest on the debt) and security and defence are at the top of the national public spending list (accounting for almost 62% of national public spending aside from public spending on social protection and health), the Community level is concerned primarily with agriculture, fishing and rural development along with regional cohesion (over 75% of Community public spending aside from public spending on social protection and health).

TABLE 2 ► Hierarchy of public spending as a percentage of overall public spending at both (national and Community) levels excluding public expenditure on social protection and health

	NATIONAL		COMMUNITY
Education	21.6	Agriculture, fisching and rural development	51.3
Running costs	16.5	Regional cohesion	24.6
Interest on debt	10.2	External relations (others)	6.2
Regional cohesion	10.0	Running costs	5.7
Freedom, security and justice	7.3	R&D	5.6
Defence	6.1	Education	1.5
Transportation	5.1	Competition and innovation	1.4
Citizenship and culture	4.6	Transportation	1.1
Competitivity and innovation	4.6	External aid	0.7
Housing	4.4	Freedom, security and justice	0.7
Environment	3.1	Environment	0.3
R&D	3.0	Citizenship and culture	0.3
External aid	1.9	Energy	0.3
Agriculture, fishing and rural development	1.1	Communication	0.2
Energy	0.2	Housing	0.0
Communication	0.1	Defence	0.0
External relations (others)	0.0	Interest on debt	0.0
TOTAL	100.0	TOTAL	100.0

Source: Barbier-Gauchard, Le Guilly and Mareuge (2012), authors calculations

However, as shown in table 3, a breakdown by target can qualify this initial observation about the extreme originality of the model for the governance of public spending in the EU.

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The importance of Community spending for the **conservation and management of natural resources (agriculture, fishing, rural development and the environment)** shares the same proportion as Canada, for instance. By the same token, the European model does not appear to be so distant from that of the other models for public spending on **freedom, security and justice, citizenship and culture** which continue to be strongly decentralised in both in the United States and in Canada (even if their importance in overall public spending is different in each country, as mentioned above).

In the end, the originality of European public spending rests essentially on expenditure linked to competitiveness, cohesion and external relations Indeed, the comparative analysis shows that:

- Community involvement in **cohesion for growth and employment (regional cohesion, housing, social protection, health)** is rather modest. Despite its importance in the Community budget, this type of expenditure is far less important at the EU level than in the federal level of the United States and Canada;
- Public spending linked to **competitiveness for growth and employment (R&D, education, transport, energy, competitiveness and innovation)** is strongly decentralised in Europe, while it is relatively centralised in other fiscal federations.
- Finally, spending connected with **external relations** remains almost totally decentralised, while this type of spending is strongly centralised in other federations. Where **defence** is concerned, this situation can be explained by the Community level's relatively limited role in crisis management within the framework of the CSDP (common security and defence policy).

These are, in essence, the reasons why **Notre Europe - Jacques Delors Institute** has chosen to focus its analyses on the sectors linked to competitiveness for growth and employment, and to external relations.

TABLEAU 3 ► **The multi-level governance of public spending broken down by target, as a percentage of overall public expenditure (2009)**

	EUROPEAN UNION		UNITED STATES		CANADA	
	CENTRALISED	DECENTRALISED	CENTRALISED	DECENTRALISED	CENTRALISED	DECENTRALISED
1a. Competitiveness for growth and employment	1.0	99.0	26.8	73.2	12.2	87.8
1b. Cohesion for growth and employment	1.0	99.0	77.7	22.3	38.8	61.2
1b. Cohesion for growth and employment (aside from social protection and health)	5.7	94.3	86.3	13.7	31.9	68.1
2. Conservation and management of natural resources	30.4	69.6	65.2	34.8	26.0	74.0
3. Freedom, security and justice, citizenship and culture	3.0	99.7	17.2	82.8	48.0	52.0
4. External relations	3.0	97.0	100.0	0.0	100.0	0.0
5. Running costs	0.8	99.2	56.6	43.4	57.7	42.3

Sources : Eurostat, OECD, EU Officia Journal L68 2011, BEA (United States), Statistics Canada, CAS calculations

Source: Barbier-Gauchard, Le Guilly and Mareuge (2012)

1.2. Different degrees of budget integration

The previous section illustrates the current distribution of tasks between national budgets on the one hand and the Community budget on the other. However, the Community budget is the strongest form of budgetary integration that can be envisaged at the European level. In practice, there are other, less advanced forms of "budgetary Europeanisation" which are used in situations where member states'interests differ too markedly. While fairly limited on the whole, this budgetary Europeanisation is substantial in such sectors as research and external relations, fields in which spending outside of the Community budget accounts for approximately three-quarters of all spending at the European level[5].

In particular, we can identify three modalities of transfer of competences to the EU level: "mutualisation", "Europeanisation" and "Communitarisation" reflecting growing degrees of budgetary integration, as outlined in Table 4[6].

TABLE 4 ► **Different modalities of transfer of competences to the European level**

Modality of transfer of competences	MUTUALISATION	EUROPEANISATION	COMMUNITARISATION
Number of member states (MS) concerned	Only certain MSs	Only certain MSs	All EU MSs
Features	Pooling of national funds to finance specific projects	Non-Community European spending (not routed through the Community budget)	Community European spending, financed by Community funds, routed through the EU budget
Decision-making mode	Intergouvernemental (les décisions sont prises seulement par les EM concernés	Intergovernmental (decisions are taken only by the MSs concerned)	Communitarian (decisions are taken jointly by the EU Council and the European Parliament under a co-decision arrangement; the Commission plays an initiating role)
Management	Responsibility for management lies with institutions outside the EU's remit	Responsibility for management lies with institutions within the EU's remit	Responsibility for management lies with the European Commission
Degree of budget integration	*	**	***
Examples	OCCAR (Organisation for Joint Armament Cooperation)	EDF (European Development Fund)	7th research and development framework programme, RTE-energy programme

1.3. Different instruments for financial intervention at the European level

While transfer of competences can take place by differing degrees, it is also important to take into account the full range of financial instruments available to the EU to fund its policies. In particular, we can distinguish four main types of intervention: subsidies, loans, debt instruments, and risk capital/core capital instruments.

- **Subsidies** continue to be the major method for intervention. Given that only 6% of the Community budget is allocated to administrative costs, the meat of this budget is spent in the shape of subsidies. They may benefit either public institutions (for instance, regional authorities) or end users (farmers, students, researchers and so forth). They are occasionally subject to co-funding.

- Intervention in the shape of **European Investment Bank (EIB) loans** also plays a major role. In 2011 the EIB loaned a total of 54.3 billion euro to public and private institutions within the EU, a far from negligible sum worth some 38% of the Community budget for that year[7]. The EIB lends to large-scale projects of European interest or, through commercial banks, to end users who have difficulty in gaining access to private funding (small and medium businesses, local authorities and so forth). These loans play a very important role in certain areas of intervention such as energy or transportation.

In addition to subsidies and EIB loans, the European Union also possesses a very varied spectrum of financial tools which come together under the name of "innovative financial instruments". These financial operations are charged to the Community budget but implemented in a different way from subsidies. The aim is to trigger a snowball effect for the EU budget by facilitating and attracting other public and private capital to fund projects and goals of European interest. While innovative financial instruments have existed for years, their importance has gone from strength to strength and they are going to play a major role in the next financial framework, 2014-2020[8]. They can be broken down into two broad groups:

- **Debt instruments** consist, in particular, of loan guarantees or risk-sharing mechanisms in favour of such financial intermediaries as the EIB, public investment banks or commercial banks. The aim of these instruments is to encourage financial intermediaries to increase the volume of the funding for certain risk projects of European interest, or in favour of certain categories of end user (for instance, small and medium businesses) by providing them with a guarantee against losses set against the Community budget. The "project bond" recently established by the European Council in experimental form is a special kind of risk-sharing mechanism, an instance of a risk-sharing mechanism in favour of private investors issuing bonds to finance major infrastructure projects of European interest.

- **Risk capital/equity instruments** are designed to boost the offer of risk capital or of equity in favour of certain projects held to be of European interest. In such cases, the Community budget provides support in the form of participation in a common investment fund set up jointly with other public (EIB, national public banks) or private investors. These investment funds can be managed by specialist investment vehicles or by the European Investment Fund, which is part of the EIB group.

TABLE 5 ► Different modalities of financial intervention at the European level

Type of intervention	SUBSIDIES	LOANS	GUARANTEE AND RISK SHARING INSTRUMENTS	RISK CAPITAL/ EQUITY INSTRUMENTS
Source of funding	Community budget	EIB (European Investment Bank)	Community budget, possibly with EIB funds	Community budget, EIB, possibly with other public and private investors
Management	European Commission	EIB	EIB or commercial banks	EIB group or special investment vehicle
Examples	Erasmus grants, direct payments to farmers (CAP), regional subsidies	EIB loans to trans-European network projects	Risk-sharing finance facility (RSFF) for funding "risky" projects in the R&D field, "project bonds"	Marguerite Fund (energy, transport and CIT)

It is important to stress that the above table includes only EU interventions designed to fund EU policies and actions. It therefore excludes those interventions of a macro-economic nature, in the shape of loans or guarantees, designed to offer support to countries in financial difficulty. This kind of intervention has gained in importance over the past few years, in particular with the creation of macro-economic support instruments for countries in the euro zone (the EFSF, the EFSM and, more recently, the ESM). All three of these instruments are empowered to lend to countries in difficulty by borrowing on the capital markets thanks to guarantees put up by the euro zone's seventeen member states (where the EFSF and the ESM are concerned) or to guarantees provided by the European budget (in the case of the EFSM)[9].

2. Analysis per sector

As mentioned above, spending on R&D, competitiveness and innovation and external relations sectors tend to be much centralised in most fiscal federations. In the EU's case, a sectoral approach makes it possible to look more closely at the causes of the current situation for each individual sector examined, to highlight the factors for development, and to put together a picture of future prospects in light of the sector's specific characteristics. The four case studies undertaken by N*otre Europe – Jacques Delors Institute* have made it possible to identify a certain number of recommendations, grouped below.

2.1. Research, Higher Education and Innovationn

In the field of higher education, research and innovation, Ritzen and Soete[10] note that the real situation today is still a far cry from the goals initially set by the Lisbon Strategy and given a fresh boost in the Europe 2020 Strategy. Significant progress has been made in the research and innovation sectors (in particular, with the European framework programmes, the European Science Foundation, the European Research Council and the European Innovation and Technology Institute). In the field of higher education, on the other hand, far less progress has been made (aside from the Bologna Agreement, from agreements governing a number of mobility schemes such as Erasmus, or from a few European University Institute agreements).

Yet under the combined pressure of international competition in the field of knowledge – the EU is lagging seriously behind the United States in both the creation and the dissemination of knowledge, with European establishments putting in a relatively poor showing in the global rankings – and of economic effectiveness – investment in knowledge is a crucial driver for growth, in particular on account of the leverage effects that it triggers – as well for reasons of efficiency in public spending (through the economies of scale that can potentially be achieved by transferring jurisdiction to the Community level) and of regional cohesion (in light of the growing gap between countries in the forefront of research and innovation and those lagging behind), the EU faces a major challenge today. It needs to deepen European integration in the field of knowledge, whose three pillars are higher education, research and innovation. To meet this challenge, Ritzen and Soete suggest five principal measures for a more effective European knowledge policy, focusing in particular on the numerous sources of inefficiency generated by the way public funding is currently governed in these different fields, and on the benefits that could derive from "smart" specialisation among the various levels of budgetary decision-making[11]:

2.1.1. **Establishing a fully-fledged "*European Higher Education Area*"**: The creation of a European higher education area would make it possible to rationalise national public spending on higher education and to encourage emulation among universities, but also to facilitate student mobility (in particular, in order to achieve the figure of 20% established in the Bologna Agreement). This European higher education area would eventually remove language barriers, cut the cost of foreign courses and harmonise the terms regulating university loans and grants, which are currently pegged to the sole condition that a student study in his or her country of origin. The boundaries of this European higher education area have yet to be defined, inasmuch as it could range from a total transfer of university management to the European level, to the drafting of a European statute for those universities that subscribe to the scheme.

2.1.2. **Transferring greater responsibility in the research field to the Community level:** The current coexistence of numerous levels of governance without any real overall consistency tends to undermine the effectiveness of public funding in the field of research. Excellence is closely linked to the problem of scale. The European scale appears to best suited to the majority of research activities funded with public money, both in terms of bringing down assessment costs, in terms of selecting research proposals as well as for specialisation in high quality research. In the long term, it is to be hoped that European research policy can become a common research policy along the lines of the Common Agricultural Policy, orchestrated at the European level rather than at individual member state level as it is now.

2.1.3. **Facilitating "smart specialisation" in R&D and innovation at the regional/interregional level:** The European level is the most suitable in relation to basic research. However, applied research, technology transfer and the use and reuse of exogenous technologies as well as innovation and entrepreneurship are most frequently conducted at the regional and local levels. Today, there are too many instances of internecine competition between regions setting up similar knowledge hubs. The EU should ensure that regions succeed in establishing and pursuing "smart" innovation policies suited to their territory. To achieve this, it is necessary to use structural funds in a more effective manner and to peg them to the achievement of region-specific goals.

2.1.4. **Improving coordination among EU member states in the field of research and development:** through the adoption of different measures such as the creation of multinational research programmes, the merger of national scientific foundations, and coordination among national programmes for excellence in research, which are currently conducted independently by each member state.

2.1.5. **Increasing the use of innovative financial instruments in the research field,** such as the Risk-Sharing Finance Facility (RSFF) jointly devised by the Commission and the EIB for 2007-2013. This kind of instrument is very welcome at a time of crisis because it facilitates access to private funding for R&D-intensive European companies at a moment when banks are proving to be extremely reluctant to get involved in "risky" investments.

2.2. Trans-European Energy Infrastructures

In the trans-European energy infrastructure sector, von Hirschhausen[12] stresses the important challenges to which the EU is confronted regarding energy policy and the fact that the EU has no real model for funding energy infrastructures. There are many factors pushing for an in-depth reflection on the funding of energy infrastructures in the EU in terms of both transmission and distribution networks: the considerable cost of energy transition towards renewable energy sources (hydraulic, windpower, solar, biomass and so forth), the markets' limited role in this field, the Europe 2020 Strategy's goals, particularly in the environment sphere, the numerous externalities resulting from the national funding of energy networks and the complexity of current funding mechanisms (at both the national and community levels).

In order to rationalise financial support for traditional energy infrastructures while at the same time consolidating and increasing financial support for sustainable energy infrastructures, von Hirschhausen submits proposals heading in three main directions:

2.2.1. **Adopting a resolutely European approach to the funding of transnational energy infrastructures.** This is seen as indispensable in view of the considerable effort required to modernise and to develop energy infrastructures in the EU, but also to interlink the networks in a cross-border sense, while acknowledging the market's crucial role in this sphere. In particular, it is crucial to define clear and transparent criteria in selecting those projects that require public funding.

2.2.2. **Rationalising, consolidating and increasing European funding for the TEN-E's (Trans-European Energy Networks)** by putting into place the Connecting Europe Facility, proposed by the Commission for the forthcoming 2014-2020 period. This mechanism would expand the scope of the current TEN scheme. It would allow trans-national infrastructures of European interest (not just those concerned with energy) to benefit broadly from Community support, through a combination of subsidies and of market-based instruments.

2.2.3. **Rethinking the EIB's role and broadening the range of its instruments for intervention** by resorting either to low-cost loans, capital investment operations or to its playing an intermediary role in public-private partnerships. It would be a matter of carefully assessing the pros and cons of the use of a range of different EIB financial tools to fund energy infrastructure projects, in particular in terms of its ability to increase access to funding, to bring down funding costs, and to impart greater flexibility to the volume and duration of funding.

2.3. Development Policy

Concerning development policy, Muñoz Galvez[13] draws our attention to the fact that official development assistance (ODA) from Europe accounts for over half the overall sum spent on development aid worldwide. Yet Europe's action in this field is not as effective as one might think by comparison with the amount of money spent. It encounters three main obstacles: fragmentation (a plurality of players and of mechanisms), a changing development context, and the current budget stringency which has led to severe cuts in national development cooperation budgets.

In this connection, Muñoz Galvez proposes four main paths for improving the consistency and efficiency of ODA without that entailing an additional burden for public funding at either the national or Community levels:

2.3.1. **Integrating the European Development Fund (EDF) into the Community budget only if there is a clear engagement from member states to maintain the EU's overall development aid budget.** While the "budgetisation" of the EDF would entail additional transparency and efficiency, in the current context of budget stringency there is a major risk the latter leads to cuts in the overall resources earmarked for development aid. Thus, budgetisation should only be envisaged on certain conditions, in particular the existence of a clear political pledge not to cut the overall sum of European spending earmarked for development aid.

2.3.2. **Rethinking aid to middle-income and emerging countries:** in order to ensure that ODA is better targeted, it is necessary to treat countries with requirements that are very different in a different way. In particular, a distinction should be made between middle-income and emerging countries on the one hand and poorer countries on the other hand. The Commission's proposal, involving debarring the former from European development aid funds but signing "strategic financial partnerships" with them to promote mutual interests instead, is a move in the right direction. Yet a clear reference to the goal of struggling against unequal income should be introduced into the regulations governing these new instruments for middle-income and emerging countries, in order to ensure the engagement of such countries to reducing the major differences in income and to combating the pockets of poverty still existing on their soil.

2.3.3. **Making more use of instruments combining loans and subsidies while guaranteeing the positive impact of these instruments on development:** there is an unquestionable need to use these instruments in order to increase resources for ODA, but the profit-making goal of loans must not take precedence over public resources' remit to foster development.

2.3.4. **Strengthening the coordination and consistency of the European ODA policy on two levels:** A dual requirement is demanded of European development policy. On the one hand, greater coordination between national and Community intervention would make it possible to save approximately five billion euro per annum (through a better share-out of tasks between member states and the European Commission, or through the promotion of joint programmes). On the other hand, greater consistency between the policies implemented (particularly at the national level) and the development goals defined by the European Commission would make it possible to increase the effectiveness of ODA.

2.4. Defence

In the defence sphere, Liberti[14] highlights the obstacles and the difficulties that have stood in the way of stronger European integration in this area to date. But having said that, a number of factors which have emerged recently allow us to forecast a certain progress in the notion of EU defence policy. In this connection, the new prospects held out by the Lisbon Treaty (2007)[15] or the potentially devastating impact of budget austerity measures on national budgets (in terms of both the cuts in defence spending actually implemented and of overall consistency in the cuts made in each member state) appear to be fuelling a new dynamic for European defence policy.

In particular, the context of budgetary consolidation and the urgent need to respond to strategic European defence imperatives on the international stage call for improving the efficiency and effectiveness of public defence spending through further integration. In this context, Liberti proposes four possible paths, all of them based on pragmatic considerations (because there is no point, at this stage, in even talking about the creation of a European armed force, or even about the Europeanisation of overall investment expenditure in the defence sector):

2.4.1. **Creating a European defence equipment market:** In the case of what are known as "highly sensitive" technologies (for instance, in connection with the development of nuclear weapons) it is very logical that governments call only on national companies. In other spheres, on the other hand, closure to any form of competition prevents EU member states to improve their military capabilities at the lowest cost possible. The "Defence Package" submitted by the European Commission in 2009 and currently in the course of being transposed into national law, is a key first step in this field.

2.4.2. **Europeanise or Communitarise the R&D aspect of defence budgets:** Every single year, R&D programmes in the military equipment field implemented by each member state generate far from negligible duplications in spending while achieving what are essentially similar results. The 8th RDFP, scheduled to cover the period stretching from 2014 to 2020, could include a clearly defined "Defence" section which would also encourage synergy among European defence industries suffering from weak national research budgets. In the absence of an agreement at the Community level, member states wishing to do so could still move down that path thanks to the new measures envisaged in this sphere under the terms of the Lisbon Treaty.

2.4.3. **Communitarise the funding of common military operations:** common military operations are currently funded through an intergovernmental-style mechanism ("Athena") based on the principle of assigning costs to those states that incur them ("costs lie where they fall"). This principle is hardly designed to encourage member states to commit to the Union's military missions, and it also fosters a phenomenon known as "free riding" in which an EU member state can benefit from military operations stabilising the global situation without actually taking part in the mission in either a military or a financial capacity. To promote both greater solidarity and greater efficiency, the Community budget should take at least partial responsibility for the costs incurred in the funding of common military operations.

2.4.4. **Increased mutualisation of military equipment:** despite the disappointing experience with existing armaments cooperation projects (in particular OCCAR), new cooperation programs could weight down national budgets in the years ahead. The focus now should be on improving the effectiveness of existing capabilities, by adopting a policy of sharing or mutualising (in the sense of pooling) defence equipment.

Conclusion

Whether in the field of competitiveness for growth and employment (with spending on R&D, innovation, higher education and trans-European energy infrastructures) or in the sphere of external relations (with spending on defence and on development aid), numerous factors appear to justify a strategic reorientation of the current organisation of public spending still broadly entrusted to the national level.

In the four sectors analysed, the experts highlight the increased efficiency, solidarity and/or transparency that would result from stronger integration in some of sub-sectors for intervention (for instance, basic research, the funding of TEN-E's or the funding of military operations). However, the modalities for this integration appear to be varied and each one proper to its own sector. In some fields (research and development aid), greater coordination between national and European intervention appears to be a crucial factor in improving the effectiveness and consistency of public spending. In other fields (defence and higher education), the creation of a public market or of a "European area" could improve the effectiveness of public spending by fostering competition and emulation among national governments or universities. Finally, in every field except for defence, the experts recommend expanding the spectrum of instruments for intervention, in particular through resorting more extensively to the use of financial instruments different from subsidies (such as EIB loans, instruments combining loans and subsidies, or risk-sharing instruments).

1. See Eulalia Rubio, "The 'added value' in EU budgetary debates: one concept, four meanings", *Notre Europe, Policy Brief Nr. 28*, June 2011.
2. As also underlined in European Parliament, "Creating greater synergy between European and national budgets", Directorate-General for internal policies – Policy department of budgetary affair, Study, 2010.
3. See Amélie Barbier-Gauchard, "Thinking the EU budget and public spending in Europe: the need to use an aggregate approach", *Notre Europe, Policy Brief Nr. 29*, June 2011.
4. See Amélie Barbier-Gauchard, Marie-Françoise Le Guilly and Céline Mareuge, « Tableau de bord des dépenses publiques européennes : Une approche agrégée pour éclairer l'organisation des finances publiques dans l'Union européenne », Centre d'Analyse Stratégique, *Rapport et document*, février 2012.
5. Amélie Barbier-Gauchard and Yves Bertoncini, « Les dépenses européennes non communautaires : une réalité substantielle en devenir ? », Centre d'Analyse Stratégique, *Note de veille n° 105*, 2008.
6. See also A. Barbier-Gauchard and Y. Bertoncini, *op.cit.*
7. European Investment Bank, Annual report, 2011
8. European Commission, "A framework for the next generation of innovative financial instruments - the EU equity and debt platforms", COM (2011) 662 final, 19.10.2011.
9. For more information on the specificities and levels of these 3 instruments, see Sofia Fernandes and Eulalia Rubio, "The budgetary cost of solidarity in the euro zone: getting things clear and into perspective", *Notre Europe, Policy Brief Nr. 35*, May 2011.
10. See Joe Ritzen and Luc Soete, "Research, Higher Education and Innovation: Redesigning European Governance in a Period of Crisis", *Notre Europe, Policy Paper Nr. 49*, November 2011.
11. As recommended in particular by the theory of budgetary federalism.
12. Christian von Hirschhausen, "Financing Trans-European Energy Infrastructures – Past, Present, and Perspectives", *Notre Europe, Policy Paper Nr. 48*, November 2011.
13. Elena Muñoz Galvez, "European Development Aid: How to be more effective without spending more?", *Notre Europe, Policy Paper Nr. 58*, July 2012.
14. Fabio Liberti, "Defence spending in Europe: Can we do better without spending more?", *Notre Europe, Policy Paper Nr. 46*, June 2011.
15. We may mention in particular the measures including, from a legal standpoint, defence as an area of competence falling completely within the remit of the EU (in particular, following the merger of the Union's pillar structure), or the measures on permanent structured cooperations allowing interested member states to cooperate further by abandoning the 27-strong format and the unanimity rule in order to improve their military and defence capabilities.

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