



1 Introduction ~~1/1~~

## 2 What are European public goods?

### 2.1 Definition

#### *What is a public good?*

When should a particular good be supplied by the public rather than the private sector<sup>1</sup>? The traditional definition of a public good (Samuelson, 1954) considers essential features to be non-rivalry (ie someone's consumption of the good does not reduce the supply available to others), and non-excludability (ie the good can be consumed by anyone). These features lead to free-riding and under-provision of the good, justifying public intervention.

However, for our purposes, we consider this traditional definition of public goods to be too restrictive. Other coordination failures can also lead to the under-provision of a good compared to its optimal level, and that might also require public intervention<sup>2</sup>. So, we define a public good as a good that is not supplied at an adequate level without public intervention (which could take various forms including direct provision/government expenditure or regulation). This lack of supply could arise because of any coordination problem, not only non-exclusion/non-rivalry but also, for example, network effects.

An example of this is green transportation and in particular the transition to electric vehicles (EVs). Consumers hesitate to purchase EVs because of fears about the insufficient charging infrastructure; this restricts demand. Meanwhile, companies might be reluctant to develop charging networks without a sufficient number of EVs to justify their investment, thus leading to not enough supply. Establishing a dense network of EV charging points thus contributes to a public good, which is not related to the usual non-exclusion/non-rivalry market failure.

#### *At what level of government should a public good be provided in Europe?*

Should a public good be provided at local, national, European or global level? Determining the appropriate governmental level for the organisation and funding of public goods typically involves a trade-off (Alesina *et al*, 2005). Preferences differ across geographical and political entities, which tends to favour the provision of goods at local level. However, there is the potential for improved efficiency through internalising externalities and capitalising on economies of scale, which pushes in the other direction. Decentralisation is thus optimal when the costs of providing public goods at a lower level of governance are less than at a higher level of governance, either because there is no gain related to inter-jurisdictional spillovers or economies of scale, or because these gains are lower than the costs associated with supplying uniform public goods, as opposed to tailor-made public goods to take into account varying preferences. Decentralised provision can also be beneficial because of better knowledge of preferences at local level or greater democratic accountability. The optimal level of provision of a public good is thus the one that reaps efficiency gains, while taking local preferences into account.

#### *An encompassing definition of European public goods*

Combining these two definitions, a European public good (EPG) can therefore be defined as a good not supplied at an adequate level without public intervention, and which should be provided, at least

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<sup>1</sup> Obviously, providing public goods can involve contributions from private goods. For instance, security is offered by the state as a public good, but is delivered through the production of private goods (eg defence equipment).

<sup>2</sup> This broader definition of public goods is in line with the more recent academic contributions on the allocation of public goods across level of governments (Oates, 1995), and with the policy literature (Fuest and Pisani-Ferry, 2019).

partially, at EU level<sup>3</sup> to internalise externalities and reap benefits of scale, notwithstanding potential differences in national or local preferences.

Specific reasons to centralise (or at least coordinate) the delivery of public goods at EU level that have been previously discussed can be interpreted in that framework. One often-mentioned argument for the centralisation of policies is consistency with the single market. If state aid is deemed desirable and suitable to pursue a particular policy objective (eg for agriculture or for clean tech), it could be provided at EU level to ensure a level-playing field across all member states. This fits our definition because national state aid could be considered as a negative externality on other member states, which would be internalised through centralised state aid.

## **2.2 How can EPGs be identified in practice?**

Given this definition of EPGs, identifying them from an economic perspective should be a four-step process:

1. Assess externalities/spillovers between national jurisdictions and see if/how these externalities can be internalised, should the public good be provided at EU level<sup>4</sup>.
2. Assess economies of scale and savings that could be achieved

**Table 1: What constitutes a European public good?**

	Internalise externalities if provided at EU level	Economies of scale if provided at EU level	Similar preferences across EU	European public good	Examples	Group	Currently provided at EU level
Good A	Yes	Yes	Yes	Clear yes	[Redacted] order external action;		



helps banks attract foreign funding, while conversely more reliance on foreign funding increases cross-border externalities and hence the need for centralised supervision (Colliard, 2020). The conditions that make centralisation beneficial may not be satisfied *ex ante* but only *ex post*.

The adequacy of EU-level governance could also lead to changes in preferences over time. Having institutions in place that account for minority positions (eg at the EU level through unanimity in the Council, or through a greater role assigned to the European Committee of the Regions) may serve to overcome scepticism and resistance in some countries about centralising EU activity. Minorities that are initially relatively distant from European median preferences may alter their preferences, whether this is institutionalised through specific rights (eg stronger regional involvement in the subsidiarity test applied to EU lawmaking) or through financial compensation (eg through regional and cohesion funds or individualised EU support schemes), to take into account that some countries or regions might be affected negatively by the centralisation of some policies, even if it is overall beneficial.

In sum, assessment of the trade-off should take account of the dynamic effects of external factors and of the internal institutional governance framework.

### 3 How to deliver public goods in the EU: building the right institutional framework for each good through a menu of design options

The previous section highlighted that the degree to which they

should not be a 'one size fits all' s e q u e n

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in the Treaties. At one end of the spectrum, public-good provision can be at country level without any involvement of the EU, with no institutional or formalised coordination of member-state policies. At the other end of the spectrum, the EU can have exclusive responsibility, legislating and acting through EU institutions.

There are many intermediate options. Legislation and enforcement can be centralised, with some proS(t)-h



On the contrary, in other cases, such as with Goods B and H (Group 2) in Table 1, member states' competences should be maintained (eg in cultural matters or primary education), or even re-established. For instance, one of the objectives of the Common Agricultural Policy (CAP) is to contribute to the *"preservation of rural areas"*<sup>7</sup>. However, there are no spillovers or economies of scale associated with a country having a vibrant rural life. The same is true for local infrastructures, which are local public goods that are sometimes provided through the European Regional Development Fund, even in wealthy EU regions<sup>8</sup>. For these goods, there is no real need for centralisation of provision. If at all, the EU could primarily function as a platform for sharing information, identifying best practices and setting benchmarks.

### 3.2 How is the decision taken? Calibrating decision-making majority in the Council

One instrument determining the weight given to member states' preferences in EU-level decision-making is the voting procedure used in the Council of the EU and the European Council, and particularly the choice between unanimity and qualified-majority voting (QMV). While QMV is the most widely used voting method in the Council today, with 80 percent of legislation adopted through this method, unanimity continues to be required in certain policy areas.

The voting method should reflect the extent to which diverging preferences are allowed to block central actions that might be profitable for efficiency reasons. The greater the significance of efficiency considerations – ie the stronger spillovers and scale economies are – the more heterogeneity of preferences should be overruled (and vice-versa).

To do that, decision-making requirements can be adjusted without Treaty change using the 'passerelle clause', which gives some scope to move from unanimity to QMV<sup>9</sup>. Within the existing Treaty framework, QMV could, among other things, be extended to taxation policy, environmental and energy policy, social policy, and foreign and security policy (but not military and defence<sup>10</sup>). While this would reduce alignment with national preferences (perfectly obtained through unanimity), the use of passerelle clauses could help maintain legitimacy and preference orientation at a high level because national parliaments can overrule the move to QMV if necessary<sup>11</sup>. Activating passerelle clauses should thus be the default option when efficiency considerations commend it.

Preference heterogeneity is also taken into account through institutional safeguards to protect

they consider subsidiarity to have been violated<sup>12</sup>,

join the club at a later stage. Respect for preference heterogeneity may be a choice for good G in Table 1 (eg for external border protection, or to build an EU fiscal capacity to deliver macroeconomic stability).

- Third, in cases where 'club integration' is not politically feasible within the Treaty framework, willing states may pursue public-good provision outside of the Treaty – like the Schengen agreement, which was pioneered by a few countries, but later adopted by many and integrated as enhanced cooperation into the EU Treaty. Deeper integration in defence (eg to build joint forces) may be iCp (e) 130 (y) - 106 egws0 (n)1 ((o)-5 (v)2 (is)-2 (io)-5 (n)1 ( o)-5 (ut)-4 Tc 0.011

market) but to leave

Finally, as discussed in section 3.1, there are also public goods that are currently financed and/or delivered at EU level that exhibit neither externalities nor economies of scale: local infrastructures with no cross-border spillovers or the preservation of rural areas. These should be financed and delivered at national or regional level.

3.5 How can different preferences be accommodated? Compensation to mitigate preference bhTj1 0 78250m€rr

## 4 Conclusions

This paper has offered two main insights. First, the determination of whether to offer a public good at national or EU level, or a blend of both, hinges on the diversity of member-state preferences and the efficiency argument for EU-level provision. This efficiency rationale might stem from economies of scale or because national provision could generate cross-border externalities, both positive and negative. When preferences differ significantly and the efficiency argument is weak, goods should be furnished solely at national level; conversely, when preferences are uniform and the efficiency argument is robust, provision should be at EU level. However, when preferences are diverse yet the efficiency argument is compelling, a trade-off emerges.

Second, a plethora of institutional and legal tools exists, both within and outside the EU treaties, that can be employed to navigate this trade-off, aiming to maximise efficiency gains while accommodating preference heterogeneity or safeguarding minority interests. These tools include decision-making mechanisms in the Council, providing public goods at the level of groups of member states with similar preferences and employing strategies including

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