1 Subsidiarity for Better Economic Reform?

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1.1 Introduction

After the successful conclusion of the Internal Market program in 1992, the scope of the European Union has gradually been widened to include areas of public policy that previously remained within the more or less exclusive sovereignty of the Member States. Such areas include monetary and budgetary policy (through the Stability and Growth Pact, SGP and the Economic and Monetary union, EMU), energy and telecommunications, environmental policy, social policy, innovation policy and immigration policy. Although the extent of European involvement widely differs, it seems nevertheless clear that Europe includes increasingly wider elements of the public domain.

The causes for this widening of the scope are diverse. Clearly, the introduction of the EMU and the SGP were meant to strengthen the European economy per se by handing over sovereignty in monetary and (partly) budgetary policy to Frankfurt and Brussels. The liberalization trend in Member States implied that (semi) public services (energy, health care) increasingly crossed borders and had to fit within existing European schemes of regulation, competition policy and state aid. With innovation being a target in the Lisbon agenda, European cooperation in innovation policy is being strengthened. Cross border environmental problems in Europe legitimize a common European approach. Other areas are included

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1 The views expressed here are those of the authors and should not be attributed to the European Commission or CPB.
in the European agenda to show European citizens that European integration is not simply an ‘economic’ affair, but it also addresses social concerns.

Whatever the causes of a more prominent role for Europe are, the consequences are clear: in their public policy making Member States increasingly cooperate. Although this brought new ‘softer’ coordination mechanisms to the fore (such as the open method of coordination), it nevertheless implied that to some extent Member States relinquished part of their national sovereignty in such areas. This process has proceeded considerably. The tendency appears to be that if there is a ‘European problem’ (meaning a problem that regards all Member States) European solutions are to be considered.

However, from a strictly economic perspective this *Europeanization* of public policy is not necessarily justified. The desirability of further European policy actions is guided by the subsidiarity principle. Article 5 of the 1997 Treaty of Amsterdam states: “In areas which do not fall within its exclusive competence, the Community shall take action, in accordance with the principle of subsidiarity, only if and in so far as the objectives of the proposed action cannot be sufficiently achieved by the Member States and can, therefore, by reason of the scale or effects of the proposed action, be better achieved by the Community.” The dynamics of the division of labour between European and national authorities do not always follow the subsidiarity principle. In some cases, the prevailing policy agenda goes beyond what would be desirable from a strictly economic perspective. An examples concerns binding directives on labour standards (maximum working time or minimum rest periods), while empirical support for the risk of social dumping is hard to find.\(^2\) In other areas more European involvement may be required than is currently considered. For instance, as part of the Lisbon process the open method of coordination has been applied to the 3% R&D target. However, international R&D spillovers may demand a stronger form of coordination for innovation policy.\(^3\)

Also in political terms *Europeanization* has recently gained momentum in the public debate. In some circles, the negative outcomes of the referenda on the European constitution in France and the Netherlands were attributed to perceptions of too much involvement of Europe in national affairs. This would reflect the widely diverging views of European citizens on the desirability of European solutions for different policy areas, the distribution of effects among Member States, as well as the complex and heterogeneous policy momentum in different public domains. However,

\(^3\) See Falk et al. (Chapter 8) and Van der Horst et al. (Chapter 9).