# Europe must take the next step: Plan “Delors 2.0”

**A new vision for Europe**

Michael Hüther / Simon Gerards Iglesias / Melinda Fremerey / Sandra Parthie

Cologne, 27.03.2023

IW Policy Paper 4/2023

Contributions to current political debates

INSTITUT DER DEUTSCHEN WIRTSCHAFT

**Publisher**
**Institut der deutschen Wirtschaft Köln e. V.**
PO Box 10 19 42
50459 Cologne

The German Economic Institute (IW) is a private economic research institute which is committed to a free economic and social order. Our mission is to improve the understanding of economic and social interrelationships.

**IW in social media**

Twitter
@iw_koeln

LinkedIn
@Institut der deutschen Wirtschaft

Instagram
@IW_Koeln

**Authors**

**Prof. Dr. Michael Hüther**
Director
huether@iwkoeln.de
0221 – 4981-600

**Dr. Simon Gerards Iglesias**
Personal advisor of the director
simon.gerards@iwkoeln.de
0221 – 4981-603

**Dr. Melinda Fremerey**
Personal advisor of the director
fremerey@iwkoeln.de
0221 – 4981-606

**Sandra Parthie**
Head of the Brussels office
parthie@iwkoeln.de
+32 2 5138 456

**All studies can be found at**
**www.iwkoeln.de**

In this publication, the grammatical gender (genus) is regularly used for reasons of better readability. This explicitly refers to all gender identities.

**As of:**
April 2023

# Table of contents

## JEL classification

H4 Publicly Provided Goods
H5 National Government Expenditures and Related Policies
H6 National Budget, Deficit, and Debt

## Abstract

In the coming years, the world order of exchange and multilateralism, which has so far been shaped by the West, will lose power, and global institutions will find it increasingly difficult to fulfil their mission of balancing interests and promoting international cooperation and development. What does this mean for the future of the European Union? The EU is entering a new phase in which the rules of the internal market have to be adapted to respond to the new challenges of environmental sustainability and open strategic autonomy. In a geopolitically turbulent environment and systemic competition with the United States for economic resources and competitiveness on the one hand, and systemic conflict with China for political influence and security on the other, the EU must seek to strengthen its sovereignty through a more active trade and economic policy. It must find a common response to maintain and strengthen its competitiveness and anchor this in its policies and instruments.

The EU is currently at a critical juncture, at which it must be discussed and clarified whether the EU will remain institutionally in its current state or whether it will deepen its integration by breaking new ground in the fundamental areas of defence, financing, and investment architecture. In each case, different logics and issues of integration arise. This must be systematically examined and developed in the light of the historical experience and expectations of European integration. All this is happening in a situation where the EU is facing huge investment challenges due to structural change. The dual transformation to a decarbonised and digitalised economy can only be achieved if massive public and private investments are mobilised and the scaling potential in the European market is raised. At the same time, demographic change and the shortage of skilled workers are systemic risks for growth in all European economies. And on top of that, there is a tense geopolitical security situation, which in turn demands a European strong response.

Always demanding "more Europe" as a response to crises is not enough to achieve real change that, as in the spirit of the Delors Plan of 1989, realises a new vision of Europe. Before investments can show their full impact at the European level and further political integration can be considered, requirements must be met in order to make Europe more attractive as a location for investment and to stimulate private and public investments.

# 1 Rethinking the idea of Europe in a contemporary way

In the upcoming years, the world order of exchange and multilateralism, which has so far been shaped by the West, will lose influence. Global institutions will find it even more difficult to fulfill their mission of balancing interests and promoting international cooperation and development. While China has already articulated its hegemonic claim, emerging countries with great economic potential such as India, Saudi Arabia and Brazil will gain influence in an increasingly multipolar world which will erode the previous order centered on the West.

What does this mean for the future of the European Union? It is entering a new phase in which the rules of the internal market must be adapted to meet the new imperatives of environmental sustainability and open strategic autonomy. European societies and economies are experiencing an increasing dominance of geopolitics over geoeconomics. Export-oriented countries that depend on world trade should have no interest in the decline of globalization. Nevertheless, the world economy is in a phase of de-globalization, fragmentation, and a move away from multilateralism and multilateral organizations. The current period of global economic upheaval, for which an apt name has not yet been found, is characterized by geopolitical confrontation and mutual blockade among states. Coordinating the macroeconomic policies of the major economies is becoming increasingly difficult.

In this new field of tension of *Global Power Competition* – the system competition with the United States for economic resources and competitiveness on the one hand, and the system conflict with China for political influence and security on the other hand – the EU has to strengthen its strategic autonomy and its sovereignty via a more dynamic trade and economic policy (Hüther et al., 2021). It has to find a common response to maintain and strengthen its competitiveness and anchor it in its policies. This response has to be more effective than the mere addition of 27 national approaches and interests in a fragmented global market. However, this will not work in the long run unless concrete strategies for Europe's external security are defined and implemented at the same time. The Russian war against Ukraine has exposed the weakness of the common defense capability. The United States have positioned themselves once again - probably for the last time - as a European nation because it is the American definition of security of preventing any imbalances in Europe.

At the same time, the EU is currently at a crossroads at which it must be discussed and clarified whether the EU will remain in its current institutional state and seeks to achieve territorial expansion through enlargement, or whether a deepening of integration will take place in which new paths are taken in the fundamental areas of defense, financing, and investment architecture. In either case, different issues of integration are involved.

The EU has already been at such a turning point in its history. In 1989, the group of states then known as the "European Communities" (EC) had completed its southern enlargement and was negotiating the completion of the single market. A 1985 Commission White Paper under the presidency of Jacques Delors pointed out a strategy of gradual harmonization and mutual recognition of national regulations and standards, without relying on total harmonization, which was seen as time-consuming, complicated, and inflexible (Busch, 1989). Institutionally, the EC changed significantly because qualified majorities were introduced for most domestically relevant projects, making decisions easier and faster. The Delors Report of 1989 pushed to create a monetary union for a completion of the European single market. Against the historical background of deregulation and liberalization in the late 1980s and early 1990s, institutional reform of the EC in this regard proved as inevitable. There was a globally favorable window of opportunity, since the United States had also adopted its own liberalization reforms with *Reagonomics*, just as the United Kingdom had begun with Thatcherism and China with free-market reforms under Deng Xiaoping.

The European Union is an unfinished union despite all progress demonstrated by its quick responsiveness during the covid-19 pandemic (*Next Generation EU*) and in the face of the war in Ukraine (sanctions). Although EU can implement powerful financial packages and launch support programs to respond to geopolitical challenges (Battery Alliance, European Chips Act), and although the EU has entered the race for the best green technologies needed for decarbonization with astonishing amounts of investments (Green Industrial Plan), an overall strategy for Europe's future is still missing. The EU dependents on Chinese imports, especially of critical raw materials and rare earths; energy prices in international comparison represent a strategic competitive disadvantage; in the *Global Power Competition*, an adequate European response to the growth-enhancing programs in the USA (Inflation Reduction Act) and China (Made in China 2025) is lacking so far; a security policy strategy has so far not gone beyond tentative attempts at cooperation on procurement.

The investments required to finance the dual and increasingly urgent structural transformation are immense. The dual transformation to a decarbonized and digitized economy can only be achieved if massive public and private investments are mobilized and the scaling potential in the European market is leveraged. At the same time, demographic change and the shortage of skilled workers are risk for growth in all European economies. And on top of that, there is a tense geopolitical environment, which in turn demands a new European security framework. Always demanding "more Europe" in response to crises is not enough to achieve real change that, as in the spirit of the Delors Plan of 1989, realizes a new vision of Europe for this and the following decade. Before structural investments can have an impact at the European level and further political integration can be considered, the requirements must be met to make Europe more attractive again as an investment location and to activate private and public investments.

Currently, a heavy financial burden, extensive reporting requirements for companies and excessive EU bureaucracy hinder or prevent these necessary investments at a time when the EU should instead be strengthening the transformation process and its competitiveness. It seems that the EU Commission is aware of this problem and is implementing competitive programs such as the European Chips Act or the Battery Alliance. However, much more and bigger steps need to be taken in this direction for a real vision of Europe's future.

**Table 1: Proposals Conference on the Future of Europe**

| Policy field | Proposal/recommendation for action |
|---|---|
| **Climate change and environment** | - Agriculture, food production, biodiversity, ecosystems, environment<br>- Climate change, energy, transport<br>- Sustainable consumption and production<br>- Objective: To promote knowledge, awareness, education and dialogues on the environment, climate change, energy use and sustainability. |
| **Health** | - Healthy diet and lifestyle<br>- Strengthening the health care system<br>- A broader understanding of health<br>- Equal access to health for all |
| **A stronger economy, social justice and jobs** | - Sustainable growth and innovation<br>- Strengthening the EU's competitiveness and further deepening the internal market<br>- Inclusive labor markets |

| | |
|---|---|
| | - Stronger social policy<br>- Demographic change<br>- Fiscal and tax policy |
| **The EU in the world** | - Reduce the EU's dependence on third country actors in strategic economic sectors and<br>- in the energy sector<br>- Setting standards for trade and investment relations and for environmental policies inside and outside the EU<br>- Decision-making and cohesion within the Union<br>- Transparency of the EU and its relations with citizens<br>- The EU as a strong player on the world stage in terms of peace and security and relationship building |
| **Values and rights, Rule of Law, security** | - Rule of Law, Democratic Values and European Identity<br>- Data protection<br>- Media, fake news, disinformation, fact checking, cybersecurity<br>- Anti-discrimination, equality and quality of life<br>- Animal rights and agriculture |
| **Digital transformation** | - Access to digital infrastructure<br>- Digital competence and skills that empower people<br>- Secure and trustworthy digital society - cybersecurity, disinformation, and data protection<br>- Digital innovation to strengthen the social and sustainable economy |
| **European democracy** | - Citizen information, participation and youth<br>- Democracy and elections<br>- EU decision-making process<br>- Subsidiarity |
| **Migration** | - Legal migration<br>- Irregular migration<br>- Asylum, Integration |
| **Education, culture and sports** | - Education<br>- European youth issues<br>- Culture and exchange<br>- Sports |

Source: European Union, 2022

The report on the outcome of the conference on the future of Europe addresses the stronger involvement of citizens, but with 49 proposals on the diverse policy areas under nine cross-cutting themes, it does not find a pointed perspective because priorities are not clear (see Table 1; European Union, 2022). The statements on "The European Union in the World" are not based on a global political understanding of security, and thus it remains open what role the EU can and should play in this multipolar world. The demand for less external economic dependence and the claim to set global environmental standards simply are not in line with each other. The EU is risking its strong position on the world stage as its polyphony cannot even guarantee its own security. There is also a lack of an understanding of integration for the future Union; there is no weighting between enlargement and integration.

In this context, the Russian war against Ukraine underlines that clarification for a European strategy of enlargement and integration is needed. The accession candidate status granted to both Ukraine and Moldova by the European Council on June 23, 2022, demands a clear and focusses of accession prospects, which requires a certain flexibility on both sides. The Copenhagen criteria of 1993, which address an institutionally anchored democracy, a functioning market economy and an organizational and economic capacity for accession, urgently need to be supplemented by the issues of safeguarding sovereignty: energy policy and infrastructure development - which can be bundled in an investment union - as well as the defense union. For the enlargement of the EU, a realistic sequence of steps should be considered in view of the considerable economic differences between the new accession candidates and the states in the Western Balkans and the EU, but alternatives to full membership should also be considered (Busch/Sultan, 2022). For an enlargement by eight to nine countries would foreseeably justify an overstretching of the Union; therefore, the procedure of enhanced cooperation should be examined for specific policy areas.

## 2 A deadlocked Union

While the competitiveness of the Asian countries remains dynamic, there is still a lot of room for improvements in the conditions for business in the European Union. Many indices show that the EU performs worse than its most important competitor for investment, the USA. High energy costs and the availability of raw materials are the biggest disadvantages compared with the USA, and also China (Bardt et al., 2022). Business conditions are hampered mainly due to the vast of regulations, which have far-reaching consequences for companies and for the administration. Lots of regulatory requirements have undesirable side effects and cause high direct or indirect costs. Both the companies and the administration have to bear the costs that are needed elsewhere - e.g., in the expansion of the green and digital transformation. In addition, there is in some cases a considerable divergence between the political objectives and the regulation imposed.

Although the German bureaucracy index, which measures the corresponding burden on companies, fell in December 2021 due to the introduction of a central data protection impact assessment[1], bureaucracy costs rose again slightly in 2022 according to the Federal Statistical Office of Germany. At the same time, bureaucracy costs, which include the obligation of companies to provide data or information to authorities or third parties, are only a subset of the total compliance costs of companies. While the costs slightly decreased for citizens since 2011, the costs and time spent by the administration and above all by business rose enormously. The drivers of this development were, to a particular extent, the minimum wage for companies and the *Ganztagsförderungsgesetz* (All-Day Promotion Act) for the administration; overall, 65 percent of companies state that exchanges with the public administration have increased since 2015 (Normenkontrollrat, 2022).

A large part of the laws for business and administration in Germany is based on EU requirements. Even though the EU often only sets guidelines and the nation states implement the requirements from Brussels in national law with individual adjustments, thereby initiating more information requirements and expenditure for companies than originally envisaged by the EU Commission (Stiftung Familienunternehmen/Normenkontrollrat Baden-Württemberg, 2023), information obligations under EU and international law account for more than half of the bureaucratic costs identified for German companies (Normenkontrollrat, 2022). On top of that are the bureaucratic burdens from direct EU regulations. For short-term business trips within the EU, for example, employees need a proof from the social insurance agency, the so-called A1 certificate. The associated burden on European companies is quite different: the time required to edit the form varies from 20 to 30 minutes in Italy and Austria, respectively, and the compliance costs for each form range from 6.80 euros in Austria to 10.28 euros in Germany (Stiftung Familienunternehmen/Normenkontrollrat Baden-Württemberg, 2023). In total, this leads to compliance costs for A1 applications of almost 20 million euros in Italy, France, Austria and Germany, with Germany issuing the most A1 certificates and thus incurring 84 percent of these calculated costs (Stiftung Familienunternehmen/Normenkontrollrat Baden-Württemberg, 2023).

With its directives and regulations, the EU not only creates considerable bureaucracy and additional costs for companies, but in some cases also gives rise to other undesirable side effects. One example is the EU's planned Due Diligence Directive, which requires companies to ensure higher human rights and

[1] The data protection impact assessment replaces the prior checking under the GDPR and involves a change in the control in advance of the processing of personal data (see for an assessment of the change: DSGVO – Aus der Vorabkontrolle wird die Folgenabschätzung (srd-rechtsanwaelte.de)).

environmental standards in their supply chains. The bureaucracy and compliance costs associated with the EU directive have unintended consequences. More than one in ten companies plans to leave countries with weak governance structures (mainly developing and emerging economies) because of the new regulation. Around 18 percent of companies plan to source upstream products only from countries that comply with very high human rights and environmental protection standards (Kolev-Schäfer/Neligan, 2022). The EU's directive, which goes beyond national regulations that have just been enacted and overhauls them in a legal sense, thus proves to be a law with anti-globalization tendencies - especially regarding economies with weak institutions. A transfer of experience takes no longer place.

This development has not only an enormous impact on the jobs and production sites created by companies in the developing and emerging countries, but also has consequences for the European economy. For example, one in five companies state they intend to increase their prices in the wake of the Due Diligence Directive (Kolev-Schäfer/Neligan, 2022). This is a concern with respect to the current risk of stagflation in the Eurozone. If companies withdraw from the affected countries, this adjustment does not fit with the policy goal of strengthening resilient supply chains and international integration. Therefore, the EU needs to rethink the congruence of policy framing and objective and correct it if necessary. The EU cannot overload foreign trade with moral standards and at the same time proclaim the goal of diversify trading. After all, autocracies have successively gained shares in world trade in recent decades and important raw materials are stored primarily in autocracies (Gerards Iglesias/Cevik, 2022). Their influence will certainly not be curbed by incentivizing the withdrawal of European companies from the Southern Hemisphere.

Another example of the extent to which EU regulations present companies with major implementation costs is the European General Data Protection Regulation (GDPR). Only 5 percent of companies rate the GDPR as beneficial for their competitive position, while one third of companies see a clear disadvantage in the GDPR (Engels/Scheufen, 2020). Companies associate the GDPR above all with high implementation costs (96 percent) and high legal uncertainty (89 percent) (Engels/Scheufen, 2020). According to the survey of HR service providers, the costs of implementation are non-neglectable: 40 percent estimate the GDPR conversion costs at up to 10,000 euros, and another almost 40 percent even at up to 50,000 euros (Schricker, 2018). International active companies in particular rate the GDPR as an obstacle to their competitive position vis-à-vis their non-European competitors (Engels/Scheufen, 2020). This once again demonstrates the poor position of the EU in international location competition.

The solution to the problem lies in the reduction of bureaucracy. In Germany, policymakers have already responded to this to a certain extent, with the National Standards Control Council estimating the total compliance burden of EU regulations ex-ante and passing this on to the EU Commission (Normenkontrollrat, 2022). In addition, the EU itself has launched initiatives to reduce bureaucracy. The Regulatory Scrutiny Board advises and monitors the EU Commission in its impact assessment of legislative proposals (European Commission, 2023a). The one-in-one-out rule states that for each regulation that imposes burdens on business, other compliance costs must be reduced. The EU was a second-moover in introducing the rule. While the regulation has been in place in Germany since 2015, the EU Commission has only been applying it since 2022 (Normenkontrollrat, 2022; European Commission, 2021). In Germany, the equalization of burdens must take place within one legislative period. The German balance sheet is unsatisfying: In the 2021/22 reporting period, there is an additional expenditure of around 410 million euros for the non-compensated burdens, a large part of which arose after the last Bundestag election (Normenkontrollrat, 2022).

Hence, reducing bureaucracy is not only insufficiently enforced, but the compliance burden is increasing. Politicians should pay more attention to regulatory controls and oversight bodies to ensure that the "one-in-one-out" rule is stringently applied. More attention also needs to be paid up front to the cumulative impact of legislation and the undesirable adjustment consequences of regulation into other policy and economic areas as well. When a member state implements a EU directive, an increase in bureaucratic hurdles and implementation costs should be avoided. The resources in companies and administration freed up by reducing bureaucracy can then be used elsewhere and generate real added value.

Another major problem with the EU is the efficiency of funds. Previous EU fundings show that the member states' access to the funds is problematic. In 2020, out of a total of over 465 billion euros in EU funds for the period 2014 to 2020, only 49 percent has been withdrawn (Schultz, 2020). In the Regional Development Fund, only 46 percent was allocated, in the Cohesion Fund 52 percent, and even in the agriculture and maritime and fisheries policy funding, a large amount has not been used yet. Germany applied for only 51 percent of payments of EU funds, but this is still in a better position than many other EU countries. In the *Recovery and Resilience Facility (RRF)*, 290 billion euros of 390 billion euros were also unused at the beginning of 2023 (Euractiv, 2023). However, in comparison to the structural fonds, the procedure regarding the RFF is much more efficient. Payouts do not only mean that money has flowed out, but also that reforms and investments have already been made. In principle, the milestones and targets agreed in the CID Annexes must be met in order to be able to draw down funds (2187 reforms and 3789 investments in 27 recovery and resilience plan). Whether these milestones are actually met is approved by the member states on the basis of a Commission's assessment. Depending on the expected completion date, the milestones are bundled into tranches for the payment applications. Even if many or even all of the associated milestones for a payment request have already been fulfilled, it is at the choice of the member state when it will be submitted. In this respect, the legally binding commitment and partial implementation has already taken place, but the outflow of funds can take place up to and including 2026. The funds are therefore not unused (European Commission, 2023c). Nevertheless, this procedure in the RFF is a good example of how funds can be used more efficiently in contrast to the other structural funds.

It seems that this is a minor criticism compared to the big challenges the EU is facing. However, it emphasizes the European dilemma: The progressive stabilization and expansion of European institutions leads to regulatory action that comes across as very specific but fails to recognize the big picture. How does the European Union want to be able to respond to the large issues if it fails to recognize the contradictions of regulations, and can address the actual tasks only under pressure? In view of this, the European Union as a club of unpredictable democracies is certainly - and this should not be overlooked here - a success story that has repeatedly responded to the difficulties of integration. Moreover, the EU is only as strong as the individual member states allow it to be.

New perspectives could always be opened up when the achieved state was no longer convincing and did not promise a future (cf. Section 1): With the Single Market Project in the mid-1980s (based on the Single European Act), with the Delors Report in 1989 and European monetary integration, but also with the reforms in response to the sovereign debt crisis (Fiscal Compact, Two-Pack, Six-Pack). The *New Green Deal* also offers new perspectives; together with measures such as the *Chips Act* and the *Battery Alliance*, the idea of a horizontal industrial policy to increase the attractiveness of Europe is brought to life. In many cases, however, the EU Commission goes beyond this with its sector-specific specifications and concrete requirements for international networking and the design of value chains (see Table 2).

**Table 2: Green Deal Industrial Plan**

| Policy field | Proposal/recommendation for action |
|---|---|
| **A predictable and simplified regulatory environment** | - Quick deployment of manufacturing capacity<br>- Critical Raw Materials Supply<br>- Affordable and sustainable energy<br>- Net-Zero Industry Act<br>- Promote regulatory sandboxes<br>- Electricity Market Design reform |
| **Speeding up access to finance** | - National and EU funding<br>- InvestEU, REPowerEU, Innovation Fund, State aid Temporary Crisis and Transition Framework, a European Sovereignty Fund |
| **Enhancing skills** | - Green and digital skills<br>- European Skills Agenda Partnership for Skills |
| **Trade and resilient supply chains** | - Diversified access to critical inputs<br>- Free Trade Agreements, Critical Raw Materials Club, Clean Tech/ Net-zero Industrial Partnerships |

Source: European Commission, 2023

All in all, it has to be noted that Brussels is recognizing the pressure to act. However, this does not ensure the EU's resilience in the *Global Power Competition*. It lacks the European punchlines that have historically only emerged when an idea met the needs of its time and the perspectives of the people. It was the same with the single market project and the common European currency. Now, however, European policy is at a risk of getting stuck in micromanagement. If everything seems equally important, then there is a risk that none of it will be effective in a convincing way.

# 3 Delors 2.0: Investment Union and Defense Union as "*Zweckverbände funktioneller Integration*" (Special-purpose associations of functional integration)

Given their dimensions, the changed geopolitical situation and the geo-economic challenges demand European responses. Thus, a new project for the EU is gaining internal legitimacy. With the introduction of the single market and the Schengen Agreement, the EU became visible and tangible for citizens through the elimination of borders, controls and import restrictions. With the monetary union, the EU is permanently in people's wallets and thus a natural part of their everyday lives. So, what can be used to express the need for a further push for integration, a Delors 2.0 project? This involves both (1) the *logic of integration* and (2) the *issues of integration* as well as (3) the *financing of integration*. After all, the power of persuasion for citizens in Europe and thus acceptance will only arise if the concrete benefits are recognizable, the institutional implementation systematically fits the specific circumstances of life, and a convincing financing structure is established. This requires more than just a explanation of European visions.

(1) **The logic of integration:** In challenging times like these, the unity of Europe is repeatedly invoked and the need for general and comprehensive political deepening is derived from it. This has a long tradition, since the first president of the EEC Commission, Walter Hallstein, already marked this position and expectation early and comprehensively with his book "*Der unvollendete Bundesstaat*" (The unfinished state) (1969). According to this book, European integration aims at a final goal, the European federal state.

This has mobilized counter-positions characterized by a higher degree of a historically shaped realism and a politically located pragmatism, such as the *"Zweckverband funktioneller Integration" (*Special-purpose associations of functional integration) of Hans Peter Ipsen (Ipsen, 1972, 196 ff; on this Kahl/Hüther, 2023). This system functions more in the sense of the European treaties, because it opens up thematically limited but effectively far-reaching scope for action at the European level - in contrast to an unrealistic EU federal state.

All European rhetoric - including that of the current government in Berlin, which, according to the coalition agreement from 2021, wants to create the "federal European state" - stands (and stood) in stark contrast to practical politics - particularly evident in the traffic light government and its difficult relationship with the EU - and people's expectations. Similarly, this tension can be traced in Emmanuel Macron's case by contrasting the Sorbonne speech "Initiative pour l'Europe" of September 26, 2017, with the A1 certificate he ultimately initiated for domestic political reasons (Kahl/Hüther, 2023, 99 ff.). An approach to the European federal state has not become more realistic in recent years. Nor have the expectations of the theory of classical functionalism ("locomotive theory"), according to which European integration is a self-propelling process because the integration of certain policy areas requires the integration of other areas, been confirmed so far in the context of monetary union. In other word, the sovereign debt crisis has only remedied the shortcomings of the regulatory framework and the institutions but has not opened any new prospects for integration.

The "*Zweckverband funktioneller Integration*" (Special-purpose associations of functional integration) can offer an appropriate European mandate for a clearly delineated topic. This integration process does not exclude a considerable deepening and can address policy fields that go beyond the original conceptualization (Kahl/Hüther, 2023, 24 ff., 130 f.). Ipsen points out the fundamental "process of functional unbundling" that precedes an assignment of the transnational level. “If the member states assign essential functional elements of their public authority to a function created by them and for which they are permanently responsible, this offers the opportunity [...] to instrumentalize the steering and performance function of the Community in an optimal way.” (Ipsen, 1969, 52). Because of the democratic legitimacy gained through the European Parliament, this understanding can be transferred from Ipsen's narrow technical interpretation of the performance of functions to broader policy fields - such as providing European infrastructure networks or ensuring European defense. This would liberate Ipsen's conception from a very narrow understanding of functionalism. In this sense, the creation of the European currency could be interpreted as functional integration for the purpose of monetary stability.

The dominant vertical perspective on a policy field across the multi-level system of the European Union makes it easier and more effective to observe the principle of subsidiarity, especially when it is based on the process of functional unbundling (Hüther/Vogel, 2021). This principle can serve as regulatory for the order of competences. Another problem is the excessive use of European competences and policies. Although the principle of subsidiarity as a binding EU legal principle limits the competences of the EU by a normative specification, in reality a countervailing trend has established that claims additional competences for the EU (see also Fremerey/Gerards Iglesias, 2022). A "*Zweckverband funktioneller Integration*", on the other hand, gives the opportunity to modify the competence for the EU, in particular for Europe-wide public goods, without this giving rise to the concern of a comprehensive usurpation of competence. The chance to strengthen subsidiarity is not blocked (Hüther/Vogel, 2021, 443 ff.), but improved by the specific explicability and transparency. Moreover, the conception of the "*Zweckverband funktioneller Integration*" fits in line with a strategy of enlargement that avoids an overload of the EU but seeks enhanced cooperation on a topic-by-topic basis.

(2) **Integration topics:** the *integration program for our era* should include European measurements regarding Europe-wide public goods, i.e. of security, energy supply and infrastructure. In all three cases, cost degression and network effects facilitate European investments which can only be provided efficiently and effectively - and thus sustainably financed - together.

(1) An *investment union* is about bundling and focusing major cross-border investments along the lines of IPCEI (Important Project of Common European Interest), but also about bundling Europe's negotiating power on the world market. The investment union encompasses the expansion of transport and communications infrastructure, the improvement of the European government capital stock, i.e., the infrastructural backbone of a modern economy, as well as the joint procurement of raw materials and the improvement of access to resources in third countries.

(2) A *defense union* is about unifying military structures, pooling expenditure on the EU's defense and self-assertion capabilities, and concentrated procurement process - going far beyond PESCO - on clearly defined but few weapons systems. The challenges here are obvious; the interests of the defense industry alone are a considerable obstacle. But the primacy of politics applies. This challenge can only be meaningfully combated and implemented at the European level. The defense union completes what was planned over 70 years ago, i.e., peace on the European continent.

These two Special-purpose associations of functional integration intervene deeply in the multi-level system without serving federal-state visions and thus justifying excessive demands on nation-state discourses. The expectation of benefits for citizens is justified due to the character of Europe-wide public goods, such that the offered integration is consistent with the principle of subsidiarity (Hüther/Vogel, 2021). However, it is also a matter of fact that very concrete implementation steps are required. Within the EU, these include reducing bureaucracy and a more efficient funding structure. In that way, the bounded resources can be deployed elsewhere and thus, improve Europe's competitiveness. The major tasks of the EU could be tackled if funding allocations were focused more on the strategic resilience of European economies, i.e., regarding critical raw materials and more resilient supply chains. All these challenges are adequately addressed by the communicable political framework of the two special-purpose associations.

The White Paper of the European Parliament's Scientific Service on European integration outlines those policy areas in which European harmonization and integration could lead to cost savings or even provide new opportunities for growth:

- The greatest potential has the single market and the transport sector. Harmonization such as the harmonization of corporate taxation (see Hentze/Sultan, 2023) or the expansion and improved networking of cross-border infrastructure could generate total economic benefits of 644 billion euros annually (European Parliament, 2023).
- The joint European transformation of energy systems, adaptation, and prevention of climate change, and more efficient jointly coordinated environmental and energy policies could generate up to 440 billion euros annually, of which 294 billion euros solely come from the transformation of the EU's energy systems.
- Digital transformation could generate 354 billion euros per year through harmonization of E-commerce laws, cybersecurity, coordinated E-governance and other common measures.
- Better coordination of fiscal policy, the completion of a banking and capital markets union, the further development of macroeconomic stabilization instruments against unemployment (SURE), the full utilization of the *Next Generation EU Fund* and the effective and targeted deployment of recovery and resilience plans could generate also 320 billion euros per year.
- Further potential for savings and growth lies, among other things, in health policy, in the social and cohesion sectors and, finally, in international cooperation.

An important part of the idea of the single market in 1992 was the explicit objective of high-quality standards, i.e., health or product quality, and the definition of common standards. These are enormously important, especially for industrial processes, and must be represented and promoted much more strongly than before at the international level, as laid out in the current EU standardization strategy. Product quality today is reflected, for example, in the circular economy, but also in how and where production takes place and how European players control processes. However, in order to facilitate the economy, common money is needed, but also a banking and capital market union is required to be able to efficiently handle the necessary large-scale investments in a European financial system. Again, the guiding principle of an investment union can provide orientation.

The current situation also highlights the need to finance European defense capabilities. In the face of multiple international crises and geopolitical risks, urgent action should be taken in international cooperation. The *Common Foreign and Security Policy* was adopted in 1993 under completely different global constellations and still remains a weak European policy area. When it comes to security policy, the EU member states do not sufficiently act together, although there are hardly any diverging interests. The war in Ukraine has collectively raised security awareness in Europe and prompted a return to the core task of defense policy - the territorial defense of sovereign states. European governments are aware that Europe needs a powerful military, and at the same time there is widespread agreement that the greatest security threat to the EU currently comes from Russia and, internationally, possibly also from other autocracies in Asia. However, the fact that a European defense union has not been adopted yet is mainly because for a long time it was regarded as not necessary, and the NATO seemed to provide sufficient military protection for most European states, especially for the large countries of Central Europe. Yet, the changed security situation urgently requires a reassessment of this concept.

The idea of creating a common European army has a long tradition. Already in 1952, with the founding of the European Coal and Steel Community (ECSC), a project for a common, European army was created in the form of the European Defense Community (EDC), which was intended to prevent another intra-European war and promote political unification. The project (known as the Pleven Plan) emerged against the backdrop of collective international threats posed by the Korean War and the Berlin Blockade. The failure of the Pleven Plan was primarily due to opposition from the French National Assembly, which feared a loss of control over its own armed forces. Today, this fear is no longer evident, at least from France. On the contrary, Macron has been talking for several years about a true European army that would go beyond the already decided project of a rapid reaction force with 5,000 troops. Since 2017, there has been consensus in Europe that much more cooperation in the field of defense is needed. But apart from the establishment of a European Defense Fund with 8 billion euros over 7 years for joint development of defense projects and research activities, not much has happened so far (European Parliament, 2023). It seems unrealistic for national defense to be fully organized at the EU level. A common EU defense policy could yield economic efficiency gains and cost savings between 24.5 billion euros and 75.5 billion euros annually, depending on the level of ambition of EU actions, through coordinated spending increases and economies of scale (European Parliament, 2023).

(3) **Integration financing:** How could such measures which should strengthen European defense and the resilience of the economy be designed and financed, if the introduction of a new tax at the EU level is neglected? First of all, through an increase in own resources; second, through demand pooling; and third, through a relaunch of the Next Generation EU Fund. Either way, Europe should receive the necessary financial scope in areas, which show a clear benefit, i.e., with positive external effect at the European level. The two new special-purpose field of integration - the defense union and the investment union - require appropriate and legally clearly defined sources of funding. The financing of security and defense should be financed via the respective gross domestic product of the Union, which according to Article 41, Paragraph 2 EU-T, is not to be funded from EU budget, but - as confirmed by the European Court of Auditors in the case of the European Peace Facility - must be achieved through a separate solution such as a special levy on citizens that is bundled to the purpose of use (European Court of Auditors, 2023). As the Europeanization of defense reduces national spending commitments, there is sufficient scope for tax cuts in the EU member states. Thereby, European defense would become tangible for EU citizens.

In recent years, the EU Commission has tried to find ever new financial sources, as exemplified by the plastic levy, and other proposals such as the digital levy, the $CO_2$ border adjustment mechanism (CBAM), and the financial transaction tax. The plastic levy (which, as a new category of own resources, is a contributions to the EU budget, but not an actual tax) could raise 6 billion euros for the EU, which is only a fraction of the 168 billion euros in total revenue in 2021, most of which comes from own resources derived from the Gross National Income (Amtsblatt der Europäischen Union). Overall, however, these own resources of the EU are far from sufficient to afford the investment tasks for the transformation and the measures for more resilience.

The increased pooling of the economic power of the EU member states could also be a further promising concept. The strength of the European single market gives the member states a very good bargaining position in international negotiations under the framework of the EU. The EU should use this concept more often and effectively and should expand it to areas in which regulation at the European level brings an added value. Regulation and competence at the EU level can generate added value, for example, in a common security strategy or in joint public procurement. Even if it has not been a fundamental governmental task so far, a positive example of European cooperation in public procurement is the purchase of masks during the corona pandemic, and a negative example is the previous coordination in natural gas purchasing.

Europe must learn not only to bundle its political power more efficiently, but also to use its economic power, for example through a kind of "demand cartel" in bargaining situation like energy partnerships. This would reduce dependencies and save costs for each individual country. The establishment of a joint energy platform under the Green Deal Industrial Plan seems to be very promising. It should be avoided at all costs that the EU acts together in terms of foreign trade but fails to create the basic conditions for an efficient economic area within the single market. The goal is to set up a better European transport and energy market policy. So far, the internal energy market remains incomplete in terms of infrastructure (Fischer/Geden, 2020).

Solidarity and communication are the key aspects to realize such and other European concepts in the long term. Member states should think "European" and coordinate national projects more closely with the EU or other member states. An negative example is the German "Doppelwumms" (Germany’s large relief program), where European fiscal rules are systematically undermined through the back door, or the French resistance to the "Midcat" natural gas pipeline. It should be noted however, that the four states finally agreed on a better alternative with the "H2Med" hydrogen pipeline through mediation by the EU Commission. As a "project of common interest," half of the H2Med project is financed by the EU.

The European Union's leitmotiv "united in diversity" should be a guideline for a new European strategy. However, national governments have so far lacked a European strategic view in energy policy, raw materials strategies, and defense. If one takes the European leitmotif seriously, the European Union should provide the broad framework, but countries must be allowed different assessments and implementations. This means allowing technological openness, for example in the debate about nuclear power. If Germany decides to follow the a path without nuclear power and thus voluntarily abandons a technology, this decision should not be forced on other EU member states.

The third concept would be the continuation of the *Next Generation EU Fund* (NGEU) for security and resilience. It is true that the NGEU was conceived as an extraordinary and one-off exception, which was also pointed out by the German Constitutional Court in its ruling of December 2022. If NGEU would be made permanent, this would have to be clearly distinguished from a transfer and liability union. This can be ensured with a view to the clearly European tasks of the investment union (due to union-wide external effects) and the design framework of the "*Zweckverband funktioneller Integration*"; the risk that “the autonomy of the budgetary law of the Member States as a central expression of the principle of democracy” is contested (Hilpold, 2023, 173), and thus, should be effectively prevented.

The current NGEU is intended to facilitate the digital and green transformation but one needs already to consider how the pressing challenges and risks (raw materials, resilience) can be addressed and, above all, financed. If Eurobonds are again used for financing, this may meet with resistance in the current jurisdiction. However, the source of financing via Eurobonds should not be directly demonized based on inadequate regulations, especially since it is not about new funds but about establishing a second financing pillar for the EU as an investment union. Of course, effective institutions at both the European and national levels must ensure that the measures adopted are implemented.

But the challenges of our time demand quick answers. And it is Europe's task to take these actions. Recently, large deposits of rare earths have been found in Kurina, Sweden, which could cover around eight times the global annual demand. This may not be an exceptional find compared to other international ressources, but it is an important resource for the EU. Europe must show initiative to make the reserves economically viable. The current very strict European mining laws may delay development and production by many years. At the same time, the find in Sweden is already located in Europe's largest iron ore mine and should, at least partially, dispel environmental concerns. It is now the time to apply bureaucratic reforms quickly and easily in the framework of the *Net Zero Industry Act* - such as accelerated environmental review within 30 days - if the area would be declared as a *Green Industrial Valley*. After all, if the EU Commission's goal is to manufacture 85 percent of batteries in Europe, then Europe's raw material reserves must also be made accessible for this purpose (European Commission, 2023b). At the same time, the EU must ensure that the framework conditions diversify private investments and avoid raw material dependencies. The agreements that have already been concluded or are expected to be concluded with Chile, Australia, Canada or even Kazakhstan show that some progress has been made regarding the purchase of critical raw materials.

*All in all*, the EU needs a Delors Plan 2.0 that not only, like the Delors Plan of 1989, makes the internal market more efficient and completes it. This strategy also has an impact on the external economy through bundled economic strength and frees up public and private resources for the major investments that lie ahead. In the best case, the Union will be strengthened in its competitiveness and internal unification; in the second-best case, the individual reforms of the EU Commission will show their impact quickly without institutional reforms. To achieve this, the treaties would have to be fundamentally changed and the principle of unanimity would have to be abolished in numerous policy areas. At that time of the Delors Plan, there were 12 countries; today, the EU consists of 27 nation states. Therefore, it would be even more urgent to achieve greater flexibility of action through qualified majority voting.

The geopolitical conflicts are enormous challenges for the EU. The Europeans should not rely on confrontation and isolation or enter a race of subsidies with the U.S. or China, which they would lose due to their ultimately smaller size and political heterogeneity. It is of utmost importance to enable an investment union and joint action to make Europe competitive again, free it from bureaucratic problems and at the same time follow the path of further political unification in defense, energy and economic policy. In times of a systemic conflict and *Global Power Competition*, Europe has to find the "European way" to establish itself as a leading geopolitical and economic power.

# References


Amtsblatt der Europäischen Union, L45/42, Berechnung der Finanzierung des Haushalts, 24.02.2022

Bardt, Hubertus / Parthie, Sandra / Rusche, Christian, 2022, Europäische Wettbewerbsfähigkeit, IW-Report, Nr. 12, Köln

Busch, Berthold, 1989, EG-Binnenmarkt, Beiträge zur Wirtschafts- und Sozialpolitik, Nr. 3, Köln

Busch, Berthold / Kauder, Björn, 2022, Braucht die EU neue Eigenmittel?, IW-Report, Nr. 3, Köln

Busch, Berthold / Sultan, Samina, 2022, Die EU vor neuen Erweiterungen? Alternativen zur Vollmitgliedschaft, IW-Analyse 152, Köln

Cevik, Derya / Gerards Iglesias, Simon, 2022, Abschottung ist keine Option: Autokratien gewinnen an politischer und wirtschaftlicher Bedeutung, IW-Kurzbericht, Nr. 99, Köln

Engels, Barbara / Scheufen, Marc, 2020, Eine Analyse basierend auf einer Befragung unter deutschen Unternehmen: Wettbewerbseffekte der Europäischen Datenschutzgrundverordnung, IW-Report, Nr. 1, Köln

EURACTIV, 2023, Sieben EU-Staaten lehnen weitere EU-Schulden ab, Sieben EU-Staaten lehnen weitere EU-Schulden ab – EURACTIV.de [21.03.2023]

European Commission, 2023, The Green Deal Industrial Plan. Speeding up the contribution of Europe's innovative clean tech industries to net-zero, https://ec.europa.eu/ [21.03.2023]

European Commission, 2021, Fragen und Antworten zur Mitteilung über bessere Rechtsetzung, Mitteilung über bessere Rechtsetzung (europa.eu) [21.03.2023]

European Commission, 2023a, Ausschuss für Regulierungskontrolle, Ausschuss für Regulierungskontrolle (europa.eu) [21.03.2023]

European Commission, 2023b, Regulation of the European Parliament and of the Council, https://www.euractiv.com/wp-content/uploads/sites/2/2023/03/DRAFT_Net_Zero_Industry_Act_clean.pdf [21.03.2023]

European Commission, 2023c, Recovery and Resilience Facility: Two years on. A unique instrument at the heart of the EU's green and digital transformation, https://commission.europa.eu/system/files/2023-02/COM_2023_99_1_EN.pdf [21.03.2023]

European Court of Auditors, 2023, Die Finanzlandschaft der EU: ein Flickwerk, das weitere Vereinfachung und mehr Rechenschaftspflicht erfordert, Sonderbericht 05, https://www.eca.europa.eu/Lists/ECADocuments/SR23_05/SR_EU-financial-landscape_DE.pdf [21.03.2023]

European Parliament, 2023, Increasing European added value in an age of global challenges, Brüssel

European Union, 2022, Konferenz zur Zukunft Europas. Bericht über das endgültige Ergebnis vom 9. Mai 2022 Konferenz zur Zukunft Europas | BERICHT ÜBER DAS ENDGÜLTIGE ERGEBNIS (prod-cofe-platform.s3.eu-central-1.amazonaws.com) [21.03.2023]

Fischer, Severin / Geden, Oliver, 2020, Die europäische Energie- und Klimapolitik, in: Handbuch Europäische Union, Becker, Peter / Lippert, Barbara (Hrsg.), Berlin

Fremerey, Melinda / Gerards Iglesias, Simon, 2022, Abhängigkeit – Was bedeutet sie und wo besteht sie?, IW-Report, Nr. 56, Köln

Hentze, Tobias, / Sultan, Samina, 2023, Neuer Anlauf zur Harmonisierung der Unternehmensbesteuerung in der EU, IW-Report, Nr. 7, Köln

Hilpold, Peter, 2023, „Next Generation EU und die „Einnahmensouveränität“: Das EU-Eigenmittelsystem vor dem BVerfG“, in: 34 EuZW, S. 169-175

Hüther, Michael / Diermeier, Matthias / Goecke, Henry, 2021, Erschöpft durch die Pandemie. Was bleibt von der Globalisierung? Wiesbaden.

Hüther, Michael / Vogel, Markus, 2021, Souveränität und Verantwortung im Mehrebenensystem: Subsidiarität als Leitmotiv?, in: Wirtschaftsdienst Jg. 101, Heft 6, S. 439-445

Ipsen, Hans Peter, 1972, Europäisches Gemeinschaftsrecht, Tübingen

Ipsen, Hans Peter, 1969, Fusionsverfassung Europäische Gemeinschaften, Bad Homburg v.d.H. u.a.

Kahl, Wolfgang / Hüther, Paul, 2023, Der „Zweckverband funktioneller Integration“ nach Hans Peter Ipsen. Ein Beitrag zur Begriffsgeschichte und zur Finalitätsdebatte in der Europawissenschaft, Berlin

Kolev-Schäfer, Galina / Neligan Adriana, 2022, EU-Lieferkettengesetz: Jedes fünfte Unternehmen will Preise erhöhen, EU-Lieferkettengesetz: Jedes fünfte Unternehmen will Preise erhöhen - Institut der deutschen Wirtschaft (IW) (iwkoeln.de) [21.03.2023]

Nationaler Normenkontrollrat, 2022, Bürokratieabbau in der Zeitenwende, Jahresbericht 2022

Nationaler Normenkontrollrat, 2023, Einfluss europäischer Regelungen, Einfluss europäischer Regelungen (bund.de) [21.03.2023]

Schricker, Julia, 2018, Wie sehen Unternehmen die neue Datenschutzgrundverordnung?, ifo Schnelldienst, 71, Nr. 15, 35-39, München

Schultz, Stefan, 2020, 300 Milliarden Euro Altlasten, EU-Haushalt: 300 Milliarden Euro Altlasten - DER SPIEGEL [21.03.2023]

Schürmann, Kathrin, 2016, DSGVO – Aus der Vorabkontrolle wird die Folgenabschätzung, DSGVO – Aus der Vorabkontrolle wird die Folgenabschätzung (srd-rechtsanwaelte.de) [21.03.2023]

Statistisches Bundesamt (Destatis), 2023, Bürokratiekostenindex, Bürokratiekostenindex - Statistisches Bundesamt (destatis.de) [21.03.2023]

Stiftung Familienunternehmen/ Normenkontrollrat Baden-Württemberg, Regulatory an financial burdnes arising from the A1 Certificate, in: Regulatory and financial burdens of EU legislation for family businesses in four Member States – a comparative study, Stiftung Familienunternehmen (Hrsg.), München