

An introduction: What should the EU do?

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The division of decision-making power between the central and national levels is one of the most important issues for the EU. In the almost 50 years since the Treaty of Rome was signed, the EU (at first the EEC) and its expanding set of member nations have taken a number of decisions that have affected this division, essentially by transferring some power to the central EU level. To get a sense of how far this development has gone, we will briefly consider two main indicators of power: the EU budget and EU legal instruments, the latter being made up of the regulations, directives and decisions provided for in the treaties, and the decisions of the European Court of Justice.

The budget for the EU (available at <http://ec.europa.eu/budget>) is about one percent of the Gross National Income (GNI) of the member states and is limited by intergovernmental agreement to 1.24 percent of union GNI (“less than EUR 0.70/day per person”). Almost all the revenue is paid directly from member states, while the main expenditure items are agriculture and structural actions. From this it can be concluded that the direct economic power of the EU is and has remained quite limited. Looking instead at the legal instruments, we find evidence pointing in a different direction. *Table 1*, which is adapted from a more extended table in McKay (2001), lists decision levels for a number of policy areas at three points in time.

It is noticeable in the table that policy areas like health and welfare, which require considerable financial expense, remain in the national sphere. However, decision-making power over a number of other important policy areas has gradually been transferred from the national level to the EU level. The increasing centralisation of legal instruments thus suggests the opposite of the limited budget, namely that the EU does have increasing centralised power.

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**Table 1. Decisions levels for selected EU policy areas
1957-2001**

	1957	1970	2001
Agriculture	National	Mostly EU	Mostly EU
Competition	Mainly nat'l	Mainly nat'l	Nat'l and EU
Transport	Mainly nat'l	Mainly nat'l	Nat'l and EU
Energy	Mainly nat'l	National	Mainly nat'l
Money/credit	National	Mainly nat'l	Mostly EU
Health	National	National	Mainly nat'l
Welfare	National	National	National
Higher ed./research	National	Mainly nat'l	-
Citizenship	National	National	Nat'l and EU
Diplomacy	National	Mainly nat'l	Mostly EU
Foreign aid	National	National	Nat'l and EU

Note: Adapted from McKay (2001), Table 2.2, p. 12.

One question that might be asked is what is the “right” decision level for decisions on various issues, i.e. what should the EU do and what should the member countries do? One attempt to deal with this is the principle of subsidiarity, introduced in the Maastricht Treaty in 1992, which states that:

“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 principle of subsidiarity with its policy of no unnecessary intervention is certainly very appealing, but a major problem is that it seems to be difficult to use in practice, perhaps since it is open to interpretation. For example, it is clearly possible to have different opinions on what “sufficiently achieved” means in a given situation.

The 2004 Treaty establishing a Constitution for Europe aimed at achieving greater clarity about the division of decision-making power, by making the allocation of competences between the Member States and the Union explicit. However, after the treaty was rejected by referendums in France and the Netherlands in the spring of 2005, the future of the proposed new constitution is uncertain. The question of what is the best allocation of competences remains, and present de-

velopments in the EU raise some important additional questions. What do economic and political arguments about the distribution of power say about the EU—its present state and likely future directions? Which parts of the proposed new constitution will fall by the wayside and which are likely to stay with us?

The economic, political and legal analysis of division of power—federalism—has a long tradition, and in recent years this analysis has increasingly turned its attention to the EU. The Economic Council of Sweden conference in October 2005 took the question *What should the EU do?* as its focus. The papers from the conference, which present key results from current research and discuss its implications for policy, are published in this volume.

In the first paper, *Robin Boadway* points to the different ways in which actual federations balance the benefits and costs of decentralisation versus centralised policy-making, and compares the European Union with some relatively decentralised federations. There are clear similarities in that both the EU and these federations have integrated economies and a free flow of goods while, at the same time, the local level has considerable independence in taxation and provision of public goods. However, a crucial difference emphasised by Boadway is that the financial powers of the EU are very small. There are thereby also few transfers between EU countries, while an important task for the federal government in a federation is to equalise state incomes through transfers, thus ensuring similar welfare levels in the different states and counteracting the incentive to engage in tax competition. Connected with this is the fact that there is no ambition of equal treatment of EU citizens; in the EU, citizenship remains at the national level. Boadway draws the conclusion that the lack of “fiscal clout” at the central EU level means that the EU is very far from being a federation, and does not have the means to deal effectively with efficiency issues like the adverse effects of tax competition, or equity issues like different levels of social protection. Given these limitations, the EU can act in areas where there is a common interest to satisfy, such as income tax and VAT harmonisation.

The second paper, written by *Simon Deakin*, considers the implications of recent decisions of the European Court of Justice, in particular the Centros case, which might be seen as a threat to state autonomy and a move in the direction of the US model of regulatory competition. In the US, regulatory competition between states has, for example, led to the dominance of the state of Delaware as a state of

incorporation, since other states must then accept Delaware company laws. This state-level competition is, however, limited by the existence of pre-emptive federal legislation. Deakin argues that the EU has its own and uniquely suitable mechanism for regulatory learning between member countries. In the EU, the use of directives implies that centralised guidance is combined with state-level autonomy, in particular with respect to the implementation of policy goals. Thus, the directives are flexible mechanisms that allow preservation of legal and institutional diversity, while at the same time promoting regulatory learning. Deakin concludes that the European form of regulatory competition will become increasingly important in labour and company law in the EU.

In the third paper, *Guido Tabellini* and *Charles Wyplosz* evaluate the need for coordination among member states on supply-side policies, and consider the “soft” cooperation through the Lisbon strategy, also known as the open method of coordination, as a framework for such coordination. The challenges that they identify as essential for the EU countries to meet if they are to reach Lisbon strategy goals, are increased employment, increased labour productivity, increased product market competition, and increased and better use of resources devoted to research. Tabellini and Wyplosz argue for three goals that point in the direction of strengthening the single market, namely centralising industrial policies, counteracting incentives by member countries to support and control large national firms, and generally promoting stronger product market competition. In other areas, like labour market policies, the case for centralisation is weak and thus soft methods of coordination are potentially useful. However, they find the Lisbon strategy’s reliance on peer pressure at the government level unconvincing, and the large number of targets with precisely quantified goals problematic. They suggest that the desire of national governments to work for supply-side reforms might increase if the number of targets was reduced and objectives reformulated, and if the annual Commission report on labour market benchmarks was debated in national parliaments.

The fourth paper, by *Sverker Gustavsson*, takes as a point of departure the existence of a “double asymmetry” in the present EU, i.e., the fact that the decision-making power over the single market and the joint currency are centralised while decisions on social and labour-market policies are national, together with the absence of direct political accountability of the market and monetary regulation. The chal-

lenge for the EU that Gustavsson identifies is to ensure that this double asymmetry remains acceptable to the citizens of the EU, and he argues that there are three conditions for this. Firstly, in order to reconcile the centralisation of powers with electoral accountability at the national level, centralisation must imply delegating rather than surrendering power, i.e. centralisation should remain provisional. Secondly, national governments should act to coordinate policies in the non-centralised areas using the open method of coordination. The third condition emphasised by Gustavsson is that the debate on possible and desirable choices along the dimensions of equity and efficiency, including the issue of whether there is a trade-off between the two, should be conducted openly and with reference to empirical evidence.

In the fifth paper, which completes the volume, *Giuseppe Bertola* argues for greater activity on the part of the EU in the area of social and labour market policies. He surveys the development of growth and inequality in old and new EU countries, concluding that there is a need for reform in order to increase employment and growth. Furthermore, the open coordination process has not so far been effective in achieving coordination. Increased integration could force changes but extensive reduction of social protection would lead to welfare losses, and the fear of such a development may be an explanation for resistance among EU citizens to increased integration. Bertola suggests that there is scope for the EU to act in this situation, by promoting inexpensive access to household financial services, and by redirecting some of the EU's resources to social and labour policies. For example, some of the funds that are currently used in the Common Agricultural Policy might be better used for re-training displaced workers, or for income support to the very poor.

These contributions have important things to say about the fundamental characteristics of the EU, about challenges currently facing the EU as well as about ways of dealing with these challenges. The insights that they provide will surely be valuable when following the development of the EU and its handling of the constitutional issues in the crucial next few years.

Reference

McKay, D. (2001), *Designing Europe: Comparative Lessons from the Federal Experience*, Oxford University Press, Oxford.

