

Power measures

- Formal power measures:
- Power = probability of making or breaking a winning coalition.
 - SSI = power to make.
 - NBI = power to break.
- Focus on the NBI.

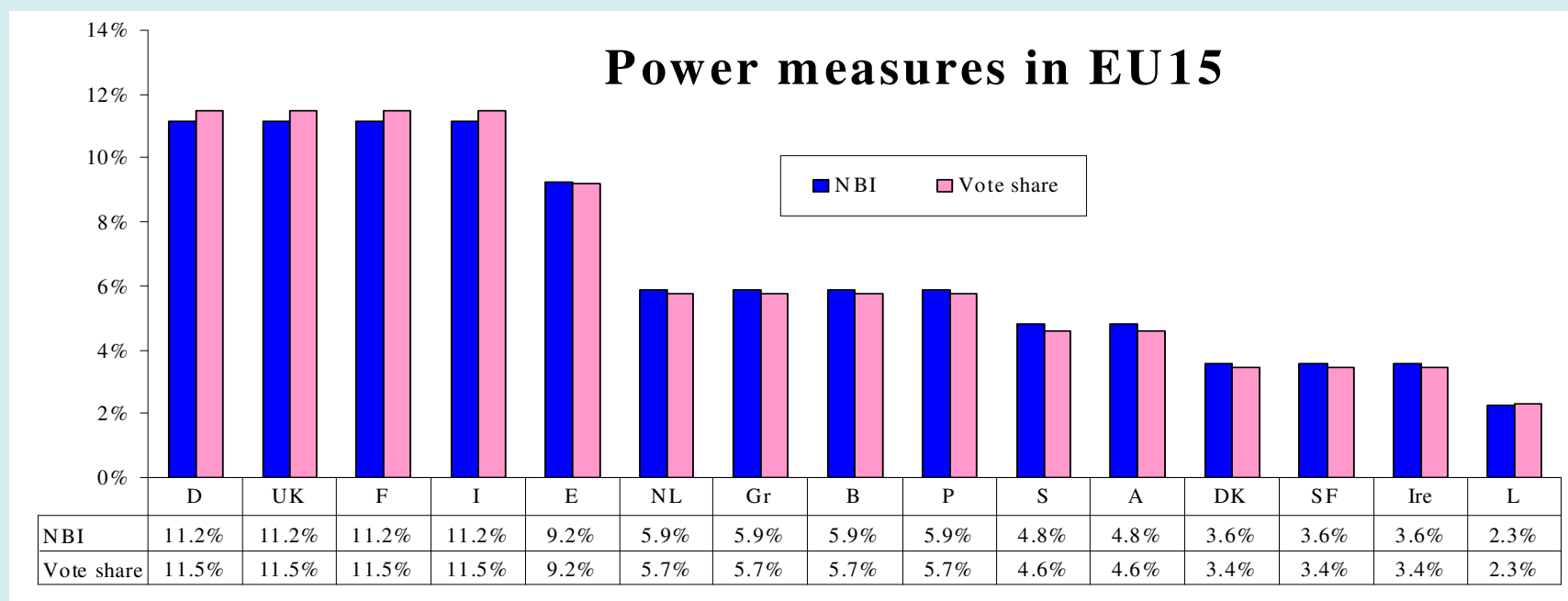
In words, NBI is a Member's share of swing votes.

ASIDE: Power measures

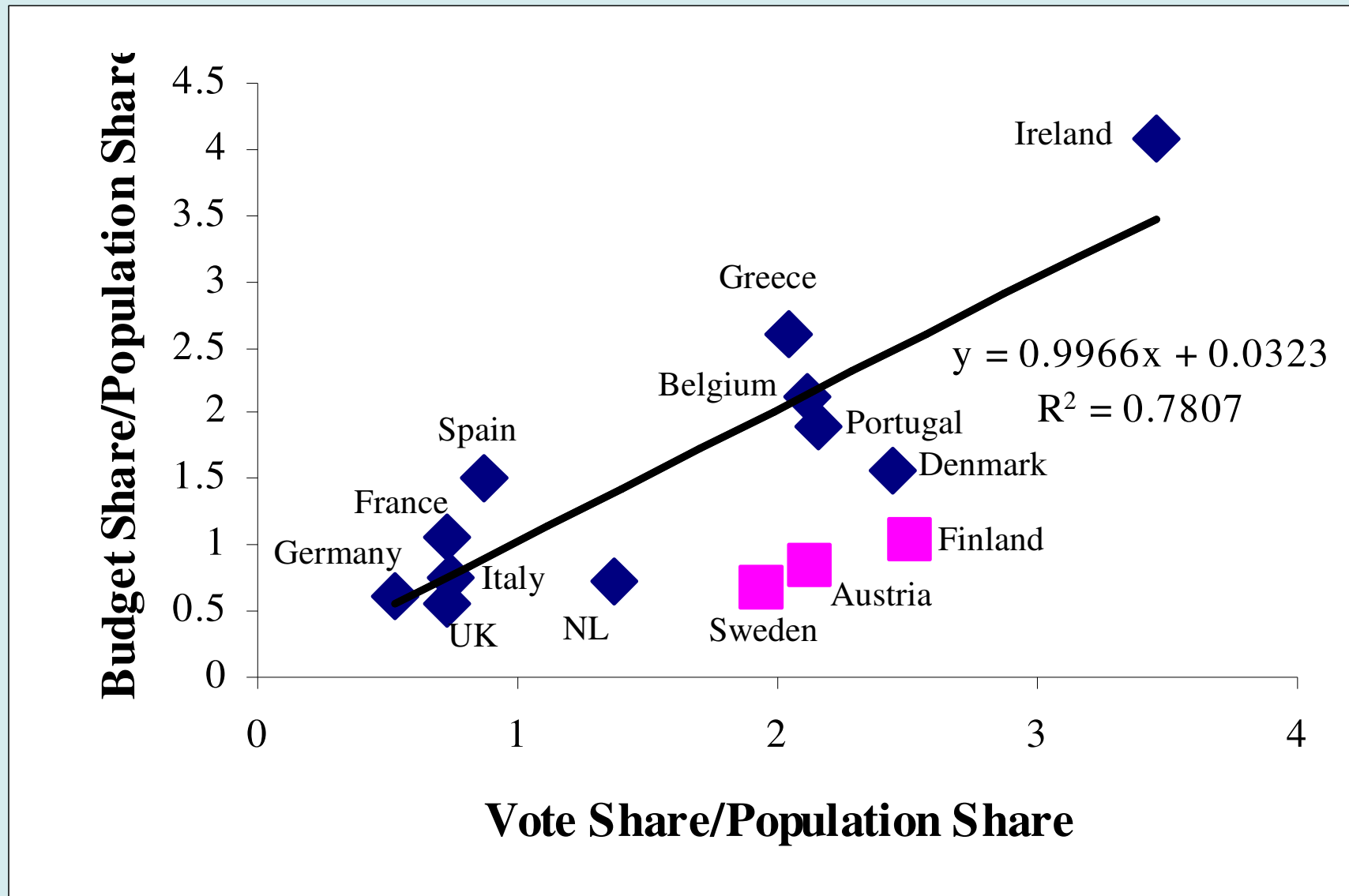
- Why use fancy, formal power measures?
- Why not use vote shares?
 - Simple counter example: 3 voters, A, B & C
 - A = 40 votes, B=40 votes, C=20 votes
 - Need 50% of votes to win.
- All equally powerful!
- Next, suppose majority threshold rises to 80 votes.
 - C loses all power.

Distribution of power among EU members

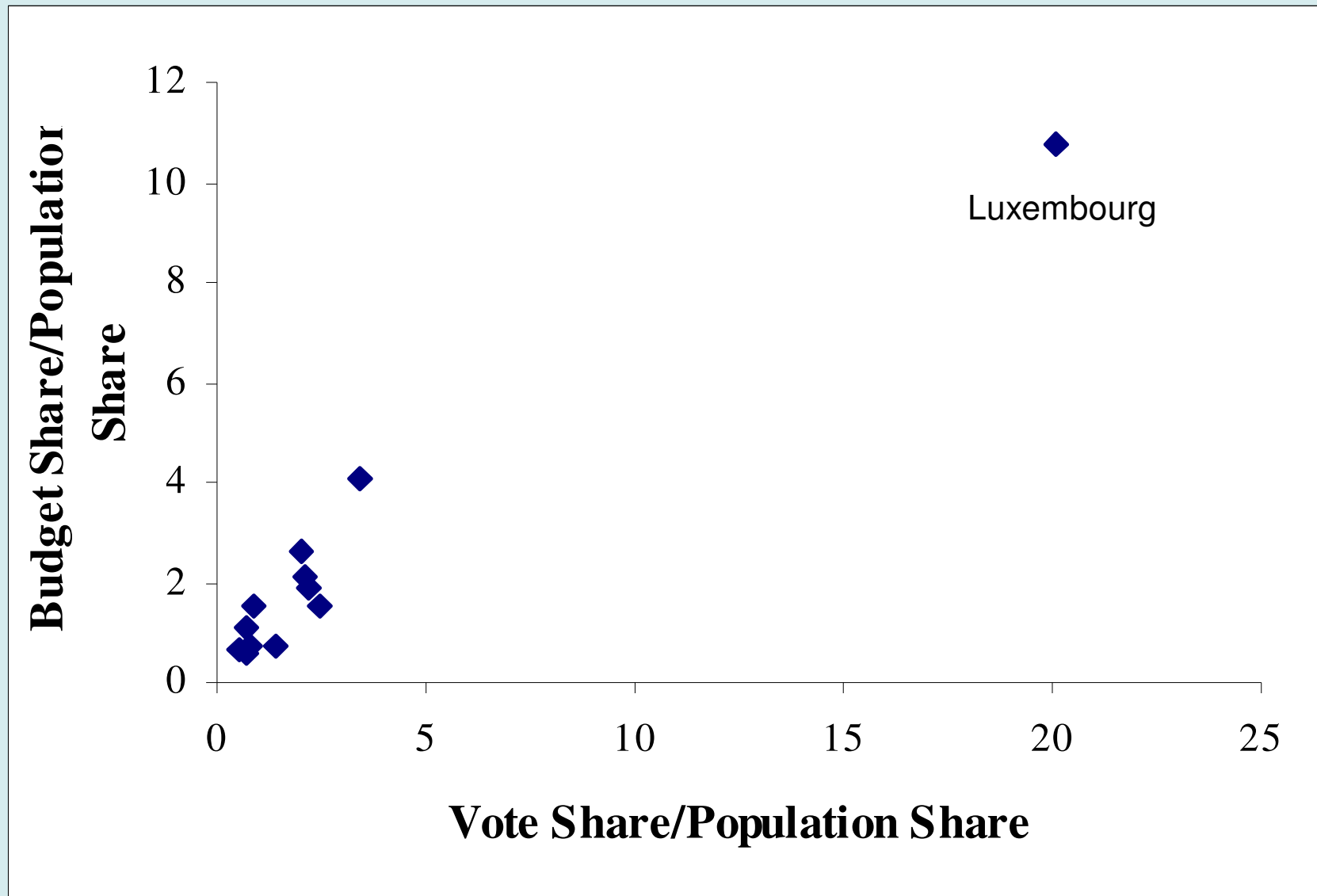
- For EU15, NBI is very similar to share of Council votes, so the distinction is not so important as in 3 country example.



Do power measures matter?



Do power measures matter?



Task allocation and subsidiarity

- Key question: “Which level of government is responsible for each task?”
 - Setting foreign policy
 - Speed limits
 - School curriculum
 - Trade policy, etc
- Typical levels:
 - local
 - regional
 - national
 - EU
- Task allocation = ‘competencies’ in EU jargon

Subsidiarity principle

- Before looking at the theory, what is the practice in EU?
- Task allocation in EU guided by subsidiarity principle (Maastricht Treaty)
 - Decisions should be made as close to the people as possible,
 - EU should not take action unless doing so is more effective than action taken at national, regional or local level.
- Background: “creeping competencies”
 - Range of task where EU policy matters was expanding.
 - Some Member States wanted to discipline this spread.

3 Pillars and task allocation

- 3 Pillar structure delimits range of:
 - Community competencies (tasks allocated to EU).
 - Shared competencies (areas where task are split between EU and member states).
 - National competencies.
- 1st pillar is EU competency.
- 2nd and 3rd are generally national competencies
 - details complex, but basically members pursue cooperation but do not transfer sovereignty to EU.

Theory: Fiscal federalism

- What is optimal allocation of tasks?
- Basic theoretical approach is called Fiscal Federalism.
 - Name comes from the study a taxation, especially which taxes should be set at the national vs sub-national level.

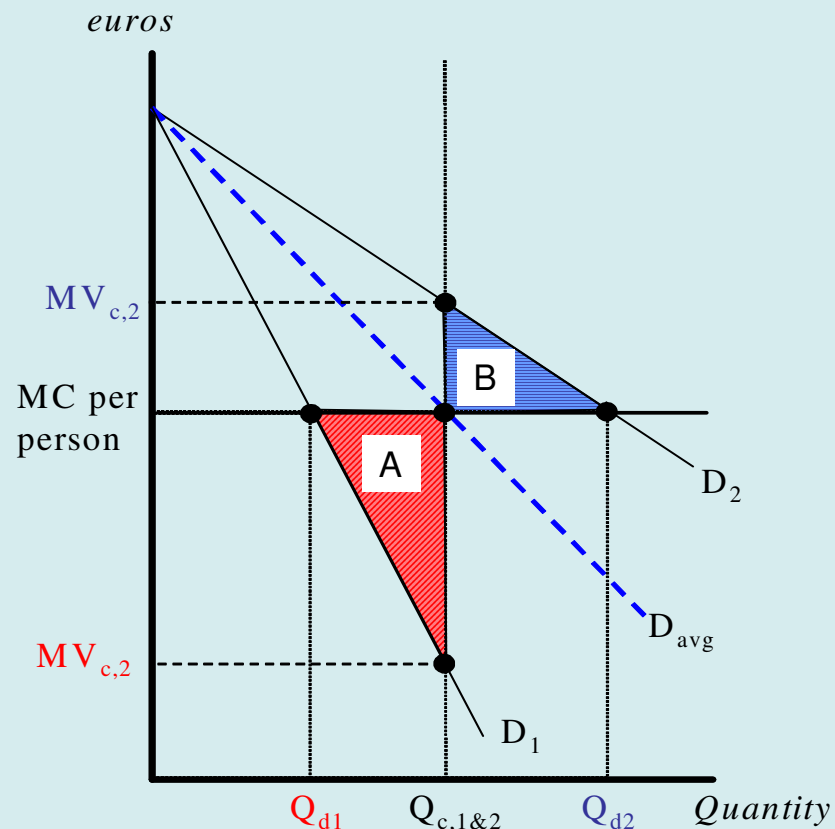
Fiscal federalism: The basic trade-offs

- What is optimal allocation of tasks
 - NB: there is no clear answer from theory, just of list of trade-offs to be considered.
- Diversity and local informational advantages
 - Diversity of preference and local conditions argues for setting policy at low level (i.e. close to people).
- Scale economies
 - Tends to favour centralisation and one-size-fits-all to lower costs.
- Spillovers
 - Negative and positive spillovers argue for centralisation.
 - Local governments tend to underappreciated the impact (positive or negative) on other jurisdictions. (Passing Parade parable).
- Democracy as a control mechanism
 - Favours decentralisation so voters have finer choices.
- Jurisdictional competition
 - Favours decentralisation to allow voters a choice.

Diversity and local information

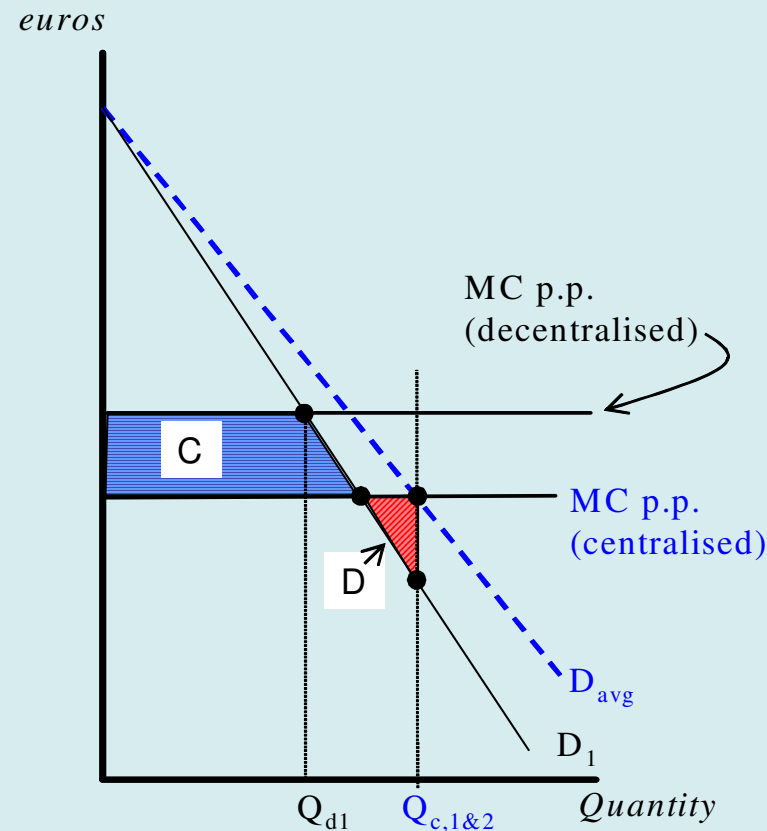
• Closer look at the trade-offs

- One-size-fits-all policies tend to be inefficient since too much for some and too little for others.
- central government could set different local policies but Local Government likely to have an information advantage.



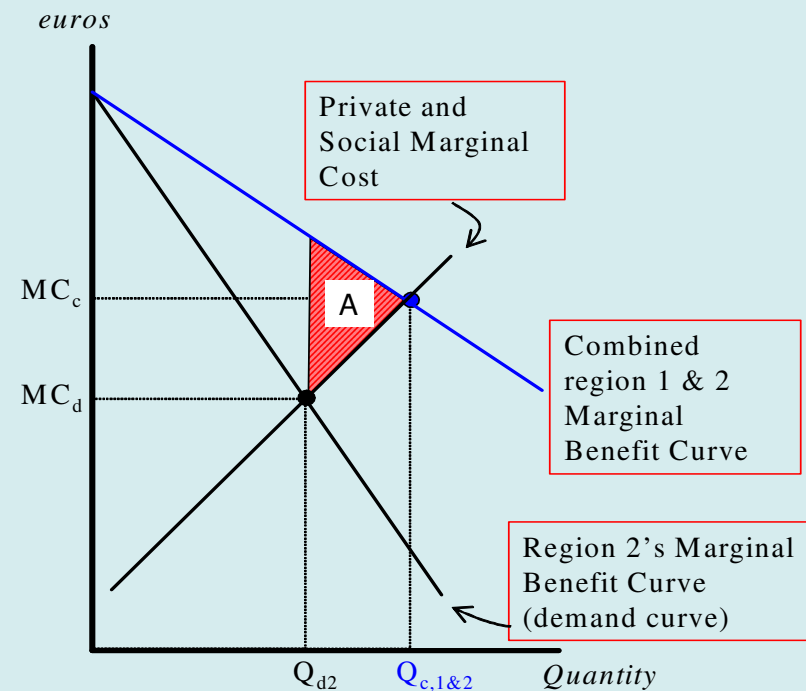
Scale

- By producing public good at higher scale, or applying to more people may lower average cost.
- This tends to favour centralisation.
 - Hard to think of examples of this in the EU.



Spillovers

- Example of a positive spillovers.
- If decentralised, each region chooses level of public good that is too low.
 - e.g. Q_{d2} for region 2.
- Two-region gain from centralisation is area A.
- Similar conclusion if negative spillovers.
 - Q too high with decentralised.



Democracy as a control mechanism

- If policy is in hands of local officials and these are elected, then citizens' votes have more precise control over what politicians do.
- High level elections are take-it-over-leave-it for many issues since only a handful of choices between 'promise packages' (parties/candidates) and many, many issues.
 - Example of such packages:
 - Foreign policy & Economic policy.
 - Centre-right's package vs Centre-left's package.
 - At national level, can't choose Centre-right's economics and Centre-left's foreign policy.

Jurisdictional competition

- Voters influence government they live under via:
 - ‘voice’
 - Voting, lobbying, etc.
 - ‘exit’.
 - Change jurisdictions (e.g. move between cities).
- While exit is not a option for most voters at the national level, it usually is at the sub-national level. And more so for firms.
 - Since people/firms can move, politicians must pay closer attention to the wishes of the people.
 - With centralised policy making, this pressure evaporates.