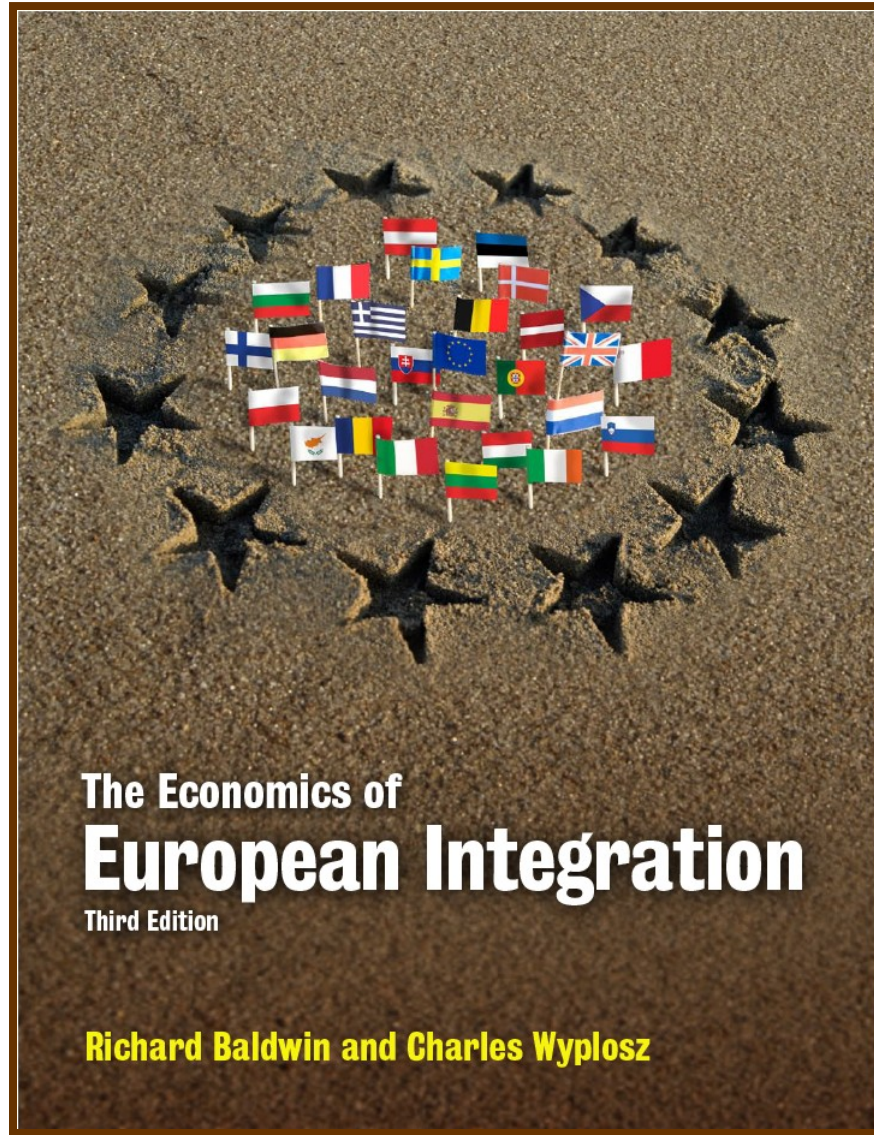


Chapter 3





Chapter 3

Decision Making

Task allocation and subsidiarity



- Which level of government is responsible for various policies in the EU?
- Typical levels:
 - local
 - regional
 - national
 - EU
- Task allocation = ‘competences’ in EU jargon



Subsidiarity and proportionality



- Task allocation in EU guided by the **subsidiarity principle** :
 - Decisions as close to the people as possible
 - EU action only if it is more effective than action at national, regional or local level.
- Further guiding **principle of proportionality**:
 - EU should undertake only minimum action



3 Pillars and task allocation



- 3 Pillar structure delimits range of competences
 - 1st pillar is EU (community) competency
 - E.g. single market related issues
 - 2nd and 3rd pillars allow co-operation with no transfer of sovereignty to EU level
 - 2nd pillar: Common Foreign and Security Policy
 - 3rd pillar: Justice and Home Affairs



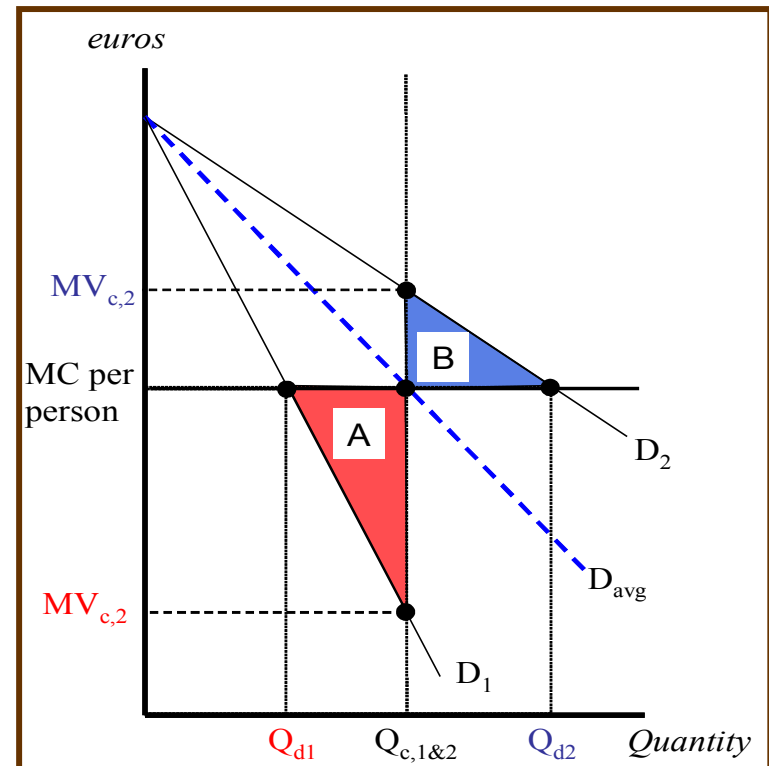
Fiscal federalism theory

- Optimal allocation of tasks depends on trade-offs:
 - *Diversity and local informational advantages*
 - *Scale economies* (cost savings from centralisation)
 - *Spillovers* (negative and positive externalities of local decisions argue for centralisation)
 - *Democracy* (favours decentralisation)
 - *Jurisdictional competition* (favours decentralisation)



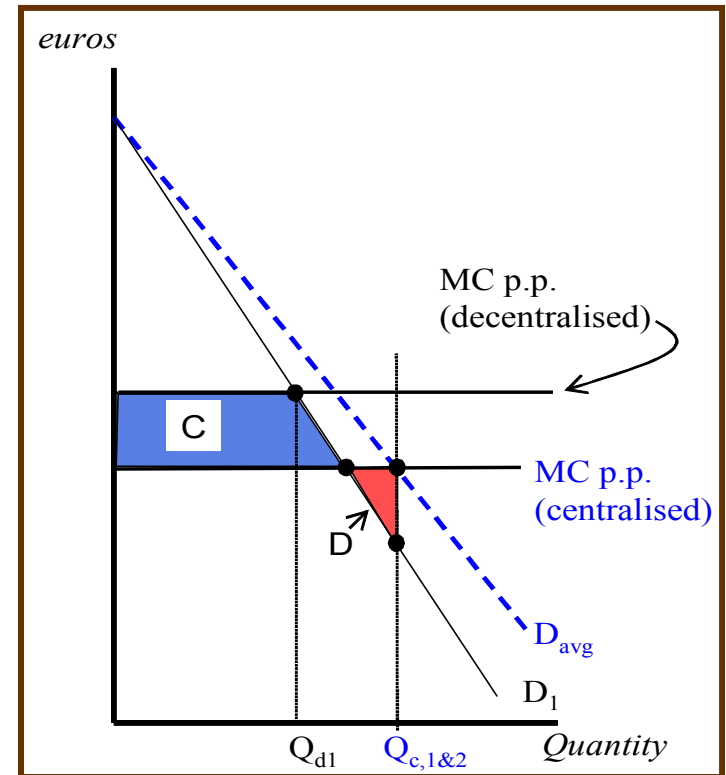
Diversity and local information

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



Scale

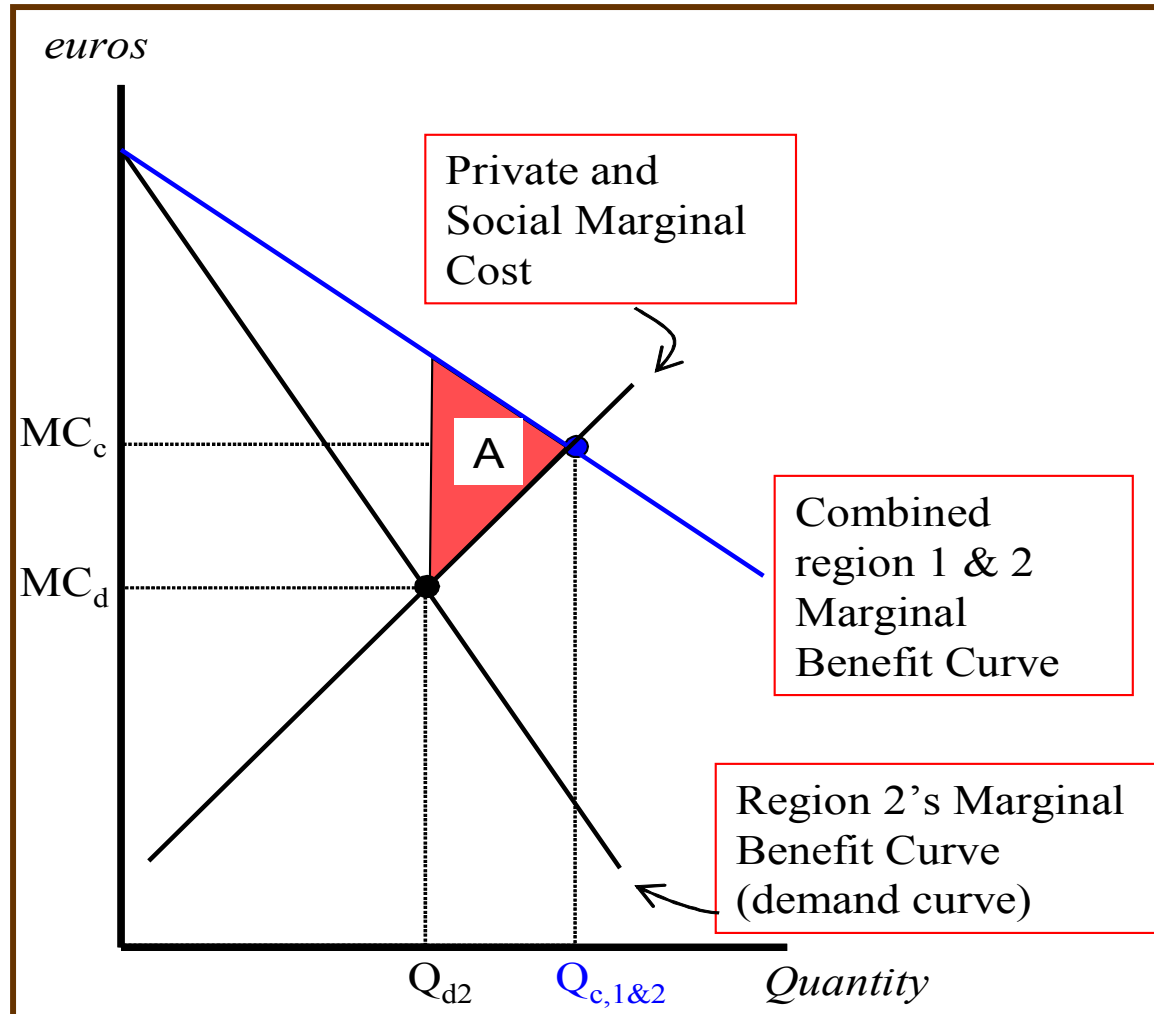
- By producing public goods at higher scale, or applying to more people may lower average cost.
- This tends to favour centralisation
 - Examples: transport, medical services



Spillovers



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



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' and many, many issues.

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.

Economical view of decision-making



- Main decision-making procedure in the EU: the **Codecision Procedure**, involving:
 - Simple majority in European Parliament
 - *Qualified majority voting (QMV)* within Council of Ministers
 - Yes from 255 of total 355 votes
 - Agreement of 50% of members
 - 62% of the population represented



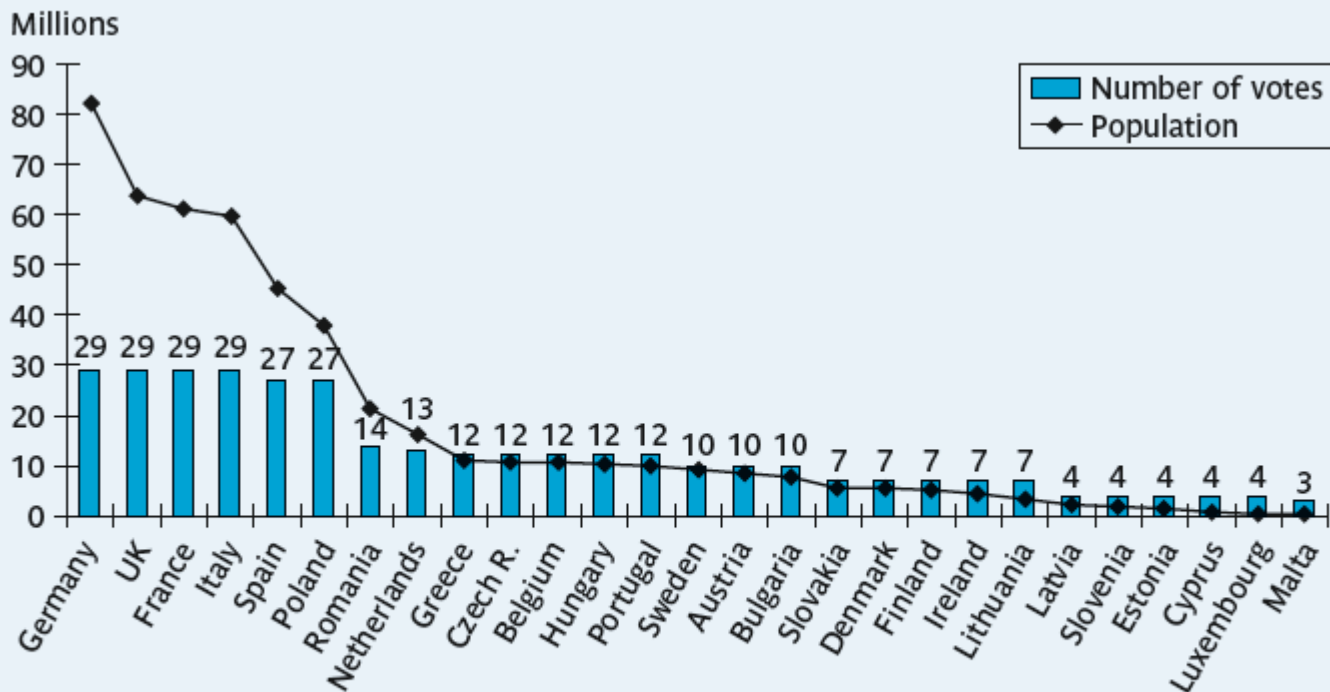


Figure 3.3 Number of Council votes, digressively proportional to population

Note: Passing a proposal in the Council by QMV requires yes votes from a group of members that have at least 74 per cent of the votes, 50 per cent of the membership and 62 per cent of the population.

EU Ability to act: decision-making efficiency



- **Passage Probability** measures how easy it is to find a majority under a given voting scheme

$$= \frac{\text{number of possible winning coalitions}}{\text{number of possible coalitions}}$$

e.g.:

- three voters: A, B, C with 10 votes each
- 50% of votes needed to pass proposal



Table 3.1 Passage probability in a simple example

A	B	C	Vote allocation #1		Vote allocation #2		
			10 votes each	Qualified majority? (50%)	20 votes to A, 5 to B and C	Qualified majority? (50%)	
Yes	Yes	Yes	30	yes	30	yes	
No	Yes	Yes	20	yes	10	no	
Yes	No	Yes	20	yes	25	yes	
Yes	Yes	No	20	yes	25	yes	
No	No	Yes	10	no	5	no	
Yes	No	No	10	no	20	no	
No	Yes	No	10	no	5	no	
No	No	No	0	no	0	no	
Passage probability (50% majority threshold)					50.0%		37.5%
Passage probability (70% majority threshold)					12.5%		37.5%

From Nice to Lisbon Treaty: efficiency results



- The ways to block in Council massively increased with Nice Treaty Reform
 - EU decision-making extremely difficult
- Lisbon Treaty
 - New double majority rule for Council:
 - 55% of members,
 - 65% of EU population.
 - Increased efficiency as a result

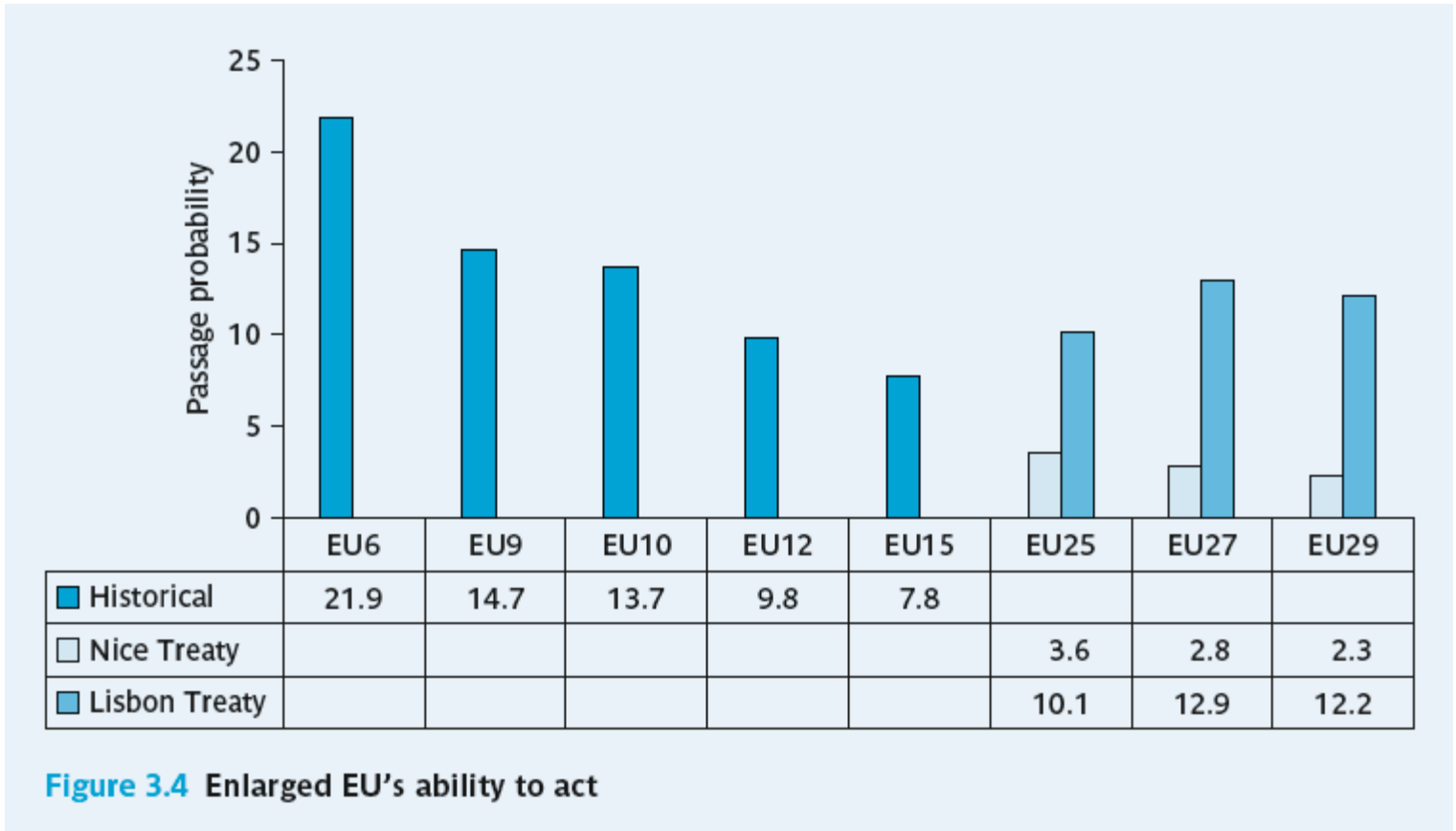


Figure 3.4 Enlarged EU's ability to act

The Distribution of Powers among EU members



- Formal power measures:
Power = probability of making or breaking a winning coalition.
- Budget allocations as observable manifestation of power
- The **Normalized Banzhaf Index (NBI)**
 - Likelihood for a nation to break a winning coalition in a randomly selected issue



ASIDE: Power measures



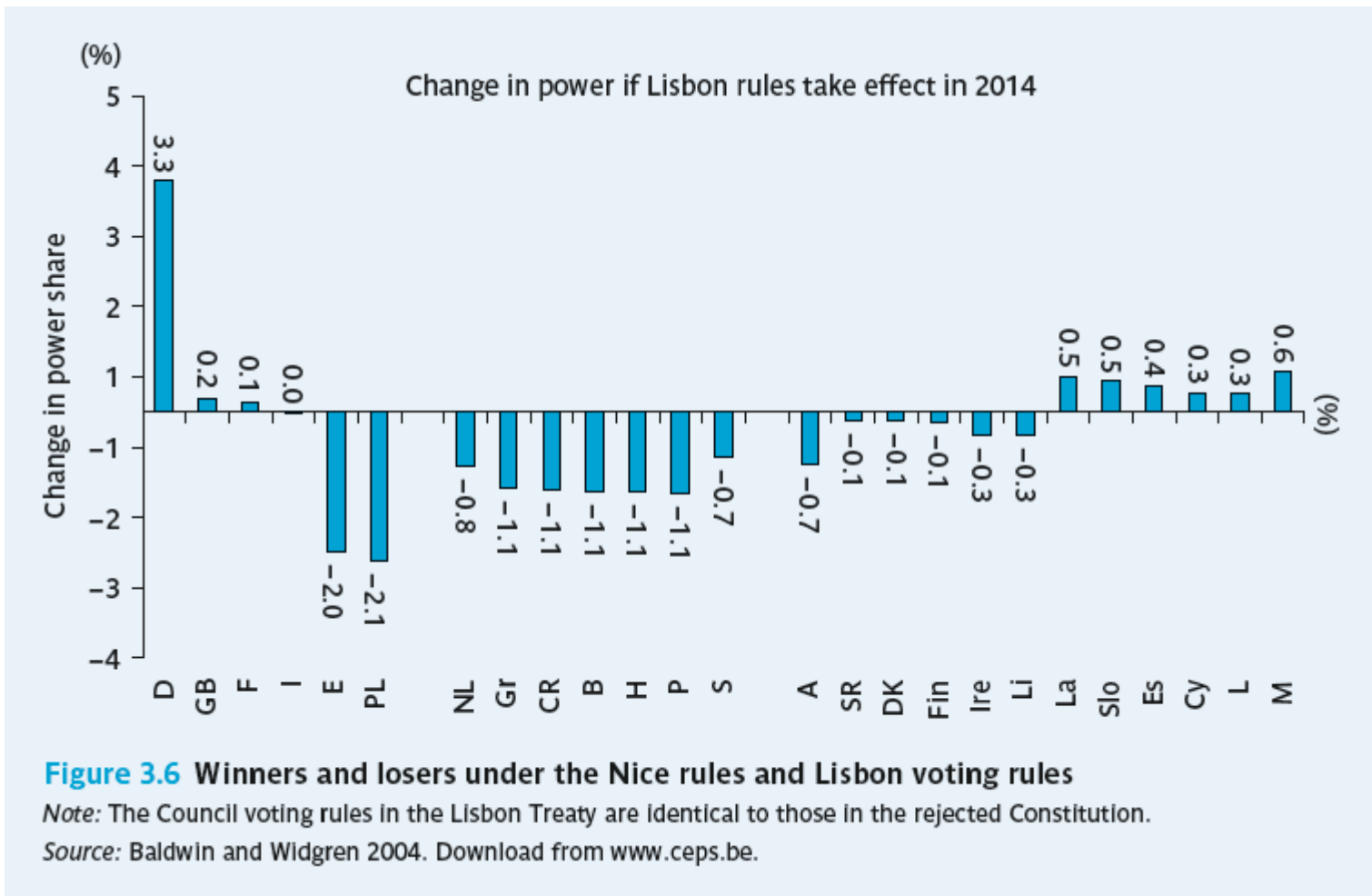
- Why not use vote shares?
 - Simple counter example: 3 voters, A, B & C
 - A = 40 votes, B=40 votes, C=20 votes
 - Need 50% of votes to win.
- All equally powerful!
- Next, suppose majority threshold rises to 80 votes.
 - C loses all power.

Power Shifts in Lisbon Treaty



- If Treaty is passed, new rules to come into effect in 2014
- Switching from current Nice Treaty to Lisbon Treaty
 - to grant more power to smallest states and Germany
 - Biggest losers Spain and Poland and middle-sized states





Legitimacy in EU decision-making



- Legitimacy is a slippery concept.
 - Approach: equal power per citizen is legitimate ‘fair’.
- Fairness & square-ness.
 - Subtle maths shows that equal power per EU citizen requires Council votes to be proportional to square root of national populations.



Intuition for Legitimacy in EU decision-making



- EU is a two-step procedure
 - Citizens elect national governments,
 - Governments vote in the Council.
- Typical Frenchwoman is less likely to be influential in national election than a Dane.
 - ➔ French minister needs more votes in Council to equalise likelihood of any single French voter being influential (power).
- Lisbon Treaty in favour of a ‘Union-of-People’

