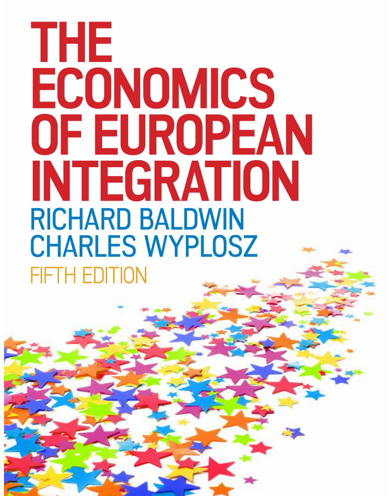
Chapter 2: Facts, law, institutions and the budget

"In the infancy of societies, the chiefs of the state shape its institutions; later the institutions shape the chiefs of state."

Baron de Montesquieu



Economic integration in the EU

- The Treaty of Rome was a far-reaching document: it laid out virtually every aspect of economic integration implemented up to the 1992 Maastricht Treaty.

- The Treaty's intention was to create a unified economic area = an area where firms and consumers located anywhere in the area would have equal opportunities to sell or buy goods throughout the area, and where owners of labour and capital should be free to employ their resources in any economic activity anywhere in the area:
  - "4 freedoms": goods, service, workers and capital;
  - common policies where necessary.

Main elements

- Free trade in goods: eliminate tariffs, quotas and all other trade barriers.

- Common trade policy with the rest of the world: Customs Union to trade deflection.

- Ensuring undistorted competition (to avoid “deals” that offset trade barrier removal):
  - state aids are mostly prohibited;
  - anti-competitive behaviour regulated by Commission;
  - approximation of laws (i.e., harmonization);
  - taxes (weak restrictions but no explicit harmonization).

Main elements

- Unrestricted trade in services: principle of freedom of movement of services, but implementation has been hard.

- Labour and capital market integration:
  - free movement of workers;
  - free movement of capital in principle but many loopholes; very little capital-market liberalization until the 1980s .

- Exchange rate and macroeconomic coordination.

- Common policy in agriculture: set up in 1962, agriculture was much more important than it is today (e.g., about a third of French population was involved in agriculture in 1950s; today less than 5%). However, still 40 % of EU Budget are devoted to agriculture

Omitted elements

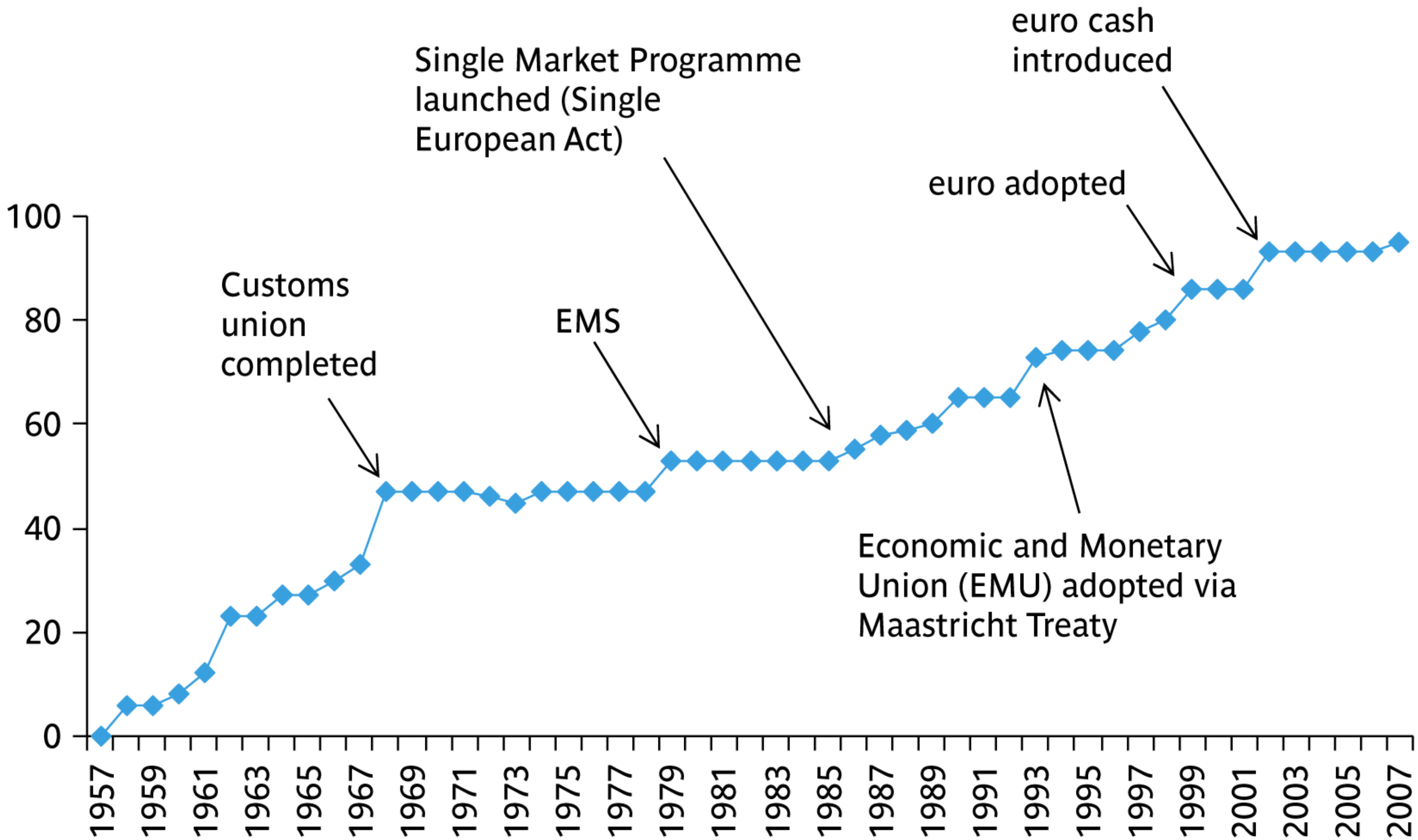
- Social policy: social harmonization very difficult politically:
  - nations have very different opinions on what types of social policies should be dictated by the government;
  - it is not as an exchange of concessions.

- Also, not clear that European economic integration demands harmonization of social policies:
  - national wage would adjust to offset any unfair advantage;
    - if lower social standards meant lower production costs, long term result would be higher wages that offset the advantage.

- Tax policy: like social policies, tax policy directly touches the lives of most citizens and it is the outcome of a national political compromise. Thus, EU leaders have always found it difficult to harmonize taxes.

Quantifying European economic integration

Economic historians have quantified the extent of integration.



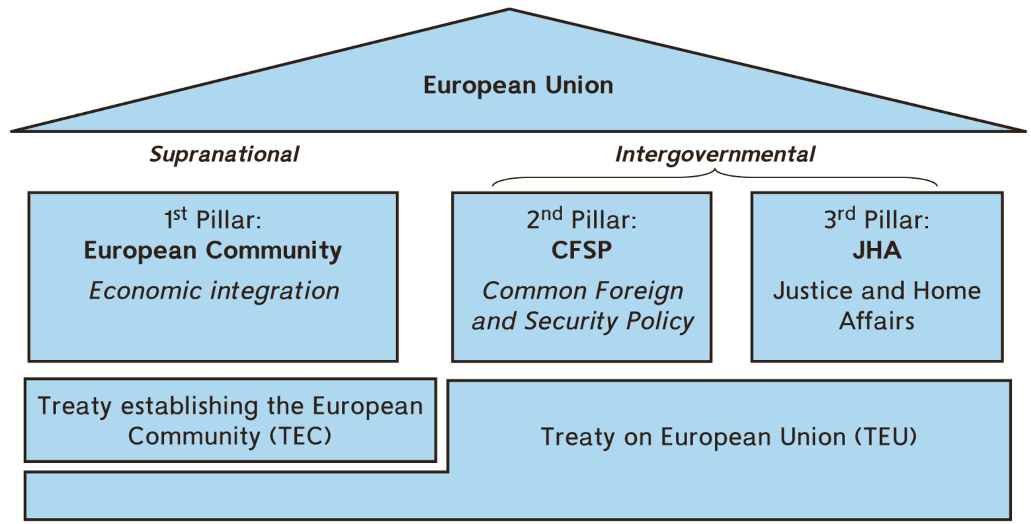
EU structure: pre and post-Lisbon

- Until the Maastricht Treaty, most integration initiative were decided with supranational decision-making procedures. Two problems:
  - old schism between federalists and intergovernmentalists:
    - the ‘vanguard’ wished to spread European integration to areas not covered in the original Treaties;
    - the ‘doubters’ worried that supranational decision-making procedures were producing an irresistible increase in the depth and breadth of European integration;
  - integration that was taking place outside of the EU’s structure.

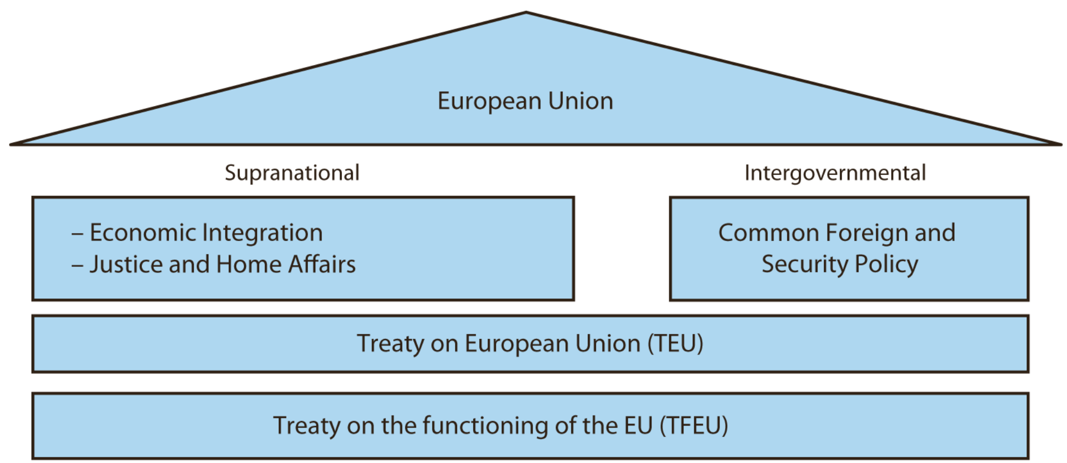
- The Maastricht Treaty drew a clear line between supranational and intergovernmental policy areas: the 3-pillar organizational structure.

- The Lisbon Treaty has a roof and only 2 pillars: one for supranational issues and one for intergovernmental issues.

EU structure: pre and post-Lisbon compared



Note: The first pillar also includes the highly specialized European Atomic Energy Community; it is often called Euratom.



EU law

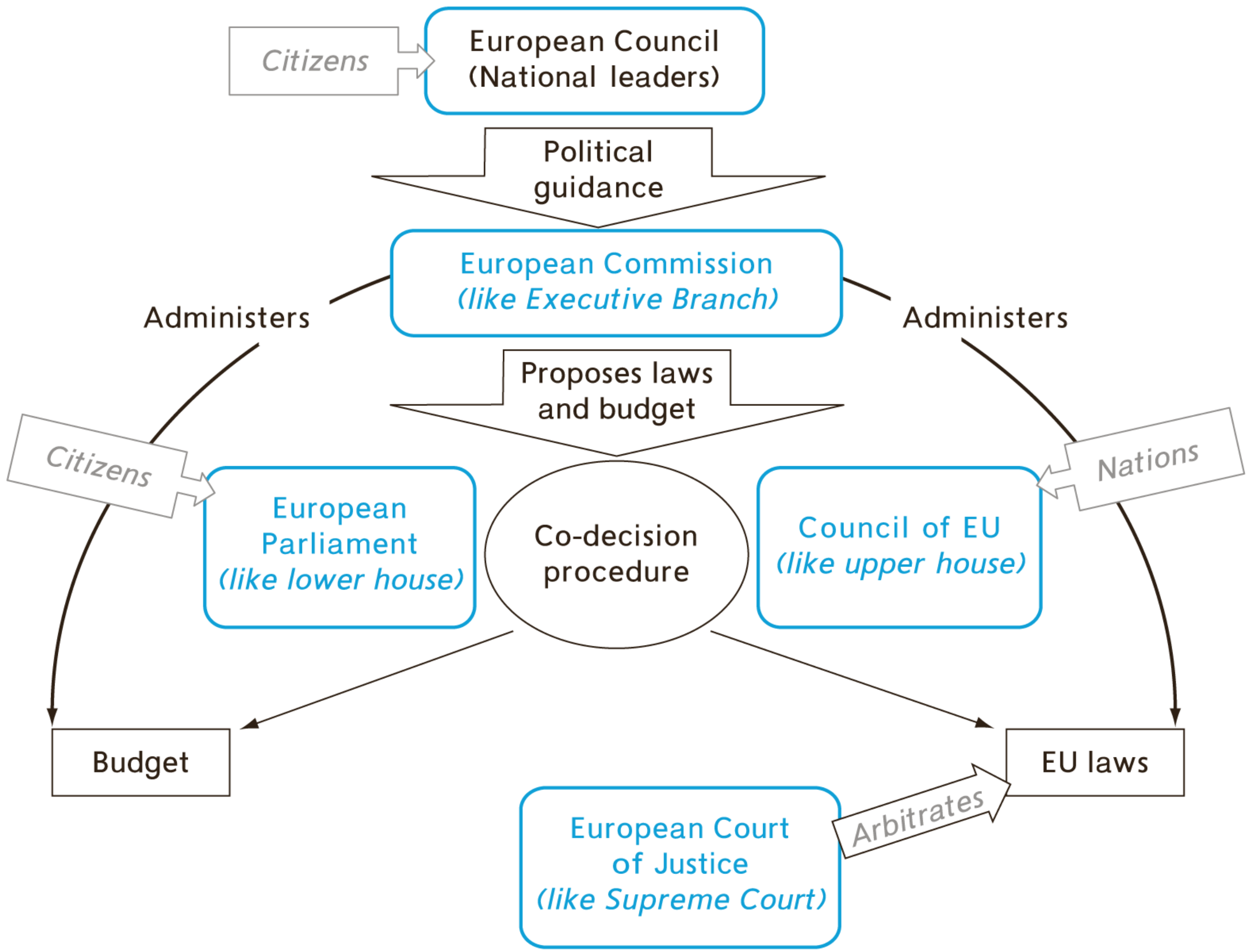
- One of the most unusual and important things about the EU is its supranational legal system. By the standards of every other international organization in the world, the European legal system is extremely supranational.

- Main principles:
  - direct effect: EU law can create rights which EU citizens can rely upon when they go before their domestic courts;
  - primacy: Community law has the final say (e.g., highest French court can be overruled) so that it cannot be altered by national, regional or local laws in any member state;
  - autonomy: system is independent of members' legal orders.

The ‘Big-5’ institutions

There are many EU institutions but the core ones are the “Big-5”:

Figure 2.3 Basics of EU institutional architecture



The European Council

- The European Council is the highest political-level body in the EU: it provides political guidance at the highest level (i.e., it initiates the most important EU initiatives and policies).

- It consists of the leaders of each Member State, the President of the European Council and the President of the European Commission.

- The Lisbon Treaty created the ‘President of the European Council’ who chairs the European Council for two and a half years and is selected by qualified-majority voting in the European Council.

The European Council

- It meets at least four times a year, with the most important meetings usually coming in June and December (at the end of each six-month term of the Presidency of the EU).

- The most important decisions of each Presidency are contained in a document, known as the 'Conclusions of the Presidency'.

- One peculiarity is that the European Council has no formal role in EU law-making: its political decisions are translated into law following the standard legislative procedures.

- Confusingly, the European Council and the Council are often both called 'the Council'. And neither should be confused with the Council of Europe (an international organization set up in the 1940s and entirely unrelated to the EU).

The Council

- The Council is the EU's main decision-making body.

- It consists of one representative from each EU member authorized to commit its government to Council decisions, so Council members are the government ministers responsible for the relevant area.

- It uses different names according to the issue discussed:
  - e.g., EcoFin for financial and budget issues, the Agriculture Council for CAP issues, General Affairs Council for foreign policy issues.

The Council

- The Council has responsibilities in all first-pillar areas; it has the following powers:
  - to pass European laws (jointly with the European Parliament);
  - to coordinate the general economic policies of the Member States in the context of the Economic and Monetary Union (EMU);
  - to pass final judgment on international agreements between the EU and other countries or international organizations (a power it shares with the European Parliament);
  - to approve the EU's budget (jointly with the European Parliament).

- In addition to these tasks linked to economic integration, the Council takes the decisions related to Common Foreign and Security Policies.

The Council

- The Council has two main decision-making rules:
  - unanimity: for most important issues (e.g., Treaty changes, accession of new members and setting the multi-year budget plan);
  - ‘qualified majority voting’ (QMV): for most issues (about 80% of all Council decisions).

- The High Representative of the Union for Foreign Affairs and Security Policy is a new post created by the Lisbon Treaty. Previously, leadership and representation of EU policy on Common Foreign and Security Policy were divided between the Council of Ministers and the European Commission. Lisbon merged the two positions so that the new High Representative attends both Council and Commission meetings.

The Commission

- The European Commission is the executive branch of the EU.

- It enforces the Treaties and is driving forward European integration:
  - it proposes legislation to the Council and Parliament;
  - it administers and implements EU policies;
  - it provides surveillance and enforcement of EU law in coordination with the EU Court.

- It represents the EU at some international negotiations (e.g., WTO).

The Commission

- The Commission is made up of one Commissioner from each EU member (including the President and two Vice-Presidents).

- Commissioners are appointed all together and serve for five years.

- Commissioners are chosen by their own national governments and approved by the European Parliament. Commissioners are not supposed to act as national representatives and they are in charge of a specific area of EU policy, equivalent to a national ministry called Directorates-General (DGs).

- The Commission has a great deal of independence and often takes views that differ substantially from the Member States, the Council and the Parliament. However, it is ultimately answerable to the European Parliament since the Parliament can dismiss the Commission.

The Commission

- The Commission's main law-making duty is to prepare proposals for new EU legislation.
- The Commission is the executive in all of the EU's endeavours, but its power is most obvious in competition policy.
- One the key responsibility of the Commission is to manage the EU budget, subject to supervision by the EU Court of Auditors.
- The Commission decides, in principle, on the basis of a simple majority: almost all of its decision are on the basis of consensus. The reason is that the Commission usually has to get its actions approved by the Council and the Parliament: a decision that does not attract the support of a substantial majority of the Commissioners will almost surely fail in the Council and/or Parliament.

European Parliament

- It has two main tasks:
  - sharing legislative powers with the Council of Ministers and the Commission;
  - overseeing EU institutions, especially the Commission.

- The Lisbon Treaty boosted the power of the Parliament substantially, making it equal to the Council on most types of EU legislation (i.e., noteworthy are the Parliament's new powers over the budget).

- Organization:
  - about 750 members (MEPs) directly elected (some are anti-European!);
  - number per nation varies with population but less than proportional;
  - MEPs physically sit left-to-right, not along national lines.

European Parliament

→ Democratic control:

- Parliament and Council are the primary democratic controls over the EU's activities;
- MEPs directly elected so in principle a way for Europeans to have a voices.
- voter turnout for EP elections has been falling since direct elections began (even thought EP getting more powerful).

Table 2.1 Results of the 2014 Parliamentary election by party groups

Party group name	Result (%)
Group of the European People's Party (EPP)	221 MEPs, 29
Group of the Progressive Alliance of Socialists and Democrats (S&D)	191 MEPs, 25
European Conservatives and Reformists (ECR)	70 MEPs, 9
Alliance of Liberals and Democrats for Europe (ALDE)	67 MEPs, 9
European United Left/Nordic Green Left (GUE/NGL)	52 MEPs, 7
The Greens/European Free Alliance (Greens/EFA)	50 MEPs, 7
Europe of Freedom and Direct Democracy (EFDD)	48 MEPs, 6
Non-attached Members (NI) – Members unattached to a political group	52 MEPs, 7

Court of Justice of the European Union

- EU laws and decisions are open to interpretation that lead to disputes that cannot be settled by negotiation:
  - Court settle these disputes, especially disputes between Member States, between the EU and Member States, between EU institutions, and between individuals and the EU;
  - Court has had a major impact on European integration via case-law.

- Organization:
  - located in Luxembourg;
  - one judge from each member appointed for six years;
  - also eight “advocates-general” to help judges;
  - Court reaches its decisions by majority voting.

- Court of First Instance set up 1980s to help with growing workload.

Legislative processes

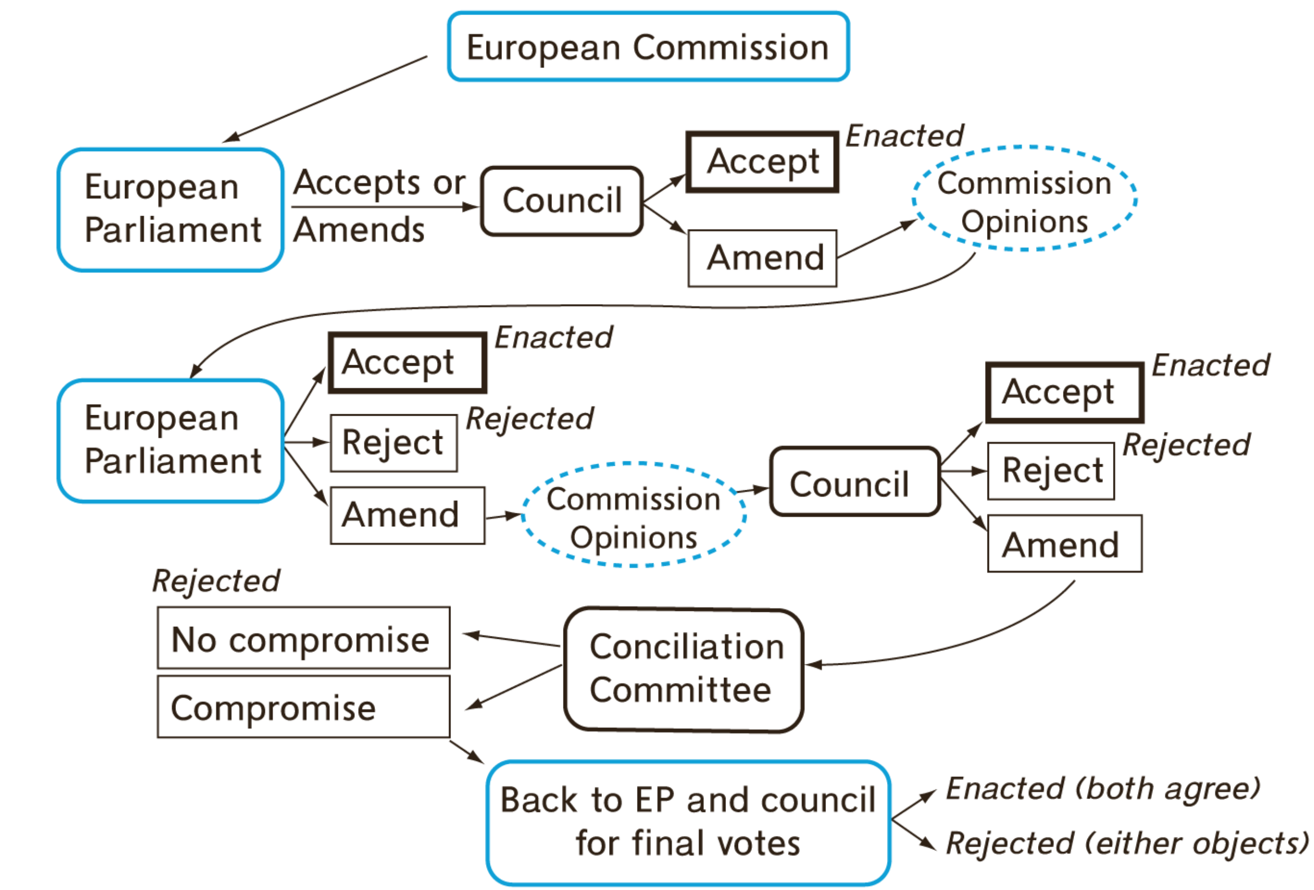
- The European Commission has a near-monopoly on initiating the EU decision-making process: right of initiative allows the Commission a good deal of power over which new legislation gets considered.

- Once developed, the Commission’s proposal is sent to the Council for approval. Most EU legislation also requires the European Parliament’s approval (exact procedure depends upon the issue).

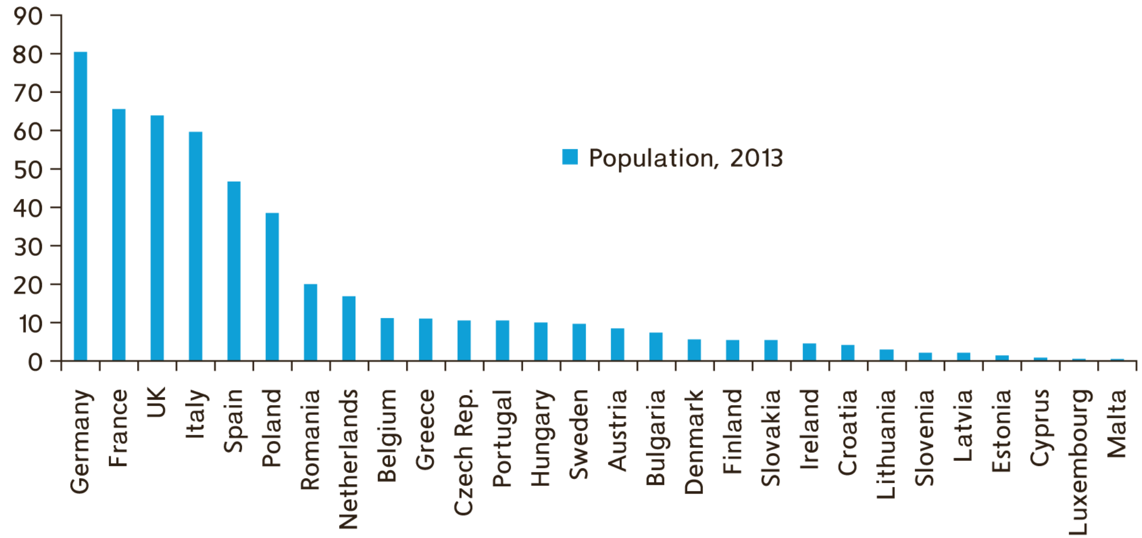
- Procedures:
- ‘ordinary legislative procedure’: gives the Parliament and the Council equal power in terms of approval/rejection and amendment;
- ‘consultation procedure’: Parliament only gives opinion;
- ‘consent procedure’: Council adopts legislation (proposed by the Commission) after obtaining the consent (without amendments) of Parliament.

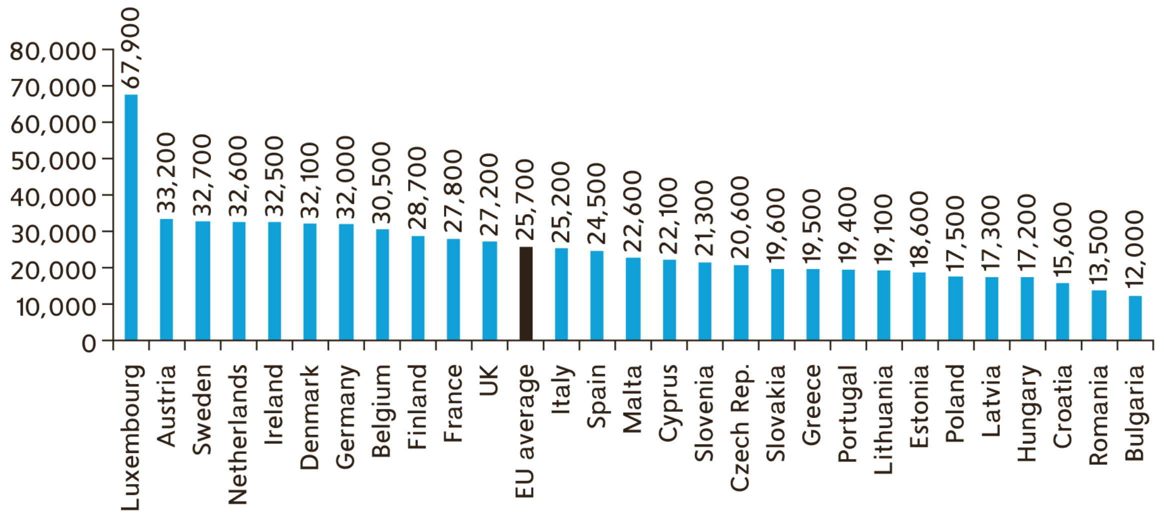
Legislative processes

Figure 2.6 Ordinary legislative procedure



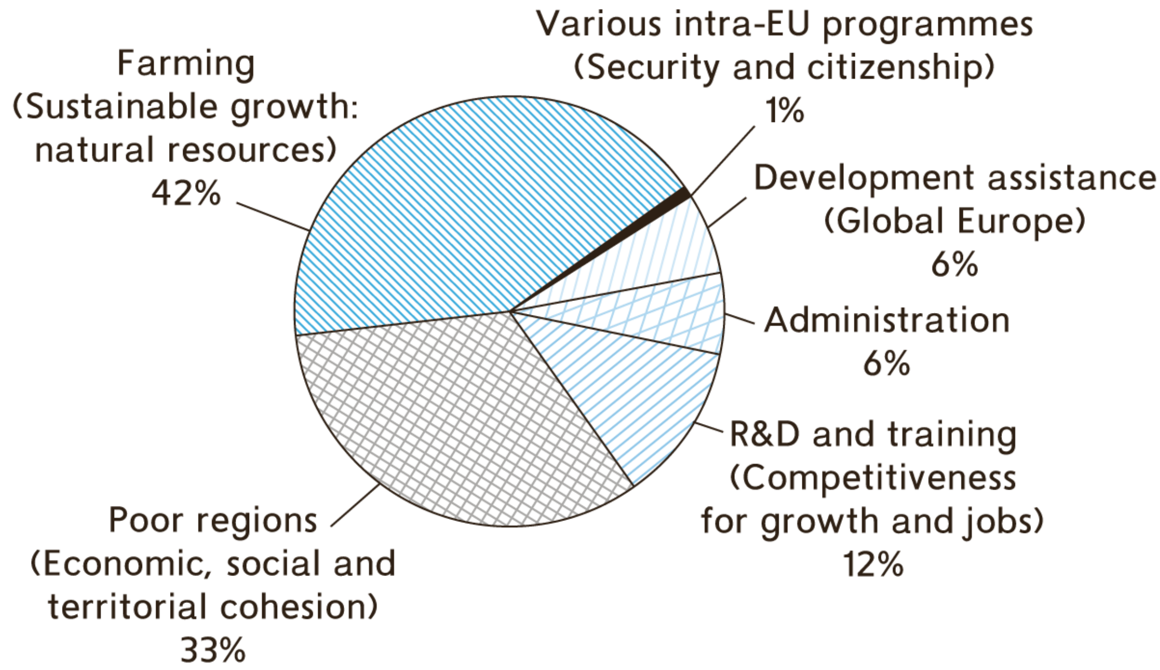
Some important facts





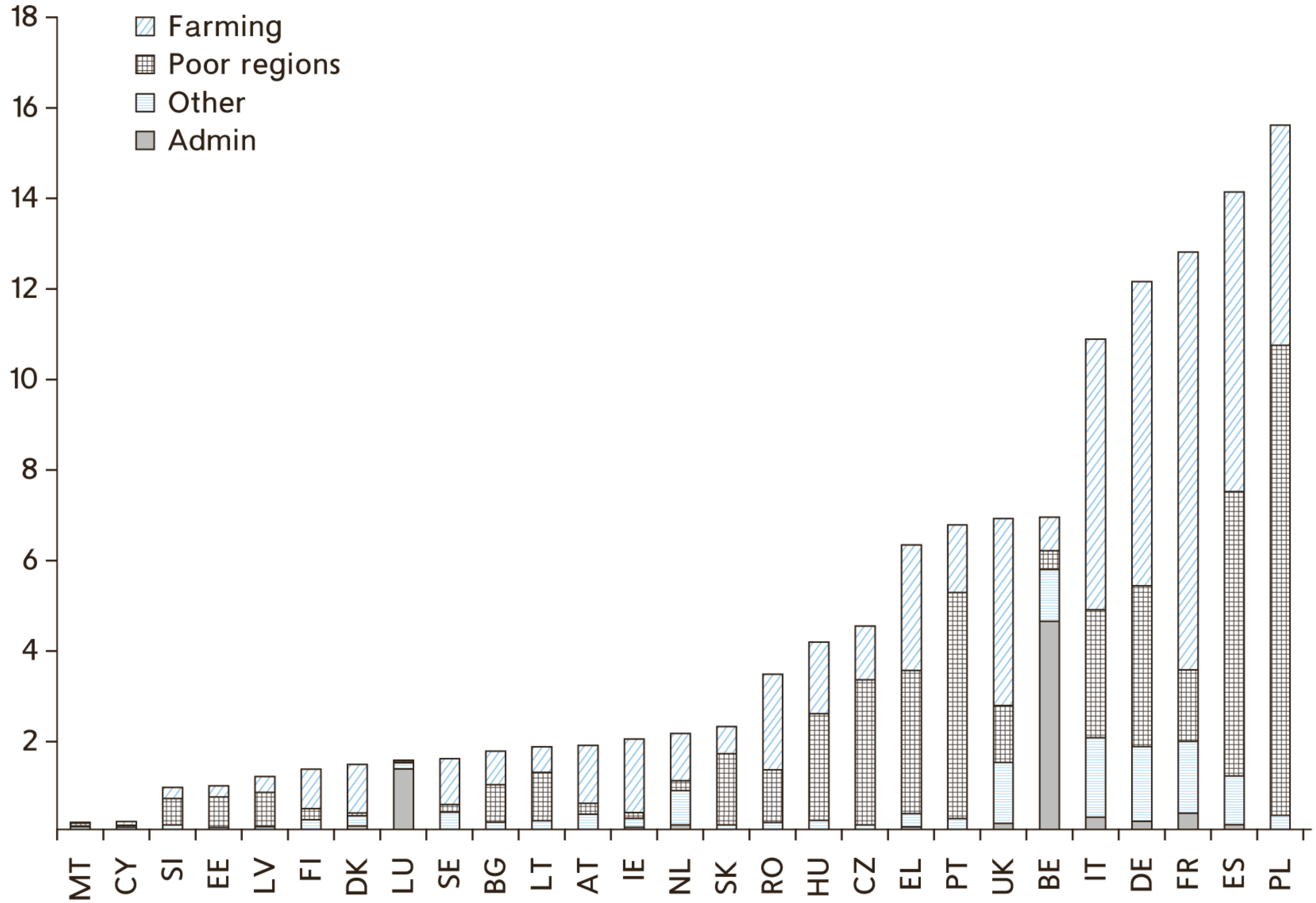
The budget: expenditures

Total EU spending is over €120 billion = about 1% EU27 GDP.



Source: http://ec.europa.eu/budget/figures/2014/2014_en.cfm

EU Spending by member and type, 2012



Note: Malta MT, Cyprus CY, Slovenia SI, Estonia EE, Latvia LV, Finland FI, Denmark DK, Luxembourg LU, Sweden SE, Bulgaria BG, Lithuania LT, Austria AT, Ireland IE, Netherlands NL, Slovak Republic SK, Romania RO, Hungary HU, Czech Republic CZ, Greece EL, Portugal PT, United Kingdom UK, Belgium BE, Italy IT, Germany DE, France FR, Spain ES and Poland PL.

Source: Data compiled by the authors from http://ec.europa.eu/budget/library/biblio/documents/2012/fin_report_2012_data.xls

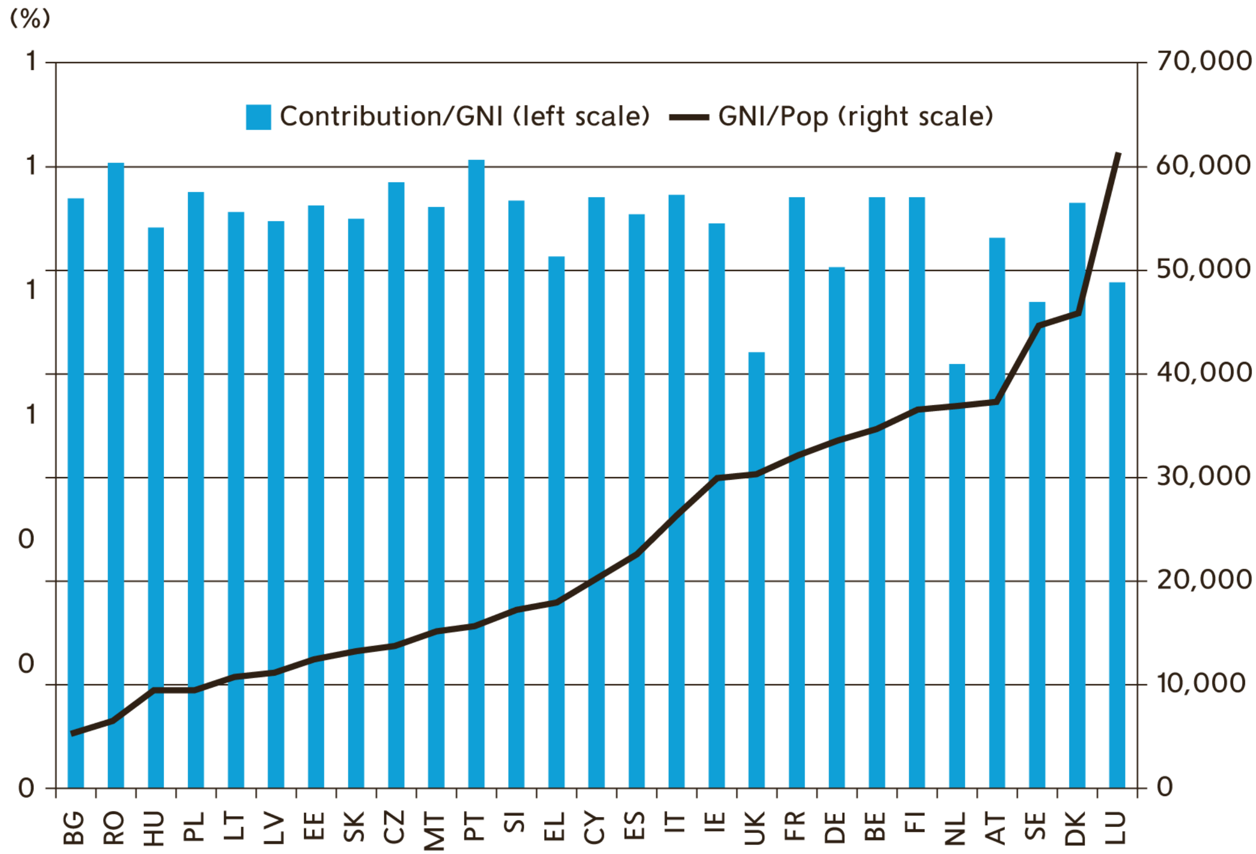
The budget: revenues

- The EU’s budget must, by law, be balanced every year.

- Four main sources:
  - tariff revenue;
  - ‘Agricultural levies’ (tariffs on agricultural goods);
  - ‘VAT resource’: like a 1% value added tax (reality is complex);
  - GNP based: tax paid by members based on their GNP.

Contribution versus GDP (2012)

EU funding amounts to 1% of each member's GDP, not progressive as in most nations (i.e., richest nation pays less of its GDP than the poorest nation).



Note: See Figure 2.10 for the country abbreviations.

Source: Based on data from DG budget website (http://ec.europa.eu/budget/index_en.cfm)