Chapter 3: Decision making

*"Nothing is more difficult, and therefore more precious,
than to be able to decide."*
Napoleon Bonaparte

Task allocation

Which level of government is responsible for policies in the EU?

- 'exclusive competences': EU decides alone;
- 'shared competences': responsibility shared between the EU and Member States; two types:
    - members cannot pass legislation in areas where the EU already has;
    - existence of EU legislation does not hinder members' rights to make policy in the same area;
- 'supporting, coordinating or complementary competence' where the EU can pass laws that support action by members;
- 'national competences': national or sub-national governments alone decide.

Task allocation

Table 3.1   Allocation of competences to the EU

Exclusive	Shared		Support, coordinate or supplement
Customs union	Exclusive if EU has policy	Non-exclusive	Certain human health policies
Competition policy	Internal market	R&D policies	Industry
Eurozone monetary policy	Certain social policy	Outer space policies	Culture
Conservation of marine resources	Cohesion policy	Development cooperation	Tourism
Common commercial policy	Agriculture and fisheries	Humanitarian aid	Education and training
	Environment		Civil protection and disaster prevention
	Consumer protection		Administrative cooperation
	Transport		Coordination of economic, employment and social policies
	Energy		Common foreign, security and defence policies
	Old third pillar 'Area of freedom, security and justice'		
	Certain public health polices		

Source: The main provisions are in TEU Articles 1, 4, 5, 6, Protocol No. 2

Task allocation: subsidiarity and proportionality

The use of the tasks is guided by two principles:

- subsidiarity: keep decisions as close to the citizen as possible without jeopardizing win–win cooperation at the EU level (i.e., EU action only if it is more effective than action at national, regional or local level);

- proportionality: the EU should undertake only the minimum necessary actions.

→ The 'burden of proof' lies on the instigators of EU legislation: they must make the case that there is a real need for common rules and common action. National parliaments are 'subsidiarity watchdogs'.

Fiscal federalism theory

Optimal allocation of tasks depends on trade-offs:

- diversity and local informational advantages: if people have different preferences, centralized decisions create inefficiencies;

- scale economies: cost savings from centralization;

- spillovers: negative and positive externalities of local decisions argue for centralization (or, at least, cooperation);

- democracy: control mechanism that favours decentralization;

- jurisdictional competition: the fact that people can move (e.g., move between cities) forces decision makers to pay closer attention to the wishes of the people. This favours decentralization because if all decisions are centralized, voters do not have the 'exit' option.

Diversity and local information

- 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.
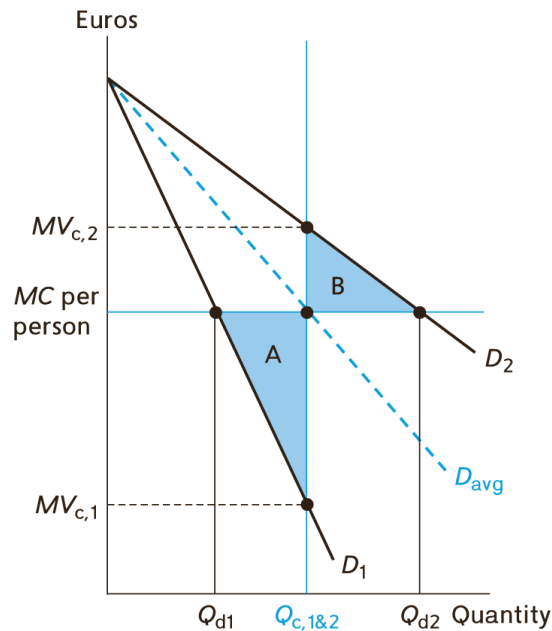

Note: The diagram assumes that individuals in each region are identical and the governments are 'benevolent'.

Technical note: The MC per person = MV criterion is identical to Samuelson's famous sum of MV condition since MC/N = MV implies MC = N * MV, where N is the number of people in the region.

Diversity and local information

- Producing public goods at higher scale reduced average cost.

- This leads to centralization: transport; medical services; etc.
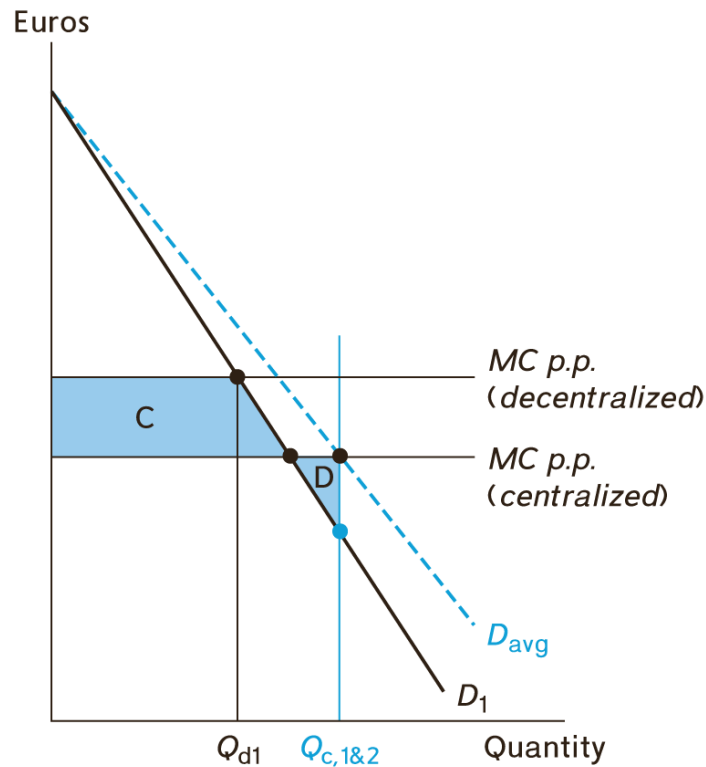
Democracy as a control mechanism

- If policy is in the 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 issues.

- This logic is important: it underpins the basic presumption that decisions should be made at the lowest practical level of government (i.e., as close to the voters as possible).

Economical view of decision-making

- EU has several different decision-making procedures. But about 80% of EU legislation is passed under the 'ordinary legislative procedure': the Council adopts legislation by a 'qualified majority voting' (QMV) and the European Parliament adopts it by a simple majority.

- Current QMV rules from Nice Treaty: Lisbon Treaty simplifies rules but not before 2014 (and a last-minute political compromise means that an EU member can invoke the Nice Treaty rules up to 2017):

    - each Member State's minister casts a certain number of votes (increasing in population but less than proportional);

    - a proposal passes the Council with at least 255 votes (out of 354) equal to 74%;

    - agreement of 50% of Member States representing at least 62% of the population.

Economical view of decision-making
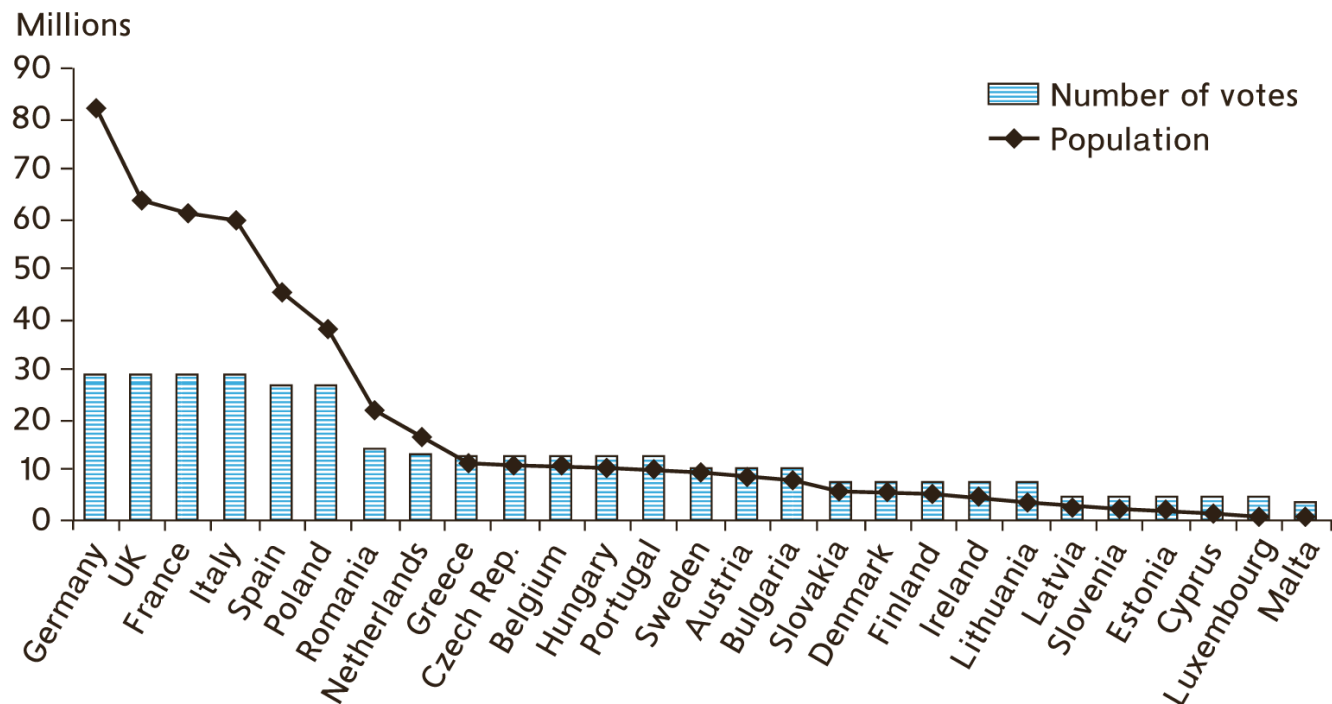
Note: Passing a proposal in the Council under Nice Treaty QMV requires 'yes' votes from a group of members that have at least 74 per cent of the votes, 50 per cent of the membership and 62 per cent of the population.

EU ability to act: decision-making efficiency

- In economics, efficiency means an absence of waste. In EU decision-making, efficiency means 'ability to act'.

- The perfect measure of efficiency would predict all possible issues to be voted, decide how members would form coalitions, and use this to develop an average measure of how easy it is to get things done in the EU. Such predictions, of course, are impossible!

- Instead, 'passage probability' measures how easy it is to find a majority under a given voting scheme (for a given issue):

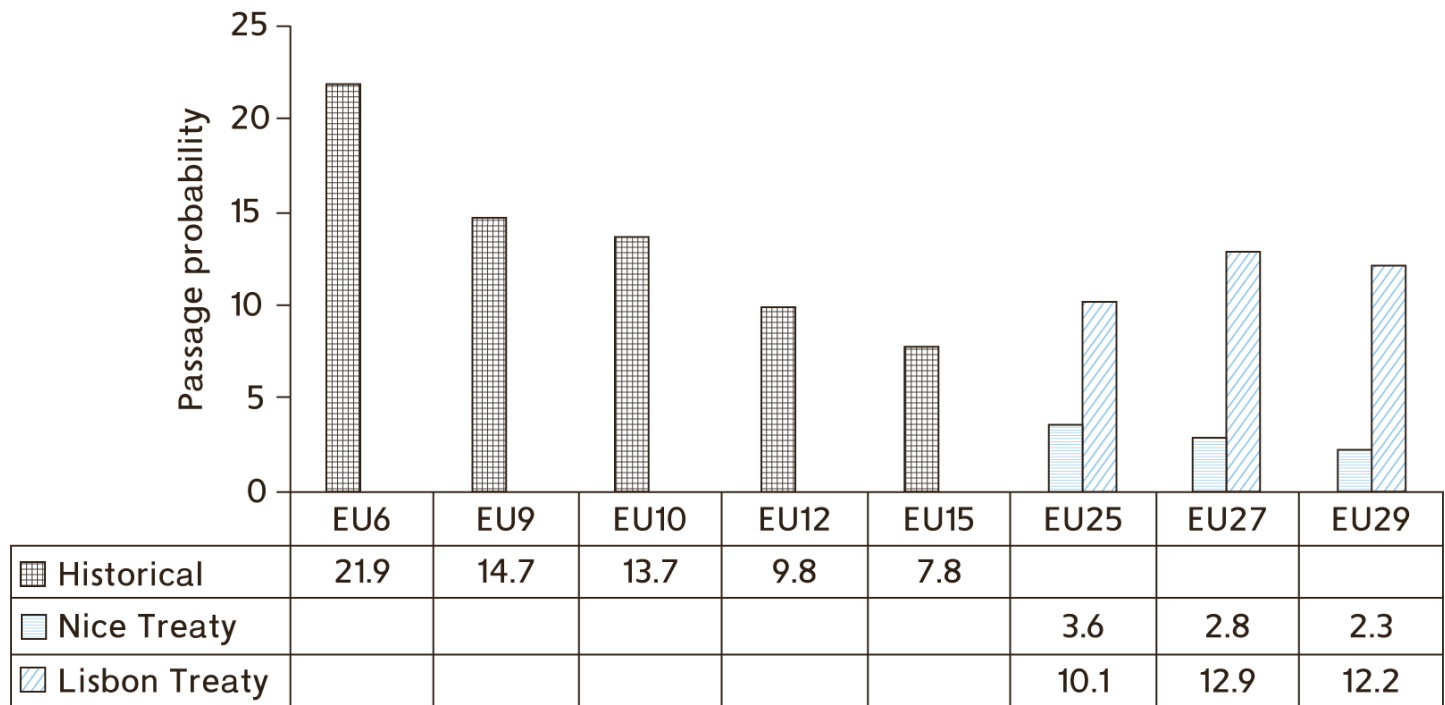- Passage probability = $\dfrac{\text{number of possible winning coalitions}}{\text{number of possible coalitions}}$

Passage probability in a simple example

Table 3.2 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 5 to 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

EU ability to act: decision-making efficiency

How has EU's efficiency changed over time as a result of reforms and enlargements?

	EU6	EU9	EU10	EU12	EU15	EU25	EU27	EU29
▦ Historical	21.9	14.7	13.7	9.8	7.8			
▢ Nice Treaty						3.6	2.8	2.3
▨ Lisbon Treaty						10.1	12.9	12.2

Source: Baldwin and Widgrén (2007)

The distribution of power among EU members

**Figure 3.5** Share of MEPs, Council votes and population in the EU27

Source: Factsheets on http://www.europarl.europa.eu/aboutparliament/en/displayFtu.html
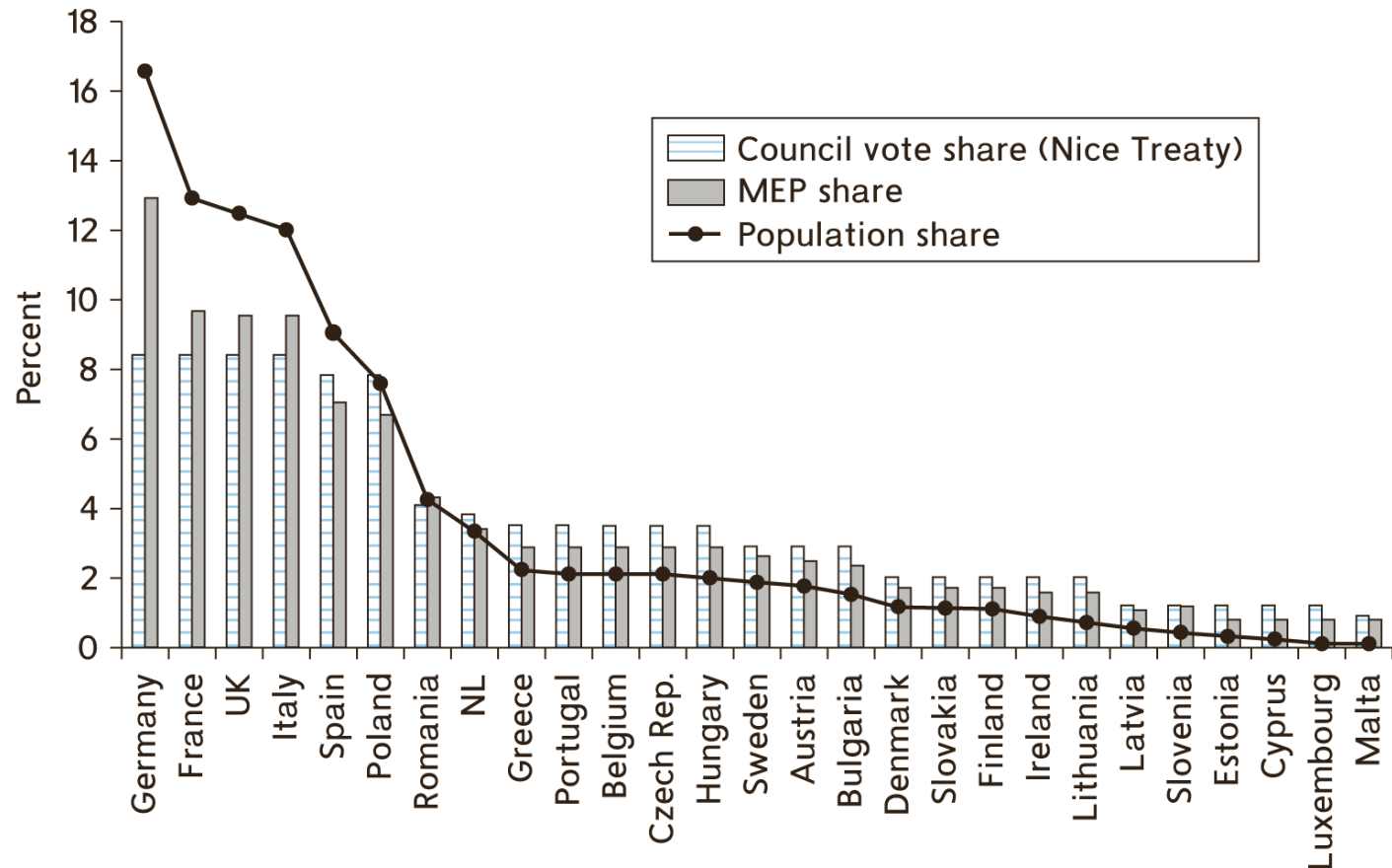
The distribution of power among EU members

- No perfect measures available for distribution of power (i.e., influence) among EU members:

    - most direct and intuitive measure is national voting shares in the Council, but it has severe shortcomings;

    - probability of making or breaking a winning coalition = normalized Banzhaf index (NBI): although more sophisticated, the NBI for the EU15 is not very different from the national vote-share measure. The measures are also quite similar for EU27.

- Notice that budget allocations are an observable manifestation of power.

Power shifts in 2014 (or 2017)

- Voting rules introduced by the Lisbon Treaty will come into effect in 2014. And, at the insistence of Poland they can be suspended at the wish of a single member up to 2017 (and old Nice rules apply).

- The Lisbon Treaty grants more power to smallest states and Germany while Spain, Poland and middle-sized states are biggest losers.

Change in power if Lisbon rules take effect in 2014
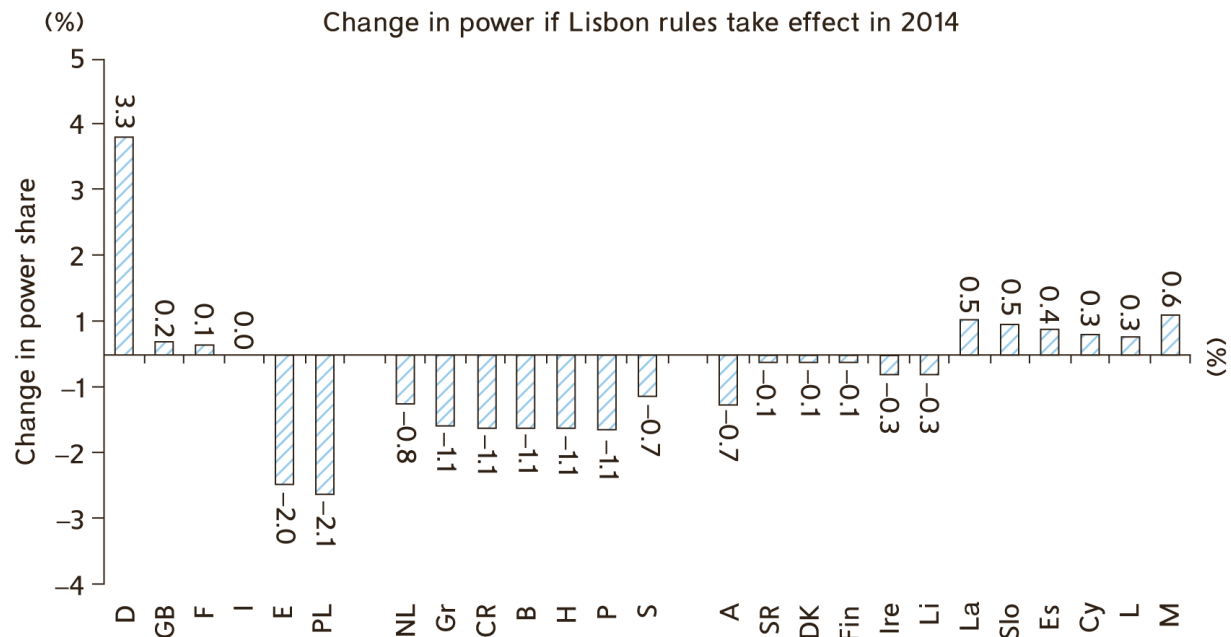
Note: The Council voting rules in the Lisbon Treaty are identical to those in the rejected Constitution.

Source: Baldwin and Widgrén (2007)