



HANDOUT OF  
POLITICS AND ECONOMICS OF  
THE EUROPEAN UNION

2022 – 2023 EDITION

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## INTRODUCTION

Especially in domestic arenas and European parliamentary re-elections

European politics based on a **permissive consensus**

All voters didn't really care much about what was happening in Brussels, was very distant from what was happening in the European capital and therefore more or less the European institutions could do whatever they wanted without a lot of contestation or conflict

This has changed in the EU

Populists pushing a political program of Euroscepticism

Especially in the 2017 elections in France showcasing two opposites ideas about Europe: Macron, the guy of more European integration, move Europe further, make Europe stronger VS Marine Le Pen, leader of the Rassemblement Nationale, who has inherited the party from her father Jean Marie Le Pen

Party moved more to the centre, but nonetheless explicitly Anti-European

Want a league of nations, a confederation, some loose organization that coordinates between countries but that cannot set policy

She even suggested that France could leave the Euro in one Presidential debate - this might have been one of the issues on which she might have lost the elections

One particular form of Euroscepticism, but there are different forms of that

At the second round of French Presidential elections Mélenchon made it

Very sceptical of the EU, left wing politician, thinks that EU is in collaboration with banks, elites and so on

Similarly, the Syriza government in Greece during the Eurozone crisis, as well as Podemos in Spain (although now have moved more to the centre)

Most of the parties don't want to leave EU, especially after effects of Brexit started to show up

### Brexit

According to article 50 of the Lisbon Treaty, countries in the EU can leave

UK left and then asked to stay in for a longer time to avoid a no deal

Although Boris Johnson was voted on a platform of getting Brexit done, Brexit is still not done

Now negotiating the Irish Protocol

UK is the only country who has put a barrier in its territory - sanctions on itself, to make it more difficult to trade: did it voluntarily to prevent hard border between Northern Ireland and the Republic of Ireland

Difficult to discern what is domestic and what is European

A lot of prime ministers in the EU negotiated together in the Council

EU is also about national politicians in the European institutions

### MODELS IN POLITICAL SCIENCE

Models of democracy, how does democracy work, what are the incentives for a politician to do what they do?

Another big issue: Mario Draghi's technocratic government - government closer to the Italian public opinion in terms of middle voter than Conte 1 and 2, although according to many it doesn't feel democratic

Create different models to understand the big picture and how politics works

### Key models in political science:

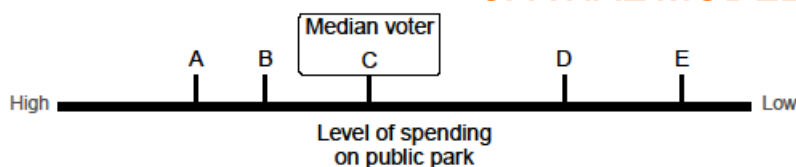
- **Spatial model:** how can we understand political preferences and outcomes spatially? Focus on how citizens' preferences feed into the representative democratic process

How do citizens preferences feed into representatives, their voting behaviour; need to understand politicians that act on behalf of a party and then the role of bureaucracies and technocratic institutions

In many context where governments have become less stable, bureaucracy is considered as the stronger power in some countries (e.g. in Italy – really important to understand how it fits in, might account how bureaucracy is structured – similarly to a long strategy and customer producer relationships

- **Delegation model:** what are the advantages and disadvantages of delegating political power? Focus on principals and agents relationships: I am a voter and vote for a party that is my agent According to the Athenian model of democracy, we should all be ruling ourselves – part of demos is the rich, the citizens of Athens, noblemen rule themselves Athens was small – only a small fraction was allowed to vote and be part of the institutions Today, countries are much bigger and direct democracy wouldn't be effective Disadvantages of delegating political power: agent voted doesn't do what the principal said Principal agent relationship go further than that: courts are also agents; European commission is an agent for the member states, that are the principals

## SPATIAL MODEL



What did the party say in the manifesto and what does it do in parliament? Given that, there are going to be coalitions and constraints on its behaviour

Need a delegation system to make sense of a spatial model – can be seen as a way to see whether the principal agent relationship works well: whether you worked in line with what you were delegated to do by voters

Spatial model

e.g. two communities that have between them an empty piece of land on which they can reallocate resources – raise taxes to provide benefits

A lot of problems in politics are about left/right issues, which levels of spending and taxation, how much state intervention in the economy

On the right, one is more inclined to go to the right; on the left, more taxation more policy coordination No longer think this is the right model to think about policy

Assumes that a decision on a policy (here: spending on a public park) is made by five individuals that have preferences as described above (A, B, C, D, E): they can be placed on any position of the spectrum A couple that want high spending and some that want high spending

If all kinds of policies would be proposed and voted upon using a simple majority of these 5 voters, the policy at the position of the median voter (here: C) would win against all other proposals. This is called the **Median Voter Theorem**

It would go to the Median voter because any other policy would be voted down by other voters: cannot make it any more optimal

C gets exactly what it wanted – the others are going to be slightly less happy

The model that would minimise distances and make most people happy

The majority of European voters do not have extreme preferences

Part of why it is so difficult to grasp policy in the US is because of the high levels of polarization – can move to the middle but no one is in the middle

Politicians try to move the policy more to the left

e.g. Biden: spending much more than other democratic presidents, do stuff on voting rights

Get huge policy swings

Median voter allows to understand how policy comes about

The median voter theorem is simply that if all kinds of policy are brought forward and voted by simple majority, policy and position of the median voter would win against all other proposals

**Does reality fit this model or not?**

Might have a bipolar distribution: a lot of people on the Low end of the spectrum, a lot of people on the High end

Alternatively, might have that median policy moves continuously to the left or the right - while representing voters they also represent another constituency

## JUDGING POLITICAL OUTCOMES

Usually in politics there is already a status quo - a lot of policy in place

People compare the new policy proposal with what is already in place

Two ways of understanding if the new policy proposal performed by representatives are good: some quality measure of the Spatial model

- **Congruence:** the outcome mirrors the policy preferences of voters  
That assumes people only care about policy preferences  
Analysis is static: compare the proposal in the referendum that gets the most support to what parliamentarians do in politics
- **Responsiveness:** political system responds to changes in the policy preferences of voters  
More dynamic way of looking at policy outcome  
e.g. the Covid pandemic: whole set of different issues came up that the elections did not consider  
Compare changes in the position of the median voter (what they voted for in a poll) in order to change a policy

## DELEGATION MODEL

Most political decisions are taken by representatives through delegation, e.g. **passing of authority from one individual to another.**

Some form of division of labour

Pass authority from one agency to another, also on specific issues

This is necessary because modern societies deal with a wide range of problems and a large group of principals that makes it difficult to govern oneself

Decisions about solving these problems (aggregated through the policy preferences that people have) are governed through **institutions (commonly defined as formal and informal constraints on political interaction, according to North 1991)** that determine who can propose new policies and how these policies are decided.

They decide who can vote on what and who is the agent

Party Gate: scandal involving Boris Johnson and the party in 10 Downing Street

The Head of the Ethics Committee is Boris Johnson

There was never reason to specify a way to appoint such role - so nothing in the constitution

Constitutions are also institutions: they tell who should do what, making law important

Danger of delegation is **shirking**, that representatives might not do what they promised initially

Elect a Prime Minister and then he does the exact opposite of what he was campaigning on

Can vote the PM out of office through elections - that is why we have repeated elections

When the PM does something illegal, he could be tried or his own party can get rid of him

**Principle-Agent Relationships:** **Principals** are those actors that ultimately hold decision-making power (such as voters) but have decided to delegate tasks and authority to other actors called **agents** (such as representatives) to make decisions to increase efficiency and to be able to actually make a decision

e.g. 60 millions Italians together wouldn't be efficient

A way to be able to still govern

Principals can rein in agents, e.g. through **elections** in the case of voters and representatives or through the law

Institutions are not just what is written down but also the way in which act and behave - implicit norms

## COMPLEXITY RESULTING FROM MULTIDIMENSIONALITY

Spatial model in which there are representatives that aggregate preferences

People have to make sure that principals that are voting and are going to give out policy based on the aggregation of preferences (because they care about policy by assumption)

However, often don't have only one dimension

e.g. people don't only care about spending but also access to people who can't pay

e.g. discussions on how generous should be the welfare state

e.g. discussions on migration and welfare state benefits

Question of who can have access to the welfare state is often related to questions of immigration, identity, internal EU migration, outside EU migration

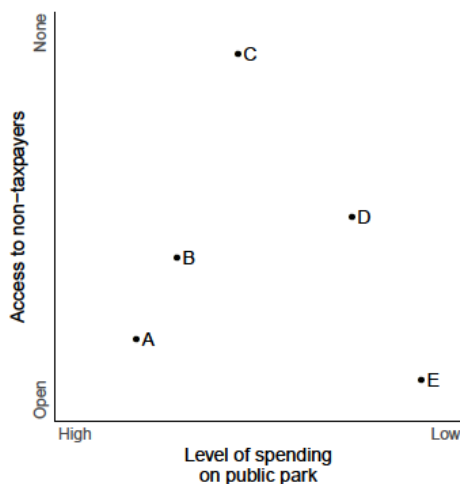
Should people who have broken the law be allowed to have access to the welfare state?

A lot of stuff is also about inclusion rather than merely spending

To aggregate preferences, things that come up very highly nowadays are things that have to do with unemployment and economic growth in Italy, while in the Netherlands, where growth is more sustained, that wouldn't be a salient issue

Another issue that might become more important in some countries but not in others is migration and also climate change - yet, very generational issue

Two dimensional space can look very different



Some voters might be the median voter on one dimension (voter C on spending) and others on another dimension (Voter B on access).

Voter C is not moderate on the second policy dimension

Decisions are often taken on issues that comprise more than one policy dimension (e.g. a park bill that regulates both costs and access).

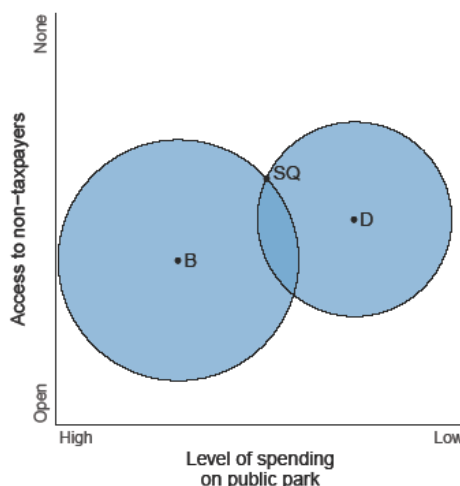
Median voter in the two dimensional space would be C on spending, B on access, so something in between the two

Also, how indifferent are people towards other proposals

Status quo: how currently a state is governed

Try to understand which other policy issues are going to be salient in an upcoming election

In this case, would have party B and D in the two dimensional space



Only issues that people are going to like and that the voters, the representatives of party B and D are the things in the circle for B and D. These curves describe all points in the space that the actor values similarly to another point, usually the status quo (SQ). Any point inside these curves is preferred by the actor. We expect any proposal inside the curve to be approved by the actor. If B and D have to agree unanimously, only a proposal inside the overlapping circles can pass.

The only things that are going to pass are in the intersection of B and D

The intersection is called the **winset of the status quo**.

If there are more parties, and they all have different issues, then the winset is going to be smaller and smaller

This is why prediction is that nothing changes in politics: it is very difficult to find something that changes

On top of it, didn't take into account that politicians might benefit from the status quo

Without putting in other factors that might be important in politics, already get to the so-called **STATUS QUO BIAS**: a lot of things in policy are very difficult to change and the overlapping space of change is small

The only way in which some things can change is to throw so much money on an issue so that the politicians don't have to fight one against each other

A lot of the times it is very difficult to change things - approach of 2010 was not very clever politically

In 2020, very different response - also because people thought the pandemic came from outside

While with the Greek crisis it was different: more convinced that the country was more faulty

Spending more popular, immigration less important as an issue, favourable set of conditions to the left until we are back to migration: small window of opportunity, that is why many left-wing parties are winning elections

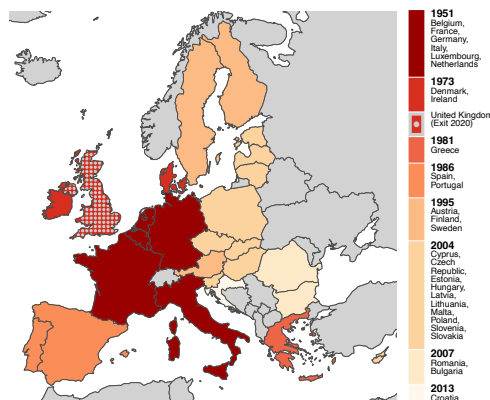
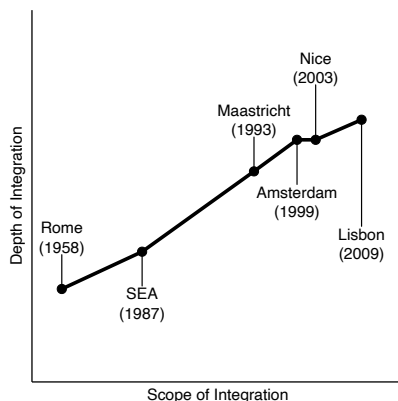
Delegation is not just between voters and bureaucrats, voters and politicians, but also across different levels of government

e.g. a citizen from Lombardy is delegating people in Rome to do things for him, in the central government

Many countries have territorial delegation

Every country in the EU has delegation upwards towards the European Union: the currency, social spending much more national, environment much more EU, monetary policy all in the hands of ECB

- **Multilevel Governance:** Complex relationships of policy authority between different layers of government: Local, regional, state, national and supranational  
Issues are so difficult that cannot solve them all at one, local level of government  
When need to deal with financial markets, recessions, security, climate change, immigration, it is difficult to think that in presence of negative or positive externalities and interdependence, can solve the problems at sovereign state level  
Shaking of interdependence is how states, federations and the EU developed
- **Supranational politics:** How was power delegated to the European level historically? Which institutions exist at the European level? How is power pooled in Europe?



Deepening of integration of supranational politics stops in 2009 with the Lisbon Treaty - the last treaty change, laying the constitutional basis of the Lisbon Treaty

Now here is more discussion about further integration and change the Treaties: EU is doing more and the treaties don't fit with its role any longer

Linear increase in power, then some stagnation but only in some policy areas: in some, as the environment, the EU started to do more, in other policy areas it started to do less

Widening = accession has also stopped

Extremely contentious in domestic politics

Especially opposition in France against the Turkish annexation  
Since Croatia, not much: a lot of tensions in the Balkans

One of the reasons why accession has become a problem is related to Poland and Hungary: countries that were not ready to be part of the EU, not really willing to sign up to the treaties and the democratic commitments of EU law

Spain, Portugal, Greece examples of big transitions to democracy  
Hungary and Poland less so

Why would a national government give away power to some extent to another level of government?  
Can gain control over what happens in other countries but definitely also lose something, because have to co-decide on many issues with the commission

Take back control was the idea of the Brexit campaign – don't share control with anyone  
Might be useful because want to deal with interdependence of problems to have a neutral arbiter to enforce some of those contracts, because don't know if the other is going to be defector or not  
Can get close interaction to help build trust and countries can as a consequence build more close and prosperous relations

## DELEGATION IN EU

National voters elect national parliaments and national governments

Sometimes national parliaments also elect national governments

Voters also directly elect representatives in the European parliament

Interestingly, in some countries, parties that are competing nationally sit together in a party group in the European Parliament

National governments feed into the EU institutions through the Council of the EU: those are ministers  
European Council and the Council of the EU: one is where the ministers from the national governments sit together and decide on the subjects on which EU has policy authority

National government heads of state sit together in the European Council

National governments and heads of state have to give the approval to the Commission President, who also has to be approved by the European Parliament

European Institutions actually intergovernmental

Nation states have a lot of control, although they say the contrary

Things in which the EU to say a lot are the ones in which the Commission has more power – the bureaucracy of the EU

One commissioner from each member state: also gets a hearing in the European Parliament

They do not represent their individual country but the European union and its commission

Do they do so? Or are they influenced by the domestic politics

In the Netherlands, have commissioner Timmermans is from a political party that is not in government: put there because of the thinking he would be better to deal with the environmental issues and European affairs

## SUBNATIONAL POLITICS

Not only a delegation to the European Level, but also a decentralization of politics

Because now there is the big umbrella of European union, many regions also think that they can become slightly more independent

Big umbrella of policy security: can demand more autonomy

Several countries have become highly decentralized e.g. Italy, Spain, Germany

e.g. Spain operates like a federation but is not a federation – that creates a lot of problems

Preferences were too far away in the constitutional building

**Decentralization:** Some geopolitical division by which the country is divided into geographically mutually exclusive divisions.

Some degree to which actual power lies with the sub-national units

Lots of fiscal decentralization in countries like Spain and UK – not formal federations however, because not formally in the constitution

**Federalism:** Two levels of government rule the same land and people.

Each level has at least one policy area in which it is autonomous.

There is some constitutional guarantee of autonomy of each government in its own sphere

De jure federalism: Federal structure of a country as constitutionally recognized.

According to this definition, the UK and Spain are not federal countries

Talk about a federation only if the constitution specifies that

### SUMMING UP

- Power structures are complexly structured across Europe both within and across countries.
- Democratic authority is delegated across different institutions, creating principal-agent relationships.
- Democratic authority is delegated up to the EU and pooled above the level of the nation-state.
- And decision-making authority is devolved down to the subnational level, sometimes through federalism

# TERRITORIAL POLITICS IN EUROPE

**Supranational:** national governments delegated policy authority to EU

**Subnational:** national governments delegated policy authority to regions

Many European countries are federations: Germany, Spain and Italy are not federations but look like that

Regional and national politics

Democratic politics of the region affects the national level and the national level will then affect the European politics

A part of the states in the US would be a region, then you have the state, then you have Washington

Region → National Level → European level

Delegation between voters and politicians - it would take forever to get everybody's opinion

Representative democracies: regular elections elections in which citizens elect their representatives at regular intervals, so as to hold politicians and officials accountable

## TERRITORIAL DELEGATION

Supranational level of territorial politics: delegation from national governments to European institutions or agencies

Policing of the border done by individual militaries and Frontex agency

EU agency, very controversial because of the pushbacks

EU institutions allow for right of asylum and passage i, but apparently Frontex is not really doing it

Delegate authority to the European commission, ECB, European Parliament and other European institutions

Why would you do that? What is the benefit of doing that?

In recent years, national governments have delegated more authority to regions

One direction of delegation: upward to the EU and downward towards the regions

Both at the expenses of national governments

Should be able to do the policy at the lowest level of politics: so that the median voter connection is going to be stronger, the resulting policy will be closer to the preferences

Closer to a subset of voters who probably have more similar preferences - **Principle of SUBSIDIARITY**

Want to provide a series of public services that are different based on the structure of the people

Different hospital, schooling, education preferences

More suitable to the needs of the people

More congruence and connection between the median voter: bring delegation down

Delegated upwards because of problems that do not stop at the borders and that require coordination with every countries

Individually, that coordination would mean 27 separate treaties: not efficient, more difficult to adjudicate, to make sure the other party really does it, and it might be that two bilateral treaties look different - collective action problem resolution fails

### Why these developments upwards and downwards?

MULTILEVEL GOVERNANCE: in Europe there is no central locus of power

It is territorially delegated across several regions

That can be different levels of autonomy

Might be different from one country to another

e.g. Italy has more regional authority than Netherlands

Lombardy can do more alone than the provinces in Netherlands

France very centralized, Germany and Spain very decentralised

Which institutions exist at the European level? How is power pooled in Europe?

**Subnational politics:** how we organize power across systems

Federalism: in the constitutional federal, de jure federalism constitutionally federalised

Can also have de-facto federalism, e.g. Spain - highly decentralized country, not federal

Only criterion for the constitution is in the constitution

## MULTILEVEL GOVERNANCE

EU is the international organizations with the largest **depth**: it makes the most laws that are binding for the population with respect to other international organizations

It also has a lot of **adjudication**: EU cannot use force, because it does not have an army, but it has courts

Complex relationships of policy authority between different layers of government:

Local, regional, state, national and supranational

Most countries is regional

National and supranational: the most relevant categories

Interaction between these levels occur regularly, also within the EU

Committee of Regions in the EU: Regions get money allocated to them directly from the EU (the so-called structural funds) and they can sit together, although it is not a decision making institution

Reduced control for national governments: why would governments bind themselves to other layers of government?

Usually, historically, when this happen it involves bloodshed e.g. civil war, empires - but in this case it was voluntary and it has to be seen in the context of the Post WW2 and collapse of Cold War world

EU is an international organization: exceptional in how much control national governments have given to this supranational level

Europe devastated in the aftermath of WW2

Want to cooperate between countries and don't know whether they could be trusted

All time low trust between the countries: there was still dictatorships in Spain (Franco), Portugal and Greece, expansion of URSS and Communism in the East. In addition, Germany was split in East and West

How does the continent rebuild?

- Prevent the rise of Communism
- Ensure that war does not break out between European States once again

**Idea of democratic peace:** if countries trade with each other, and become economically dependent on each other they will not fight each other

The first major elements of European integration were in those industries that were used for war

Coal and Steel Community: materials very much used for war

Through economic cooperation, there was peace

There was as well an attempt to create a shared defence system, but that was struck down because there was still not enough trust towards Germany to allow for its remilitarization

First element of cooperation happened with the sign of Treaty of Paris in 1952

European Coal and Steel Community

Belgium, France, Italy, Luxembourg, Netherlands, West Germany

1958, Treaty of Rome: European Economic Community, goal of single market and constitutional framework

Treaty based and a form of single market

Charles De Gaulle adversarial politics and politics of empty chair

Idea of giving up unanimity in some areas, and let go of the veto right of the states

De Gaulle very much against it

Complicated relationship between 1958 and 1987

Luxembourg compromise: Compromise for integration in some areas and not in others

**1987, Single European Act:** Goal of single market completion

Commission presidents in this period very strong, such as Delors

One of the first areas in which European integration meant governments lost full control was TRADE

Trade policies are exclusively dealt with at the European level

British thought that after Brexit they could negotiate trade deals with each individual member state

Clearly did not understand the institutional structure of the EU

Post - Brexit need a trade deal: it is the commission to negotiate the trade deal on behalf of the European countries, not the individual member states

Can negotiate a better trade deal if have a big market to which can give access

**1993, Treaty of Maastricht:** Established present institutional form of the EU and laid out path to Economic and Monetary Union (and Euro).

Established the road to Euro, European monetary union, integration in a single block and single currency

Here is where the issues with the member states and particularly Britain

There were some member states that did not want to enter the Euro

British governments unhappy with European monetary union as such

Brought down Thatcher, Brown and Blair

Brits happy with loose cooperation, not deep economic cooperation

Probably recent developments in economic integration would have not happened had UK remained in the European Union

**2009, Treaty of Lisbon:** Legal basis for policy-making in the EU today

Replaces all previous treaties, creates the constitutional framework of the EU

Follow up of the "Constitutional treaty" of the 2005

Constitutional treaty was brought down by Netherlands and some other countries in referenda

Lisbon Treat sets the constitutional framework of the EU - very similar to Constitutional Treaty, but the Article 50 was inserted

There hasn't been a change in treaty status since 2009 - because of those referenda: referenda might backfire and some countries require an automatic referendum when there is a new treaty

There seems to now be new discussion in favour of treaty changes

Stability and Growth Plan not part of the treaties, so it can be changed

Constitutions cannot be changed easily - a lot of important rules to safeguard democracy

### Multilevel governance

Depth (doing more together) and scope (doing it on more things) of integration both increased

Started out at quite narrowly with economic integration and then spilled to all other areas

If create a market for goods, then need to create standards, what are ways in which agriculture is organized, so need to create forms of cointegration

If start moving together in some areas, further steps will be necessarily required

EU also started to do different things e.g. Erasmus project

European integration is not just deepening and doing more, but also doing more with more states

Core western states, then also Greece, Spain, Portugal joined, along with Sweden, Finland and Austria (1995)

These belonged to the reluctant European groups, also historically

Ultimately, huge enlargement to the Eastern Europe, along with Cyprus and Malta

## WHY DOES INTEGRATION OCCUR?

Looks at the strategic interaction of two or more players: started with 6, now 27  
 Each player makes a choice between two or more options (here: trade low or high quality products) and receives payoffs (here displayed in numbers)

		Village 2		Every time defecting, leads to a gain If Italy just complies but I don't, I gain  There is high level of uncertainty and there might be high levels of distrust At the end of WW2, it was also a question of distrust among members Natural arbiter needed that is the protector of the treaties and ensures the creation of a neutral space in which rules are respected A lot of negotiations in war period are not done in either of the belligerent countries: e.g. Putin and Biden met in Geneva No one wants to be seen as the winner or as having lost in negotiations
		Trade High Qual	Trade Low Qual	
Village 1	Trade High Qual	3,3	-3,5	
	Trade Low Qual	5,-3	-1,-1	

Problem with the PD is that even though overall it will make everyone worse off, individually, might create the incentive to play another strategy that will make them better off

Collective action creates for the average of the group a better outcome but individuals might have to give in a little bit or take a little bit

e.g. debt sharing in the EU: some countries do not require it because they have very low debts  
 But Euro shared, the countries would all be affected

Create a cooperative outcome that makes the entire group better off – might give in now, but if there is a problem in the future can go back to the cooperative group and get something for that

Make sure that the other parts trust each other and that there are institutions that make sure that there might be cooperation in the future

Investment into sharing, creating a better collective action capability in the future, as many problems cannot be solved within country boundaries

If there is no arbiter, the players cannot coordinate and trust each other – Prisoner's Dilemma situation arises

When there is a collective set of rules at the supranational level in Europe and there is an institution that ensures it and that has a form of accountability, cooperate even though the short term gain would have been more attractive

Individual countries start to cooperate with each other more – a level of bureaucracy that facilitates cooperation with each other in the future

Next Gen EU – burden sharing in the face of the pandemic individual member states did not have enough power to come up with the plan

Franco – German plan: a lot of bureaucracy of the commission had been thinking about it already

### Developments of the European integration

Peaceful economic cooperation and democracy becomes intertwined with this: SOFT POWER OF THE EU Adheres to the democratic principle in the constitutional treaty and the treaty of Lisbon

Not all member states uphold those rights: Hungary, Poland, some issues with Slovenia

Since the Treaty of Rome, authority shifted to more areas: higher scope of integration

Decisions are increasingly important in more areas i.e. they are more binding

When comparing EU to any other international organization: it does too much, too deeply

Other institutions do not have binding policies or might do binding policy on just one thing

(IMF)

Either deep or wide: together, like the EU, odd

Start to think the EU is looking more like a federation BUT cannot use the federation word – politically toxic

Politicians and member states weary of losing too much control

Looking at the de facto area, it looks as a federation, but only in some areas

Policy authority in the EU is not the same in every area

EU only policymaker in trade (Italy cannot negotiate a trade treaty all by itself), influence on environment but EU has nothing to say in social areas

Three types of policy authority in the EU:

- Exclusive competence of the EU: trade
- Shared competence of the EU: immigration, environment
- No competence of the EU: area of social policy

The majority of budgets of member states is in control of the member states

Pay the most in health and social policy - these are completely in the control of the governments

Health unions discussions: probably there is going to be cooperation in health

In federal states, it is across policy areas that the higher level of government can say anything

To be a federation need to have a state

Definition of the state: need to have territory, the violence monopoly in that territory (EU doesn't have that, because it doesn't have control of the army), right of taxation (doesn't have that)

Federation is the area of states and not international organizations

**SUPRANATIONAL POLITICS:** Integration increased in DEPTH and it also does more things in scope

Treaty developments overtime, but stalled since 2009

Also widening stalled, at about the same time: there are talks with some other states, but

Safeguard of a treaty and repeated interaction, which builds trust and is against the backdrop of WW2 and Cold War

## SUBNATIONAL POLITICS

A by-product of having the European umbrella is that regions become more viable than political unions  
More economic cooperation at the European level and have a huge market, a state can be super small as long as it is a member of the EU

Were it was not possible to become independent when entire market was only Italy - being a subset of Italy, would lose the ability to negotiate with France and all other countries - no longer need that, only need the EU to accept you as a region and can become independent

HOWEVER, to enter the EU need to be accepted by its members i.e. Nations

Suppose the Spanish government accepted the outcome of the Catalan independent referenda and the region got independence: that same Spanish government would have to accept Catalonia as a member state of the EU in the moment they applied for membership

There might be some hostile relationships between the two for some time

This meant that there was not a push for independence, but one for decentralization, for more power at local level - becoming autonomous also entails some risks

e.g. Brexit: leaving the single market has huge costs

A lot of politicians play with the idea of independence but they don't actually become so

Push to get things from the Nation-State while still being part of the European market

Unintended consequence of European integration

Multilevel governance predicts that as super nationalize more, the bands for regional authority will increase

Dual process: national governments forced to give more sovereignty away to the European level so as to share common problems, creating the economic power and resilience to rebuild the continent, but at the same time, at the subnational level, more regional authority

Therefore, the reasons for the push to downwards delegation are:

1. European Union provides funds and representation to regions and has a committee of regions
2. Regional authority and some form of independence becomes more viable and realistic when part of the same big bloc: can trade together, there is the same currency

There is a reason why there are no more micro states: problem pressure so big that need to cooperate with other regional units on security, environment, trade and other topics that require cross boundary collaboration

Security dilemmas after WW2: leaving the country independent, it might be attacked by other countries

Cooperate together and create an independent cooperative body that allows to freely trade together and solve at the same time security risks

That is also the case for regions: without the European move there was a move to go towards Nation states because too small to do anything alone

As Nation state creates an even larger community, can become viable again as a region: economy of scale, security of scale, monetary policy of scale

Might not have all of this at the regional level, can borrow that expertise from national and supranational level

This however did not lead to regional independence because of the fact that once you leave the Nation state you are no longer part of the Union and being re-admitted again requires the approval of the same member state that you left to become autonomous

EU ambiguous about whether they would be in favour of admitting Catalonia and Scotland as member states again

Committee of Regions: regional funds don't go through governments, but to regions

Government of Lombardy has a representative in Brussels - direct interaction bypassing Nation state

Trade mechanisms of scale - region has higher level of regional authorities

## FEDERALISM OR DECENTRALIZATION

**Federalism:** two levels of government rule the same land and people.

Each level has at least one policy area in which it is autonomous.

There is some constitutional guarantee of autonomy of each government in its own sphere

It says in the constitution that you are federal and it clarifies which are the policy competences areas of the federal governments

**Decentralization:** Some geopolitical division by which the country is divided into geographically mutually exclusive divisions.

Some degree to which actual power lies with the sub-national units

Not constitutionally anchored, therefore open to negotiation

That is the settlement in Spain

Some regions have more autonomy than others in Spain - Basque countries got more autonomy: in order to create peace and security for its people it negotiated with the Spanish government

In Germany, the same level of structure for each of the landers, finances are allocated with some solidarity within federal system, but the structure and the rights of every region are the same for all the landers and anchored in the constitution

There can still be issues of interpretation but that can be sorted out in a Constitutional Court

In Spain and UK it is still part of political negotiation

Decentralization ≠ Federalism

Not in the level of regional authority, not in how much power the regions have

e.g. Basque country has much more power than a German lander

It is about the fact that it is constitutionally anchored, therefore need to go to the Constitutional Court if there is an issue, cannot do that by the ballot box

Territorial delegation is anchored in the Constitution

European Union looks as a de facto federal state: but not de jure because it doesn't mention this federalist element in its treaties

EU looks more like a decentralized state

**De jure Federalism** – some form of policy authority across levels: difference is that it is constitutionally anchored, therefore more stable because conflicts will be settled in a constitutional court

**De facto federalism**, also referred to as decentralization, regulated by laws rather than constitutions, part of the public debates, it doesn't have a reference in the Constitution

Can also have federal countries that are constitutionally federal but actually delegate less power to the subnational units than a decentralized state

Spain: one of the most decentralized countries today, more than Belgium, that recently became a federation, or Germany – still not federal because not part of the constitutional arrangement

Federations do not say anything about the degree of regional authority

### Measurements: Regional Authority Index

Spain and Germany both have a high level of regional authority

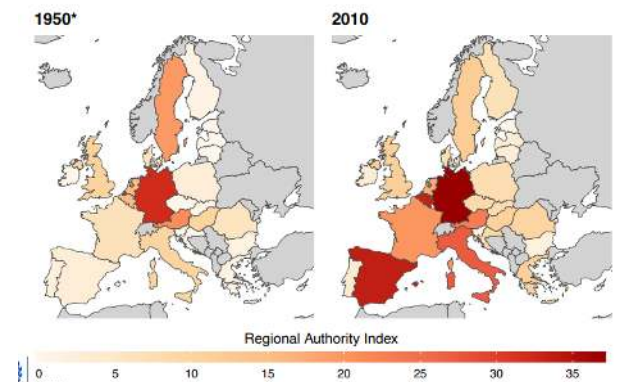
One is federal, the other one is decentralized

Country like Italy has seen much more regional decentralization in the last 70 years – not a federation in terms of the constitution

Belgium changed the constitution to become a federal country – Language: Flemish-speaking minority, Walloon, French, German – that led to a lot of tensions, also culturally

Median voter perceived to be closer to its ethnic groups – settlement reached that led to a federal state

In addition, have countries like France: very much centralized, but in the period from 1950 to 2010 has decentralized a bit



### Measure of Regional authority:

- **Self-rule:** Measures ability of a region to rule itself  
Autonomy on range of policies responsible, taxation, independent institutions.
- **Shared rule:** how much influence does a subnational unit have on one policy and on the constitutional structure of that policy

To what extent is it able to do things by itself or able do rule together with the national level

PNRR money, In Italy, is co-determined

Nation spends together with regions – shared governance – over the recovery fund money

Centralised states are not necessarily small countries: Netherlands, Czech Republic, Poland, France, Portugal

It is often times that the bigger the country is the more decentralized it is – more regions that have different language or identity that want some form of decentralization

Entire French Political project was to create a French identity

Very wary of decentralization

Depends on the history of certain countries

Increase in decentralization: more authority for regions

De facto federalism – high levels of regional authority: Spain, Italy, Germany and Belgium

Only Germany and Belgium are also de jure federalism

Two reasons for federalism

- **Holding together:** A unitary country chooses to decentralize to ameliorate tensions between ethnic or linguistic groups (e.g. Belgium)  
Provide regional authority and make them in the constitution to make sure to depoliticize those tensions – that is only possible if you have a large enough majority to change the constitution,

which was available in Belgium but not in Spain - if that is not available, can only go for the decentralization part

- **Coming together:** Previously independent individual units pool sovereignty to benefit from economic and security cooperation (e.g. Switzerland, EU)

Fully Independent Swiss cantons realised that having economies of scale, sharing some things would be beneficial for all the countries

A lot of difference between the rules in the different Cantons - but they had a form of coming together in Berne to solve collective action problems

Voluntary and VERY unlikely

Usually, it is a matter of holding together rather than coming together

National governments do not like to give up too much power to regions, because they want to stay in control: only when the stuff blows up they give policy authority

### European examples

French and Dutch speaking at the same time: problem if there is no longer Belgium

EU wants a unified Belgium

Level of tensions has not been solved by the federal structure

It has taken one of the last Belgium governments longer to form than the government of Iraq, which is super divided - years to form a Belgian government

When it was formed, a new election was already coming up

Difficult to deal with linguistic differences and the Flemish independence

Extent to which Flemish side wants to be independent because they feel they are economically stronger and have a different language

Definitely a tension in Belgium politics: two party system different

Walloon party system, Flemish party systems

Governments that span all ideological lines to not include Flemish independence

Also Pedro Sanchez would like to do something about the unstable constitutional arrangement of Spain

Courts and governments are partisan and centralized

To change the constitution however, need a super majority

Belgian constitutional change is quite rare, and usually occurs after unique historical elements

Nation states are an historical exception: quite recent phenomena, many other systems of governments for longer periods of times

### SUMMING UP

Power structures are not necessarily stable in Europe, might change: history changes, problem change, power structures might change as well

Decision making authority can be delegated up to the EU and pooled above the level of the nation-state to deal with important issues that require cross border cooperation

Trade, economic policy, monetary, environmental policy

Decision-making authority is devolved down to the subnational level, sometimes through federalism but that doesn't need to be the case

# IDEOLOGY AND VOTING IN EUROPE

## IDEOLOGY

Ideology is “a stable and consistent set of ideas about the world that provides a guideline for political action”

Different ideologies exist: should have a night watch state or a light state, that steps in only when something goes really bad, or ideologies related to the importance of markets, low taxation, more right wing position

e.g. Berlusconi advocated to these right-wing positions while Lega has the flat tax and also pro-pension positions

Parties are not always stylized: not always right or left wing

Different positions also on state assistance: on the one hand communism and social democratic party (such as the Communist Party in Italy until the 90s, which did not want to overthrow the government but simply to provide social security) that favour the idea of support to individuals from adverse events of life; on the other hand, the liberal positions

Ideology is different from preferences because it is perceived as being more stable

Ideology is a set of stable ideas, preferences refer to specific policies or actors.

Ideology itself is unobservable or latent: Actors reveal their ideology through actions, such as voting, speeches, or social media posts. Can try to make it manifest through actions such as conversations, surveys, but difficult to observe because sometimes people are not even fully aware of their own ideology

People reveal their ideology by saying or doing some things

e.g. voting, having a flag, pronouncing a speech in parliament

Ideology is a world view: several sources, one of which might be family OR experience

People do change, but usually not from one extreme to another – stay stable in one’s ideological block

**Ideological shifts:** for women, a lot of the times, the ideology was the one of their respective fathers or husbands, and that was also how society was structured

As women entered the labour market they became more left wing

They want maternity leaves, and more health benefits, equal pay for equal work

Many women get paid much one month less than men

Overall maternity leaves provided by the left

More benefits provided: can see women moving more towards the centre

Example of experience: enter the labour market and realize there are some things that are missing

Also young people: usually more progressive when young and more conservative in the future – life cycle effect

Changes are not rapid, but rather stable and are not too extreme

However can change the position on a policy issue very quickly – e.g. depending on the day-to-day information provided

Compared to that, the ideology is stable

## THREE CLASSIC IDEOLOGIES

### Liberalism:

Stresses rights and freedoms; Stems from the opposition to feudal and absolutist rule in Europe.

John Locke: stems from contract theory

Idea of having a social contract between the ruler and the ruled – ultimately became the representative democracy foundation

Feudal lords were extracting rights and labour from anyone else: that was considered to be unfair

Want to secure property rights from feudalism but not necessarily redistribute

**Conservatism:**

Rejects radical social change (e.g.r evolutions) that tries to unseat existing power structures.  
 Associated with Burke - reaction to the French and American revolution  
 Gradual social change: want to protect traditional institutions that operate well  
 e.g. schools, church  
 Can be associated with Christian Conservatism

**Socialism:**

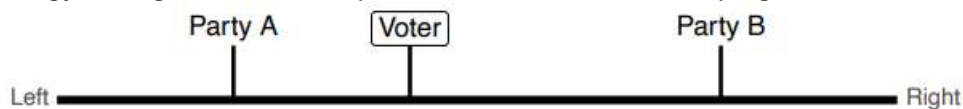
Concerned about the distribution of wealth and the means of production after the industrial revolution  
 Very much associated with Marx and the French Revolution  
 Against feudalism as well but it has more redistributive stances  
 Can have social liberalism or right-wing liberalism

**Communism:** can overthrow the social order

**Fascism, Nativism** - other extreme positions - often not majoritarian ideologies in Europe, although have been so in the past

**UNIDIMENSIONAL ELECTORAL COMPETITION**

Which party would a citizen vote? Try to understand how voters make decisions based on their ideology through the Downs' spatial model of electoral campaign



Voter would vote for Party A, because closer to the ideal point of the voter position

Aggregate that up to get the median voter

Voters will choose the party that is closest to their own position on the left-right dimension, so in case of aggregation of preferences, closer to the median voter

In a two-party competition, according to Downs, parties have an incentive to locate themselves at the position of the median voter to maximize votes, so at the centre - maximises likelihood of getting elected

That is because less voters are extreme

Extreme polarization and mobilization in the US doesn't fit this model, because there are many people at the extremes

**VOTER SELF PLACEMENT ON THE LEFT-RIGHT SCALE**

European Election Survey: asked voters to position evaluation of candidates, what party they vote at different political levels

Ask people to position themselves from 0 to 10 - 0 being the left and 10 being the right

Centrist distribution comes up as a result

Some tails on the distribution, but most people cluster at the centre

Spain and other countries such as Portugal that are more leftist: middle aged generation educated in a right wing authoritarian system so now it tends to be on the left

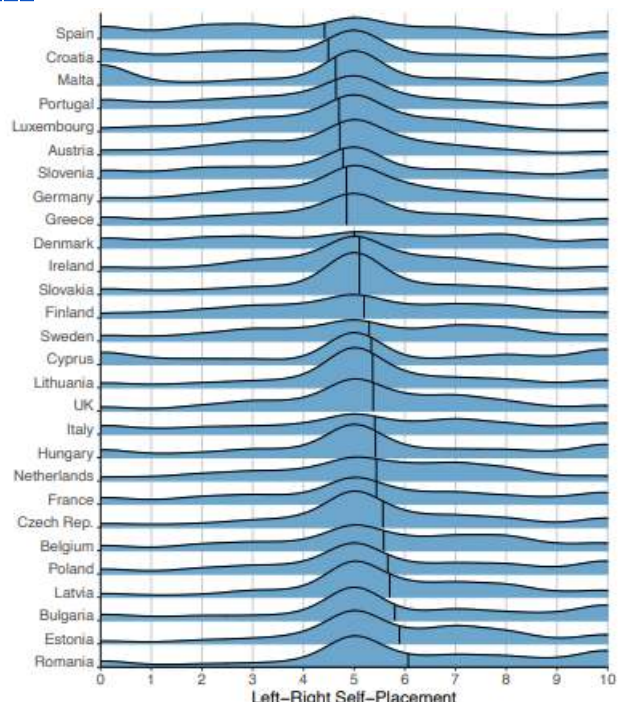
Similarly in Eastern Europe, people are more right wing having been educated in leftist regime

More right wing countries as by voters self-declared ideology are Bulgaria, Estonia, Romania

In Italy, more elongated distribution although there is some concentration at the centre

People much more across the spectrum

Centrist policies in Italy might not work that well because there is not a big bump in the middle, there are not many voters in the centre - in Italy



distribution more horizontal, there would be more room for an extremist party on the right and the left: these parties are already there

Millennials, X and Z generation much more mobilized on an ideological dimension

e.g. in Italy, Lega and migration

e.g. in the Netherlands, Party for Freedom

e.g. in France, Rassemblement Nationale and Marine Le Pen

e.g. Podemos or Syriza: parties that are in favour of gender equality, other issues that are not related to state intervention in the economy but more to identity related issues

Most important issues on the identity element are: immigration, E, European integration, gender/sexuality, environment: more progressive stances, more rational form of immigration

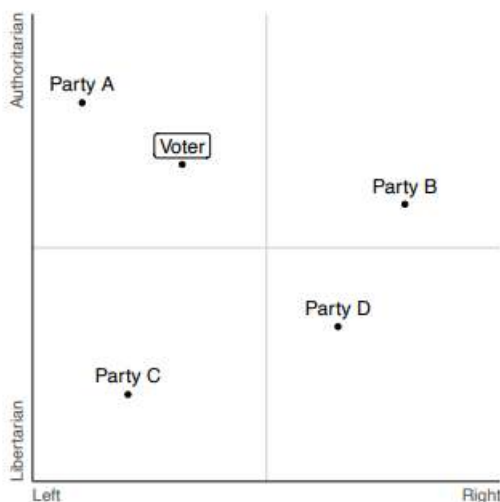
The other side is much more pro-sovereignty, anti-European integration, anti-immigration system, not wanting to spend so much money on climate change (not a key priority) and about traditional values and religion

We can identify a second dimension related to cultural issues, exemplified by attitudes towards tradition, religion, sexuality, environment, immigration and European integration.

The emergence of this second dimension is connected to post-materialist values: Inglehart argues that since post-war generations in Europe did not only have to care about economic growth and sustenance, they focussed on post-materialist issues.

Inglehart argues that as we move to more economic growth, more welfare state distribution, people develop more post-material ideas: think about values, lifestyles, who should be a citizen of the country, ethics - a second ideological model, different from the first merely related to economics. However, in countries such as Italy which has had stagnating growth in the last years and high levels of unemployment, especially among the youngest, can expect different things: but even here, new generations care more about the second dimension

New generations more progressive, ON AVERAGE



Two-dimensional Electoral Competition

Left/Right label VS Libertarian/Authoritarian

Authoritarian, much more pro-status quo

Libertarian would be about being much more progress, pro-EU, pro-Immigration - this is the way in which today liberalism is seen in Europe

Within the electoral space, decide what the voter is going to do

In a multidimensional electoral space, voters are expected to vote for whichever party is closest to them across both dimensions.

In this case, the Voter would still be in favour of Party A, as in the single-dimension space

New research by De Vries found that position in the labour market and what types of jobs picked allows to predict whether an individual stands on the left

or the right

Self-selection of what one studies and what one works in

Position might also be related to income and background: struggling actor but coming from a wealthy family, so will have different position on the ideological spectrum

Second dimension is more related to culture or identity: immigrant, person with a different gender identity than being a straight male or female, religion, age (younger people more liberal and cosmopolitan on average)

Combinations of factors and cultural values: authoritarian right voters are usually male, working in manufacturing and that have a low education

They might be very receptive to the protectionist stances of some parties

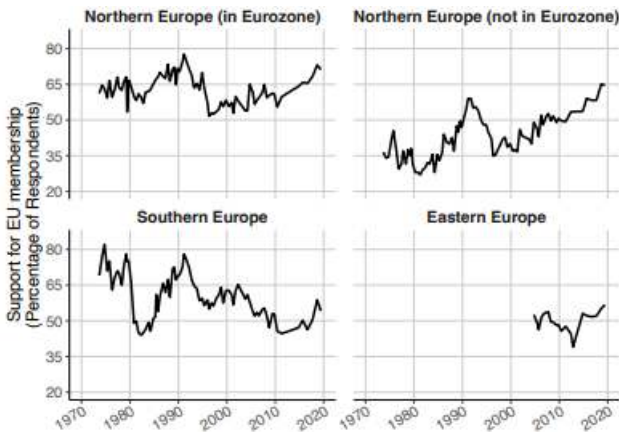
It is not just the ideology: it might just be policy issues – might be more sovereign or not, but the evaluation of the EU and government might change

Cosmopolitan person, but still think the EU is not doing well enough and not providing enough support

More short-term evaluations about some policy issues

### Support for EU membership

Do you want your country to be part of the Eurozone or not?



Data source: Eurobarometer Surveys.

Countries that have always been more sceptical about EU membership are the Northern Europe not in the Eurozone (Denmark, Sweden, UK) Northern Europe attitude more positive Southern Europe more positive at the beginning, but as the euro crisis sets in, becomes more negative – there is also the development of Eurosceptic parties in general In Eastern Europe, legacy of the communist world: not enough trust in the governments to begin with

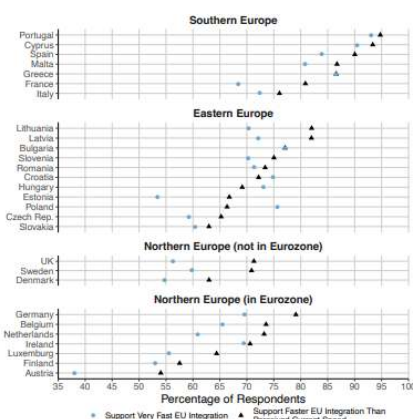
Overall in Italy, people have more trust in the European Union institutions than the national governments

In Netherlands and Germany it is the reverse:

people have very positive attitudes towards their institutions, probably because of the quality of bureaucracy and struggles of the corruption – more corruption in the bureaucracy leads, in general, to less trust

Countries that have had big corruption scandals made people that were socialized at the time to trust institutions less throughout their life: might be pro-left-wing, but then have a negative experience and lose trust

Similarly, in Spain and in the Netherlands: trust in the governments goes down very quickly



Data source: Eurobarometer (2019) 92.3

Citizens in Southern Europe and parts of Eastern Europe want European integration to move faster

Sometimes critical of EU but because they want more integration

They see the EU as an opportunity for growth: NextGen EU was also welcomed but someone like Salvini and Meloni

In countries like Spain and Portugal, there is also a cultural commitment to the EU: come back to the core of Europe after dictatorship

EU was seen as peace, but that is also related to perception of what generations have experienced throughout their lives

Perception of WW2 faded away except in those generations that have a direct memory of it

In Northern Europe, fewer citizens want fast integration

## POPULISM

Not in the classical ideology, not an ideology

Core component: anti-elite, and often times anti-pluralist

e.g. Salvini talks about "The people" as monolithic

group

That can also be on the left: Podemos in Spain, no longer anti-establishment, but they talked about the distinction between

"La Casta" and the normal common people

Society is divided into two homogenous and antagonistic

groups: the pure people and the corrupt elite

Politics should be an expression of the general will of the people.

Populism defined by Mudde as a thin ideology: anti-elite, pro-"The people", sometimes it is broader as in the case of Podemos, there are variations

It is not really an ideology: doesn't give guidance about what politics should be abrupt

It is not a world view, it is a critique of the system

Doesn't give a sense of the policy that will be introduced

Populism can be combined with other ideologies: more left wing stances, socialism, but can also be on the right

Populism on the left: Podemos, Linka in Germany

Populism on the right: Lega, Rassemblement National, Freedom's Party in the Netherlands

Can also get a populist single issue policy - Brexit Party: just about leaving the EU, very anti-establishment

Levels of populism vary greatly between European countries - correlates with experiences of corruption

Extent to which one is going to be anti-elite also depends on how much people think the institutions are high quality - populism might reflect experiences of corruption scandals or poor governance or poor economic performance: people more receptive of negative message of the system

Populism often seen as a way to have ideological flexibility - market themselves as anti-elites to show the traditional parties don't have a clear ideology

Newcomers in policy - a way to not make voters vote for traditional policy

From populist right to extreme right - anti-democratic

Many populist parties play within the rules of the game e.g. Podemos governing with the Social democrats - not seen as an illiberal party

Similarly parties on the right: Lega on the right much less anti-establishment since it became the establishment

Problem of liberalism: can only know if it is liberal until you see it

A lot of parties market elites because they don't

Principals are able to select or give a mandate to the agents or take the agents back when they fear they are further from what they promised

Can hold them accountable through elections

In the spatial model assumption is that what voters care about when selecting a politician is ideology

How a party has implemented this ideological vision into policy

Vote for the electoral promises, ideological pledges, elect a party and might also hold them accountable

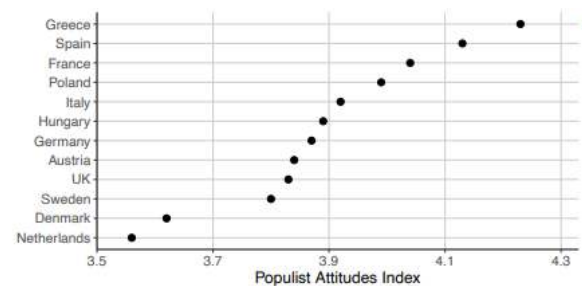
Sometimes can lead back to one party, some other times not

Have one vote only to punish and select

To punish the Draghi government today, there is only one option: Fratelli d'Italia but what if we are on the left? Sometimes difficult to punish and select at the same time

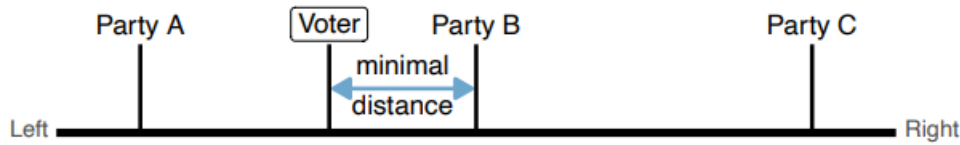
Might have to vote for a party that is part of the government even though did not like some of the policies implemented

21



Data source: Kaltwasser, Vehrkamp, and Wrátil (2019)

## PROXIMITY MODEL OF VOTING



The spatial model of politics suggests voters to vote for the party that is ideologically closest to them. They expect their preferences to be best represented by that party. People will try to vote for the party that minimises the distance between the party position and the voter ideological position

- They have a set of policy position, the party has a set of positions

- They vote for the ones that have the least distance

- This means that parties have to give a clear signalling of what their ideological position is

However, sometimes, citizens can vote on ideological terms

They expect their preferences to be best represented by that party. What voters care about is ideology and how a party has implemented these visions in policies

Policies as ideological pledges. Elect the party and hold them accountable

When parties send clear signals of political positions (strong assumption), citizens can correctly estimate which is the party with the minimal ideological distance, party that minimizes the distance

This corresponds to the median voter model -> strategic incentive for parties is to be around that median voter

## GROUP ATTACHMENTS THEORIES

These are all strong assumptions. Not all people care and know about politics.

People might use different things to vote: what a social organization suggests them

For a long time the way one person voted could be predicted based on the membership in trade unions or the Church

Usually going to the Church was related to voting Conservative, being in a trade union meant voting on the left

**Cleavage Theory:** Cleavages are rooted in historical developments, such as national revolutions, the industrial revolution or religious conflict. Parties emerge along these conflict lines and persist.

- Things that happen in history, big social changes and social institutions link people to politics

- Just listen to trade union leader or to the priest and vote accordingly

- Social identity that comes from church or job and that links me to policy

- With tech revolution and manufacture globalization, this works much less

**Michigan Model:** Voters' psychological attachment to a party (partisanship) is formed during childhood socialization and shapes short-term evaluations of candidates and policies.

Traditional institutions are not there anymore but there are still ways through which people get socialized into politics e.g. family, schools - creation of psychological bond to a party

e.g. rural places in Northern Italy more likely to vote for Lega

Environment, which schools you go to, what parents vote, might affect the way in which you end up seeing the world

United States now organized according to this Michigan Model

- People even move between states according to their ideological stances

- People much more socialized through their family structures into a certain party identification

In Europe it is rare to have only two parties, so more difficult to develop stable identification if both the party changes and parents also vote for different parties

- In Italy, more difficult to develop strong party attachment, because there are more parties

Evaluation based on early childhood and the creation of a psychological bond to the party - less related to our generation, maybe an implicit reaction to populism

**Running Tally Model of Partisanship:** voters continually assess how they perceive parties. These assessments grow more stable when people age, but can change through scandals and or other shocks

Vote for a party but purely based on performance, simply because that is how well they do in government

e.g. Draghi cannot be evaluated on the basis of ideology, because he never gave a clear position on that: his career was the one of a technocrat, so he can be evaluated on the basis of performance

He is not a crazy communist, neither a crazy marketeer: not very clear

He makes much more a performance argument

Younger people really care about performance more than previous generations because not socialized into institutions such as the church and much more picky consumers

Still, within a bloc on the left or the right

People can be very reactive to scandals and economic shocks e.g. Many Pulite, death of Passock in Greece

People have more stable ideas of the party they like because evaluated them well

A shock can make them change fast, because they really care about performance

People value performance and then develop a bond to the party, but it is not as stable as the previous ones because if there is a big shock, a recession or a scandal, this might fall apart and people just vote for a new party

There can be combinations of these models

Michigan and Running Tally Model are correlated: might vote Lega because all family members did vote Lega, but then an economic shock kicks in and vote for another party

Psychological bond on the party is less on the new generation: implicit reaction to populism

People are being told not to like parties, not to trust elites

Been taught to hate the parties - difficult to develop an attachment to the party

## TRENDS IN ELECTORAL VOLATILITY

**Electoral volatility:** average change of vote share from one election to the next

Do you keep voting for one party between two elections?

In the cleavage model, social identity based on church and trade unions, there is a lot of stability in voting (beginning of the blue period)

Cleavage model associated with the post-WW2 period

As secularization sets in and big changes to the labour market, industrial changes:

volatility increases - people much more volatile, they change more the party they vote from one election to the other

Don't vote for the same party two elections in a row - this means that the psychological bond to a party has weakened

Michigan model less strong

Running Tally stronger - how well do

you do as a competent leader

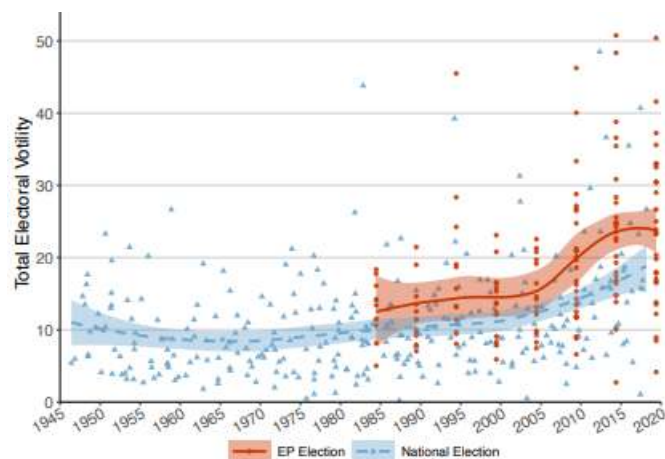
Value ratio of the leader: how well can this

Even though big societal changes (e.g. women entering the labour force) volatility increases, switch between parties increases

Volatility in European Parliamentary elections has always been higher than national elections volatility

European elections are not at the same time of the national elections: exceptions are Luxembourg and Lithuania

People care about performance also at the European Level



Data sources: Emanuele (2015); Emanuele et al. (2019).

EP elections enter the cycle of election of national governments - often regarded as second-order national elections

European elections become similar to midterm elections - at the beginning when you love for a party there is an honeymoon period, then get less positive

See volatility, many people switch away from government parties, because disappointed with what happens nationally: use that election to signal something about the governments

Turnout is also lower in EP elections: a group of voters that is particularly concerned about the competences of parties and the European level and wants to signal something at European level, but loyal national party voters do not even show up - selection of who votes in European parliamentary elections

Voters can vote in national elections: national governments are formed, they sit together in the European council and they have to approve a European Commission president - chain of delegation  
European voters vote for European Parliament, which has the legislative decision making power in the EU

National channel up to the Council and an European channel that leads through the European parliament (selected directly by the voters)

In EP elections volatility goes in a particular direction:

- Eurosceptic volatility: people vote more Eurosceptic parties at EP elections than they do nationally  
There is something particular about the EU and they want to signal their discontent
- Eurosceptic voters are more likely to defect from the party they support in national elections  
More pro-EU party: clearer European stances

One of the important elements is that these elections are a way to display something about the national governments

People want to express their defection from the national government

Elections are not too important, signal something about the national government: want to see a change

Elections for the European parliament are often neglected, regarded **as second order elections**  
Considered less important by voters and parties, although this is changing, turnout is lower and are used to show discontent towards the national government

More defections away from government party

Vote for a different party at European parliament level because do not like the anti-European stances of a party, although share the national campaign

Defections more likely when a campaign has been more Eurosceptic

In some countries there are some pro-EU stances being mobilized - parties like Volt, Green Parties, Liberal parties very pro-EU, En Marche by Macron

## TURNOUT

Turnout in national elections is higher than in European elections.  
On average, around 50% of EU citizens vote in European elections, albeit with large variation across country

## SUM UP

Ideology can help to structure preferences, but the two are distinct.

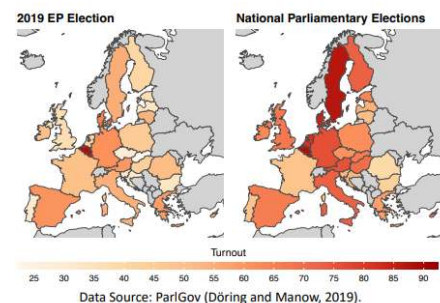
We often talk about left-right as the primary ideological division; this division may arise from the class cleavage.

New issues, such as European integration, and post-materialist values do not always sit cleanly in the existing left-right space.

Populism represents another form of ideology - a thin ideology.

Voters must also decide who to support; may do so on the basis of ideology, but also other factors.

Institutional context matter



# GOVERNMENT FORMATION IN EUROPE

Different ways of organizing government

Models of democratic and territorial delegation

Those who are in government implement the policy decisions, the public goods allocation

Not important only who is voted in power, in the parliament, because a government has more power  
Depending on the system, the government can also initialize laws

In the European Union, the European Commission also has a crucial role in agenda setting

Interested about who is in government and how it is organized in different countries

Governments can look very different in different countries

Who actually is in power: in some countries, it can be a President

In Europe it is never only the president - but even in the French system, where the president is directly elected, he has to rule together with the Prime Minister

No full-US type government in Europe

Variations in how governments are organized do exist in Europe

## DELEGATION IN POLITICAL SYSTEMS

We can distinguish political systems according to the type of principal-agent relationship in place.

We have to ask in order to characterize a political institution: Which institutions do voters delegate authority to and what is the system of checks and balances in place to control that authority?

Democracy is not just that there are elections but also that the power of the government is controlled through checks and balances

e.g. In certain countries, can no longer govern if lose the confidence of the Parliament

Two criteria:

- Who do voters elect?
- What is the relationship between government and parliament?

Case of Boris Johnson and UK: Party Gate - parties that were going on in Downing Street during lockdowns

BoJo is not going to be ousted necessarily because the opposition doesn't have enough votes

Relation between government and parliament is crucial for the Survival of the government

On the basis of the two criteria, can outline three types of systems: Parliamentary, Presidential and Semi-presidential

### Parliamentary Systems:

- a. Voters elect parliament: elect either candidates or parties in an election
- b. Government needs (implicit) support in parliament but can also sometimes dissolve parliament.  
e.g. in the UK there is the possibility for the government to dissolve the parliament so as to call strategic elections

Elements that make it difficult for the Parliament to actually hold the government accountable

There are majority governments, as it is now

No incentive for the majority parties to hold its own government into account

Can also control the electoral fortunes of the party but not too much control by the parliament

For stability: allow for more parties and allow for the fact that a constitution, the president, or the head of state is the only one who can dissolve the parliament

A president that can dissolve the parliament is also an issue in case the president is not democratic

Most common system in the European Union

**Presidential Systems:**

- a. Voters elect both parliament and president;
- b. President and parliament are independent from each other and have their own legitimacy  
Neither can the president dissolve parliament nor can the parliament recall the president (despite exceptions)

Cyprus and Switzerland have adopted a presidential system in Europe, but primary example is the US House of representatives and Senate elected, President elected separately, only in case of impeachment because of high crimes can the president be dissolved

The president is governing independently of the Parliament

In **Switzerland**, the way the Parliament is elected, formed according to the proportion obtained in the vote

That proportion is also kept in the government- cooperative system: every party has a representation in the government in a proportional formula and the president is the head of state

Parliament delegates executive power to a collective government composed of representatives of several parliamentary parties, for a fixed term in office

Parliament elects the government, composed of 7 individuals representing different parties, regions and linguistic backgrounds at the start of the Parliamentary term

However, once elected, the government is not responsible to parliament and cannot be recalled

Similarly, the government cannot dissolve the parliament and call for new elections

More a norm thing than an institutional system

Latin American countries for long time had presidential systems: many scholars very worried - not only can the Parliament utilize impeachment against the President for only political reasons, but also because there could be emergency powers for Presidents (something that Trump has threatened to do several times): it would be easier to misuse the institutions because more power in the hands of one person that can claim legitimacy because was elected directly

There is therefore no constitutional mechanism, other than impeachment (a legal procedure) in place to resolve conflicts between the two branches of government when both claim to represent the will of the people

Resolution of such a conflict can only be possible through extra-constitutional processes (e.g. a coup)

Presidential systems focus on the separation of powers: they emphasize institutionalized checks and balances of the parliament and the presidency and both are able to monitor the other

Election results are usually clear: the chief executive is an individual who has received a popular majority

Presidential systems foster more personalization of politics

**Semi-Presidential Systems:**

Combination of a presidential and parliamentary system - mixed type of system

- a. Voters elect both parliament and president - the same as a presidential system
- b. Government needs (implicit) support in parliament, but can also sometimes dissolve parliament

Popularly elected president with a fixed term who exists alongside a prime minister and a cabinet who are responsible to a legislative majority in Parliament

e.g. in France have Macron but also a prime minister and also him needs to have support by the Parliament: as President, not useful not to cooperate between the Prime minister

Sometimes in such a situation can have cohabitation, where there are President and Prime minister not from the same party: might lead to gridlocks, nothing can pass through parliament

Variations of regime types In Europe:

The majority of countries are parliamentary systems in Europe

System	Example
Parliamentary	Belgium, Denmark, Estonia, Germany, Greece, Hungary, Italy, Latvia, Luxembourg, Malta, Netherlands, Norway, Spain, Sweden, United Kingdom
Presidential	Cyprus, Switzerland (collective government)
Semi-Presidential	Austria, Bulgaria, Croatia, Czech Republic, Finland, France, Iceland, Ireland, Lithuania, Poland, Portugal, Romania, Slovakia, Slovenia

## The political system of the EU

**EUROPEAN UNION has a mixed model:** it takes stuff from different models

Very difficult to say who is the government in Europe

Executive = government, legislative = parliament, judiciary = courts

The trias politica: the three elements that need to be aligned in a system

The EU has a dual executive and a dual legislature:

**Dual executive:** power is shared between the European Commission and National Governments (in European Council and Council)

European Parliamentary elections: allows to vote for the European representatives and party groups in the European Parliaments

Don't have to be a citizen of a country to vote there in European Parliamentary elections

Vote for the party groups who then have to give support for the candidates as President of the Commission and composition of the commission as a whole

So there are hearings will all of them

European Council chooses the President of the Commission although in the time of Junker there was the idea of a Spitzenkandidat

Same word to refer to the top candidate for chancellor in Germany

Idea is that the leader of the parliamentary group (socialist or conservative) would be running for commission president

Last time, the Spitzenkandidat that got the majority Max Weber did not become President of the Commission: Ursula Von Der Leyen was chosen instead

Council ultimately can decide who is the candidate and thought Weber did not have a lot of executive power

He also had less links to the parties in Germany

The council can take into consideration the outcome of the election

The European Parliament agreed on Von der Leyen because more progressive than Weber

More middle-centrist candidate

Then every commissioner has to come forward the Parliament

Parliament cannot vote out one single commissioner: they either vote for an entire commission or not, or they have to vote out the whole commission

e.g. proposal of Buttiglione as commissioner for Italy: not supported by some parties in the European Parliament - belief that the Parliament would have vetoed him out so candidacy was withdrawn

The Commission President has to keep the support of the European Parliament

e.g. Santer (Luxembourg) - corruption scandal

Before going to the Parliament the Commission stepped down, because they knew they would have not had the support of the European Parliament

The EU shows attributes of parliamentary systems: Commission president is elected by European Parliament and European Parliament can express lack of confidence in the commission

Commission president is only one part of the executive power, because there are all the national prime ministers sitting in the European Council or the Council of the Ministers

European Parliament has nothing to say about National Leaders

Governments have to get support of the national parliaments

Link between the legislative and executive but it is on the national end

At the European level it looks as a parliamentary system, but then also have these territorial, intergovernmental, national parts via the European council

The EU shows attributes of presidential system: Commission President is elected by European Parliament and can propose the team of the commission and cannot dissolve parliament

Commission president is indirectly elected through the European Council and the EP directly

But the Commission President doesn't have any power to dissolve the Parliament

European Parliament can express lack of confidence in Commission - still not happened, only a preventive stepping down of the commissioners as in the case of Santer in 1999

EU shows overall more attributes of a parliamentary system than a presidential or semi-presidential system

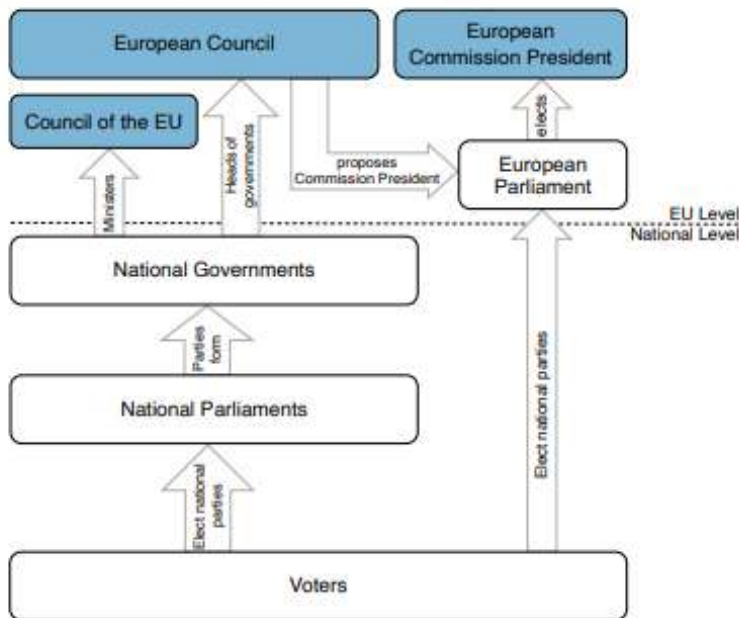
ECJ: block funds to countries that do not respect the rule of law such as Poland  
Some nationalists threatened to take away the confidence of the commission: but they don't have enough votes, European People's Party very big, many Commissioners  
An empty threat

In the Treaty of Lisbon: the Council decision for a candidate of the European Commission President should take into account the outcome of the European Parliamentary elections – idea to make it look much more similar to a parliamentary system

At national level, more increase in the liberal party

National elections and European parliamentary elections are not the same: the Council might change colours but the European Parliament cannot (and also the European commission president)

European's People Party no more the biggest party in the Council  
But that is not seen in the Commission



How delegation works in the European Union:

- **SUPRANATIONAL CHANNEL:** Citizens vote in European Parliamentary election to elect European Parliament that elects the European Commission President, proposed by the Council
- **INTERGOVERNMENTAL/NATIONAL CHANNEL:** voted via national elections, elect national parliaments, then governments, then they sit in the European Council or sit together as ministers in the Council of the EU and the European Council proposes the President of the Commission

European commission president is in some ways related to the Council, which proposed it but it depends in terms of its survival and accountability on the European parliament AND not on the European council – like in a parliamentary systems

European Parliamentary elections are fought nationally: there are Italian, Dutch lists – they come together in the group in the European Parliament but still vote and campaign is separate

They also do not occur all on the same day, they are on the same week

Only in some countries are the national elections sequenced with European Parliament: Lithuania, Luxembourg

## GOVERNMENT FORMATION AT THE NATIONAL LEVEL

Who is the prime minister at the national level is important because they sit in the European Council Council rules either by majority or unanimity: passing laws really depends on who are the Prime Minister

Being the longest sitting prime minister gives more power in terms of more information – longest sitting today is Orban, followed by Rutte and Angela Merkel before them

What happens in domestic government formation is also very important for what happens at the European level

This is why markets plummeted very heavily after the formation of Conte I: two Eurosceptic parties – how would that affect parties at the European level

Fear of what would have happened at European bargaining level with two Eurosceptic parties in power and what would have been the position of Italy in the European order

Syriza in Greece sparked the same kind of reaction: far from the centre – no positive market response which is needed to repay the debt

With Conte II, less fear by the markets – PD had a more calming influence: this also related to the election of Mattarella for a second term, so as to keep Mario Draghi as Prime Minister for a longer period of time

Markets have a tendency to prefer stability over extremes

After almost all elections, more than two parties enter parliament, which means there is always the possibility that no party gains an outright majority.

e.g. even in the UK, which is not a 2-party system: representation of the Welsh, the Scottish

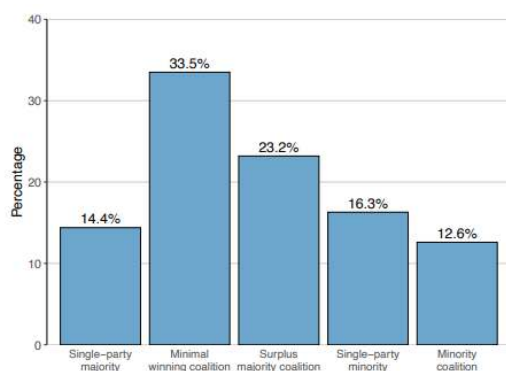
Party

e.g. in the Netherlands: 18 parties (Parties of animals and elderlies): very easy to start a new party and very low threshold to enter parliament

e.g. In the UK there are more than two parties, but one of the parties got the outright majority, and a large one with Boris Johnson as well (reason why people are very reluctant to get rid of him)

In the absence of such a majority party, coalitions need to be formed.

These can either take on the form of **minimal winning coalitions** (including as many parties as needed for the majority: include only those that allow to get a majority and that are ideological close), **surplus coalitions** (including more parties than needed for a majority in Parliament e.g. Draghi governments) or **minority governments** (often times in countries like Sweden and Denmark: changing coalitions when they want to get legislation through)



Data Source: ParIGov (Döring and Manow, 2019).

Single party majority: e.g. UK system and the Spanish one – not so popular in Europe – get 50% of the seats alone

Even in Spain, this has changed recently with the upcoming of Vox and Podemos

It is the first past the post system in the UK, but not in Spain – might have it in the district (need a plurality of votes to win the seat, just the most, not the majority) and that leads to less parties because all the other party votes are wasted

Many will vote strategically

Even if they are Green they might vote labour, that has more chances of getting through

Can win a single member district when there is a plurality of votes in a specific region e.g. the Scots and the Welsh, that have regional parties

Disproportionate systems: skew the election results in favour of the largest parties: one district, don't get 30% of the votes and 30% of the seats, but on the contrary huge disproportions, that usually leads to few parties and more likely single-member systems

Spain: highly disproportional – rules that favour bigger parties

Greece: another country that in the past produced these systems favouring bonuses for some types of party

Since the Eurozone crisis, both countries moved towards more fragmentation of the party system

Minimal winning coalition is the most frequent one: use only the parties that you need to win a coalition  
e.g. M5S and Lega were a minimal winning coalition

Surplus majority coalition is the second most common form

e.g. in the Netherlands, for the first time in 1998 when the Christian Democrats didn't do well in an election and then the Labour party went to the government with them, but they used a party in the middle to break the ideological gap

Bridge party as a way to decrease differences between two very ideologically far parties

Single-party minority: very frequent in Spain, Denmark and Sweden – in the latter two also minority coalitions are very popular: not even a coalition that doesn't have 51% of seats in Parliament

Danish politics – wheeling and dealing with all parties of the coalition and every time also with Parliament- EVERYBODY IS COOPERATING

Leads to a lot of trust because there is a lot of cooperation but probably need a lot of trust in the first place for it to emerge

One of the reasons why that doesn't emerge in Italy is because of low trust between the parties

Either minimal winning or surplus majority coalitions are the most frequent

Majority coalitions more popular than minority coalitions that are more difficult to govern

More often majorities form – minority form only in specific contexts and are due to institutional rules or to high trust environments and cultural attitudes that allow for such a trust to emerge

In Denmark there is not a clear majority for one policy – the only way in which it works is if politicians want to cooperate and follow through on what they said they want to do

Trust is the most important condition and that it is a feature of political culture

Mark Rutte: The Man Without Any Particular Opinion, Ideologically elastically – can govern anything  
Was once very anti-EU and frugal, now in coalition with very pro-EU party: change in ideology very quick

Able to keep the coalition going: a broker – brokers with everyone all the time, but still a lot of critique about him in the country

Scandals involving child benefits, female ministers

People tired of the inconsistency in the governing

System is about to change in the Netherlands: people worried because they don't know what to expect

Also, he has total control of the Party – he selected everyone in the party, something that for example

Salvini tried to do but wasn't successful also because of the resistance of regional presidents

Some people very worried of what happens in the Party after he's gone

Created a whole organization around him

Similarly to what happened to CDU after Merkel was gone

They stay for too long but then don't have the crown prince or princess to get the crown next

### What do parties do?

Usually think of them as vote-seeking: they want to gain votes, because in that way they get parliamentary representation

Need quite an amount of votes in order to make it in government to make it in the Parliament

But then they can be

- **Policy seeking:** Parties that seek office to implement certain policies that make themselves, the country or their voters better off.

Implication: Parties should strive for coalitions with ideologically close parties, so as to implement policies – if there is more agreement on the policy, easier to implement the policy

- **Office seeking:** Parties that seek office to acquire the benefits, power and prestige that comes with political positions.

Implication: Parties should strive to occupy as many offices as possible and form minimum winning coalitions (smallest possible majorities to achieve the maximum number of offices)

The high number of minimum winning coalitions and majority coalitions is in line with career incentives

Want to keep the number of offices to share with others as small as possible  
 Could also be an incentive to have minority governments – have all the offices for yourself  
 Expect minimum winning coalitions that are ideologically close: can both implement policy and be office seeking – ideal situation for parties

In European parliament elections there is not an office for the parliamentarians: the Commission president gets decided by the Council and then the different national governments can only decide on one commissioner

Getting a parliament seat in the European Parliament, cannot become a minister because those are chosen by national governments

Usually, need to have had a big position at home: government can only decide on one commissioner and it can be one that is not strictly in line with the government ideology: either big politicians that have had a huge career or people that are so unknown that no one can have an issue with them  
 Career strategies play out a lot in national politics – being a minister opens up a lot of doors  
 A lot of populist parties criticise career politicians, but they themselves have done nothing else but politics in their whole life

Might seek in the European Parliament to belong to a party system that is bigger and gives more support, allowing to govern better

In order to implement policy, might need more resources

With Office seeking, usually refer to government positions – plays less of a role in European Parliament and more of a role in national politics

### Ideology and coalition formation in Netherlands

In the Netherlands, it took more than a year to form a government – Rutte almost lost the majority

In Belgium long and lengthy government negotiations: French speaking and Dutch, Flemish speaking parts

Government formed with every other party except the Flemish nationalists

No ideologically close parties, but all together

Election in Hungary: opposition is every party except for Fidesz of Orban

Left-wing, right-wing party: difficult from a policy building perspective

If they were to form a government, would predict that they wouldn't survive long

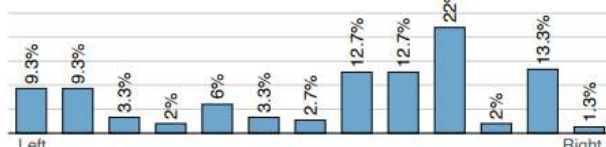
Outcome in the 2017 elections in the Netherlands

VVD is the Party of Prime Minister Mark Rutte, obtained the largest share of votes

Christian Union (Centre-left, but Christian), D66 (Centrists), CDA, VVD (both right wing parties) is the coalition that actually got to be implemented and has a combined seat share of 50.7%

First, Rutte, CDA and D66 had tries to form a coalition with the Greens, but that didn't work out – Green Left very to the Left of the spectrum: tried and failed

The other alternative would have been all those parties on the left from CDA to Greens – did not get formed because of too many parties, too many positions to share



	SP	GL	PvdD	Denk	PvdA	CU	50+	D66	CDA	VVD	SGP	PVV	FvD	Combined Seat Share
Actual Coalition						X		X	X	X				50.7%
Failed Coalition		X						X	X	X				56.7%
Center-Left Alternative		X	X	X	X	X	X	X	X					52.0%

Minimal amount, ideologically close was the outcome that was actually implemented

In the Netherlands, it required 4 parties, in other countries it is two

After a lot of critique and a negotiation of more than 1 year, the government that was formed was exactly the same than 2017

Trust in politics in the Netherlands not so high, especially young people very disappointed by this  
The majority of the times parties would be minimum winning, ideologically close, the minimal number of parties needed for majority

### MINORITY GOVERNMENTS

Weird, they don't fit in the models - not minimal winning, but actually have minority support

They can be single party minorities or more party minorities

Minority governments do not hold the majority of seats but are stable as long as there is no majority against them

This is not a bad idea in case want to give parliament more strength

Parliament needed every time legislation has to pass through

Unstable but might give more prerogative to the people who voted because other parties are also introduced in the government

Pass policy with support of some opposition parties

They either support you or withhold and just abstain

Abstention in the investiture vote and then can do policy with different majorities depending on the different topics

Get different types of majorities depending on the policies that want to introduce

Do a lot of pre-coalitions before putting something on a vote

Might lead to nepotism: give me something and give it back

e.g. in Spain there is the idea that certain regions get more funding because of regional parties supporting minority governments

Current government of Sanchez with Podemos is a multiparty minority

They govern with regional parties

Also in the context of Next Generation EU there was a vote related to labour market - Commission claimed it needed to be reformed so as to provide support

Many of the regional parties on the left supported that labour market policies

But since the Catalan and regional elections are around the corner, they did not want to be seen as supporting the national government

Ideologically close to the government but voted against

Only reason why the law actually made it is because one member of the right wing Partito Popular party in the televote voted for the wrong thing - he couldn't overturn it

This did not help the Partito Popular - they lost regional elections

Can get that there are so many regional parties that are really concerned with what happens in their regions

If it doesn't look good to vote with the government they abstain despite being ideologically close with the government

Minority governments make it easy for own party to deal with office seeking - have all ministers

Couple of small parties that care about policy a lot can buy them giving them policy concessions

Often supported by smaller parties that do not want to join the coalition but are interested in policy benefits - can be bought off by policy concessions

How can minority governments can be sustainable?

In Denmark, there is only one chamber, different to what happens in Italy and other countries

In Italy and the Netherlands, need to go to the upper chamber - that is very difficult: if have a minority in both, can win in the first chamber but not in the second

The other element being discussed but difficult to measure is the fact that probably minority governments only work in high-trust environments, where politicians can leave **incomplete contracts** - promises

Political culture also influences it a lot

Minority governments can function well if they occupy a central position in parliament and can forge ad hoc coalitions with parties that are ideologically close: if they are centre-left or centre-right.

Common outcome in many European democracies, especially in Scandinavia

Opportunity for minority governments: Centrist party that can govern easily with A and C: can have accords on some issues with A and on some other topics with C

Frequency of governments in Europe: Germany NEVER had a minority government

In Germany, instability of the Weimar republic lead to Nazism

Culture of having majority governments

In Denmark, at the opposite: almost always minority governments

Other countries are in between the two

## GOVERNMENT FORMATION IN THE EU

The dual executive of the EU consists of the EU Commission and the national governments

The president of the European Commission is proposed by the European Council (with qualified majority, taking the EP election outcome into consideration) and elected in the European Parliament.

Not a rule but a suggestion to follow the results of the EP elections

European parties have attempted to gain more influence by nominating lead candidates as candidates for Commission president during European election campaigns

As the Commission needs broad support across Europe, policy-making is quite inclusive and most votes taken in the Council are unanimous and supported by the major political parties.

**CONSENSUAL POLICY MAKING:** inclusive policy making

Hesitant to deal with Hungary and Poland because of the idea of Consensual policy making

### SUM UP

- Principal-agent framework to understand institutional distinctions between parliamentary, presidential, and semi-presidential systems
- Supranational system of the EU is mixed
- Mutual dependence in parliamentary systems necessitates postelection government formation process
- Office and policy-seeking motivations in coalition formation
- Vast majority of coalitions are majority governments, but minority governments can and do occur

# MAKING LAWS AND POLICY IN EUROPE

How to actually get to policy?

In most countries is not so easy to see who forms governments – except for the UK, in the majority of EU countries, need to form coalitions

Important because of the office seeking motives of a party

What matters is how ideologically close are the parties in coalitions

Portfolios obtained and the ideology are important because want to influence policy

How does the process of government formation lead to law making?

Make a law (which can also be called a policy) but the Law is the legal document

There can be changes in the law: can change a policy through an act of law

How can change the legal aspects to help push policy in a certain direction?

Laws and policy are referred to as outputs – intended to do something, reduce health inequality, climate change – do these outputs i.e. legal acts and all of them together a policy – that actually produced the intended outcomes

There might be unintended consequences: it created problems that people could not forecast or it doesn't produce the intended outcomes

Reality always more tricky than what politicians might think

Governments have agenda control over the legislative process

Understanding policy-making requires us to look at interactions inside the cabinet — Veto Players are political actors who can veto policy change — Focus on the degree of policy stability: difficulty with which legislative status quo can be modified

Important to note that the veto players are formal actors that can decide on a policy, interest groups are never veto players – because they can only lobby the government or advise governments, but ultimately do not decide

A court is not technically a veto player in the legislative process – not involved in the passing of the law – but it is a veto player in the outcome process i.e. if the law actually gets implemented

## VETO PLAYERS AND LAW MAKING

Veto players are the agents that decide on the law but are representing the principals (e.g. the voters in democratic politics)

Governments cannot decide which policy gets introduced

They often have a right of initiative, so they often have the power to initiate laws, but ultimately it is the majority of parliamentarians deciding on the law

So that it is the majority of voters deciding on it

Governments also have **agenda setting control** over the legislative process

They can introduce certain policy that the government cares about and that increases the chances to see laws in these policy areas

Understanding policy-making requires us to look at interactions inside the cabinet, within the cabinet as well as the institutional setting in which they are

e.g. Conte I government: immigration policy and Universal Basic income

A key promise on the right by Lega and a key promise by M5S

Agenda setting power: if all legislators agree, it can ultimately become a law

Veto Players are political actors who can veto policy change: there are institutional veto players and partisan veto players

If the entire government disagrees when the legislature introduces a policy, there are two institutional veto players

But if instead Lega doesn't like the Universal income and the legislature is not going to vote for it – then have a partisan veto player because it is the party doing that

In the UK, if the government wants something and not too many Tories defect, it is fairly easy to govern, even when in troubled times

A person like Boris Johnson would have probably lost the support of the coalition partner or lost confidence already in another country with different political institutions

With single party majority governments, the institution and the partisan interests are all aligned

Many political parties have different positions: very often will see that changing the law might make some legislators worse off or it might be perceived by others as a gain for a political party  
 e.g. Elections of the PDR: no one wanted to be perceived that the other party had got the candidate in and that happened because elections are coming up  
 Idea that there might be political gain from changing  
 So politicians just prefer to stick to the status quo  
 Just because the institutional rules are easier, can see more changes in different countries: that depends on the number of veto players, how close they are politically and how strong different institutions are  
 Three things that will make policy more easy or difficult to be changed  
 Because a legislative status quo is usually already there, many actors have an incentive to keep things as they are because that doesn't produce winners or losers  
 Every change might lead to a degree of risk and winning and losing  
 So everyone prefers not to change anything and stick to the status quo

Focus on the degree of policy stability: difficulty with which legislative status quo can be modified  
 Parliaments have partisan veto players, but the parliament itself is an institution of veto player  
 Veto players are those actors that need to agree for a policy to change  
 If there are two chambers of parliaments, more actors are involved to create a change – bicameralism  
 In case of unicameralism, easier to get policy change, because only need to convince the members of that institutions (of course, it would also depend on the voting rules)  
 Mostly, need a simple majority to change a law  
 Types of bicameralism vis-à-vis unicameralism  
 Very many parliaments in Europe have only one chambers, e.g. Denmark

Type	Does upper house have veto power?	Both houses congruent?	Parliaments
Unicameral	—	—	Bulgaria, Croatia, Cyprus, Denmark, Estonia, Finland, Greece, Hungary, Iceland, Latvia, Lithuania, Luxembourg, Malta, Norway, Portugal, Slovakia, Sweden
Weak Bicameralism	No	Yes	Austria, Czech Republic, Ireland, Poland, UK*
Medium strength Bicameralism	No	No	France, Spain, Slovenia
Medium strength Bicameralism	Yes	Yes	Italy, Netherlands, Belgium, Romania
Strong Bicameralism	Yes	No	Germany, European Union, Switzerland

**Weak Bicameralism:** usually Senate is the upper chamber of Parliament (and always refer to the parliament that is proposing the law as the Lower House and the Senate is the Upper House that just has to approve the law, but it is not involved with the introduction of the law  
 Does that upper house have any veto power and can struck down legislation?  
 A parliament is stronger, has more veto player power, when both of those chambers would also have the ability to not pass a law

If one of the chambers does a reading but cannot really struck it down or can only do that under specific consequences, it is less likely to be a strong parliament (UK, House of Lords)  
 Also important how congruent or similar are the chambers: that can come from whether the elections for the chambers happen at the same time or come from the same set of voters at the same moment in time ...  
Germany: one of the countries with the stronger bicameralism – two chambers and the two elections are not linked  
 Elections for the Bundestag, the lower house, but also have a Senate that can struck down legislation  
 Senate in Germany is made up by the representatives of the various landers  
 For every region in Germany is the equal amount of representation  
 Regional elections in Germany elect a government at the regional level and their representatives are in the Bundesrat  
 The regional elections are not at the same time of the national elections: there is ideological incongruence between the two

Not only it creates two chambers that both veto player power but also that are less likely to have the same political colour

In Italy it is medium strength bicameralism: both houses are likely to be congruent – likelihood of this is higher in Italy

Traditionally, more partisan congruence between the two chambers – this is changing in Italy today, becoming more similar to medium strength bicameralism such as France, Spain and Slovenia

Interestingly the European union is also a strong bicameral system: the two chambers of parliament or legislature in the EU are the European Parliament and the European Council

The Commission is the government together with the Council

Council comes in twice: it has both executive and legislative power

It can introduce long-term legislation, it can initiate legislation like the Commission on long-term change (e.g. Next Generation EU), but it also have to approve the Commission proposals together with the Parliament

UK has an congruent parliament: House of Lords not elected, they are appointed by government, which has some control of who is in the House of Lords

House of Lords is hereditary – important people in the UK that hold this house seat

Total interest to move stronger with the government, because they are going to be there for life

Some signs that House of Lords has been less congruent over Brexit

Look at the number of times in which see similar parties in the two chambers and they also ultimately vote together

UK has a house that has rarely veto power

Unicameralism, Weak Bicameralism, Medium Strength Bicameralism and Strong Bicameralism

Do you have two chambers? Can they vote down legislature? To what extent do they look partisan similar?

The more partisan similar, the more likely it is that they would vote together

Strong bicameralism: both chambers in Parliament both have veto control over policy and not likely to come from the same partisan background and therefore can vote down legislature

**Institutional veto players** – a parliament has to agree on legislation

Extent to which have a majority as a government is important – how the parliament is structured is also important

However there is also stuff happening within the government

Often times, governments can not pass the law, maybe it is the Parliament that passes a law, but governments still have a lot of agenda setting power and control over policy

Agenda setting control: only certain policies will actually be considered by the government as something worth legislating on

It depends on the rules: who can introduce policy and in which conditions

e.g. the European Commission: government actually initiates legislation

Important to think about the different commissioners and how they cooperate together

At the national level, most countries in Europe are governed by coalition governments

Parties within the coalitions that are part of the government might at a certain point decide to withdraw from the government or threaten of not supporting the government in case a certain legislation is passed

Use their parliamentarians as militia

The government can only rule in parliamentary system with a majority of legislators

Depending on the strength of party discipline (M5S has had issues on that) can see the wheeling and dealing within the government becoming more important

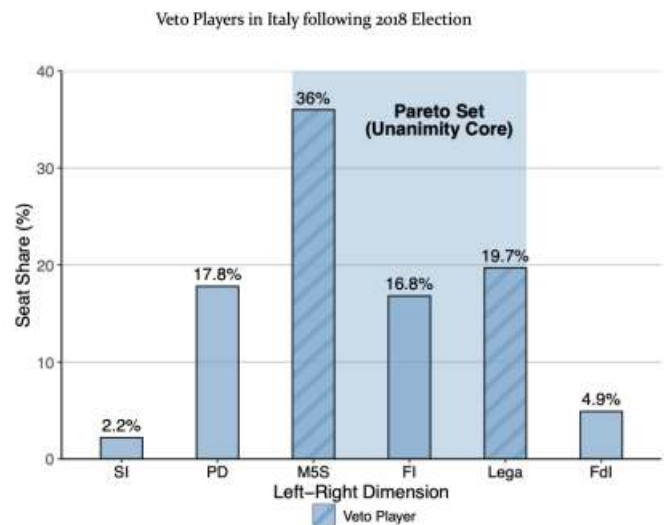
### EXAMPLE:

Odd government such as the Conte I Government formed between 5 Stelle and Lega  
 5 Stelle difficult to ideologically place in the left-right defections: there have indeed been defections to the right and to the left  
 Policies that could be accepted by those parliamentarians are in the space between the two parties

Pareto Set: No one would be worse off by picking a policy between M5S and Lega  
 Making a proposal to the right of Lega or to the left of M5S it would be unacceptable for both  
 Forza Italia was in the middle of the Pareto Set  
 Policies introduced that could find a majority in support

Even if some members of M5S would defect and not support the government (or Lega as well), would get some of the parliamentarians of FI to vote in favour of policies that are aligned with their political agenda as well

Expect legislation of the government to be across the Left-Right dimension



What also is very important is who holds the ministries?

e.g. Universal income important for M5S, Immigration important for Lega

So Lega gets Interior or Justice, things around Immigration policy legislation

5 Stelle get Social Justice or Social Affairs Ministry

### CABINET MINISTERS AND COALITION COMPROMISE

Political parties will try to get ministers in the policy arenas that interest them

Want a high number of portfolios (= ministers allocation)

If in a coalition, want at least a number of ministries in line with the percentage of vote obtained in the election (Gamson Law)

Those parliamentarians are needed to pass legislation so also need to give the party something

Usually percentage of vote share is equal to the share of ministries obtained

Exceptions: if two parties really need a small party to govern, the smaller party can get one additional minister to help forming the coalition

But then which ministries does a party want?

Ministries have agenda setting power as well

Ministries have bureaucracy, access to a lot of information that other parliamentarians don't have access to

Allows to propose legislation with some credibility

Can make sure that what the party cares about actually gets implemented

Getting a minister is key especially in the areas that are important to a particular party

Ministerial autonomy gives parties certain degree of discretion in implementing own party position in policy portfolio

Ministry provides informational advantage, expertise, gatekeeping power

### MINISTERIAL AUTONOMY AND COALITION COMPROMISE

Parliamentarians are the principals of the government

Legislators delegate government to govern on their behalf

Agent i.e. the minister could shrink – parliamentarians try to see how much the legislature is willing to give some more autonomy to a minister about a certain policy

There are certain expectations about who gets which ministries and what the coalition accord (the agreement) will look like

Most of the times, parties talk before they go up for a confidence role in parliament about who gets what and what will be done

In some countries, the coalition agreements are way thicker than in others - don't have full explanation of that: might be just a cultural determinant

Issue with having a coalition accord in which everything is more or less decided already is that the parliament becomes useless

If there is a majority in parliament and have already said everything that will be done, the parliament simply has to agree on everything

By not introducing a law, break the coalition accord

Force different agencies and ministries to do the policies that they had promised to do

In the UK and Spain, coalition contracts are very thin

In Scandinavia, usually thicker but this is now criticized for the idea that Parliament is useless

While in coalition accords can make sure that ministers o what they had promised in their manifesto, on the other hand allow for less discretion as events happen and unfold

Coalition accords make the government less responsive to things happening between the two elections

### e.g. Conte I Government

Social policy important for M5S

Lega very associated with anti-immigration rhetoric and with reducing immigration to Italy

Idea about what the policy would be with a 5 Stelle minister or a Lega minister on that policy area

5 Stelle is more to the left on social policy than Lega

A policy with a Lega minister, would be more conservative and less progressive

On immigration, it would be the reverse: Lega has stricter immigration stances than 5 stelle

Get a situation in which neither party gets what they want and will have an issue trusting the other one implementing what they want

Coalition partner moves away from your core policies, which is something don't want

Want to make sure that can keep electoral promises on core policies so can have a story to tell voters

There are more 5 Stelle parliamentarians and therefore more possibility of defection - it is important to please 5 Stelle

Junior partner probably has less room to defect

If the small party would defect, would get retaliation from the partner: more power of the bigger party in the coalition agreement - it sets more ministers and it also has more parliamentarians to pass legislature, so more important for the survival of the coalition

Would expect the Junior party (in this case Lega) to have to do concessions at the beginning already

What would 5 Stelle have to put concessions on?

Probably on something that Lega cares a lot about, otherwise it would be worthless to be part of that coalition agreement: you are the junior partner, less influence and also get suboptimal outcome on something you really care about

5S minister on the social policy side and Lega minister of Interior that could deal with Immigration

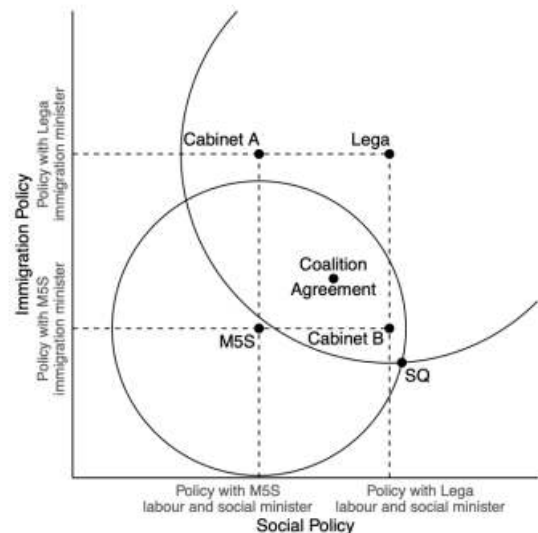
Coalition accord in the middle - might have been acceptable also to form an Accord at Cabinet B

Policy with Lega labour and social minister and a policy with M5S immigration minister

Instead went for a Policy with Lega immigration minister and an M5S labour and social minister

Can explain that it is much more likely to be accepted by both parties and to be within the shared indifference curve: what is acceptable for 5 Stelle and what is acceptable for Lega

To have a situation with a social minister from Lega and an immigration minister from 5 Stelle could have been an outcome in this case: don't see it because it is not the key element that both parties care about



It is not just about how close the parties are but also about what is still acceptable as a party and how to go back to the voter

Coalition agreement in between that space

See Policy with Lega immigration minister and an M5S labour and social minister because that is what the two parties care about, key for both

Even though the policies that one might agree on are more moderate, the ministers on the core ministries are slightly more hardcore than the coalition agreement would have been, because those are the areas on which they care a lot, helps them to profile themselves

It is a form of acceptable division of labour – in the other areas, probably see much more compromise because they are less important for both parties

### Enforcing the coalition compromise

Coalition partners try to distinguish themselves or to carve out something they can defend in an election campaign

As a way to show they implemented their manifesto, they engage in position-taking in the coalition taking up the ministry that is the clearest in their profile for voters

For example, they could propose bills that reflect party platform rather than coalition compromise  
Coalition compromise was overall more centrist between 5 Stelle and Lega, but what the ministries later did was much more signalling on Lega and on 5 Stelle platforms

Especially Salvini took a lot of stances

Later on he even met the courts for some of the things he did

Coalition partners can use mechanism outside and inside parliament to enforce compromise

How can make sure that the coalition partner comes back to the compromise?

How can make sure that the minister does what they said they were proposing, initially

One way in which it is done is to have one minister and a secretary in each ministry

Changing the partisan composition on that

If one minister is of one political party, the subminister is of the opposite political party

Monitor how things are going in that ministry

The subminister gets also some responsibility e.g. Interior party: the one on the left more concerned about police and immigration and the other about reduction of sexual violence

Also allows to the subminister to keep an eye on the minister and always be informed

Example for outside mechanism: shadowing junior ministers – having a different subminister is a way of controlling what the minister is doing

This is a why to prevent shirking i.e. that agents are not doing what the principals (the legislators here) want them to do

The principals are the legislators of Lega and 5 Stelle and they want to make sure that what was agreed in the coalition compromise actually gets implemented

If a minister moves away from that, need to have powers of control to get them back in

Another way is to actually introduce parliamentary institutions – parliamentary committees

Minister proposes a law and there is a parliamentary committee that hold that minister accountable

Entire parliament cannot keep accountable a minister all the time, too much work

A budget/legal affairs/interior committee can do that

Division of labour within the parliament

Strong parliaments defined by: large number of committees, strong correspondence between committee jurisdiction and ministerial policy portfolio (name is very similar and can control everything that the ministry does: something that governments also do is create new ministries, more difficult to be held accountable by the committees), smaller committees, rewrite authority, amendment authority, binding plenary debate, right to compel witnesses, limits on government to curtail debate and legislative with urgency procedure

Not every law makes it, looks like it will get enough support: Committees can play a strong role in forcing governments hand

They can provide expertise themselves and they could also have experts to talk about the law

In some cases also have the authority to rewrite parts of the legislation

Parliament has many different parties – the majority of legislators are government legislators  
But in the committee there might also be other legislators' parties that want to control the minister and maybe also make it difficult to pursue its policy

Tension between government ministries and committees and government parliamentarians in the committee – opposition parliamentarians might not care at all if a policy is in line with the coalition accord

They might actually try to move the policy away from that accord

Committees are entitled to check what the minister and the bureaucracy are doing

A form of parliamentary policing

### VARIATION OF PARLIAMENTARY POLICING STRENGTH

In the UK, parliamentary committees cannot do things that other parliaments can do

Italy is also on the strong side

UK very weak parliament: committees cannot rewrite part of the law, cannot have experts testifying

Get a situation in which the UK would not be a constitution to advise to any other country that has just democratized: one party rule, parliament has to simply agree, doesn't have the power to move against the government

In the US many committees have become effectively defunct: the Republicans

Certain systems where committees are strong – in Europe more cons

Weak institutions were seen as a big problem that led to the Nazi regime – so a lot of institutional engineering after the war went in the direction of decreasing the risk of backsliding

When have a very strong constitution as Germany, it is difficult to be changed

Something that we can see as a benefit now

Democratic backsliding was not on the radar a long time ago, historically, for UK and for the US

Designing a constitution today, it would start to look more like the German constitution

Seen as a guarantee to not get an overthrow of a democratic government

Intended to do just that – and succeeded so far

Downside of having a strong parliament: get a block in power

Government wants to introduce something and parliament has so much veto player power that a policy needs to be watered down so much for a majority to agree that the policy no longer makes sense

Get a gridlock: cannot get anything through parliament or get only something that is very watered down

President of the Republic in Italy has much more control now than what the constitution planned for it  
Mattarella takes the edge from policy, but someone that is much more partisan might have used that power to do the job

Sometimes, institutions can only work if the person in charge loses power

### MINORITY GOVERNMENTS

Either of a single party or even a coalition but they don't hold the majority in Parliament

It has the advantage that all the portfolios can be given to parties that not necessarily have the majority – good from a policy perspective

Probably need to give a lot of policy concessions at the start because need other parties to govern and need them to govern: cannot give them a ministerial job, but a policy concession

Opposition parties will care primarily about policy, because they can't access that government but they will also make sure that is beneficial for them to support the government on policy grounds

Dilemma for the opposition party:

- Cannot look too close to the government, or government might take all the pride in passing the legislation. Need to show that only tolerate the government on the issue that the party really cares about
- Do not support the government on the issues that the party doesn't like

In the minority governments in Denmark: single party social democrat, supported by the Greens on more left wing environmental policy and by the Right on immigration

Social democratic party that is very social but also very strict on immigration: function of how it needs to develop a majority in parliament, giving concessions to other parties

Leads to a strong parliament although it is unicameral – parliament can influence policy because it is always needed to pass the policy: can have a lot of policy negotiation

Government can never rule alone

Allow opposition to modify government legislation

It doesn't hold up in every context: probably need unicameralism or with minorities across two chambers that both have veto power might be more difficult

## INTEREST GROUPS

There are also informal actors affecting legislation: interest groups such as trade unions, companies that lobby directly

Can either have a formal route into the system (many European countries wage bargaining together with the corporate interest groups and trade unions) or not

Interest group system can be:

- **corporatist** in which few groups (business & labor) have privileged access to decision-makers, or
- **pluralist** in which many groups compete for attention and access

Either have what is called **privileged access** of employer organizations and trade unions (corporatism)

In some other countries such as the US there is a lot of pluralist interest group representation i.e. not institutional access given to a certain organization or the other

**Pluralist system:** Free market of interest groups in which everyone has to try to get the ear of the politician – in the US, that is done through donations to political parties, less present and regulated in the EU

In the US very expensive to run a political campaign

Interest groups compete for access to legislators

e.g. Former Prime Ministers linked to certain country groups or oil companies in order to get to buy access

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Certain groups have **institutionalized access** because they do wage bargaining with the government

Different strategies that interest groups can take

e.g. a climate change group trying to influence politics: might start with the Green

How to make sure other parties will be convinced as well?

- **inside lobbying** with direct meetings with lawmakers,
- **outside lobbying** with protests and public campaigns that raise public salience of an issue – get so much media attention that political parties feel they have to do something, or they would be out of touch with the people

Interest groups seek to influence policy: sometimes they do that with institutional access (labour and trade unions for the allocation of labour agreement centralized in many countries); others do not have such type of access, so they have to fight for access to legislators

## EU POLICY MAKING

Law making comes about through partisan and institutional veto players (parliament, which ultimately has to decide on policy: influence of parliament is related to institutional structure and whether they have the possibility of being congruent with each other, policing powers of the government, strong parliamentary institutional structure)

Another example of a strong bicameral system is the European Union: it has two chambers of legislature

- The European Parliament
- The Council of Ministers

The two institutions do not come from the same elections, so partisan congruence is very likely to be low

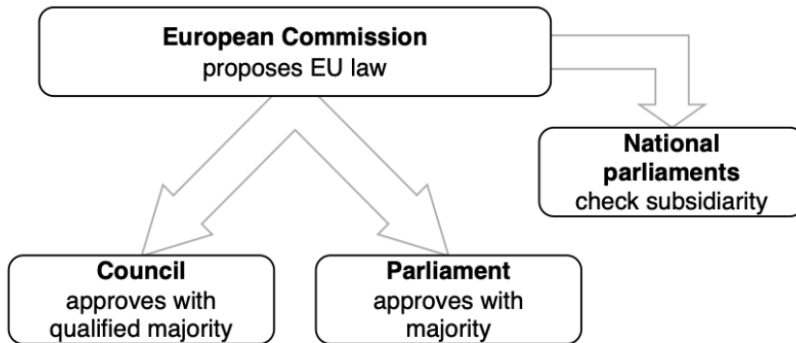
Veto player power on both sides and the party composition very different: one comes from the European elections, the other from national governments and national elections

## ORDINARY LEGISLATIVE PROCEDURE (OLP)

The way in which the EU makes laws – in reality much more complicated than this (it has two readings and a reconciliation committee if after the two readings of law the two chambers disagree, but that rarely happens: the majority of times a law gets passed in first reading)

It wasn't always like this, so also need to know the story: at a certain point, the EU got more depth and scope in policy, with a higher degree of authority

Process became more structured at the EU level at the expenses of the national governments



European commission proposes a law – directive, directly enforceable at the European level  
Commission proposes a law, then need both chambers (the Council and the Parliament) to approve  
The senate in the European Union is kind of the Council

In the German senate, the Bundesrat, the representatives are from the government of the regions

In the EU, in the Council sit the representatives of the governments of the national states

Council is where all the ministers of the finance/environment/foreign affairs

Member states have to agree on policy through their ministers

Not all member states need to agree, only a qualified majority

A lot of voting on European Commission proposals is done in the Council through qualified majority (which is about 60%) – double majority that has to do with the population and the number of member states

European Parliament is the normal lower house – directly elected European Parliament and those parliamentarians have to agree

There is a lot of informal negotiation between the Council and the Parliament before it comes to the vote

Trilogues: Commission representatives, Council representatives, European Parliament representatives

On paper, informal negotiations do not exist – not in any treaty

Informal negotiation forums to make sure the law passes

Exist in many parliamentarians' systems: make sure to have the majority in the vote

A lot of the time there will be agreement and the law will pass on the first reading

Council and the Parliament can make amendments to the proposal of the Commission

That will have to be approved by a qualified majority in the Council

And a majority in the Parliament

Subsidiarity: EU can only legislate on things that make sense for the EU to legislate on

Legislate at the optimal territorial level

When a lower tier of government can do it, it should do it and not the EU

If it is something that the national or regional governments can do, then it doesn't make sense to legislate on that

Technically national parliaments can check that and give yellow or red cards to certain legislation

It happens sometimes, not so frequently: the commission also knows this

## HISTORY OF EU DECISION-MAKING FROM A VETO PLAYERS PERSPECTIVE

	Luxembourg Compromise	Common Market Setup	Post-Maastricht	Post-Lisbon
Period	1958-1987	1988-1992	1993-2014	2014-
Legislative Procedure	Consultation	Mainly consultation	Mainly codecision	Ordinary Legislative Procedure
Veto Players	Council	Council	Council + EP	Council + EP
Council Voting Rule	Unanimity	QMV	QMV	Lower QMV threshold
Main Characteristic	Legislative gridlock, large discretion to Court	Council more effective, Commission agenda-setting	Parliament as co-equal legislator	Bicameralism, decisions in Council facilitated

Did not have an European Parliamentary election before 1979

Did not have the requirement that both chambers have to agree until Post-Maastricht

Before Maastricht the European parliament was only consulted and couldn't agree on anything

It was only the Council to make choices

Unanimity first in the council and then qualified majority voting

After Maastricht: veto players become the Council and the European Parliament

Since the Lisbon treaty, ordinary legislative procedure - simpler form of what was called co-decision

Bicameralism and decisions are facilitated by the Council: two veto players

Ordinary legislative procedure is only since Lisbon

### SUMMING UP

- Law-making characterized by agenda-setting rights and veto power
- Veto Player analysis allows to compare the potential for policy change across different political systems
- Delegation to cabinet ministers creates opportunities for partisan politics and ministerial autonomy
- Coalition parties use mechanisms inside and outside parliament to enforce coalition compromises
- EU is a strong bicameral system and its legislative decision-making procedures can be understood with veto player analysis

# POLICY OUTCOMES in EUROPE

**Policy outcomes across Europe:** How and why do policy outcomes across Europe differ?

Outputs are the legislation: directive that it is agreed upon based on the ordinary legislative procedure

Policy outcomes are crucial because the entire implementation procedure is national

e.g. get a directive from the EU but the bureaucracy implementing that directive is not the EU (except for Trade, border security it is all done nationally)

Government formation at national level is crucial because a lot of the implementation is done nationally by the member states

Policy outcomes across Europe differ because of different bureaucratic structures and traditions, different starting conditions (countries bigger, smaller, demographically different)

**Levels at which policy get made:** What types of policy are decided at the EU level and at the national level?

**Policy areas:** What does policy look like in trade; immigration; environment; health? Foreign policy is becoming increasingly crucial

**Welfare states:** How do welfare states vary across Europe?

Majority of spending of European states. EU has nothing to say on welfare policy, it can only coordinate putting some goals that the country should achieve

Budget of the EU is small in comparison to national governments – e.g. defence, welfare, schooling and education is of competence of the national government

EU doesn't have key policy authority or exclusive competence in these areas

## Policy Authority in Multilevel Europe

Policy authority in multilevel territorial form of delegation

EU has policy competence –i.e. authority to make decisions – in the areas where the treaties grant it

This week a lot of commission lawyers looked at the treaties to understand what they can do

If there is a conflict: what can the EU do – can only go as far as the treaty says

There might be challenges by Constitutional Courts – e.g. Weiss Judgement

Treaties outline all the relationships: executive, legislative, the court, but also ECB as European institution

What institutions can do is all in the treaties: **competence creep**

Have a competence, but also do something more

Not a negative institution trying to do that: In order to actually do my job, I need to do something more  
Eurosceptics are going to see it as an overtaking of the EU

Two principles in the treaties that guide policy authority organizations: proportionality and subsidiarity  
Proportionality was the issue of the Weiss Judgement: German constitutional court was trying to rule whether the buying of bonds were proportional given the treaties: that depends on how Constitutional courts look at the situation and interprets the treaty

Very difficult for a constitutional court to move now and say that granting weapons to Ukraine is unproportional

In an economic crisis, much more argument about a policy being proportional or not

## PRINCIPLES

1. **Proportionality:** content and scope of action by EU institutions should go no further than what is necessary to achieve the objectives as laid down within the Treaties  
Article 2 and 3 outline all sorts of objectives for the EU e.g. prosperity: how to define it? People on the left and the right might define it differently – this is always open to interpretation and therefore to court judgements  
Need to act in line with the goals set up in the treaty
2. **Subsidiarity:** EU institutions only take action when EU-level action would be more effective than actions at a lower level

If you could do it at lower levels of territorial delegations, that is preferable because it can do the job better

**Democratic delegation:** distance between individual and the party

The more heterogenous the electorate, the more the distance - there are going to be some issues on which to compromise because represent 4 million people rather than 40 000 people

Philosophical reason for wanting to have subsidiarity

Principle that stems from the Catholic Church and how Church was organized

If there was a need for coordination, need to check whether it is proportional and whether the EU doing it is the correct level of delegation or not

How can decide if something is in line with subsidiarity or not? That is open for constitutional court to discuss

Subsidiarity: If action is needed, EU should be there to coordinate across regions and across borders e.g. security is something that cannot be done by oneself, along with environmental policy, migration

But healthcare: should that be European? Maybe some parts of it, like emergency response

Also, why should social policy be at European level?

Maybe can put authority under the EU level only in crisis situation

In the treaties that are parts of authority that are outlined - but a lot of elements are not mentioned, as EU has no competence on that

Some things are changing because it is possible that goals change

EU is right now pushing above the boundaries of treaties on different issues

There should be new treaty but that creates issues of ratifications

Three types of competencies / authority to make decisions

- **Trade policy:** exclusive competence for the EU, all the policy authority lies with the EU  
Fundamental miscalculation of the British that thought they could divide and conquer the 27 member states on the trade deals: but they have no trade competence because all the trade competence is in the hands of the Commission  
Member states should not do anything by themselves: BRI signed by Italy, but heavily criticized  
Can sign it but it is practically against the law
- **Immigration and environmental policy:** shared competences: EU can do something, nation can do something - but there is always the question of who does what  
Some room for interpretation
- **Health policy:** supporting competence - EU can support the member states in their decision making

e.g. vaccines: still need to get the council to agree on this

Member state can do whatever it wants, but it can agree with other member states for the EU to support

EU usually has more authority in areas that are not related to core state powers or high politics

(Weberian types of policy areas e.g. taxation, education, foreign policy, defence, social policy)

Weber: a state is a territory that can be taxed over and that can be defended, decide who is a citizen - core state powers

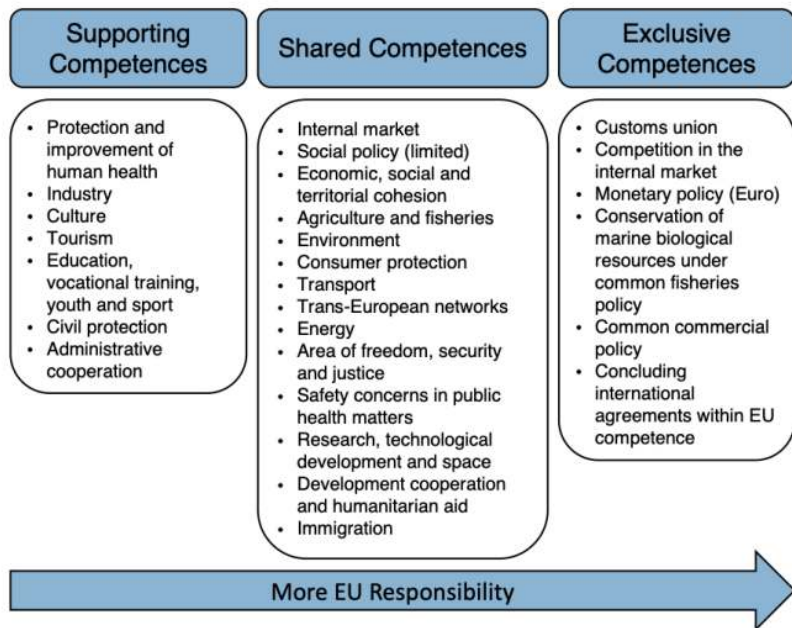
EU is creeping on this - EU also entered the defence area of the states

A grey member of the EU such as Switzerland has taken up the entire sanction system of the EU  
**Monetary policy - differentiated policy:** not all member states have Euro, either because they opted out of it or because they don't have the criteria to join the European Monetary Union

Supporting competence: least policy authority, just support national authority

Shared competence: middle level policy authority - on different aspects of the policy, both the EU and the Nation States have competence

Exclusive: the most policy authority - 100% competence of EU



## TRADE POLICY - Exclusive competence of the EU

EU negotiates trade deals, sets trade policy, implements that policy and provides all the support to the member states to provide it

Cooperation with China from Italy not a full trade deal

The European Commission oversees trade policy between the EU and the rest of world (exclusive EU competence): internally, between the member states and the external states that still have signed up to the united market

Customs union (share customs and make that easier) and single market: the UK left both

Customs union: make sure to have less administration on trade barriers, less costs, free flowing of trade

UK did not want to be part of the single market because wants to set up its own standards on everything that has to do with trade

To be part of the EU single market, need to follow all laws on products, labour and everything that has to do with trade

Switzerland looks legally identical to an EU member state: it opted in on trade policy

Not accepting the EU standards but still want to trade with the single market, can only trade when the products have followed the standards of the single market

In Canada there are farms: one part of the farm for American trade and one part for EU trade

EU different rules for what can be sent to the different countries

A Canadian farmer feeds cows for two different markets in different ways

That would be a reality for the UK farms: bigger farms can be able to do it, but costs are so high that it is more difficult for other smaller farms

Don't have policy authority on other countries, but practically limit the ability of other countries to trade with the single market unless standards are followed - **Standard setting:** regulate trade decisions

Commission represents EU member states at WTO; negotiates trade deals

In some instances, member states and even regional governments may need to ratify trade deals

**TTIP: Transatlantic Trade and Investment Partnership between the US and EU** - create a free trade zone between EU and the US: slow food lobby in Italy very high on food standards was very much against it; also for the protection of national agricultural firms

Negotiation was not even completed because member states clearly stated they were not going to ratify it

**CETA: Comprehensive Economic and Trade Agreement with Canada** - Also did not pass

EU member states still have to ratify European policy on trade

Trade deal is a treaty change: add a new member to the bloc as trading partner - countries need to agree

Depending on national rules of delegation, in some countries also need regional governments to give their consent

Concerns about trade have arisen over the last decades

A lot of populist parties have used this as a political tool

Fears that health and safety standards will be lowered through agreements, especially in area of food and agriculture - major concern

Also concerns that EU trade policy harms Global South and working conditions and environment in poorer countries

So many global South countries want access to the EU market that the EU can bring down prices or put up tariffs

These trade policies become barriers to trade for the South - a concern on the left of the spectrum

## IMMIGRATION POLICY: Shared policy competence

Common immigration policy in the EU has stalled dramatically

Countries like Spain, Italy, Greece demand more European solidarity

Right now the Dublin criteria holds: where you enter the EU territory, the point of entry, is where you have to do application for asylum and refugee status

That is just a function of geography: if you are close to the Sea, as well close to the areas of conflict, will be more exposed to the flow of migrants - not clear how European solidarity actually works

Ukrainian refugees: did not have to officially apply for anything for 1 to 3 years up and only then they had to go through the full process - this allows Ukrainian refugees to move around EU freely

There are also going to be solidarity mechanisms - struck down by Eastern European countries (especially Hungary) in the past, but now there is more leeway because of the different situation

Crucial for the EU to deal with the solidarity mechanism, so immigration policy is soon going to be on the table

Belarus, Turkey and Morocco: Other countries are using migration as a way to get concessions from the EU

Having no common policy makes this even more volatile

Reaction of Polish police against Syrian refugees much different from the ones of Ukraine

Lukashenko used Syrian refugees to get political concessions from the EU

Planes coming from Syria to Minsk and then pushed to the border of the EU

Still not enough reason not to give people shelter, but need to get a realistic policy on immigration or will be very vulnerable

EU institutions determine conditions for entry and legal residence based on the Dublin criteria in a member state for third-country nationals

Countries can determine volumes of admission for people coming from third countries to seek work

How you process people within the country is all nationally determined

Critique of many politicians is that Italy has created such slow processes of migration that people will defect and go to other countries - bureaucracy takes a long time

How to process, how long it takes to have citizenship - different rules in different countries to get citizenship and EU has nothing to say on that

EU accepts the procedure of different countries but cannot harmonize those

Refugees should get access every time: Syrian refugees did not have that, but signed a treaty with UN that says we should be doing so

Refugee system will depend on individual member states

EU institutions are required to prevent and **reduce irregular immigration**, in particular by means of an effective return policy, in a manner consistent with fundamental rights

People who neither have a working contract nor a refugee status

Economic migrants, but very difficult to verify that: they might be unrecognized refugees

Denmark for a lot of time did not accept people coming from Syria as war refugees – very political classification

In reality, there are pushbacks by the border force of the European Union together with the Member states

Also saw migrant centres set up in Turkey, Morocco:

give money to organizations to shelter people in those countries rather than giving them a chance to give them a route to Europe in a legal way

EU institutions provide incentives and support for national measures to integrate refugees and asylum seekers, but does not seek to harmonize national laws

Difficult to get a common immigration policy: migration largely unpopular in one side of the electorate – a lot of support for political parties on the right, for which reducing migration has become a salient issue

Salience scale: what is the most important issue for you?

e.g. Conservative Party in the UK: anti-EU and anti-migration

Interior minister claimed that Ukrainian refugees could only come in the country if they already had a family member or to pick fruit

Difficult to U-turn on the positions of anti-immigration: but a lot of Conservatives say that this should be treated differently because we are talking about people fleeing from war – policy should change

Politically explosive issue: difficult to deal with it

A lot of support for Ukrainian refugees now, don't know whether this is going to be the same in 5 years from now: initially in Germany there was a lot of mobilization for Syrian refugees, in a while a lot of people against it

Many accuse the EU of being "Fortress Europe," making it easy for citizens of Europe to move throughout the EU, but very difficult for anyone from elsewhere

Shared competence: an aspect of the competency is at European level and a part of it at the national state

See the same for Environmental policy, but reversed

Shared competence: doesn't share how much it shares

## ENVIRONMENTAL POLICY: shared competence

Citizens consistently say that environmental policy should be an EU priority

Single European Act (1987) provided the first legal basis for creating a common European environmental policy. Role of the EU further strengthened by Treaties of Maastricht, Amsterdam and Lisbon

Increase in policy authority for environmental policy

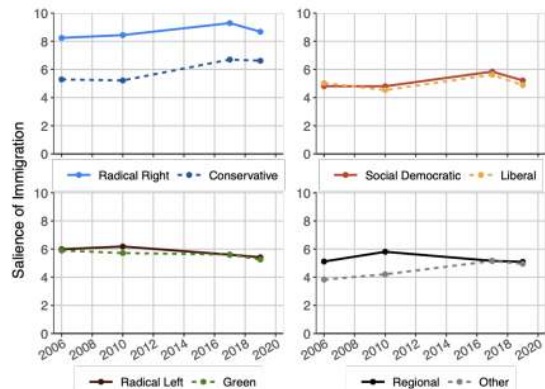
New plans for a European "Green New Deal" to fight climate change: money at the European level to move towards sustainable energy

Create a carbon border tax, carbon pricing: ways to coordinate carbon emissions across borders

Leads to very different policy outcomes

Looking at the greenhouse gas emissions per capita: Italy is not one of the biggest polluter in Europe – always had a kind of agriculture and food policy that also gives less carbon dioxide

Netherlands: second largest agricultural production outside the US



Greenhouses - Having smaller northern countries to produce tomatoes not the best way to go for the environment

Also Poland: a lot of energy that is not transitioned, a lot of coal

EU will now pay these countries to pursue a green transition - this was also criticized by those countries that were already doing better before: EU is paying the polluters to go forward

Huge variations between countries in policy outcomes

Recycled waste: very high in Western Europe, rather than Eastern

How municipal waste is organized, how pollution is fought practically is in the hands of the member state

Environmental policy: more policy authority of the EU than the nation states (implementation at the national level)

For immigration: Dublin criteria and solidarity European, how we deal with migrants is entirely in the hands of the national governments

## HEALTH POLICY

Largely a policy area reserved for the national level with little European role

But EU secures citizens' rights to cross border healthcare through European Health Insurance Card

EU plays a supporting role

In Italy there is regional competence: shared between the national and regional level

The way the health systems looks like in Lombardy is different than healthcare system in Lazio

Similar idea is in Spain

EU can only coordinate in the case of health, as it did with vaccines during Covid

During the first wave of the pandemic, member countries did not share stuff across borders: every country was ordering that stuff for themselves

Virus going very hard on a part of the continent and not another, which however has a lot of resources to counter the crisis

Only shared resources on a voluntary basis

EU could coordinate the vaccines because it also had trade deals elements

Now there are talks of health union - in a time of crisis or to tackle big health issues in which a lot of money needs to be spent in the research and development phase, we might move it soon in an area of shared policy competence

Just an exception about vaccines procurement: US and UK did procurement more quickly

EU might have coordinated better with national procurement agents

Strategic autonomy: EU wants to act multilaterally, but if it cannot, it needs to act alone

Proposal developed by the French and Macron

To be strategic autonomous i.e. when something happens and the US doesn't want to collaborate with us, we go our own way, need to have resources

It would be easier for EU to have their own resources: this implies taxation at the European level - core state power delegated to the EU

Pay Italian taxes and EU taxes

Taking the income tax to European level, take away a lot of money from nation states

A lot of contention: that would make the EU more similar to a state

In Next Gen EU there is now small taxation on carbon and plastic: part of the EU budget is financed through that tax

Might have to also have a shared corporate tax rate and not only a shared fiscal policy: get rid of tax havens inside the European Union

This also happens within federations: Madrid has tax rate that is much lower than the Basque countries Underly economic inequality across the union

To really start to have more European-level control, would need to have a common fiscal policy framework: have to complete the European Currency Union and need to get taxation 80% or a percentage of national taxation goes to the EU)

Lot of possible areas done at the European level as a consequence → too much EU for some people

On health, the EU does coordination: need to accept the health card of other European people in all European member states if they need medical assistance - plays a supporting role for the EU, especially in the case of crisis

Might be an area in which subsidiarity works better

Way less changes in policy outcomes when something is an exclusive competence for EU - the more the EU has exclusive competence, the less variation in policy outcomes

When EU has less policy authority, much more variation in policy outcomes

European countries have tightly regulated healthcare systems, supported by government subsidies

- **Italy:** managed by regional governments and funded by central taxation. Free primary and in-patient care
- **Lithuania:** public system funded by insurance contributions for those in employment, and state contributions for those not. Individuals sometimes seek out private services
- **Sweden:** regionally managed and funded through regional taxes. Patients often pay a nominal fee for service
- **United Kingdom:** NHS offers free care at point of service, funded through general taxation. Individuals sometime purchase private insurance and use private providers

e.g. ICU beds in Hospitals: more in Germany, less in Italy, Spain, France

## WELFARE STATE CLASSIFICATION

Because the core state powers are decided at the national level, the EU has only supporting role in Welfare state classification

A lot of divergence between countries' welfare states

EU can set some goals, but all depends on the countries

We classify welfare states on the basis of their level of commodification

Classification is made on the basis of two elements:

Is social welfare a right (Swedish system) or do you have to qualify for that to show that you are worthy (means tested system as in US and UK)?

Level of commodification: how dependent on the market are you in order to get benefits?

If benefit is a right irrespective of how much you paid into the welfare system: **high level of de-commodification** - further away from having to work in the market to rely on the satisfaction of those needs

Generous childcare is also a decommodification strategy because it allows women to work: out of choice, not out of need

Different welfare state classification:

- **Liberal:** welfare provided by free market. Only minimal and basic services offered by the state  
The most commodified is the liberal one (US, UK, Australia)
- **Conservative:** state is only to intervene when the capacity of other societal organizations, such as the church or the family, is exhausted. Entitlements based on occupation and length of employment.
- **Social Democratic:** social rights are entitlements that should benefit all and that the state ought to compensate for market inefficiencies and inequalities

The least commodified welfare system is the social democratic one (Sweden, Finland)

In between is a combination of support of the state and still rely on the market

Conservatism often comes from the existence of other institutions that can also provide funding (in Italy is the family) but at the same time there is the idea that something at birth makes someone more or less able to provide rights

These however transforms rights in club goods or private good - if not a member of the church, you don't get it

The more rights on social benefits, the less inequality is there

Huge growth in a country as Sweden: not so clear that the level of growth is associated with more welfare state but for sure liberal state is associated with more inequality

However in Conservative welfare states, also see high levels of inequality: if the family can support you, then there will be inequality based on family wealth

Social democratic welfare system only applies if you are a citizen: if you are an immigrant, much more difficult to get access to those policies

# INTRODUCTION to ECONOMICS OF THE EUROPEAN UNION

## EUROPE IS THE FREE RIDER CONTINENT

Europe is the free-rider continent. For decades its defence has been underpinned by America—leaving it in a supporting role even as war breaks out on its own borders. Economically it has piggybacked on innovation from elsewhere, keeping up with rivals, not forging ahead

Even the feel-good environmental ambitions crafted in Brussels are made possible in part by importing from afar the products once made in carbon-spewing factories Europe shut down long ago.

Defence is where criticism of Europe's ways has been loudest—and where it is currently being most acutely felt. The combined military spending in the 34 European countries that are part of either NATO or the EU is less than half that of America's, despite a bigger economic output and nearly twice the population

Worse, when it comes to gauging the ability of an army to do anything beyond its borders, a lot of Europe's spending is wasted on dozens of redundant national schemes. Too much goes on pensions rather than on advanced kit. The run-up to the war in Ukraine demonstrated these shortcomings

It was overwhelmingly America that undertook basic military tasks such as surveillance flights

Europe could have invested the savings in pioneering innovation. But there also it has preferred to stay tucked in behind others. EU countries spend a third less on research and development than America or Japan, as a share of GDP, and are out-invested even by China nowadays

Western Europeans were a quarter poorer than Americans in 1990 and remain a quarter poorer today.

They work less, and enjoy the slipstream of those who toil harder

Plenty of them scoff at America's cut-throat capitalist model, not to mention the Chinese one. But economists, including Daron Acemoglu, point out that such winner-takes-all systems create the conditions for innovation that Europe then adopts on the cheap

The cuddly form of capitalism embraced in Europe has markedly failed to create world-beating companies. Big tech firms are all American or, increasingly, Asian. Pharmaceutical breakthroughs are financed by the high prices paid by American patients

Even the EU's efforts to cut its carbon footprint depend on the work done by others. The pledge by the bloc to reach "net zero" by 2050 is a fine ambition. But part of the progress already made is an illusion because of the issue of pollution imported in goods

A scheme has been mooted to tax carbon emissions embedded in products brought into the bloc, but is yet to be agreed

The evacuation debacle in Afghanistan in August was a reminder of Europe's inability to do much without America. But the outbreak of war in Ukraine brings the point home, literally

It was America that took the lead in sounding the alarm, not the eu. It was also America that shuffled troops around the continent in a vain attempt to deter Russia. Emmanuel Macron of France provocatively alluded to the impending "brain death" of nato in 2019 to spur Europeans into taking responsibility for their own defence

For all his pining for "strategic autonomy"—the idea that Europe should be able to forge its own way in the world—America is firmly in the lead, and the Europeans are united in following.

## IS EUROPE THE FREE RIDER CONTINENT?

No "strong" common foreign policy: except for the trade relationships with the rest of the world

No "Strategic Autonomy": especially for Covid, independence from Global Value Chains - cannot depend from other countries for critical supplies (drugs, oil, gas, semiconductors)

No technological leadership: all big companies are from the States or China

No ambition of leading the world

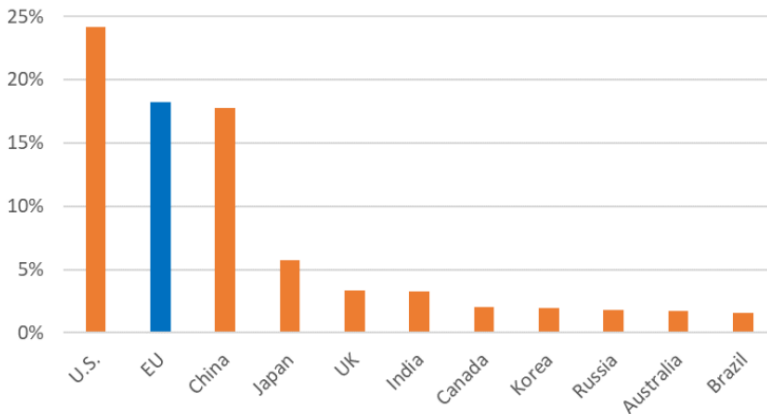
Too much Dolce Vita: no global leader

Or not?

Development of Ukraine shows that being a citizen of the EU is actually something that people all over the world want

After Brexit, the Financial Times is less in line with EU

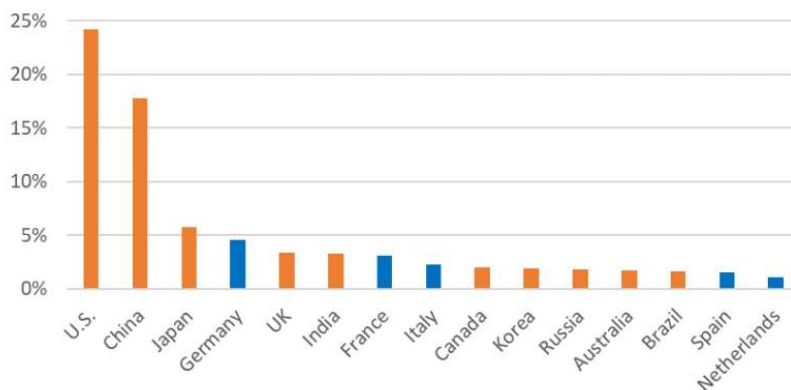
### Global GDP in 2021



US, EU, China are the leading economies in the world  
 Breaking down the aggregate GDP of European member states, the national GDPs would be much less significant

Rather prefer to be the second in the ranking rather than in 4<sup>th</sup> or 10<sup>th</sup> position

Someone might say that it is not just a matter of economics, but cultural identity



However, economic power is also political power

Thinking about the political issues, who has influence of these issues? Being the EU more leverage about how these things will develop in the global arena

1957-2022: 65 years from the Treaty of Rome

Treaty of Rome: solemn event

29.08

Guiding intuition:

The economy is not a zero-sum game: the way in which nationalist politicians intend it

The economic success of France, or Italy, does not inevitably come at the expenses of, say, Germany

It is possible to achieve shared economic progress across countries in Europe

The more the prosperity of a country is tied to the prosperity of other European countries, the less likely war will be (impossible in the limit, if production processes are deeply linked across countries - if for production of military equipment need stuff coming from France and Germany, more difficult to start a war)

Generation of people who have seen two World Wars

Best way to avoid war in the future: make sure that the success of one country is related to the success of another country

Build prosperity across countries so that no one will want to go to war as to preserve that shared prosperity

Easy to grasp for a generation of leaders who had seen two World Wars in Europe in a few decades

Less and less obvious for younger generations attracted by nationalist instincts and that tend to think of economy as a competition between states

Thanks to the EU peace for 60 years in Europe

Jersey Island: Just after Brexit... dispute between France and the UK over fishing rights around Jersey Island

Royal Navy sent patrol vessels monitoring French boat protest

**THE TREATY OF THE EU** - revised version of the Treaty of Rome made in 1992

**TEU: art 3:** states what are the objectives of the European Union and the tools the EU has to achieve these objectives

1. The Union's aim is to promote **peace, its values and the well-being of its peoples.**
2. The Union shall offer its citizens an area of freedom, security and justice without internal frontiers, in which the free movement of persons is ensured in conjunction with appropriate measures with respect to external border controls, asylum, immigration and the prevention and combating of crime.
3. The Union shall establish an internal market. It shall work for the sustainable development of Europe **based on balanced economic growth and price stability**, a highly **competitive social market economy**, aiming at full employment and social progress, and a high level of protection and improvement of the quality of the environment. It shall **promote scientific and technological advance**.
4. It shall **combat social exclusion and discrimination**, and shall **promote social justice** and protection, **equality between women and men, solidarity between generations** and protection of the rights of the child.
5. It shall promote **economic, social and territorial cohesion**, and solidarity among Member States.
6. It shall respect its rich cultural and linguistic diversity, and shall ensure that Europe's cultural heritage is safeguarded and enhanced.
7. The Union shall establish an economic and monetary union whose currency is the euro.
8. In its relations with the wider world, the Union shall **uphold and promote its values and interests** and contribute to the protection of its citizens. It shall contribute to **peace, security, the sustainable development of the Earth**, solidarity and mutual respect among peoples, **free and fair trade, eradication of poverty and the protection of human rights**, in particular the rights of the child, as well as to the strict observance and the development of international law, including respect for the principles of the United Nations Charter.
9. The Union shall pursue its objectives by appropriate means commensurate with the competences which are conferred upon it in the Treaties

Based on balanced economic growth and price stability: i.e. low inflation - number one objective in Germany

Free and fair trade is also a tool of foreign policy

Tools the union has are mainly economic tools: area of freedom, internal market, economic and monetary union, appropriate means commensurate with the competences conferred upon it in the treaties

EU is based on the **principle of conferral**

Union has powers only to the extent that sovereign countries are conferring powers to the Union

If ECB is running monetary policy for the 27 member states, it is because the states conferred such policy to the European institution

Do that because important to achieve the objective

## SINGLE MARKET

With the Rome Treaty (1957), the member States decided to start the process of forming a Single Market

In a single market, economic frontiers between member States are eliminated and the so-called four fundamental freedoms hold: **free circulation of people, services, capital and goods**

The flows of products, services and factors of production between countries are on the same terms and conditions as within countries

Debate after Brexit was all about these 4 freedoms: but cannot pick from the 4 fundamental freedoms what you prefer

If the single market really functions well, a company in Milan producing something that needs a specific raw material should be indifferent to get the material from a company in Rome or Madrid

For that to be the case: need to have no trade barriers, harmonization

What does it take to create a Single Market?

The answer to this question determines EU policies, areas of EU vs. national competence

Preserving and improving on the Single Market are a "compass" to navigate EU history and development

All the things that are fundamental for the Single Market to work are competence of the EU and the idea of Single Market allows to understand the incremental steps and the development of the EU overtime

## TRADE POLICY

Creating a Single Market entails, first of all, the elimination of internal barriers to trade (e.g., tariffs)

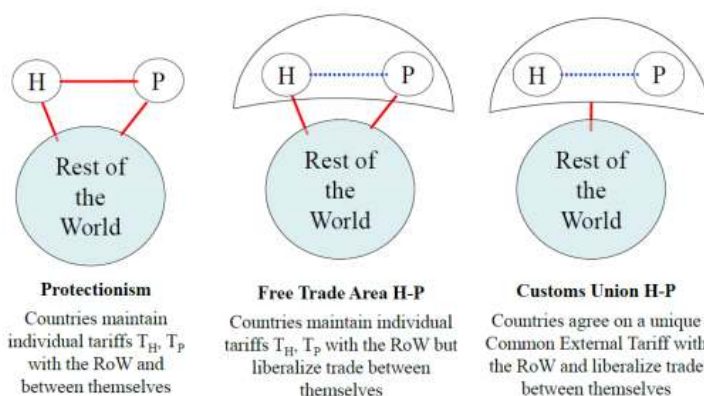
Tariff = tax paid at the custom when importing a good

No Tariff between the countries of the Single Market

But that is not enough: the EU is also a Customs Union, with the same trade policy with respect to other countries in the world

Importing something from China, it doesn't matter whether it arrives in the port of Rotterdam or Naples, the same tariff is applied because the trade policy is homogenous across countries of the Single Market

Trade Policy is an exclusive competence of the EU because trade integration fundamental for the Single Market (and therefore the achievement of the goals in the treaties)



Free trade within EU + same trade policy with the rest of the world

Eliminating internal trade barriers is not enough for the Single Market to work

Need to harmonize product standards and rules across countries of the Single Market - or goods produced in Italy are going to be very different from those produced in Spain

Need to harmonize educational and professional qualifications

Need to grant right of establishment for non-tradable services: things that cannot be really traded across countries - need to allow that someone from Madrid comes to Milan and is able to start a hair-salon

Harmonizing and opening the market to foreign investors: this has taken several years!

The Single Market was completed at the beginning of the 1990s for manufacturing

It is still work in progress for services e.g. live in Brussels and work in the Netherlands

Belgian plate on the car but live in the Netherlands

Cannot buy a Dutch insurance if you have a Belgian plate on the car - can only buy a Belgian

one

Services integration not completed yet

If somebody subscribes to a service in one country of the Union and wants to enjoy it in another part, he should be able to do so, as the ECJ ruled

This process has implied progressive sharing of policy areas at the EU level

### COMPETITION POLICY

If you have one Single Market... Well, then you also need a level playing field, with a clear set of rules and an anti-trust authority

Competition Policy is an exclusive competence of the EU (for all cases where there is a clear community dimension): Essential for the single market to work

e.g. merger between two supermarkets operating only in Spain, no one cares

The EU Commission is the EU competition authority

Margrethe Vestager: current EU Commissioner for Competition: one of the greatest politicians in Europe

### COHESION POLICY

Wealthy regions around the core of Italy: France, Germany, Italy

The more integrate economics, the more core regions increase their performance and the countries in the periphery lag behind

May lead to self-reinforcing patterns of divergence in economic performance, by which initially richer countries and regions (e.g., those that are closer to the core of the EU) keep growing faster thanks to economic integration... while more peripheral areas lag behind

Inequality and divergence are particularly salient in the EU: first and foremost because in the , one of the objectives is to achieve economic cohesion and secondly because the EU seems to be part of the problem (the more the EU grows, the more the core develops and the rest lags behind)

Need to make sure to do something to counteract the divergence pattern

This calls for an EU Cohesion Policy: finance activities in those countries that are relatively poorer to boost development

### MONETARY POLICY: THE EURO

1. A Single Market cannot really work if there is no macroeconomic coordination and exchange rates are volatile (i.e., transactions across countries would never be the same as within countries, plus unsustainable free trade internally)
2. Having the transactions in different currencies: transactions are going to be exposed to volatility
3. Single Market should not be simply taken for granted
4. Macroeconomic theory and practice tell us the following: you cannot have at the same time
  - (1) stable exchange rates;
  - (2) free capital flows; and
  - (3) autonomous monetary policy
5. The **impossible trinity** - need to give up on one of those
6. But then... (1) and (2) are key for the Single Market, so we have to give up on (3)
7. How? By creating a single currency area, the Eurozone, where Monetary Policy is an exclusive competence in the hands of the European System of Central Banks

All countries that are part of the EU have a formal obligation to join the Euro – except for Denmark, which opted out

### BYCICLE THEORY OF EU INTEGRATION

A popular view of the EU is related to the so-called “bicycle theory”: European integration has to progress in order to avoid backtracking on past achievements, just like a bicycle has to keep going to avoid falling over

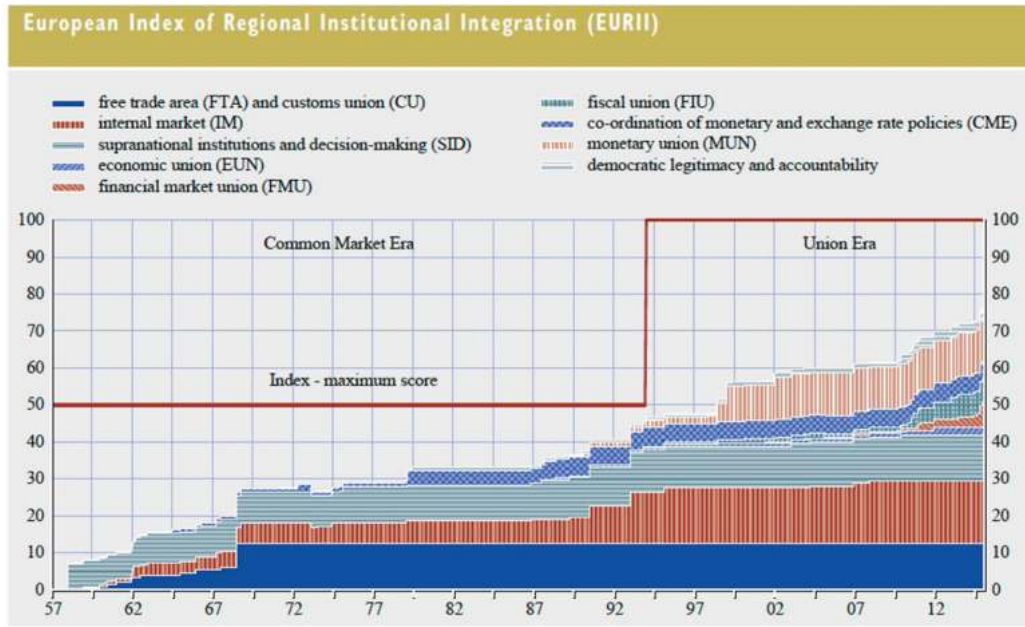
From market integration, then harmonization of standards, after that need monetary integration... so what's next?

With crises, need to go forward: more fiscal union is necessary for the Euro to be resilient - but more and more fiscal integration, requires more political integration and more power in the hands of the European Parliament

## THE DIMENSIONS OF EU DEVELOPMENT

Deepening (policy integration): sharing more and more policy to the EU dimension  
 Widening (enlargement of members)

### DEEPENING



ECB Occasional paper: from 0 to 100 where we stand as integration into Europe  
 100 is considered as the integration in the United States of Europe: can read this as "how far we are from the United States of Europe" - in actual fact, not too far  
 Some areas in which we have already achieved the maximum of integration

- Free trade area is completed integration
- Internal market is being completed

Fiscal union is very small

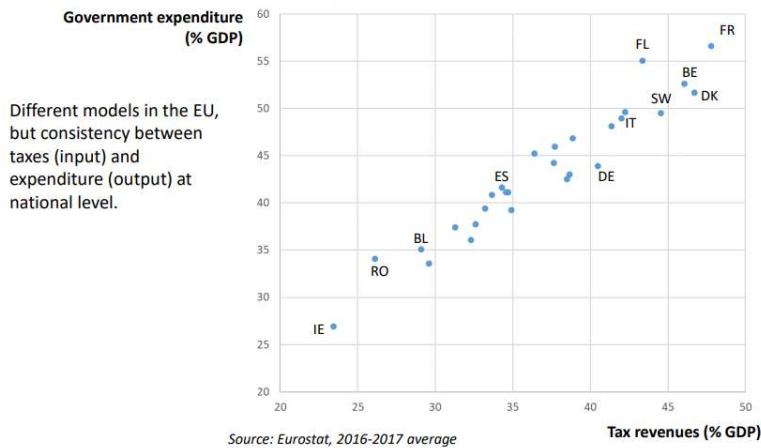
Things that have been achieved in few years would have not been possible 30 years ago

Apart from this there are still omitted elements from the integration

Social Policy Harmonization: nations have very different sensitivities on what types of social policies should be dictated by the government... Harmonization not deemed to be crucial for the well functioning of the single market

Social policy considered as chiefly in the hands of National governments: no coordination needed for that

Tax Policy Harmonization: like social policy, tax policy is a chief national political decision



Government expenditure are strictly related to the tax revenues  
As government you spend what you get  
Can decide as national government where you want to be

However, today we are feeling more the implications of this: total tax and contribution rate as a percentage of

corporate profit

Taxes for corporations much higher in France and Italy than other countries

In Europe, there are tax havens such as Ireland, the Netherlands, Belgium: if you are a multinational company, you can get special deals

Apple's tax rate in Ireland was 0.01% - exploiting opportunities given by the asymmetries in the single market with respect to tax treatment

GDP of Ireland in 2020 grows: internet giants were making the most profits during the pandemic

Is the idea that harmonization of tax policies is not necessary for the single market still credible? It was in the Fifties, today no more

Everything that was essential for the Single Market was done, what was not necessary was left behind  
Slogan of Europe is "United in Diversity"

## WIDENING

Start with the 6 countries: Belgium, France, Italy, Luxembourg, Netherlands and West Germany  
Get to a pick of 28 members and then after Brexit reduce to 27

The early steps: 1945 - 1957

At the end of WWII, European leaders wanted to avoid a new similar tragedy => nationalism had to be defeated by creating something like the United States of Europe.

The U.S. offered financial assistance if countries agreed on a joint program for economic reconstruction = the Marshall Plan (1948) already entailing some integration across countries

As Cold War got more war-like, West German rearmament became necessary. But strong and independent Germany was a scary thought for many (including many Germans); best to embed an economically and militarily strong West Germany into a supranational Europe.

Two crucial steps (Treaties):

European Coal and Steel Community (Treaty of Paris, 1951): Belgium, France, Germany, Italy, Netherlands and Luxembourg (the 'Six') place their coal and steel sectors under the control of a supranational authority => controlling German rearmament

Make war unpractical by controlling the military industry

European Economic Community (Treaty of Rome, 1957): riding on the success of the ECSC, the Six committed to form a customs union with four fundamental freedoms and common policies

In the late 1960s there are two overlapping unions

EEC 6 = European Economic Community, members: Belgium, France, Italy, Luxembourg, Netherlands and West Germany

EFTA 7 = European Free Trade Agreement, members: Austria, Denmark, Norway, Portugal, Sweden, Switzerland and the United Kingdom

Whenever create a Free Trade Area you also create economic discrimination: (e.g., British firms exporting to Germany subject to tariffs; French exports to Germany were tariff-free)

Competition between the two ends with the success of the EEC

The GDP (i.e., market size) of the EEC much larger than that of EFTA, and EEC incomes were growing twice as fast

Thus, the EEC became far more attractive to exporters and this led to new political pressure for EFTA nations to join the EEC.

The UK applied for membership in 1961 and Denmark, Ireland, and Norway also followed since they would otherwise face stronger discrimination

Charles De Gaulle stopped UK membership twice in the 60s. Ultimately Denmark, Ireland, and UK joined in 1973, while Norwegians said no in a referendum

With the first enlargement (1973), the EEC moved from 6 to 9 members while the EFTA maintained 7 members thanks to the entrance of Iceland and Finland (however much smaller than Denmark and the UK)

Attractiveness of the EEC becomes even bigger now

Thanks to positive political developments, Greece joined in 1981 (EEC10), Spain and Portugal in 1986 (EEC12)

Deeper integration in EEC strengthened the 'force for inclusion' in remaining EFTA nations.

The European Economic Area (EEA) initiative was launched in 1989 to extend European single market of the EEC to remaining EFTA nations: enjoy free trade with EEC

The fourth enlargement adds Austria, Finland, Sweden in 1995 and leads to the EU15 – stay like that until 2005

Today, the EEA is made of 27 members of the EU and three of the four member states of the EFTA (Iceland, Liechtenstein and Norway). Similar arrangement for Switzerland. It entails 4 fundamental freedoms, but no EU membership

Norway option during Brexit: you are part of the Single Market and pay contributions to the EU budget, but do not have any influence on the rules of the market

After 1995 is the end of the Cold War

At the end of WWII, while the U.S. was providing aids to western Europe under the Marshall Plan, the Soviets had installed left-wing governments in the countries of eastern Europe liberated by the Red Army. This changes at the end of the 80s

After 95

End of the Cold War – some countries become independent

- End of 1989: democracy in Poland, Hungary, Czechoslovakia; fall of the Berlin wall (built in 1961).
- 3 October 1990: German re-unification.
- End of 1990: independence of Estonia, Latvia and Lithuania;
- End of 1991: the Union of Soviet Socialist Republics (USSR) itself breaks up. The Cold War ends and, with it, the military division of Europe ends

The Cold War ends and, with it, the military division of Europe ends.

Should these countries become part of the EU or not?

At the beginning no real promise of membership – the EU signed a sequence of association agreements with these countries

**Association agreements** entail free trade, promises of deeper integration and some financial aid

In June 1993, the European Council in Copenhagen decides to accept new countries in the EU – however, access in the EU needs to be subject to meeting some criteria

**COPENHAGEN CRITERIA:** still valid today

Taken as a given before 1993, but then formalized when the accession to the EU of the Eastern European Countries started to seem plausible

1. **Political stability** of institutions that guarantee democracy, the rule of law, human rights, and respect for and protection of minorities
2. **A functioning market economy** capable of dealing with the competitive pressure and market forces within the Union;  
Need to be a functioning market economy – in your own interest: when entering the EU, the EU is a single market and there are no barriers to trade anymore

Being in the same market with Germany and France, would you be able to compete?  
Accede only when you have a sufficiently well functioning market economy

3. **Acceptance of the Community 'acquis'** (EU law in its entirety) and the ability to take on the obligations of membership

All the body of harmonized rules, legislation, standards of the single market  
Make all institutional arrangements consistent with EU standards

All Central Eastern European Countries plus Cyprus and Malta joined in 2004, followed by Romania and Bulgaria in 2007.

The three Copenhagen criteria still apply today

## THE BIG ENLARGEMENT

Romano Prodi, President of the European Commission, 1 May 2004: main policy of his commission was the Big Enlargement

*(...) For many long years we have been preparing the ground for the accession to the European Union of these 10 countries from central and eastern Europe and the Mediterranean. The negotiations we have conducted, while difficult at times, bear witness to our common commitment to unify our continent and finally to end the artificial division the Iron Curtain imposed on us for more than half a century (Soviet Union collapsed on 1991). (...) I want to pay tribute to the peoples of Europe who are joining us today. Even in the darkest days of Stalinism, they never lost hope. Since the fall of the Berlin Wall (1989), they have carried out a quiet revolution based on the democratic values that are our common heritage today.*

## BECOMING A MEMBER OF THE EU

Association agreements with an accession clause: having an association agreement makes you a potential candidate, but then need to exercise the option in a way

You have option to ask, but then it is up to you to apply for Membership - become a potential candidate

Once you apply, check of the Copenhagen Criteria begin

- Political: stable institutions guaranteeing democracy, rule of law, human rights, minorities;
- Economic: a functioning market economy

Only if you satisfy the first and second criteria you become a Candidate country of the EU

Once you are an officially candidate country, start to work on the Incorporation of the Acquis communautaire

Get the help of the European commission and also a special line of EU budget financing

After all the acquis communautaire has been embodied, become an acceding country

Accession treaty is Drafted by the European Commission, voted by EU Council (with unanimity) and EU Parliament

Ratified by all the Member States + the Candidate Country

At that point, become a member of the EU

If a country wants to join the EU today:

The country must be "European" (art. 49 TEU) and should sign an Association agreement with accession clause.

There is already some room for discretionality

Association agreement: free trade, economic cooperation and integration, financial assistance

With the accession clause become a Potential candidate

The country must send the application that needs to be approved by the Council of the EU (unanimity - all governments of the EU have a veto on application) after consulting the Commission and after receiving the consent of the European Parliament.

The country must meet the first two "Copenhagen criteria":

political stability of institutions that guarantee democracy, the rule of law, human rights and respect for and protection of minorities;

a functioning market economy capable of dealing with the competitive pressure and market forces within the Union.

At that point, officially become a candidate country

The country must incorporate the "Community acquis", i.e. EU law in its entirety, (the third "Copenhagen criterion") currently divided into 35 different policy fields (chapters) - such as transport, energy, environment - each of which is negotiated separately.

Government negotiates with the Commission on how each of those chapters should be embodied in the national system - this takes a lot of time

Part of the money of the EU budget is spent in candidate countries to help with the convergence process

Once the *acquis communautaire* has been integrated, the country becomes an Accessing country

The Accession Treaty, drafted by the Commission, must be voted by the Council of the EU (unanimity) and the European Parliament, and ratified by all the Member States + the Accessing Country

At that point you become a Member country of the EU

Candidate countries: Albania North Macedonia Montenegro Serbia Turkey

Potential candidates: Bosnia and Herzegovina Kosovo

## UKRAINE

Association agreement with Ukraine signed in 2014

Not clear if there was an association clause - they applied for membership

Now they should go through all the usual path

Don't know how reasonable it is to make Ukraine a member of the EU

## TURKEY

Candidate country as of today

It applied for membership in 1987, and it was declared eligible in 1997 (i.e., it satisfies the political and economic Copenhagen criteria)

Turkey involvement with the EU goes back to 1959 and includes the Ankara Association Agreement of 1963, for the progressive establishment of a Customs Union, then completed in 1995 => EU and Turkey have free trade among themselves and share the same structure of tariffs with respect to the rest of the world.

Customs union between the two

Accession negotiations started in 2005, and are currently stuck until Turkey agrees to apply the Additional

Protocol of the Ankara Association Agreement to Cyprus, i.e. extending the four fundamental freedoms to Cyprus.

Negotiations to incorporate the *acquis communautaire*: no progress since 2005

Officially related to the issue of Northern Cyprus

This is clearly a 'formal' excuse for a process of accession that has, on both sides, many (changing) difficulties

Today the political and economic criterion would probably not be respected

It is possible to withdraw application as Iceland did, but Turkey did not ask for that

It is a silent issue: maybe politics will change so relations will change again maybe

Questions raised by many

Enlargements are never easy

The last enlargement wave changed the EU substantially in terms of population and GDP per capita

When Austria, Sweden and Finland join (3 advanced economies) there has not been much of a shock

But with the Big Enlargement in 2004, new members of the EU are different from the previous members

Increase in population of 20%, but increase in income of 10% - on average EU is getting poorer in terms of GDP per capita

Same when enlarge to Bulgaria or Romania

This has implications for EU policy and budget: there is a policy on cohesion - if poorer countries are allowed in, all the money will flow there

Maybe you were a poorer region entitled to funding from the EU and then you lose it because you are richer than the new poorer areas

Agriculture is another issue: acquiring new countries and these countries very much agricultural  
Changing all the policies and change the way in which decisions are taken

It also changed the institutional working of the European Union, given the higher number of countries / variety of interests / economic development. As such, it required the EU to reform its institutions, ultimately through the Lisbon Treaty (signed in 2007, into force in December 2009)

One thing is taking decisions in 15 and one thing is to take decisions in 27

Due to the challenges posed by 2004 enlargement, notwithstanding the commitments made to the countries already in the process, the European Council (December 2006) agreed on considering carefully the EU's capacity to integrate new members: the EU should be more cautious in assuming any new commitments.

Ukraine: membership of the EU is right now out of the table

Setting a fast lane is going to be relevant also for other countries in the queue

Every time we listen to European politicians listening carefully about this issue

Can be a European union country without being a Eurozone country: example of UK, Poland, Czech Republic

Can be Schengen (travel without visa) Area member, but not a EU member state

Movement of people doesn't mean that you are not going to be checked at the border

Schengen: no real border check

NATO: can be a member of NATO without being a member of the EU and viceversa

Austria in the EU but not in NATO

## EU BUDGET AND NEXT GENERATION EU

The Great Lie of Farage in the UK

"Maybe the easiest thing for us to do on the Brexit camp is just to talk about the net figure: 34 million pounds a week, 10 billion pounds a year – too much: just spend that money here in our country and for our people.

Use that money to help the communities in Britain: people need schools, hospitals, GPs"

After the Brexit vote, the Ukip leader replied to the question "Can you guarantee that the 34 million pounds a year will be spent on NHS?" and the answer was "No, I can't and I never made such a claim"

EU budget is salient for political discussion

### INTROUDCTION

EU implements policy

The EU needs financial resources to implement policies.

The EU budget is the tool through which financial resources are collected and spent for EU policies

Size of the EU budget is very small

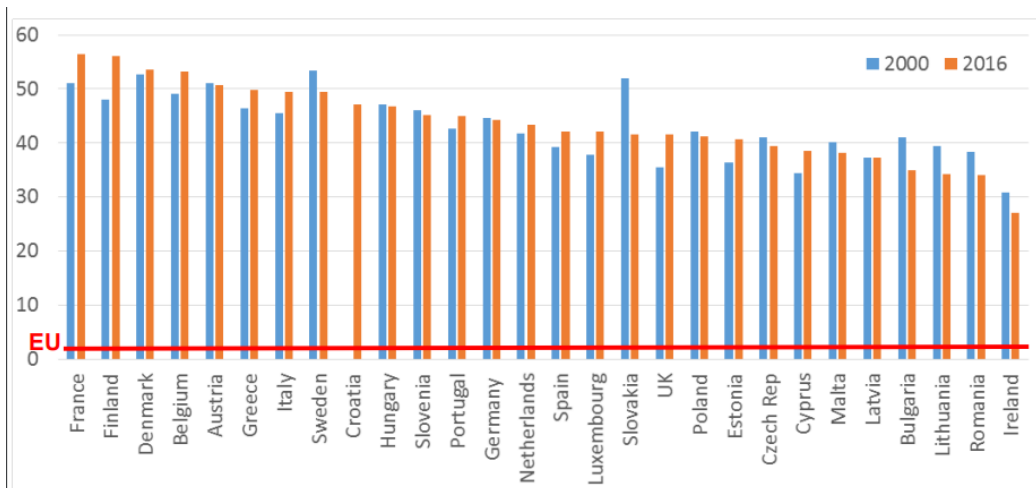
Overall the EU budget has a very modest dimension: around 1.2% of EU GNI – size of the EU budget is very small

GNI = GDP + income that European residents are making abroad + income that foreigners are making in Europe (very similar at European level to GDP, in case of Ireland GDP is much higher than the GNI)

This is proportionally much less than national governments' budgets (e.g., around 55% of national GDP in France)

Public expenditure in the EU budget corresponds to only about 2% of the sum of the public expenditure implemented through the national budgets of all the 27 member countries

Total general expenditure as % of GDP in 2000 and 2016



Notwithstanding its small size, the EU budget has a fundamental political importance which is reflected in the legislative procedure needed for its adoption.

Intuition: a discussion on how much to spend, and in which areas, is a discussion about the development (or not) of EU integration, and in which direction.

Decide whether you want the EU to grow and deepen or not and HOW to grow, in which areas

Political decision: choose how much to spend and where

For the Eurosceptics, consider that:

- Cost of the EU Institutions (administrative expenditure): about 7%. That is, 93% of the EU budget goes to fund concrete activities in the different areas of EU policy.
- The EU budget does not finance activities typically covered by national budgets. That is, **no unnecessary duplication of expenditure**.  
With the EU budget spend on different things and different policy areas
- The EU budget amounts to an expenditure of about 95 cents per EU citizen per day.... Is the EU worth (less than) a coffee each day?

## RATIONALE FOR EU BUDGET

Who pays? EU resident taxpayers

Revenues: The EU budget is financed either directly, from levies paid by individual taxpayers, or indirectly, via contributions paid by the member states. Thus EU resident taxpayers are the ultimate resource for the money available to the EU budget.

Anyone consuming goods in Europe sends money to the EU budget through VAT

Part of the VAT goes to the EU budget

Expenditures. Most of the EU budget is spent in EU countries (some 9% of the total goes to non-EU countries).

There is a large correspondence between payers and beneficiaries

Why do we need to have an EU budget?

Rationale lays in a double market failure: market is not providing an optimal amount of good and services

i.e., when private market (first failure) and the national public authorities via the national budgets (second failure) would provide a suboptimal amount (subsidiarity principle).

Cases in which the intervention of national governments is not enough: second market failure - need the intervention of the EU to solve for the market failure

### Example 1: Transport

First market failure: the private sector would not supply the optimal quantity, doesn't internalize positive externalities (some less populated routes would not be covered) => national governments intervene.

Second market failure: trans-European networks benefit all countries (positive externalities). Single countries alone would invest in a sub-optimal way, i.e. too little, because they do not reap all the benefits (e.g. a tunnel between France and Italy benefits Spain as well) => role for EU-level expenditure activated within the EU budget.

Also the governments do not internalize the positive externalities that the project would have on the rest of the EU: only rely on the cost-benefit analysis

Example 2: Research and development

First market failure: companies do not capture the whole benefits of their R&D (other firms and society at large could benefit as well) thus suboptimal quantities produced by the market => national governments intervene (R&D subsidies).

Second market failure: EU-level research networks are more efficient and benefit all countries (positive externalities) => role for EU

Making an innovation in Germany, that is also positive for other countries: national countries would not finance as much as necessary when taking into account the positive externalities on other countries

## MFF AND YEARLY BUDGET

When we think about the EU Budget, we need to make a distinction between 2 main tools: Multiannual Financial Framework (MFF) and annual EU Budget

The Multiannual Financial Framework, which currently covers a period of 7 years, sets the main guidelines for both revenues and expenditures, i.e. how to broadly allocate money within each yearly budget document, and where to source the money from.

Big negotiations

Given the constraints set by the MFF, every year Parliament and Council approve the annual EU Budget, which sets in detail the annual authorized expenditure for the year for any single policy item  
ART. 312 TFEU

“The MFF shall ensure that Union expenditure develops in an orderly manner and within the limits of its own resources. It shall be established for a period of at least five years. The annual budget of the Union shall comply with the multiannual financial framework.

The Council, acting in accordance with a special legislative procedure, shall adopt a regulation laying down the MFF. The Council shall act unanimously after obtaining the consent of the European Parliament, which shall be given by a majority of its component members.

The MFF shall determine the amounts of the annual ceilings on commitment appropriations by category of expenditure and of the annual ceiling on payment appropriations. The categories of expenditure, limited in number, shall correspond to the Union’s major sectors of activity.”

MFF adopted with unanimity of all governments – which means each government has veto power

Commitment appropriation ≠ payment appropriation

Every year an annual budget within the constraints of the MFF is adopted

## MFF 2021 – 2027 TOTAL ALLOCATIONS PER HEADING

1. Single Market, Innovation and Digital	132.8
2. Cohesion, Resilience and Values	377.8
3. Natural Resources and Environment	356.4
4. Migration and Border Management	22.7
5. Security and Defence	13.2
6. Neighbourhood and the World	98.4
7. European Public Administration	73.1
<b>TOTAL MFF</b>	<b>1 074.3</b>

Every year have to spend at most a certain quantity, decided in the MFF itself

**IMPORTANT:** The MFF is not the budget of the EU. 7

It is a mechanism for ensuring that EU spending is predictable and at the same time subject to strict budgetary discipline. It defines the maximum amounts (‘ceilings’) available for each major spending area (‘heading’) of the Union’s budget.

The MFF was introduced in 1988 within the “Delors I package”

The MFF de facto sets political priorities for future years and constitutes therefore a political as well as a budgetary framework (‘in which areas should the EU invest more or less in the future?’).

Within the constraints of the MFF, the European Parliament and the Council (the ‘budgetary authorities’) have to agree each year on the annual budget for the subsequent year

### Pros:

Allows for multi-annual planning: good to finance long-term projects

Is a great instrument for fiscal discipline at the EU level

### Cons:

Unbalanced in terms of influence for European Parliament vs. Council – Parliament gives consent BUT Unanimity rule gives veto power to all governments, which are inclined to go for initiatives that maximize singular national benefit rather than the creation of value added for the EU as a whole  
Imbalances towards the Council: veto is also a way to maintain the budget under control

### ENLARGEMENT UKRAINE

How much flexibility do we have to do things differently for Ukraine?

Copenhagen criteria as a piece of EU legislations are just conclusions of the European council: something that can be changed if there is unanimity

However, how much flexibility do you have to change these things? There is always the treaty behind  
Need to have stable institutions that guarantee respect of minorities and human rights – cannot be changed because it is written on the basis of article 2 of the Treaty of the European Union

### Article 2:

The Union is founded on the values of respect for human dignity, freedom, democracy, equality, the rule of law and respect for human rights, including the rights of persons belonging to minorities. These values are common to the Member States in a society in which pluralism, non-discrimination, tolerance, justice, solidarity and equality between women and men prevail.

Cannot change the Copenhagen criteria too much

On the political side, can change the Copenhagen criteria but not in a significant way, because it would be against the treaty

The second criteria on a functioning market economy: article 3 of the TEU talks about the internal market as fundamental criterion for the Union – if you do not have an economy that is fit for that, there is nothing to do

Assume the two Copenhagen criteria are immediately satisfied for a country and declare Ukraine a candidate country immediately – put it at the same level of Serbia

Incorporation of the *acquis communautaire* – takes 7 to 8 years

To have a single market, also need to harmonize standards – to harmonize legislation on all product standards it takes a lot is not just in terms of European regulations (immediately binding in a country)

Can the Ukrainian parliament legislate now to apply all the legislation of the EU? It seems difficult

But if that incorporation doesn't happen, wouldn't have a single market

Can change the Copenhagen criteria, but not in a way that goes against the treaties – they are stating the obvious

With the best political will, can just change the status from potential candidate to candidate country status

So either make the country a candidate country or take the Association agreement that we already have with Ukraine and make it stronger – allowing for faster progress in light of a future potential convergence with the EU

## ANNUAL BUDGET PROCEDURE

Every 7 years we decide what is the maximum amount of money we can spend in each area  
Every year there is a yearly budget approval by the European Council and Parliament

1. **Proposal:** The European Commission prepares the draft budget, and submits it to the Council and Parliament in year t-1 (e.g. 2021 for 2022)  
Power of initiation is always in the hands of the Commission  
Cannot propose anything against the MFF
2. **Adoption:** The budgetary authorities, the Council and the EU Parliament, amend and adopt the draft budget by December of year t-1  
By the end of the year they have to approve it: they can make amendments but in the end need to approve it, finding an agreement on the same text: this is not a decision that requires unanimity from the Council, while MFF (every 7 years) does  
Decision makers are the Council and the European Parliament – they co-decide

3. **Execution:** in year t the budget is spend under the control of the EU Commission  
The European Commission is the main responsible for implementing the budget in year t (2022)
4. **Technical control:** The European Court of Auditors audits in year t+1 the EU accounts (2023, on the 2022 budget) and then issues a verdict on the accounts, as well as on the underlying transactions down to the final beneficiary
5. **Political clearing:** Discharge is the final approval of the EU budget for a given year (following the audit and finalisation of the annual accounts), by March of year t+2 (2024, for the 2022 budget). Discharge is granted by Parliament on a recommendation from the Council. Discharge equates to approval by the representatives of the EU citizens (the Parliament) of how the Commission implemented the budget in that financial year, and the closure of that budget  
Vote that confirms the budget has been correctly executed: a way to have checks and balances

There is a technical element coming from the commission in the proposal

Then there is a political choice by the Council + the Parliament, followed by technical execution mainly by the European Commission (together with national governments, depending on the policy)

Then there is again technical control and political control: guarantee of accountability, representation, checks and balances

Step 5 occurs so that if something went wrong then the Parliament can intervene: might force the commission to resign

The EU budget procedure resembles very closely the national procedure in terms of democratic legitimacy and power separation

The five phases and the division of powers across institutions ensure both the democratic character of any expenditure (that is, any coin spent has been authorised by direct citizens' representatives) and the correct functioning of the system of checks and balances, proper to any developed democracy

### Example

In 1996, Edith Cresson (French Commissioner responsible for Research) was found guilty of mismanagement of funds by the European Court of Justice in July 2006

Consultancy contract to one of his friends

Parliament refused to give the political discharge to the budget - in the meanwhile, the European Commission resigned

### ADOPTION PROCEDURE OF THE YEARLY BUDGET

Commission makes a draft which is given to the Council of ministers that can either approve it as it is or not

Then the text goes to the European parliament and can amend the Council's position

Either the EP approves the text as it came from the Council or adopts amendments (majority vote)

If the amendments to the position of the Council are adopted, then the draft can either be adopted by the Council within 10 days (and the budget is ultimately adopted) or it goes through a conciliation committee, made up by all the Council's Finance Ministers and an equal number of members of the Parliament (27)

They have 21 days to find a common proposal

If they don't, they go back to the first step, the Commission

If at the conciliation they are able to find a common solution, a joint draft, two things can happen

- Parliament and Council both approve the joint draft within 10 days
- Both the council and the parliament reject it: go back to the European commission

There are also two intermediate situations

If the council rejects the joint draft and Parliament approves it, the budget is **adopted**

If the council approves it but the Parliament rejects it, the budget is **rejected**

Asymmetry: slight more power in favour of the Parliament

Would be weird because the Ministers are in the Conciliation committee

They would not vote against if they had voted in favour of the conciliation 14 days before

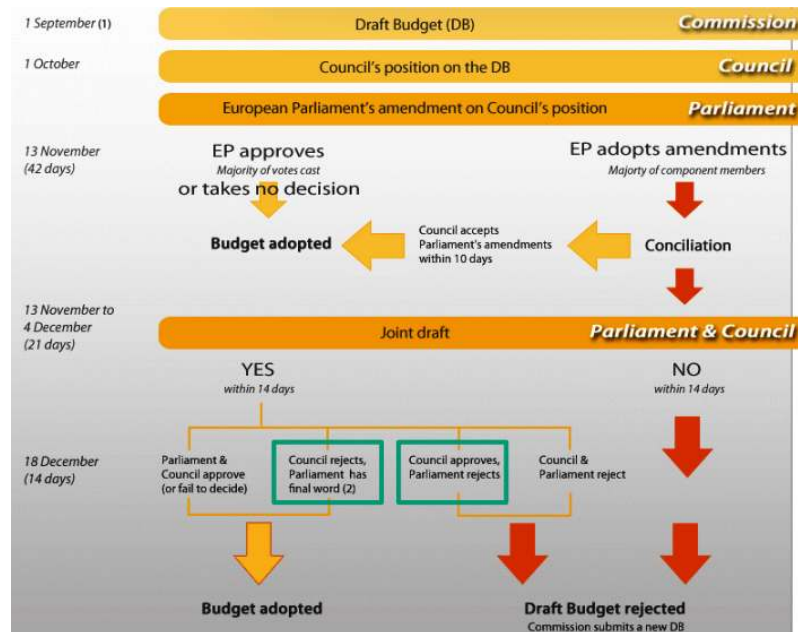
Usually what happens is that the budget goes to the Council and they lower the expenditure  
Then it goes to the Parliament that wants to increase expenditure - especially on things like the Erasmus

If they both agree, the budget is approved - most likely they don't

If they do not agree, they sit together to produce a joint draft in the Conciliation committee

21 days to agree on the joint proposal: if they don't, go back to the Commission

If they do, they have 14 days to give the final adoption vote



MFF really unbalanced towards the Council

Asymmetry is here in favour of the Parliament - minor asymmetry

If, at the beginning of a financial year, the budget has not yet been definitively adopted, a sum equivalent to no more than one twelfth of the budget appropriations for the preceding financial year may be spent each month (art. 315 TFEU).

Basically freeze the budget

The EP votes the budget discharge by qualified majority (50%+1 of the EP members) and, in case the political clearing is not given, it can cast, by overqualified majority (66%+1 of the EP members) a vote of nonconfidence, which leads to the dismissal of the Commission.

This has never happened... but we got pretty close to it!

Can cast a vote of non-confidence on the Commission even independently by the approval of the budget

### 1998 SCANDAL - SANTER COMMISSION

In 1998 a whistle-blower working in the Commission, had sent the Parliament a report alleging that widespread fraud and cover ups, stating: "I found strong indications that . . . auditors have been hindered in their investigations and that officials received instructions to obstruct the audit examinations . . . The commission is a closed culture and they want to keep it that way, and my objective is to open it up, to create more transparency and to put power where it belongs - and that's in the democratically-elected European Parliament."

In a vote on 17 December 1998, the Parliament denied the discharge of the budget notwithstanding that the President of the Commission, Jacques Santer, announced that the Commission would treat the vote of discharge of the budget as one of confidence.

On the night of 15 March 1999 Santer announced the mass resignation of his Commission, without a formal vote of nonconfidence

Édith Cresson (French Commissioner responsible for Research) was found guilty of mismanagement of funds by the European Court of Justice in July 2006

## BUDGETARY PRINCIPLES

- **Unity:** all expenditures and revenues must be found in one document (i.e. the budget).
- **Universality:** total budget revenue covers total budget expenditure, no earmarking thus no use of a specific revenue (e.g., VAT provisions from France) to finance specific expenditure (e.g., agricultural policy). - no marking of the funding: all the revenue fund all the expenditure
- **Annuality:** one yearly budget within the multi-annual programming period. - all expenditures are approved for one year
- **Specification:** every committed expenditure has to have a definite scope and purpose. The budget is divided into sections, titles, chapters, articles and items.
- **Unit of account:** the budget is denominated in Euro.
- **Equilibrium:** art. 310 (TFEU) reads "The revenue and expenditure shown in the budget shall be in balance". Any deficit or surplus should be corrected by an increase or reduction of the member states' contributions.  
Big source of revenues for EU budget is transfers that governments are making  
If there is a deficit, the countries will send more money; if there is a surplus they will get a discount  
But budget has to be in equilibrium all the time

## EQUILIBRIUM PRINCIPLE

The EU budget is not a tool for fiscal policy - not only because it is 1% of EU GDP: cannot be used to do counter-cyclical fiscal policy

GDP growth goes into cycles: fluctuates, with fiscal policy can do fiscal expansion to either boost or restrict the economy (smoothing the effects of the business cycle on the economy, e.g. by increasing expenditure when the economy slows down)

Next Generation EU does that, but outside of MFF - externally assigned revenues

Revenues come from borrowing of EU commission that is outside of EU budget

This limits the financial autonomy of the EU: application of principle of conferral - EU has power and competence only if the governments decide that they are going to confer such competence to the EU  
Governments have decided that they are the only ones to tax and redistribute

Member States wanted to prevent the EU institutions from (mis)using a non-balanced budget as an additional budgetary resource (that is, the EU could borrow to spend instead of levying resources from MSs)

The source of legitimacy of the EU is in the Member States, and thus only the Member States decide how much to tax / redistribute resources among themselves, not a supra-national authority (at least for the time being....)

This rigidity of the EU budget clearly limits the growth potential of the EU as a whole, leaving it closely in the hands of national governments.

## ANNUALITY PRINCIPLE

This principle means that expenditure entered in the budget is authorised for one financial year only, which runs from 1 January to 31 December.

It is in the very nature of the EU budget to finance activities that span over multiple years

In order to reconcile this requirement with the necessity of engaging in multiannual operations, two types of expenditures in the EU budget:

- **Commitment appropriations:** the expenditure committed by the EU in a given year with respect to operations that can be carried out over a longer period of time;
- **Payment appropriations:** the expenditure effectively incurred by the EU in a given year in meeting the commitments of that and/or previous years.

The two differ because multi-annual programmes and projects are usually committed in the year they are decided, while paid over the years as implementation progresses.

**Example:** if the EU wants to finance the construction of a bridge over 7 years, in year t-1 money is committed for the next 7 years (commitment appropriations), then payments are authorized year by year (payment appropriations) within each yearly budget

## MANAGEMENT OF THE EU BUDGET

Who manages the money?

Mostly the commission either alone or together with national governments, national NGOs

Some 76% of the budget is spent under what is known as 'shared management', with individual EU countries actually distributing funds and managing expenditure.

## EXPENDITURE

Main areas of expenditure

1. **Agriculture:** Common Agricultural Policy (details in future lecture) – support farmers with money coming from the EU budget
2. **Structural:** aimed at fostering convergence and cohesion by supporting investments in poorer regions and countries – one of the objectives of the EU in article 3 of TEU (**cohesion policy**)
3. **Internal policies:** money spent inside the EU for other purposes (no agricultural or structural), e.g. research, student mobility, energy, trans European transport networks, support for small and medium enterprises
4. **External policies:** pre-accession assistance to candidate members e.g. Serbia, European Neighbouring policies e.g. money to Turkey so as not to get Syrian refugees, humanitarian aid, development cooperation
5. **Administration:** cost of running the EU Commission and all the other institutions of the Union (overall about 55,000 people staffed, really not much) – about 6% of the total

## EVOLUTION OF EXPENDITURE

Overall size of the budget is increasing overtime: EU gets deeper and larger

Steady growth in budget over time, but always below 1.2% of EU GDP (max level reached in 1993)

At the beginning it was mostly Administration because EU was not doing much– but then agricultural expenditure started dominating the budget

Agricultural expenditure started in 1965 and soon dominated the budget, peak of 92% in 1970, now decreased to some 40%

Cohesion spending grew significantly from the 80s, with parallel decline in the relative importance of agriculture

Increased external expenditure for the enlargement process + more spending on research and internal policy for growth in the 90s

More spending on regional policies, Erasmus

Cohesion + Agriculture: around 80% of total

Administration: around 6-7% of total, always stable

## MFF 2021 – 2027: without the Next Gen EU

	MFF	
1. Single Market, Innovation and Digital	132.8	12.4%
2. Cohesion, Resilience and Values	377.8	35.2%
3. Natural Resources and Environment	356.4	33.2%
4. Migration and Border Management	22.7	2.1%
5. Security and Defence	13.2	1.2%
6. Neighbourhood and the World	98.4	9.1%
7. European Public Administration	73.1	6.8%
<b>TOTAL MFF</b>	<b>1 074.3</b>	

“Single Market, Innovation and Digital”: research and innovation, SMEs competitiveness, ERASMUS program, connecting Europe in terms of energy, transport, telecommunications

“Cohesion, Resilience and Values”: resources for less developed regions and Member States

“Natural Resources and Environment”: agriculture, rural development, fisheries, environment and climate change

“Migration and Border Management”: policies related to external borders, asylum and migration, justice

“Security and Defence”: internal security and common defence

“Neighbourhood and the World”: enlargement, neighbouring policy, development cooperation

## REVENUES

4 sources of “own resources” (i.e. sources of revenues to which the EU is legally entitled through the Treaties) – they make 99% of EU budget:

- Traditional own resource: custom duties on imports
- VAT resource
- GNI resource
- Plastic own resource

There is also taxes paid by EU staff in Bruselles

Other resources (around 1% of total): tax on EU staff remuneration, fines paid by companies violating competition rules, bank interests etc.

## TRADITIONAL OWN RESOURCE

EU is a custom union – duty paid on imports is always going to be the same regardless on the entry point: same trade policy vis-à-vis the rest of the world

Custom duties on imports from outside the EU stemming from the Common External Tariff (CET), both for agricultural and non agricultural goods

Custom duties are collected by national customs authorities and transferred directly to the EU coffers (Member States keep a collection fee equal to 25% of the total amount)

Every time importing from abroad there is a custom check: tax is paid, 25% stays with the government to pay for administrative expenditure, 75% goes directly to the EU budget

This is the first and most complete expression of the financial autonomy of the EU → these resources go to the EU budget automatically

Until 2017 there was another own resource: sugar levies, then abolished – sugar industry in Europe very much protected from external competition, so this was a way to give back something

In the 1970s and 1980s, TORs used to represent about 50% of the EU budget revenues; they have been steadily decreasing since. Now they represent only about 15% of the EU budget revenues

Their decrease is due to two reasons:

1. the increase in the absolute size of the EU budget;
2. the reduction of the EU tariff revenues as a result of the enlargements (tariffs generated with trade are not there anymore), creation of Free Trade Areas with many countries in the world (Japan, South Korea, Mexico, Canada – trade is now at 0 tariff with these countries), and multilateral trade liberalisation through the WTO

In the 50s, the average tax on imported good was 55% - nowadays the average tariff is 2/3%

Every time a good arrives to the EU, tariff is paid, 25% stays where the good is entering, 75% of it go to the EU budget autonomously

Used to be very relevant, not it is not anymore

## VAT RESOURCE

Essentially, every time you purchase a good or service (and pay VAT) in the EU, a part of the tax goes to the EU budget.

It is computed by applying a common EU VAT rate (today 0.3%) to a VAT base commonly calculated, i.e., harmonized, across each EU country.

In every country, compute a VAT base and then take 0.3% of VAT base and send it to the EU budget  
In general terms:  $[Tax\ revenue = Tax\ rate * Tax\ base]$

This implies:  $[Tax\ base = \frac{Tax\ revenue}{Tax\ rate}]$

Know the tax revenue for all countries - in order to get the tax base, we need to compute tax rate

But each country has different VAT rates and those might change across different products consumed in different proportion across countries

At the denominator is a weighted average of the tax rate of each country, where the weights are the proportion of how much of each good is consumed

**The harmonized VAT base** is obtained as the ratio between the VAT revenues of the country (directly observed) and the weighted average rate of VAT applied in the country (since countries apply different VAT rates to different goods).

VAT revenues divided over the weighted average rate of VAT and get the VAT base. That is multiplied by 0.3

0.3% of the harmonized VAT base is transferred to the EU budget.

If the calculated VAT base exceeds 50% of the country's GNI, the common VAT rate is applied only to 50% of the GNI (max ceiling) - capping to avoid regressive impact

Only send 0.3 times 50% of the national GNI

The VAT own resource makes up around 12% of total revenues.

## GNI RESOURCE

Introduced to cover gap between revenues not keeping up with growing spending

The GNI resource, or 'fourth' resource, was introduced as a in the 1980s: its amount is equal to the difference between the total expenditure and the revenues raised by the first three other resources => equilibrium principle: the budget must be balanced!

Every country makes a contribution each year

The same percentage is levied on each Member State's GNI, established in accordance with Union rules.

Every government sends a contribution to Brussels which is proportional to the size of the national economy

The rate is fixed during the budgetary procedure (currently around 0.7-0.8%) - computed after knowing how much money is coming from each resource

Rebates: reduction has been granted to: Denmark, Germany, Netherlands, Sweden, and Austria - the Frugals

First country to get a rebate was the UK with Thatcher

Since then, some other Member States felt that they were also paying too much towards the EU budget  
It is true that these countries are net contributors, but also Italy and France are: why don't they get the rebate?

Commission says that these rebates do not make sense, but nevertheless they are renewed every time: result of unanimity voting and negotiations

The GNI resource has ensured financial sufficiency for the EU, by calling on national governments to close the gap between increasing expenditures at the EU level and dwindling revenues. The transfer has to be included each year in the Member States' national budget laws, so it contributes to government deficit!

The GNI resource went from 10% of total resources in 1988 to about 73%: as a result, the resources for the supranational EU policies are largely in the hands (and thus the willingness to contribute) of the EU governments that have to approve it every year - no uncertainty about the fact that it will be paid every year and approved by the governments

Loss of autonomy for the EU: commitment of governments to pay the GNI resource  
But next time you negotiate the MFF the governments will be more controlling of the budget (they want less money going to Brussels and more spent at home)

Most substantial source of money for the EU budget right now  
In the beginning it was financing a growing EU budget, but now it is the main source of financing of the EU

**Loss of financial autonomy for the EU Institutions.**

## PLASTIC OWN RESOURCE

Introduced in January 2021, with the 2021-2027 MFF.

National contribution based on the amount of non-recycled plastic packaging waste.

A uniform call rate of €0.80 per kilogram applied to the weight of plastic packaging waste that is not recycled.


Mechanism to avoid excessive contributions from less wealthy Member States, below EU average GNI per capita.

They get back €0.80 paid on a number of kilos equal to  $3.8 \text{ kg} * \text{country population}$  (of 2017). That is, no contribution for up to 3.8 kilos per citizen.


It is a resource, but it also works as an incentive mechanism for states to reduce pollution

Idea is that it is going to be temporary and soon terminated, as countries recycle all their plastic

 [http://bit.ly/Peer2Peer\\_Bocconi](http://bit.ly/Peer2Peer_Bocconi)

 [http://bit.ly/Blab\\_Bocconi](http://bit.ly/Blab_Bocconi)

 <https://www.blabbocconi.it/dispense/>

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