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THE ASSIGNMENT OF TASKS
IN AN
EVOLVING EUROPEAN UNION

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Abstract

How should tasks be divided between the EU and its member states? And what institutional reforms are needed to insure that these tasks (but only these tasks) are efficiently performed by the EU? This is the main problem to be addressed at the upcoming European Convention. This paper argues that EU tasks in the first pillar should not be expanded further, though some changes in the direction of both more and less intervention are desirable. The single market remains to be better enforced, and this might require further centralization of tasks. On the other hand, EU meddling with redistribution should be scaled back; this would imply reforming and reducing EU intervention in agricultural policy, structural funds and the social charter. In other words, EU intervention in the first pillar should mainly aim at making sure that the single market works as effectively as possible, and at fostering competition between EU member states. Redistribution should remain a national prerogative. EU tasks should instead be expanded outside of the first pillar, namely in foreign and defense policies, in internal security and immigration. The paper ends with a discussion of what institutional reforms might be needed to accompany this allocation of tasks and increase accountability of EU decisions. Appropriate reforms should keep in mind the distinction between "bureaucratic accountability" (i.e. the control of appointed bureaucrats with a narrowly defined mission) and "democratic accountability" (i.e., the control of elected politicians with an open mandate). The former type of accountability is the most relevant in Europe today, given the lack of a true and complete European polity, and this has relevant implications for task allocation and institutional reforms.

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1. Introduction

If told that the EU had been scrapped, 14% of the respondents would be relieved, 45% would be indifferent and only 28% would feel very sorry (Eurobarometer survey, 2001). Changing this widespread perception of uselessness is one of the goals of the upcoming European Convention and of the future IGC conference.

But it is not just a matter of changing perceptions. It is also or mainly a matter of changing the underlying reality. European citizens are probably right. There is a gap between what the EU does and what it should be doing. The gap does not concern the contents of EU policy decisions, but rather the policy dimensions over which the EU has real decision-making power. And it is not a problem of not doing enough, but of doing the right mix of things. In some policy areas, the EU has probably become too invasive and it should step back and return decision-making authority to national and sub-national governments or legislatures. In other policy areas, EU intervention would be highly desirable, but it is absent.

There are two sets of questions here. The first set is a substantive in nature: What is it that the EU should be doing? What ought to be its tasks? The second concerns institutional design: What institutions are needed to insure that the right things get done, and only those? What institutions are needed to efficiently perform such tasks and to prevent an excessive expansion of the EU into other tasks that should instead remain a prerogative of national and sub-national governments?

These two questions are strictly intertwined. Institutions are needed to perform tasks effectively, but what kind of institutions depends on what kind of tasks. This is why the debate on the Constitution of Europe is also (and to begin with) a debate on the assignment of tasks to the EU. To forget this basic fact and to discuss tasks and institutions separately, as if they belonged to different disciplines and different political debates, would result in an empty academic exercise.

This is also why these two questions are so difficult: they have to be tackled together. The second question on institutional design is the most difficult. Not only there is less practical experience and less background knowledge to draw on, but also the tasks ideally performed by the EU cannot be fixed once and for all. The EU has evolved and will continue to do so, and thus so will its tasks. Institutions ought to govern change, and allow for endogenous adaptation of its institutions to new and unforeseen challenges.

The goal of this note is mainly to try and address the first, substantive, question: what are the general features of an optimal allocation of tasks in the EU, between the EU level and the national (or sub-national) levels of government. But I will also venture into the institution design question, trying to identify the problems to be addressed when thinking about institutional reforms in the EU.

The Laeken Declaration gave prominence to these questions, by inviting the upcoming Convention to try and "clarify, simplify and adjust the division of competence between the Union and the member states in the light of the new challenges facing the Union." Three sets of issues were identified as particularly important in the Laeken Declaration: first, how to make the division of competence between the Union and member states more transparent; second, while respecting the *acquis communautaire*, what reorganisation of competence is desirable, if any; third, how to ensure that a redefined division of competence does not lead to a creeping expansion of the competence of the Union. All three issues are taken up in this note, though with no pretence of a complete and exhaustive treatment.

A warning. Optimal task allocation must take into account political failures at the national and EU level, and more generally the incentives and constraints of politically motivated governments and policy-makers. Normative prescriptions on how to reform a concrete situation thus reflect a specific world view, whose assessment includes the most relevant political incentive problems, as well as a judgement about what is the appropriate role of the state relative to the status quo. These judgements are unavoidable, but they make the resulting normative implications on optimal task allocation difficult and controversial.

Succinctly, this note makes the following points concerning the reallocation of tasks:

- By and large, EU tasks in the first pillar should not be expanded further, though some change in the direction of both more and less intervention is desirable.

- The single market remains to be enforced more fully in some areas (telecommunications, public utilities and financial services), and this might require more transfer of power to the EU. Environmental policy ought to be more centralised.
 - Labour mobility could be encouraged more aggressively. This might also require centralisation of some aspects of immigration policies.
 - On the other hand, the EU ought to get out of the business of redistribution, with the main exception of designing compensating transfers across national governments. In particular, the CAP ought to be scaled back, structural funds ought to be scrapped among the current EU-15 (and perhaps re-invented once enlargement takes place, but on an East-West basis only) and the EU should not seek to harmonise labour market legislation and welfare states, except in so far as they hinder labour mobility.
- Important new tasks should be assigned to the EU in the second and third pillar. It would be desirable to transfer to the EU competencies over foreign and defence policies, some elements of internal security. Centralisation of foreign and defence policy in particular seems highly desirable.

This reallocation of tasks raises difficult issues of institution design, which are also discussed in this note.

- Effective institutions are needed to prevent excessive centralisation. We can distinguish between two kinds of centralisation.
 - The first emanates from acts or decisions of *bureaucracies*. The political mandate inspiring those decisions is generally spelled out beforehand. Hence, enforcement of the subsidiarity principle could be delegated to a "Constitutional Court". The Court of Justice in its present form cannot perform this role (on the contrary, it is one of the likely culprits of excessive centralisation in some areas). The procedures for appointments to a "Constitutional Court" (or to a reformed Court of Justice) should be such that its members do not have a vested interest to centralise (for instance, they could be empanelled temporarily from national courts to which they would then return).
 - The second possibility is that excessive centralisation might arise from *political decisions* (in the Council or in the European Parliament). This kind of

centralisation is more difficult to prevent, and a Chamber of national representatives is unlikely to work (the Council already represents national interests). An effective safeguard could be to preserve the unanimity requirement in the Council for the areas where excessive centralisation is to be feared, such as the Social Charter. Another alternative that perhaps could be explored in some areas is the use of methods of direct democracy (EU-wide referenda).

- The second challenge for institutional design is to reform existing institutions so as to make it possible to centralise tasks in the areas mentioned above. The chief method of integration pursued in the EU so far relies on what might be called "bureaucratic control". The transfer of sovereignty to the EU is accompanied by a narrow mandate, defining with operational precision the goals and the criteria for the exercise of power at the EU level (price stability, removal of barriers to trade, preventing monopolies). This limits discretion and facilitates ex-post control. One aspect of institution-building in Europe thus needs to extend the method of bureaucratic control to new policy areas, such as environmental protection, internal security, perhaps immigration enforcement. But extending this method to the areas of defence and foreign policy is bound to be very problematic. On the one hand, well functioning bureaucracies are needed here too, to perform these tasks effectively. Can the EU really have a single foreign policy and a defence policy without having corresponding bureaucracies (the military, a diplomatic corps)? On the other hand, the traditional European method of bureaucratic control raises fundamental problems of political legitimacy in defence and foreign policy. In these areas the mandate is too open-ended. Effective accountability is only possible through elections, as in all representative democracies. Europe then faces a dilemma. To achieve further effective integration in these new areas, fundamental reform of its political constitution might be needed. Europe might have to transform itself from a confederation of sovereign states into something more like a federation. If this transformation is premature or undesirable for other reasons, then the goal of having a common foreign and defence policy should rely on intergovernmental cooperation, with all the obvious limits that this implies (including that of not having a well functioning bureaucracy in this area).

The outline of this note is as follows. Section 2 starts by reviewing the normative prescriptions of the theory of fiscal federalism, based on cost-benefit analysis and the presumption of benevolent governments. These prescriptions are then contrasted with the current allocation of tasks in the EU, in Section 3. The core of this note is in Section 4, which

provides a normative assessment of the current EU situation and formulates suggestions for how to reallocate tasks. These reallocations raise specific institution design problems, discussed in Section 5.

2. Optimal task allocation in a federation

Which tasks ought to be centralised? This is a classic question in the economic theory of federalism, addressed by a large literature (see for instance Oates (1999)). Obviously, the EU is not a federation. But since so much has been written on the theory of fiscal federalism, it is useful to start from here. Neglecting political complications (i.e. assuming benevolent governments), the answers suggested by the literature can be summarised as follows.

- (i) *A single market.* The central government ought to enforce a well functioning common market, removing all barriers to trade within the federation. This includes having fixed exchange rates.
- (ii) *Stabilisation policies.* Macroeconomic stabilisation policies ought to be centralised. A common monetary policy is a by-product of fixed exchange rates. And a common fiscal policy is appropriate to respond to aggregate shocks. Idiosyncratic shocks could be dealt with by means of local stabilisation policies, though this could lead to incentive problems as local governments would neglect spill-over effects to other localities.
- (iii) *Redistribution.* Redistribution ought to be centralised. Mobility of tax bases would otherwise constrain the extent of feasible redistribution. And income heterogeneity across localities can only be offset through centralised redistribution. There is an argument in favour of some element of decentralisation, however: Decentralisation makes it easier to experiment with alternative social programmes (although in principle a central government too could experiment).
- (iv) *Public goods.* Centralising the provision of public goods entails a trade-off. On the one hand, centralisation implies that spill-over effects on other localities are fully internalised. On the other hand, decentralisation makes it easier to cope with heterogeneity of preferences among localities and to exploit local information. Public goods with large spill-over effects (i.e., large external effects on other localities), such as defence, foreign policy, law enforcement, ought to be centralised. Public goods where the spill-over effects are weaker and heterogeneity of preferences is more

likely, such as education, ought to be decentralised. An important practical issue here is who bears the burden of the proof: the advocates of centralisation or of decentralisation? The "principle of subsidiarity", sometimes also called the "principle of decentralisation", states that the burden of proof stays with the advocates of centralisation. Note that this trade-off suggests that centralisation is likely to be carried out further in smaller states, since heterogeneity of preferences is less likely to be a problem. This in turn also suggests that there is some contradiction between the European goals of enlargement and deepening: a larger Europe increases the relevance of heterogeneity and thus reduces the desirability of centralisation. Alesina, Angeloni and Etro (2001) elaborate more on this point.

Before turning to the EU, we should end with a caveat. These normative guidelines refer to an ideal situation, where policy is set by benevolent governments maximising social welfare in their respective jurisdictions. Violations of this unrealistic assumption would imply possibly very different normative conclusions. This is particularly relevant in the case of redistributive policies, since redistributive programmes are likely to largely reflect political expediency rather than normative considerations. I return to these issues in Section 4.

3. The current allocation of tasks in the EU

The current allocation of tasks in the EU departs in several respects from the previous normative guidelines. The EU is not a federation. Currently, it does not have autonomous powers of taxation, but it relies entirely on intergovernmental grants from the periphery. And its political institutions differ in important ways from those of a representative democracy. The previous guidelines are nevertheless a useful benchmark against which to contrast the current allocation of tasks in the EU. Here I provide a factual assessment, leaving a normative evaluation to the next section.

- (i) *The Single Market.* There is a common market in the EU, and there is already considerable transfer of sovereignty with regard to enforcement of the Single Market, removal of barriers to trade and international trade policies. Progress remains to be made in implementing a single market in specific areas, such as public utilities (telecommunications, postal services, and energy) and financial services, however.
- (ii) *Stabilisation policies.* There is a common monetary policy among the countries of the eurozone. Fiscal policy for stabilisation purposes remains a national prerogative, but

within the constraints imposed by the Stability Pact. Moreover, national fiscal policies are subject to reciprocal screening and monitoring within the EU, not just to guarantee respect of the Stability Pact, but also to insure a minimum of coordination and the achievement of some common goals. Nevertheless, the absence of an EU-wide fiscal policy instrument and of a proper EU executive prevents the full centralisation of fiscal policy for active stabilisation purposes. Coordination de facto ends up imposing or relaxing constraints, rather than generating active discretionary responses to aggregate shocks.

(iii) *Redistribution.* Redistributive policies remain fully in the hands of national governments. There are nevertheless three important aspects of EU tasks that directly or indirectly hinge on redistribution.

- a) Structural and Cohesion Funds. They are transfers from the EU budget to poor regions in Europe. Eligible recipients are national governments (for Cohesion Funds) and individuals in poor regions (for Structural Funds). They are negligible as a fraction of the EU aggregate income, but very large for some of the receiving regions. They also represent a large fraction of the EU budget (over one-third). The official goal of these programmes is to foster economic convergence of the poor regions that might be hurt by closer economic integration. A less open rationale for the transfers is to provide side-payments compensating losers from integration, or more generally spreading the benefits of integration among countries bargaining over how and what to coordinate.
- b) Common Agricultural Policy (CAP). This is a large and complex set of policies that indirectly or directly transfers income to the agricultural sector. These policies have been reformed repeatedly, and the process of reform is still ongoing. The general direction of the reforms has been to try and transform CAP from a price support programme into an income support programme for farmers, thereby removing the distorting effects and the inefficiencies of price controls. But the transformation is still underway. It is a large programme, absorbing almost half of the EU budget.
- c) Social Charter. These are policies that impose a minimum level of social protection throughout the EU, and seek to harmonise aspects of labour market legislation around some commonly accepted minimum standards. They have often

been implemented through the intervention of the Court of Justice, rather than by deliberate decision of the Council or the Commission. The rationale for these policies is the fear that increased competition from a well functioning single market will lead to "social dumping" and a "race to the bottom": countries would be forced to dismantle social protection and deregulate labour markets to an extent that could eventually threaten the survival of the European welfare states, at least in their present form.

- (iv) *Public goods.* Very few public goods are centrally provided in the EU. Despite some recent efforts, defence, foreign policy and security are largely national tasks. So is public transportation. There is some centralisation of tasks in education, research and culture, and in environmental policies. But it is difficult to measure and summarise exactly how much centralisation there is, and in which areas: often the EU and national authorities share responsibilities.

Alesina, Angeloni and Schuknecht (2001) have measured centralisation of different tasks by simply counting the policy acts (legal, judiciary and non-binding) emanating from the EU in a variety of policy areas. These rough indicators treat all policy acts as equivalent, and thus contain large measurement error. To the extent that measurement error is uniformly distributed across policy areas and time, however, we can still learn something useful about the general patterns of task allocation in the EU. Specifically, these measures provide an assessment of *relative* degrees of centralisation, across policy areas or over time.

Three policy areas currently appear *more* centralised than the average of all policy areas, according to these indicators: *agriculture; the Single Market* (inclusive of international trade and enforcement of competition); and *citizen and social protection* (unfortunately, in the classification of Alesina, Angeloni and Schuknecht (2001), this last area lumps together very different policies such as home affairs, justice, consumer protection, civil rights, health, labour relations and the social cohesion chapter that includes structural funds). Some of the areas that appear *less* centralised than the average are: *environment; education, research and culture; transport; international relations.*

Looking at the time dimension, these indicators reveal a fast growth of centralisation over time. The number of legislative acts and court decisions increased three to seven times, between the early 1970s and late 1990s, depending on the indicators and the policy areas. By contrast, the EU budget as a share of the national budget increased by less and remains very

small. The policy areas where centralisation has grown more rapidly since the 1970s are citizen and social protection, the environment, education, research and culture.

4. How should tasks be reallocated in the EU?

To answer this question, one has to move beyond the simplistic view of governments as benevolent social planners implicit in the prescriptions of Section 2, taking instead into account the likely political failures at the national and EU level, and more generally the incentives and constraints of politically motivated governments. I will consider each of the broad policy areas mentioned above, trying to identify desirable directions of reform in task allocation.

- (i) *The Single Market.* No major reallocation of tasks seems appropriate here: enforcement of the Single Market is and should remain highly centralised. If anything, the power of the centre should be further reinforced. To achieve a well functioning Single Market, one has to come to grips with a fundamental dilemma. On the one hand, member states may have a legitimate claim to retain some control over aspects of regulatory policies, such as environmental or consumer protection, or the provision of public services. On the other hand, differences in regulatory policies create barriers to trade, and are often used strategically by member states to protect domestic producers from foreign competition. To have a well functioning Single Market, the dilemma ought to be resolved by sacrificing the pursuit of *national* regulatory goals. This does not mean that the values of competition and efficiency ought to have priority over other values. But it does mean that the pursuit of regulatory goals ought to be centralised to the level of the Union, whenever the principle of mutual recognition cannot be accepted. The question then becomes how to do that effectively while preserving political accountability. Some have suggested that the Commission could be stripped of some of its regulatory powers, delegating them to specific ad hoc EU regulatory agencies operating with a well defined mission in a single policy area. But such reforms are best discussed in context, with reference to specific policy areas, and that would go beyond the scope of this note. Micossi (2001) clarifies some of the open issues in regulating public utilities and financial markets at a European level.
- (ii) *Stabilisation Policies.* Here too, no relevant reallocation of tasks seems appropriate. Without a large budget, EU fiscal policy cannot pursue stabilisation goals. Moreover, according to the evidence, the spill-over effects across countries in the realm of fiscal

stabilisation policies are small and unstable across countries and time (Gros and Hobza, 2001): on average, fiscal policy in one country of the Union does not have quantitatively relevant effects in other member states. The benefits of fiscal coordination are accordingly negligible, despite the rhetoric on the need of an EU economic government in charge of fiscal policy. In any event, the possibility of policy coordination between national governments already exists and could be exploited if necessary. Current arrangements could be adjusted at the margin: the monetary policy strategy of the ECB could be improved, the Stability Pact has a number of drawbacks and perhaps is too constraining in its current form. Nobody is entitled to speak as Mr. Euro with sufficient authority and continuity in the event of a currency misalignment. But these are largely technical problems, and are not addressed in this note (some of them are addressed in Gros et al., 2000).

- (iii) *Redistribution.* Given the nature of political institutions at the EU level and the size of the EU budget, redistributive programs will have to remain a national prerogative. But should the current activities of the EU in the three areas mentioned above (CAP, Structural Funds and the Social Charter) be scaled back or expanded?
- a) Structural and Cohesion funds. Careful empirical studies have shown that, on average, structural and cohesion funds have not influenced economic performance so far: from a statistical point of view, recipient regions have had the same growth rate as the rest of the sample. This result applies to different measures of growth as well as to unemployment rates (see Boldrin and Canova, 2001). There are some success stories in the use of Structural Funds, but there are also some utter failures. One can always claim that there are special reasons that can explain the failures (many of them concentrated in the Italian Mezzogiorno). But the opposite argument can also be made: some of the success stories, such as Ireland, are special too. If the goal of these programmes was to accelerate economic convergence of poor regions, on average this goal has been missed. More likely, the main goal of structural and cohesion funds was *redistributive*: not to increase economic efficiency, but to redistribute the benefits of integration among countries, providing side payments so as to facilitate compromise in bargaining situations.

The question then is whether the same goal could have been achieved in less distorting ways. Participants at the bargaining table are countries, not regions. Side payments are thus needed among countries, not among regions or groups of individuals. Given the high level of tax distortions already present throughout the EU, the value of government revenues is extremely high. This suggests that the most efficient way to transfer funds among countries is by means of *lump sum intergovernmental transfers across EU governments*, pretty much as is currently done with cohesion funds (but *not* with structural funds). Tying such funds to specific uses, or trying to identify from the centre who are the most worthy recipients, is likely to add inefficiencies. If national governments need to buy consensus at home to promote European integration (e.g. building infrastructure in poor regions), they can find efficient ways to do that without any constraint imposed by the EU.

There is also a more practical looming problem. Even if the foregoing arguments are not found persuasive, Structural Funds in their present form cannot survive enlargement to the East. Do we really want to initiate a new political struggle on how to redesign them to fit enlargement? Instead, it might be easier and more efficient to entirely scrap Structural Funds among the current EU-15 countries, perhaps leaving open the possibility of re-inventing them from scratch on an East-West basis only.

- b) Common Agricultural Policy (CAP). There is a large literature on how to reform the CAP. The unanimous conclusion of that literature is that the reforms to the CAP should be completed, transforming it almost entirely from a price fixing to an income support programme for farmers. Once this transformation is completed, there is no longer a valid reason to keep the CAP as an EU competence. Income support to farmers could be more effectively carried out by national governments, respecting the guidelines of the Single Market to avoid distorting competition. To the extent that some countries are net losers or net gainers in the reform process, appropriate compensation can be found through intergovernmental transfers, as mentioned under point a) above. Here too, of course, enlargement adds urgency to this problem.

- c) Social Charter. The idea that closer integration and more intense economic competition threatens the survival of the European welfare state and would reduce assistance to the poor and to those in need is widespread. But this idea has little empirical support. The process of European economic integration has not led to any dismantling of the welfare states so far, on the contrary. More importantly, some of the European countries that are more open and, by international standards, more competitive, are typically those of Northern Europe, where the welfare state is larger, more pervasive, and more geared towards assisting the poor. By contrast, the countries in Southern Europe have both smaller and more corporatist welfare states, and much lower ranking in all statistics of international competitiveness. Clearly, market pressures force all countries to become more efficient. But the idea that this would impose dismantling of the European welfare states is a conjecture not borne out by the facts.

Still, it is true that stronger market forces and more intense competition impose limits on what governments can do. This is why national governments are keen to agree to harmonise aspects of social policies, restricting competition in specific areas. But often, the goal of these restrictions and efforts at harmonisation is to preserve privileges of powerful special interests, not so much to protect the poor or the weak. If social policy and labour market legislation was enacted by benevolent social planners, harmonisation and limits to "social dumping" could indeed be desirable. But such is not the case. The European unemployment and its low rate of growth are primarily a political problem, not an economic problem. They are caused by labour market rigidities and inefficiencies, often imposed by powerful trade unions representing "insiders". If more intense competition leads to a dismantling of such rigidities, Europe as a whole can only benefit. But we should be aware that special interests and opportunistic politicians will try to resist this competition of regulatory systems, imposing harmonisation and minimum standards even if this runs against the general interest. The risk of excessive centralisation in this area is considerable.

Moved by this logic, some commentators have suggested adapting to the labour market the principle of "mutual recognition" that prevails in the market for goods and services. Worker regulation is currently dictated by the country in which the job is carried out (the so called "employment principle"), not by the country of

residence or by the country in which the labour contract is signed. A consumer is currently free to buy a good or a service produced in a country with different labour market regulations than his own. But a multinational corporation is not free to move his employees to another EU country unless it adopts the same labour market regulations prevailing in that country. A provocative study by ISAE (2001) has proposed letting workers who move across countries carry with them the labour market regulations of their own country. This would have the effect of enhancing competition among labour market institutions, and thus of inducing more deregulation. It remains an open issue, however, whether this kind of competition would be so intense as to become politically intolerable, particularly in light of the forthcoming enlargement. Extending mutual recognition to the labour market could be too disruptive and further undermine support for the EU among the public at large.

Some coordination of EU social policies may still be required to achieve two goals, however. *One goal is to increase mobility of labour across countries.* Mobility of labour within Europe is still very low. The evidence suggests that the primary tool to achieve economic convergence is through labour mobility: workers leaving the high unemployment regions, going where labour demand is higher. In the current stage of European integration, labour mobility is also highly desirable from a political point of view, not just because of economic efficiency: labour mobility within the EU is the best way to foster closer political integration. But national pension systems and some features of welfare states currently pose some obstacles to labour mobility. This is particularly important with regard to private pensions. European countries need to agree on guidelines that would make private pensions portable across countries. A related effort at coordination should also be undertaken with regard to immigration policies, since EU immigrants are the most mobile of all EU workers.

Second, *coordination may be needed to reinforce benchmarking.* Citizens are generally well aware of the unsustainability of pension systems in the face of an aging population, and of the inefficiencies of some aspects of labour market legislation. There is agreement on the need and the urgency of reforms. But there is disagreement over how to reform, and procrastination is tempting. Reforms abroad often spur reforms at home: they put pressures on hesitant governments and

provide information on which reforms work and which do not. Hence, some elements of benchmarking and some common goals can help in the current circumstances. This can be achieved through efforts at coordination, without any transfer of sovereignty to the EU.

This discussion leads me to the conclusion that the role of the EU in the realm of redistribution should be decisively scaled back. With regards to national social policy, the EU should drop efforts at harmonisation. Social and labour market policies should instead be geared towards the goal of increasing labour mobility within Europe. Finally, direct redistribution by the EU should be confined to transfers across national governments. The primary role of such transfers should be to make sure that the benefits of European integration are spread fairly among countries. Fairness in integration is a prerequisite for smooth decision making and efficient bargaining among countries. But such fairness does not require redistribution to sectors, groups or regions within countries. National governments have enough tools at their disposal to achieve their desired domestic redistributive goals, without being forced to channel funds to specific groups of beneficiaries.

- (iv) *Public goods.* From the perspective of cost and benefit analysis, it seems obvious that there would be high payoffs to more central provision of public goods in areas of defence and foreign policy, and to some extent of internal security. The abolition of borders between EU countries carries with it the need to centralise aspects of law enforcement. Moreover, the recent terrorist attacks have made it absolutely clear that the challenges in these areas are global and require a coordinated European response. In terms of the language used in the previous section, the positive spill-over effects of foreign and defence policy, and of aspects of internal security, are very large. At the same time, the heterogeneity of preferences across countries in these areas does not seem very acute, at least relative to that present within each country. This point is confirmed by the recent (2001) Eurobarometer survey. 73% of EU citizens would support a common defence and security policy, and two Europeans out of three believe that the EU should have one common foreign policy. This high support for centralisation of tasks in these areas should be contrasted with a still lukewarm overall support for the EU as a whole: only 48% support their country membership in the EU. A second area where more centralisation is desirable is environmental policies. Here too, the spill-overs across countries are large, and preferences are unlikely to differ

much. Instead, further centralisation in the areas of education, culture and research seems unnecessary. Here, heterogeneity of preferences is likely to be much more important than the externalities. Alesina, Angeloni and Schuknecht (2001) further elaborate on these conclusions.

Summarising, compared to the status quo, several reallocations of tasks are desirable in the EU. The EU should not interfere with national social policies and national labour market regulations. It should also avoid redistributing to groups and regions; redistribution should be confined to countries, leaving the rest to national governments. Instead, centralisation of foreign and defence policies seems highly desirable. Aspects of internal security and of environmental policies could also be fruitfully centralised. Finally, fostering mobility of labour within the EU should receive high priority. This requires some coordination of specific aspects of social policy, of financial markets to enhance the portability of private pensions, and of immigration policies.

5. Institutional reform and task allocation

The conclusions reached in the previous section have important implications for the ongoing debate over the EU constitution. On the one hand, there is a need for institutions that limit centralisation of tasks in areas where it may be undesirable. On the other hand, centralisation of other tasks may require the creation of new institutions, or reforms to existing ones. I discuss both issues in turn.

5.1 Constitutional limits to centralisation.

There are two reasons to fear excessive centralisation.

Bureaucratic centralisation

One reason is the well known argument of Niskanen, that bureaucracies often aim to expand the areas under their jurisdiction, to increase their budget and their power. EU bureaucrats are likely to have a bias in favour of centralisation in the areas in which they operate. This bias is counteracted by an opposite bias of national bureaucrats and national politicians. But in some cases, EU bureaucracies may be more powerful than national bureaucracies, or national politicians may favour some centralisation. The social charter offers a good example. As argued in the previous section, harmonising and centralising aspects of social and labour market policies may be welcome by national politicians, to the extent that it removes

constrains on politically expedient redistribution. The EU bureaucracy may be eager to jump on this opportunity to expand its power, inducing excessive centralisation.

What are the appropriate institutional tools to hold back excessive EU centralisation taking the form of bureaucratic acts (as opposed to Council decisions)? As discussed in della Cananea (2001), an exhaustive list of task allocations cannot work. A constitution is like an incomplete contract. It can contain principles and guidelines, not detailed lists. Effective safeguards against centralisation can only arise from *procedures* governing concrete policy decisions, or reviewing such decisions once taken.

One possibility would be to rely on an arbiter, a "Constitutional Court" that applies the constitutional principles in specific circumstances. This kind of safeguard can work if the "bureaucratic mission" is clearly spelled out, so that ascertaining whether a bureaucracy exceeded its mandate is a technical (as opposed to political) issue. But who could be such an arbiter? The Court of Justice clearly cannot have such a role, at least under the present rules. On the contrary, so far the Court of Justice has mainly been a vehicle of centralisation. Vaubel (1995), among others, has formulated proposals to reform the Court of Justice to make it a more reliable guardian of the principle of subsidiarity. One possibility would be to complement the Court of Justice with a second Court responsible for all cases where the subsidiarity principle is invoked against bureaucratic decisions. Judges in this second Court would be empanelled from the highest national courts for a temporary period, and would eventually return to their national offices. They would thus have a vested interest to stop creeping centralisation. Indeed, the brief experience of the European Central Bank (ECB) suggests that governors of national central banks are much less inclined to favour centralisation of powers compared to members of the Executive Board of the ECB.

Political centralisation

A second reason to fear excessive centralisation lies in the behaviour of the Council. As already noted, governments may be willing to centralise tasks in the realm of the social charter, because this might relax constraints on their redistributive policies: restricting competition might be easier than reforming labour markets or pension systems. In other instances, centralisation of decisions to the Council might be instrumental in sidestepping domestic opposition (by minorities in national parliaments or by pressure groups at home). These political considerations might induce excessive centralisation, in the sense that national

governments might prefer to centralise tasks even when there is no sound efficiency reason to do so.

When there is a strong political will to centralise, constitutional safeguards are unlikely to be very resistant, no matter how carefully designed. In these circumstances, political safeguards are needed; a constitutional court is unlikely to be enough. The Council already represents national interest, so a second chamber of national representatives would add complexity and is not needed. Instead, a reliable alternative could be the decision-making procedure in the Council. Where the status quo is still a relatively low degree of centralisation, a decision rule that requires unanimity is likely to be an effective safeguard. This is an important reason for insisting that unanimity be preserved in some key areas. Naturally, unanimity carries a price: it gives minorities the power to block decisions or to extract rents from the rest of the EU. But in areas such as the social charter, this price may well be worth paying, to avoid excessive centralisation.

Finally, in some cases instruments of direct democracy (EU wide referenda) could be effective safeguards against excessive centralisation. For instance, they might accompany the creation a new "European tax", advocated by the Commission President among others to streamline EU financing and increase the symbolic relevance of the EU. EU referenda would have two additional important benefits: they would increase legitimacy of EU decisions, often accused of being too removed from the citizens, and they would stimulate an EU wide debate on policy alternatives.

5.2 Bureaucratic Accountability vs. Democratic Accountability

Institution building is also needed to make further centralisation of tasks possible. In fact, this is why EU integration has been so successful. Centralisation in the EU has meant much more than simple policy coordination. It has meant designing institutions that make it possible to transfer sovereignty to the centre. Integration has proceeded gradually, one policy dimension at a time, tailoring the institution to the specific policy area over which integration was needed.

A remarkable feature of EU integration so far is that centralisation has preserved important dimensions of accountability and control. But it is important to appreciate the particular way in which accountability for EU decisions has been preserved, and how it differs from political accountability in representative democracy.

In a representative democracy, the ultimate instrument for holding politicians accountable is an election. Citizens delegate decisions to representatives (governments, legislators). If citizens are not satisfied with the decisions taken, the delegation is not renewed: the majority loses the elections and is replaced by a new government or a new majority in Parliament.

This mechanism cannot work in the EU, at least not under the current European constitution. Governments are the key decision-makers in the Council. But they are accountable to citizens at home, in national elections, and they are primarily judged for their domestic performance, not for EU decisions. And other EU policymakers (the European Central Bank or the Commission) are appointed, not elected.

Accountability in the EU instead has been achieved through methods that are typical of bureaucratic control, not of political control. Transfer of power to an EU body has generally been accompanied by a clear operational definition of the policy goals. EU policy-makers (the ECB, the Commission, and the majority in the Council) generally have a narrowly defined "mission": price stability, enforcing the single market, holding prices of agricultural commodities stable). This has two advantages. On the one hand, it limits discretion by the EU policymakers, and hence insures that transfer of power is not abused. On the other hand, it facilitates ex post control. The European Parliament, the media, the Council, can blame or approve the way in which EU decision making power has been used. Since EU policymakers have a narrow mandate and their decisions are often inspired by external technical criteria, they can be held accountable for their behaviour despite the absence of elections.

This method of bureaucratic control has worked well so far in the EU. Probably, it can be fruitfully extended to the realms of environmental policies or internal security. Here, it seems possible to define a precise mission for EU policymakers, exploiting the Commission and designing appropriate technical guidelines to achieve clearly defined operational goals.

But can the method of bureaucratic control also work in the new areas where further centralisation is most urgently needed, foreign policy and defence? It seems very unlikely. What mandate can be given in the realm of foreign policy? The only feasible mandate is to pursue the common interest of the EU. But what does that mean in practice? If the mandate is so incomplete and it leaves so much room for discretionary judgement, there is only one way to hold policymakers accountable: through democratic elections. Only citizens can tell whether policy decisions are really in their own interest. Unfortunately, as argued above, this instrument of control is unavailable at the EU level, or at least it is seriously deficient.

Naturally, limited forms of cooperation are still possible, in foreign and defence policy, through intergovernmental coordination. They should be pursued as far as possible. But we should be aware that these forms of cooperation will not take us very far. One reason is that both defence and foreign policies rely extensively on well functioning bureaucracies (a diplomatic corps, the military). How can the Council acquire control over such bureaucracies? The Commission, not the Council, is traditionally the bureaucratic arm of the EU. Developing an EU bureaucracy in foreign policy is a first step towards having an effective European foreign policy. But here, the Commission competes with national bureaucracies. In the realm of foreign policy, it seems difficult to exploit the traditional vertical links between the Commission and national bureaucracies that instead have worked so well in dealing with national policy issues.

We are thus left with a fundamental problem. Europe is now in a situation in which there would be major benefits in centralising foreign policy and defence. But in this policy area, bureaucratic control cannot work. To centralise these policies, a drastic redesign of the EU political constitution might be needed. Europe would need to have political institutions that are more typical of a federation than of a confederation of states. It is no coincidence that historical episodes of unification of countries have indeed coincided with situations in which external threats or a common enemy created large benefits from centralising defence and foreign policy.

But is Europe ready to move to much closer forms of political integration? And if the answer is negative, as is likely, what can be done about it? These are difficult questions, which go well beyond the issue of task reallocations. Ferrera (2001) makes some progress in addressing them and in drawing important practical implications.

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