

Economics of European Integration

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Problem Set 2

References: BW (6.ed) The Economics of European Integration Ch. 3

Exercise 1: Task Allocation and Subsidiarity

Becoming a member of the European Union introduces an additional level of government that is part of the decision making process in policy making. This necessitates building a clear set of rules that allocate the competencies across these different levels.

- a. Name and explain the different levels of “competences” in task allocation of policies within and across EU member states.
- b. Explain the difference between subsidiarity and proportionality in deciding on the allocation of EU competences. Give an example.

Exercise 2: The Theory of Fiscal Federalism

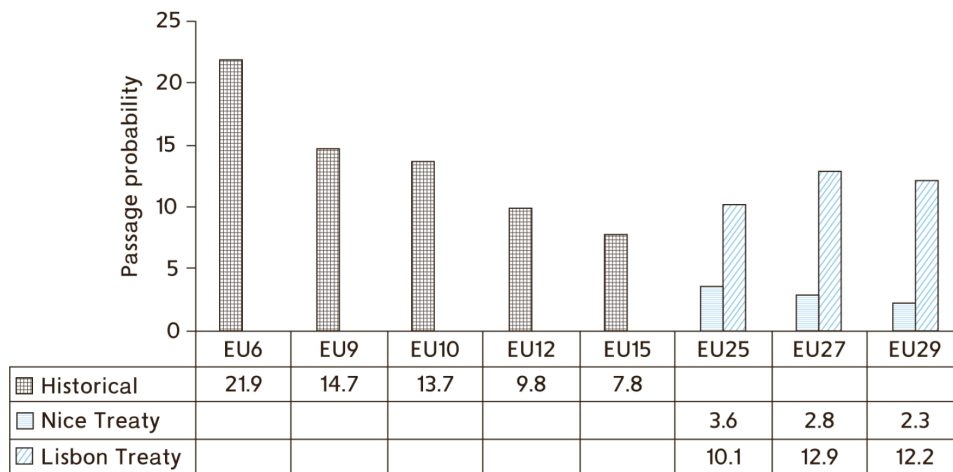
In order to take the principles discussed previously to work in practice the allocation of tasks among different forms of governments can be determined in a more systematic way using economic reasoning. The Theory of fiscal federalism provides a framework for thinking about the most appropriate level of government for each type of task.

- a. Draw a diagram, explaining supply and demand analysis and the notion of consumer and producer surplus in a systematic way. For help consult BW chapter 4.
- b. Name and explain the five main trade-offs when thinking about the appropriate allocation of policy-making tasks to the various levels of governments. Draw a diagram of demand-supply relationships if it supports your arguments.
- c. Discuss how tensions between those trade-offs can explain the fact that the EU has adopted only very limited harmonization of social policies.

Exercise 3: Economic View of Decision Making: Efficiency, Power and Legitimacy

About 80% of EU legislation is passed under the “ordinary legislative procedure”: Adoption of legislation jointly and on an equal footing by Parliament and the Council. The European Parliament adopts laws by “simple majority”, i.e. a 50% majority threshold with one vote per MEP. The Council, however, adopts a more complicated procedure to ensure representability of each member state, i.e. a “qualified majority voting” (QMV), where a proposal must pass a threshold in terms of the number of nations voting “yes” and the population share of the “yes” voters.

- a. Explain the idea and mechanisms behind the QMV.
- b. The idea of QMV was to make the EU decision making procedure more efficient and democratically legitimate. Did it accomplish that?



- c. Discuss the distribution of power across EU member states in legislative decision processes. Which factors are crucial in evaluating the relative power of each individual member state?