

Beyond the Big-Bang Enlargement of the EU: Preferences and the Need for Flexibility

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The paper addresses the need for an institutional change in the European Union after the envisaged eastward enlargement. Due to the increasing heterogeneity with respect to economic structures and performance, political interests, social and cultural preferences, and financial constraints, governance problems in the enlarged Union are expected to increase significantly. Although policy makers have been aware of this institutional challenge, the prescription of the Treaty of Nice from December 2000 are insufficient to safeguard and enhance the quality of EU governance. Therefore, the paper aims at (1) identifying the deficits of the current EU governance structure; (2) presenting empirical evidence of the increasing heterogeneity of the EU as well as the different preferences of Europe's citizens with respect to the design of public policies and their assignment to different governance levels; and (3) exploring the options for institutionally safeguarding a more flexible and politically feasible integration strategy.

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JEL-codes: D71, D72, D73, H73, H77

1. Introduction

The 1990s witnessed substantial progress in European integration – ranging from the establishment of the Common Market, the inception of the European Monetary Union (EMU), the decision to admit the Central and East European countries to, last but not least, the discussion of a “Constitution for Europe”. Despite these milestones, the future of the EU appears to be highly uncertain. As of May 2004, ten new member states will join the Union, and more countries such as Bulgaria and Romania will follow quickly.¹ This constitutional big bang will bring about a significant increase of heterogeneity within the EU regarding economic structures and performance, political interests, social and cultural preferences, and financial constraints. It implies that the tension between deepening and enlarging the EU will rise and that governance problems of European policy making will become much more acute. In essence, the EU's future will crucially depend on its ability to cope with growing conflicts due to different national policy objectives, preferences, and economic constraints.

Given this outlook, it is of major importance to systematically elaborate the institutional framework as well as the politico-economic modes of action that shape European integration.²

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¹ The countries joining the EU in 2004 include Cyprus, the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Malta, Poland, Slovakia, and Slovenia.

² In this context, see, e.g., the works of Tsebelis and Yatahanas (2002), Scharpf (2003), Moberg (2002), and Steunenberg (2001).

This paper seeks to contribute to such a research program. The central questions include: “How should policy-making responsibilities be assigned to different levels of governance in the EU?” and “How can a more flexible, economically efficient, and politically feasible integration strategy be developed that corresponds to the diverse nature of problems and preferences throughout the EU?”

The subsequent considerations are structured as follows: Section 2 provides an economic rationale for assigning political competencies to different levels of governance in the EU. Based on the Eurobarometer survey of EU citizens’ preferences, Section 3 empirically explores the extent to which enlargement increases the heterogeneity in opinions about EU-based decision-making. Section 4 emphasizes the need for a more flexible European integration strategy and discusses options for institutional change, which could enhance the incentive compatibility and thereby the efficiency of European policy-making. Conclusions follow in Section 5.

2. Assigning Political Responsibilities to Different Levels of Governance – An Economic Rationale

At present, neither a precise road map nor a method exists that aims at clearly and consistently assigning policy competencies or prerogatives among the supranational and national authorities as well as local governments in the EU (Alesina et al. 2001a). The existing allocation of policy responsibilities has rather emerged spontaneously over time without having been subject to careful planning (see Table 1).

Table 1: Policy Responsibilities of the EU and their Extent

	Extensive	Shared	Limited
I. Economic and Social Areas			
1. Competition		X	
2. Cultural Policy			X
3. Regional Policy		X	
4. Employment and Social Policy		X	
5. Enterprise Policy		X	
6. Equal Opportunities		X	
7. Industrial Policy		X	
8. Public Health			X
9. Solidarity/Welfare			X
10. Consumer Policy		X	
11. Monetary Policy	X		
12. Education, Training and Youth			X
13. Environment		X	
14. Internal Market	X		
15. Research and Technology		X	
16. Trans-European Networks/Mobility			X
II. Sectoral Policy			
1. Agriculture	X		
2. Fisheries	X		
3. Transportation		X	
4. Information and Telecommunications		X	
5. Audiovisual Policy			X
6. Energy		X	
III. External Policies			
1. Common Foreign and Security Policy			X
2. Development Policy		X	
3. Humanitarian Aid		X	
4. Common Trade Policy	X		
IV. Justice and Home Affairs			
1. Asylum, External Borders, Immigration		X	
2. Judicial and Police Cooperation		X	
3. Drugs		X	
4. Trade in Human Beings			

Source: Alesina and Wacziarg (1999).

However, elaborating a rationale in this context is an indispensable prerequisite for maintaining and enhancing the EU's ability to act within an increasingly complex, heterogeneous, and conflict-ridden fabric potentially consisting of 25 or more member countries. Agreeing on such a rationale appears to be of particular importance at a time when the Union is entering a fundamental constitutional phase in its development. The recently initiated European Convention under the leadership of former French President Valéry Giscard d'Estaing has been elaborating a draft for a future European Constitution. The first draft version and suggestions of the Convention, which became available to the public at the beginning of 2003, proved to be disappointing: hardly any innovative elements had been incorporated into the draft version; neither a clear assignment of responsibilities nor

mechanisms in favor of more flexibility and hence problem-solving capacity of the European integration process were taken into account.

Economic theories of (fiscal) federalism suggest that public goods ought to be supplied at the lowest level of government that is able to provide these goods cost-effectively and efficiently.³ Recent works of Alesina and Wacziarg (1999) and Alesina et al. (2001b,c), essentially support these theoretical findings and implications for the EU as a federation consisting of heterogeneous sovereign states. These contributions identified a trade-off resulting from benefits based on the exploitation of scale economies or the internalization of (cross-country) external effects on the one hand and preference costs on the other. These costs arise from the fact that exploiting economies of scale or internalizing external (i.e., European wide) effects necessitates a harmonization of policies. A centralization of policy making, however, makes it increasingly difficult for political authorities to account for different political preferences, economic problems, and social needs within a heterogeneous union of countries.

Thus, economic theory provides a straightforward rationale regarding the assignment of political responsibilities to different levels of governance within a federation of countries. Accordingly, the EU should be exclusively involved in policy areas in which scale economies are relatively large and the internalization of external effects appears to be important. The EU should leave those policy areas to national governments or sub-national authorities, in which the costs associated with heterogeneous political preferences, economic structures or vulnerabilities, and social needs are predominant relative to the aforementioned benefits (Alesina et al. 2001a; Ahrens and Hoen 2002).

Alesina et al. (2001) distinguish nine domains of policy making in the EU, which are essential for the European integration process (see Table 2).⁴ Based on the cost-benefit rationale outlined above, they identify three dimensions in which policy prerogatives should be located at the EU level (or even at the global level). These include the conduct of international trade policies, policing the Common Market, and “Non-sectoral Business Relations”, i.e. maintaining competitive markets essentially through anti-trust policy. Another three policy dimensions should be covered by shared responsibilities of national authorities

³ See Oates (1999) for an overview of the key arguments.

⁴ See Alesina et al. (2001a) for a detailed analysis and differentiated arguments underpinning the subsequent classification of policy domains.

and the EU: These include the realms “International Relations”, the “Environment”⁵, and “Money and Finance” (monetary policy assigned to the ECB and subsidiary policies such as financial market regulation, payments systems, and bank supervision should be centrally undertaken, whereas fiscal policy should basically be decided upon by national governments). Finally, three policy domains remain which should fall into the exclusive jurisdiction of national or local governments: “Education, Research, and Culture”, “Sectoral Business Relations” (i.e., agriculture and fishing, industry, and transportation), and “Citizen and Social Protection” (including home affairs, civil rights, health, labor relations, justice, consumer protection, etc.).

Table 2: Policy Domains and Recommended Political Prerogatives

Policy Domains	Externalities	Preference Asymmetry	Devolution of Policy Prerogatives
International Trade	High	Low	EU/Global
Common Market	High	Low	EU
Money & Finance	Medium/High	?	National/EU
Education, Research and Culture	Low	High	Local/National
Environment	Medium/High	High	National/EU/Global
Business Relations (Sectoral)	Low	High	National
Business Relations (Non-Sectoral)	High	?	EU/Global
International Relations	Medium/High	Low	National/EU
Citizen and Social Protection	Low	High	Local/National

Source: Alesina et al. (2001a).

The foregoing theoretical considerations reveal that the actual allocation of political competencies in the EU (see Table 1) is inconsistent with the normative criteria. In some cases such as "Agriculture and Fishing" EU involvement has been too extensive, whereas in other cases such as the “Environment” EU action appears to be too limited. The next section aims at analyzing the preferences of the EU15’s citizens and those of the accession countries with respect to the assignment of political prerogatives to different levels of government. Subsequently, it will be analyzed how the allocation of political competencies would look like if national governments decide according to their citizens’ preferences.

⁵ Environmental policies should be assigned according to the spatial effects of potential negative external effects. If externalities affect only regions within one country, the underlying problem should be addressed nationally; if external effects involve two or more EU-countries, supranational ruling is adequate (either by the affected countries’ governments or by the EU; if negative externalities have an impact at the global level (e.g., global warming), the solution needs to be found by the international community.

3. Empirical Analysis of EU15 and EU27 heterogeneity

The goal of the empirical analysis is to quantify the degree of heterogeneity in the attitude towards EU centralized decision-making of the current EU15 countries and to compare it with the preferences of the 10 new members of May 2004⁶ and those of Bulgaria and Romania, which are likely to follow soon afterwards (C12). For this purpose we first investigate preferences of the two groups separately and then draw conclusions for the joint decision process in an enlarged EU of 27 members.

This task includes the identification of policy fields in which clear majorities exist for either centralization or decentralization, and to highlight the policy fields where controversies and a large manifestation of heterogeneity can be observed. Beyond the policy fields in question, heterogeneity is characterized by the deviation of each group member's preference from the majority position about centralization versus decentralization in the sample, and also by the uncertainty of the citizens in each country in their attitudes towards the location of decisions in each policy domain. This uncertainty is displayed in the variability of their answers in the Eurobarometer poll over the past years.

Additionally, we would like to elaborate a little further the determinants of the distribution of preferences we observe. Anderson, and Kaltenthaler (1996), for instance, found that length of membership, timing of entry, and national economic conditions are the main determinants of the support for European integration. There are probably more plausible factors, like historical, geographical, social or economical reasons, that might explain the differences across countries. Therefore, if the groups of countries with shared preferences point to certain specific factors that might be responsible for the preference distribution, we discuss this matter a little further. Even though we do not subject our hypothesized factors to explicit statistical testing, the observed regularities can offer a first step towards a deeper understanding of preference heterogeneity in the EU15 and the EU27. In addition, they can provide for a starting point for developing a more flexible institutional framework for an enlarged EU.

Our final intention is to confront the observed preferences and the implied voting behavior in the European Council with an economically justifiable degree of centralization in the respective policy domains. As Alesina et al. (2001a) show, at least for the EU15, the revealed preferences in the poll can be regarded as highly consistent with the predictions of a broad range of models for an optimal trade off between benefits of scale and the cost of

⁶ At the time of writing, national referenda have confirmed EU-accession in Slovenia and Lithuania.

heterogeneity, see, for example, Alesina and Wacziarg (1999), and Alesina, Angeloni, Etro (2001b). As our results show, the case is different for the C12 countries. Based on our observations, we provide some reasons for the obviously much more EU optimistic position of the C12. Most important in this context seems to be the weakness of national institutions, which can be empirically supported by the World Bank Governance indicators that were compiled by Kaufmann, Kraay, Mastruzzi (2003). However, we treat this matter rather as a side question, since our primary focus are the implications of the increased heterogeneity for the EU27 decision-process. It turns out that voting in an enlarged EU yields some majorities with respect to the degree of centralization that clearly conflict with economic criteria. Thus the empirics support the need of reforming the EU's institutions.

3.1 Measures of heterogeneity

The Eurobarometer poll consists of a very comprehensive questionnaire about EU related political issues, household decisions, economic expectations, and overall life satisfaction. For the purpose of this paper we concentrate on a single block of questions that refers to a set of policy areas in which the EU administration is currently involved. The questionnaire asks whether citizens prefer political decisions in each policy field at the "EU-level" or "national level".⁷ For the current member countries the poll is conducted on a biannual basis, and the responses are available for a long time period starting in 1973.⁸ Since we are basically interested in the current views about EU policies, we take the start of the EURO in 1999 as a crucial date, from which onwards citizens have likely become more responsive to European politics. Beyond the avoidance of too much data mining, this relatively short time period might be reasonable in order to avoid having a time trend of attitude in the sample, like Anderson, and Kaltenthaler (1996). Thus the data we use in the analysis covers the eight biannual surveys from spring 1999 to autumn 2002. For the twelve candidate countries⁹ (C12)

⁷ Each survey consists of approximately 1000 face-to-face interviews per Member State (except Germany: 2000, Luxembourg: 600, United Kingdom 1300 including 300 in Northern Ireland). It is conducted between 2 and 5 times per year, with reports published twice yearly. The exact question text is: "For each of the following areas, do you think that decisions should be made by the (NATIONALITY) government, or made jointly within the European Union".

⁸ The results of the polls can be downloaded from http://europa.eu.int/comm/public_opinion/

⁹ C12 include the ten countries, which will join the EU in May 2004 plus Bulgaria and Romania. Turkey is also included in the survey. Nevertheless, we did not consider Turkey in our analysis since it is far from having a concrete time schedule for entry in the EU.

the Eurobarometer poll has been conducted only twice in 2001 and 2002. This time frame of two years for the C12 can be suspected to be too short to measure stable preferences. But as pointed out by the empirical analysis, the standard deviations of the preference indices, that we calculated, are most of the time even smaller than those of the EU15 sample.

We begin our analysis of the differences in EU preferences with respect to the individual policy fields ($J = 25$). In order to characterize the preference of the voters of each member and candidate country ($i = 1, \dots, 15$, and $i = 1, \dots, 12$ respectively) over the policy domains ($j = 1, \dots, J$), we calculate a simple index:¹⁰

$$X_{i,j} = 100 \cdot \left(\frac{1}{T} \sum_t \%NAT_{i,j,t} - \%EU_{i,j,t} \right), \quad t = 1, \dots, T,$$

where the number of observations is $T = 8$ for the EU15 and $T = 2$ for the C12 countries. The corresponding standard deviation $S_{i,j}$ is then:

$$S_{i,j}^2 = Var(\%NAT_{i,j,t}) + Var(\%EU_{i,j,t}) - 2Cov(\%NAT_{i,j,t}, \%EU_{i,j,t}).$$

A first indicator for dominating preferences within the EU15 and the C12 sample can be obtained by counting the number countries for which the indices $X_{i,j}$ are significantly below or above zero according to a simple t -test. From this we obtain a first crude impression about the policy fields with a clear majority of countries for either centralization or decentralization. The difference D of significant pro EU votes and significant pro national votes provides for a suitable comprehensive indicator in the further analysis. It is important to stress that at this stage, we are not interested in possible outcomes of voting in the European Council or in majorities on the basis of population numbers. As outlined above, our idea is that heterogeneity in the attitudes is primarily due to different national backgrounds, and our intention is to highlight the extent of heterogeneity of EU members. We believe that for this purpose the simple country majorities provide a suitable proxy.

A second measure for the preferences in the EU15 and the C12 group, respectively, is the likelihood of a 50% majority **L50** for centralized decision-making if each country had one vote. This is obtained by simulating 10,000 random draws from a Bernoulli distribution over 1 for centralized, and 0 for decentralized decisions, where the probabilities are derived from

¹⁰ The latest three Eurobarometer waves also include questions about the policy fields *terrorism* and *ageing*. Since these questions were not part of the candidate poll they are not considered in the analysis of this paper.

hypothesized normally distributed preferences of each country based on the previously calculated mean index $X_{i,j}$ and its standard deviation. Subsequently, it is checked for every draw whether a majority of countries exists voting in favor of centralization. These majorities are counted and L50 is finally the percentage of majorities for centralized policies of the total number of experiments (10,000).

As additional piece of information for an evaluation of the robustness of these two indicators, for each policy field j we compute the average over the indices $X_{i,j}$ for the two groups, respectively, and also the standard deviation of the indices within the groups.¹¹

Beyond the preference for the level of decision-taking in certain policy domains heterogeneity can be expressed into further dimensions: First, in the overall attitude of the individual countries towards the EU, which can be quantified simply by the number of policy fields for which the country's citizens would opt for the EU level, and second, in the deviations of an individual country from the preferences of the citizens of the other countries. To obtain a quantitative measure for a country's preferences in relation to the others, we measure the number of policy fields each country deviates from the majority position of the group, where the majority position is obtained by counting negative preference indices $X_{i,j}$ as vote in favour of EU level decisions and positive indices as votes against it. The degree of accordance with the majority position can then be summarized in the following index:

$$A_i = \frac{1}{J} \sum_j \frac{(\# \text{agreements (EU/NAT) of country } i \text{ with other group members over policy field } j) + 1}{\# \text{ of agreements (EU/NAT) of the majority over policy field } j}$$

3.2 Heterogeneity within the EU15

We start the discussion of our empirical results with the preferences of the majority of countries in the 25 policy fields. The ranking in Table 3 is compiled by sorting the policy fields according to preference measures giving priority to **D**, **L50**, and then to the *mean* of the country specific indicators. In order to learn something about the motives for the observed distribution of preferences, it is also useful to look at the pair-wise correlations of the indicators for distinct policy fields, e.g., between $X_{i,j}$ and $X_{i,k}$ for $j \neq k$, $k \in J$.¹² In some cases, the close relationship between certain policy fields might offer a first tentative indication of

¹¹ It will become evident from Table 3 and Table 5 that it would be much more difficult to infer the scope of potential majorities by only looking at the average of the preference indices. Especially the likelihood measure for a 50% majority provides a useful tool in drawing borderlines.

¹² The complete correlation matrix is shown in the the appendix.

economic or political considerations that are responsible for the articulated preferences. Another interesting aspect is, which coalitions of countries prevail especially for the policy fields without a clear majority. This can give us some guidance about geographical or past political experiences, which might cause common preferences of certain country groups.

Remarkably, for 11 of the 25 policy fields a clear majority of countries favors a decision process located at the EU level. The desire for centralization is the strongest with respect to policies against the *Exploitation of Human Beings*. Looking at the correlations of the preferences for this policy field with those for the other policies, we observe a high correlation with *Currency*, *Info about EU*, *Foreign Policy*, *Organized Crime* and *Drugs* that are also strongly preferred at the EU level. This agglomeration shows that the preference for centralization might be a reflection of a multitude of interrelated concerns about human rights, economic wealth and security. Beyond the correspondence with the normative considerations about an economically meaningful assignment of responsibilities, this result might also represent a common desire for protection and coordinated decisions to cope with the uncertainties created by a quicker pace of global changes. The almost unanimous preference for EU-led *Regional Aid* seems to be uncorrelated with preferences over other domains. Obviously, a great majority of countries regards the past progress of some of the poorer regions (Portugal, Greece, Spain) as a persuasive argument for the continuation of such a policy.¹³ In light of the latest political controversies in connection with the military action in Iraq, the strong desire for a common *Foreign Policy* seems noteworthy. We postpone a tentative interpretation of this result to the discussion the preferences for defense policies. As indicated by the correlation matrix, the preferences for EU coordination over *Environment*, *Humanitarian Aid and Poverty*, and *Social Exclusion* are all interrelated. Hence, the EU perspective can possibly be attributed to the fact that citizens recognize potential coordination failures and free rider problems of national initiatives. *Research* seems to be a similar matter. Its' strong correlation with currency might reflect economic considerations that EU coordinated research might provide for the exploitation of scale effects.

¹³ Alesina, Angeloni, and Schuhknecht (2001a) interpret this result as a bias in the answers of the poll "...by the presumption that transferring policy responsibility to the EU may result in net benefits for those countries. In other words, the response in the questionnaire may reflect the perception of personal or country gains rather than a fair judgement about the optimality of allocative criteria", see p. 10.

Table 3: Preference indices over policy fields in the EU15 sample

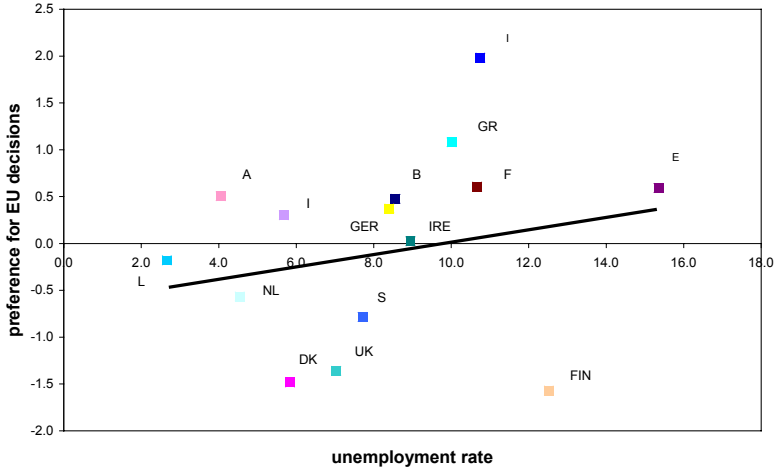
Policy domain	D	L50	Mean	S.D.
Exploit. Hum beings	15.0	100.0%	-55.0	13.2
Information EU	14.0	100.0%	-45.6	13.7
Regional aid	14.0	100.0%	-29.3	13.7
Foreign Policy	13.0	100.0%	-41.0	20.3
Organised crime	13.0	100.0%	-40.2	17.8
Research	13.0	100.0%	-37.8	19.4
Drugs	12.0	100.0%	-33.9	13.1
Humanitarian aid	11.0	100.0%	-31.4	23.4
Poverty/social exclusion	9.0	100.0%	-22.7	14.7
Currency	8.0	100.0%	-26.9	30.2
Environment	6.0	100.0%	-15.5	19.8
Mean EU	11.6	100.0%	-34.5	18.1
Agric. & Fishing	-1.0	57.4%	1.9	21.1
Political asylum	-1.0	21.1%	2.1	27.0
Immigration	-1.0	11.4%	7.4	31.2
Defence	-1.0	10.8%	9.9	35.0
Accepting refugees	-2.0	20.1%	6.5	32.5
Unemployment	-3.0	72.2%	0.5	19.6
Mean undecided	-1.5	32.2%	4.7	27.7
Juvenile crime	-6.0	0.4%	14.1	23.6
Urban crime	-8.0	0.0%	19.4	21.0
Cultural Policy	-9.0	0.0%	23.7	19.4
Media	-9.0	0.0%	24.2	18.0
Justice	-11.0	0.0%	31.6	20.2
Health and social welfare	-11.0	0.0%	36.3	24.9
Education	-12.0	0.0%	36.0	16.0
Police	-13.0	0.0%	39.0	15.4
Mean Natl.	-9.9	0.0%	28.0	19.8
Mean Total	1.6	51.7%	-5.1	21.0

There are altogether only six policy fields in which the EU15 members' preferences are controversial. As far as the interrelated fields *Political Asylum*, *Accepting Refugees* and *Immigration* are concerned, there are only four countries in favor of a EU decision level, namely, Belgium, Spain, Italy, France (with respect to political asylum, and accepting refugees). The other end of the political spectrum with countries opposed to centralization is represented by Denmark, Finland, Sweden, the U.K., Austria (with respect to immigration, and accepting refugees) and Ireland (only with respect to accepting refugees). For policies related to *Agriculture and Fishing*, the proponents of EU decisions Europeans are mainly located in Belgium, Germany and the Netherlands, whereas the opposition consists mainly of the Scandinavian countries, Finland and Sweden, and the U.K. In the past, the former group

has benefited from EU policy measures when it comes to common market rules, quality standards and control (e.g. to prevent the spread of animal diseases). In contrast to this, the two Scandinavian countries and the U.K. might fear that such policies are used as measures of protectionism and could potentially harm the national agricultural sector.

Most interesting are the preference distributions over a common *Defense Policy* and EU measures against the *Unemployment* problem. Intuitively, foreign policy and defense policy should be strongly connected. This is underpinned by the correlation coefficient of the preference indices of 85%. The preferences over foreign policy, however, are strongly correlated with those of currency, justice, humanitarian aid, and Info about the EU. Thus, beyond a pure military dimension, the clear preference for a common foreign policy seems to reflect a rather general desire for a strong position of the EU in the globalization process. Furthermore, it should be considered that defense is already part of the NATO framework, and the open debate about its future role might contribute to the heterogeneous attitudes within the EU countries.¹⁴ The question of common measures against the unemployment problem can be regarded as even more controversial.¹⁵ Only Italy is clearly in favor of EU policies. Denmark, Finland and U.K. are obviously more satisfied with national measures.

Figure 1: unemployment rates and preferences for EU labor market policies



¹⁴ Interestingly, the aggressors of World War II (Germany and partly Italy) and their immediate neighbors Belgium, Luxembourg, Netherlands are relatively committed to a EU defense policy. On the other hand, countries that were involved in national and international military conflicts since the war, like Ireland, the U.K., and Greece favor national decisions in this domain.

¹⁵ Despite a majority of three significant votes against EU level decisions, there exists a high probability for a majority of countries in favor EU administration. This can be explained, by the fact that citizens of only 5 countries have a distinct (significant) position regarding this issue.

The correlation between the preference for EU decisions and the ten-years average of the unemployment rate in the member countries in Figure 1 suggests that the failure of national policies in the past is likely to account for this distribution of preferences. Exceptions are Spain and Finland. Despite persistent high unemployment in Spain, people seem to acknowledge the success of the current government in reducing the unemployment significantly.¹⁶ The example of Finland underlines the preference of Scandinavian countries for subsidiarity that becomes apparent in connection with the other policy fields, and whose likely factors are the national traditions of decentralized administration.¹⁷

From the observation of the country specific differences in opinions we can draw the following intermediate conclusion. Beyond Anderson's, and Kaltenthaler's (1996) result that the time of EU membership is important (which might account for the Scandinavian countries' reservations about EU based decisions), the preference for EU institutions seems to depend also on the geographical conditions to protect national borders (as indicated by the controversies about immigration, etc.), past costs and benefits of EU policies (agriculture and fishing), and finally the trust in the capability of EU institutions to handle problems more effectively than national authorities (labor market policies).¹⁸

The eight domains with clear preferences for national decision-making essentially represent issues of national identity, like *Cultural Policy*, *Media*, and *Education* or can be clearly regarded most efficient when decentralized decisions are taken, like *Police*, *Urban and Juvenile Crime*, and *Justice*, because local coordination of actions and information gathering are required. *Health and Social Welfare* can be regarded as matching both criteria. Corresponding to the separation of policy fields into the three groups, the standard deviation of the country preferences is highest on average for those policy fields where a clear majority does not prevail. If the standard deviation is interpreted as an additional measure for heterogeneity, then, independent from the majority situation, one can characterize the scope for controversies that are still present among the EU15 members. Notwithstanding the clear majorities, preferences seem still to be most disparate about a common currency and health and social welfare policy, as is indicated by relatively high standard deviations of 30 and 25 index points. The standard deviations will be an important element in the comparison of the heterogeneity between the EU15 and the EU27 sample that is discussed in the next section.

¹⁶ In the early 1990s Spain had unemployment rates of around 20% and is down to just over 10% in 2002.

¹⁷ The strong overall preference for respecting subsidiarity is highlighted by the European Economic Advisory Group. See EEAG Report (2003), p. 86.

¹⁸ The U.K., Sweden, Denmark and Austria are at the lower end when it comes to "Trust in the EU institutions and bodies" according to the latest Eurobarometer survey in autumn 2002, see European Commission (2002), p. 103.

Now, we turn to the analysis of heterogeneity in the dimension of country specific EU optimism or skepticism and of the countries citizens' preference relative to the majority within the respective EU15 group. The majority of countries in the EU15 sample is in favor of centralizing 13 policy domains (the first 11 domains of Table 4 plus agriculture and fishing, and unemployment) and of decentralizing the rest.

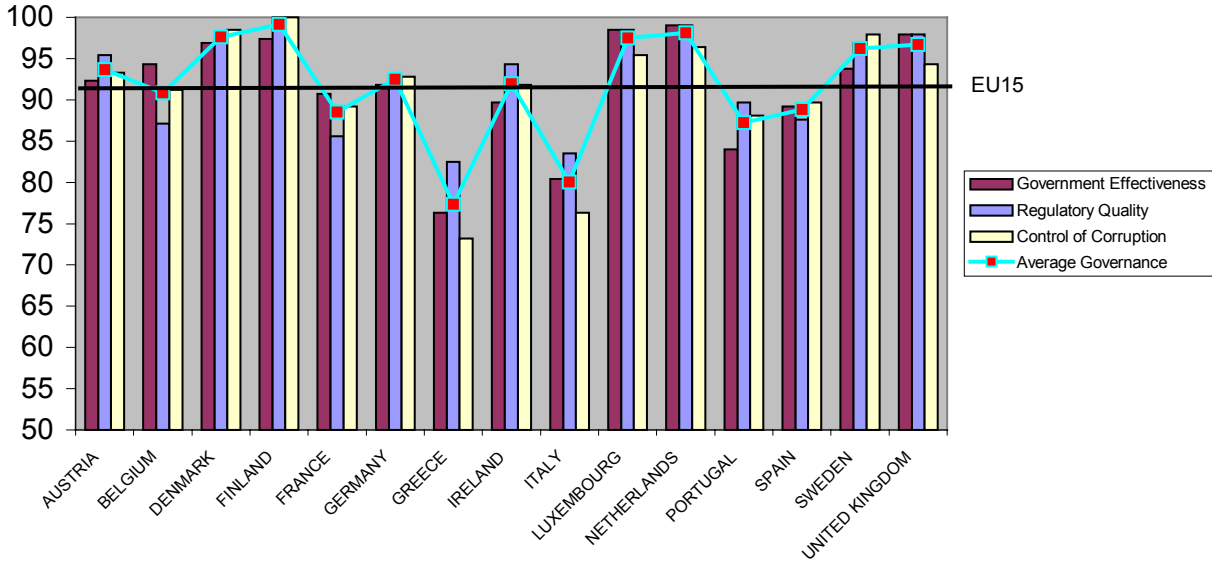
Table 4: Degree of heterogeneity in attitudes of the EU15 countries

	Policy fields with EU preference	Deviations from majority position	Accord index	Uncertainty
GER	14	1	1.00	6.4
IRL	12	1	1.00	8.3
P	13	2	0.99	11.5
DK	10	3	0.96	6.7
L	14	3	0.99	7.7
A	13	4	0.91	5.5
B	17	4	0.97	4.9
F	17	4	0.97	5.7
FIN	10	5	0.89	5.8
UK	8	5	0.90	7.2
S	8	5	0.90	6.9
NL	16	5	0.97	11.0
E	19	6	0.91	10.4
GR	17	6	0.91	19.3
I	22	9	0.80	5.4
Mean	14	4	0.94	8.2
Min	8	1	0.80	4.9
Max	22	9	1.00	19.3

Table 4 shows that the center preference is that of Germany and Ireland which both prefer an allocation of powers distinct from the majority position only in a single policy field (Germany with respect to *Defense Policy* and Ireland with respect to *Unemployment*). Due to its political capacity, Germany can be considered as the EU' s political gravity center. Closely attached with their preferences are the four smaller countries Ireland, Portugal, Luxemburg, and Austria. Belgium and France constitute another powerful political pole of joint preferences, however, with a much stronger emphasis on EU centralization than the "Germany group", especially in the aforementioned fields of *Immigration, Political Asylum, and Refugees*. Dutch citizens are closer to this group than to the "German Group". Only with respect to the unemployment problem, they prefer national decisions, which can be easily explained by the relative success of national labor market policies. Skepticism about the EU seems to be most apparent in the Scandinavian countries Denmark, Sweden and Finland, and the U.K., where citizens prefer national decisions in the majority of policy issues. A fourth group is constituted by Spain, Greece, and Italy. These countries are again quite optimistic

about the higher effectiveness of EU-located decision-making, but seem to prefer centralized decisions in many policy fields, where the other two gravity centers, despite their broad EU commitment, would prefer national administration. Their common characteristic is the preference of EU policies with respect to juvenile crime, which can be seen as an indication that national authorities do not succeed in this domain and consequently the hopes for an improvement are attributed to the EU. This line of reasoning receives support from the specific case of Italian citizens, who seem to be overly EU optimistic in preferring national decision competence only for issues as police, urban crime and the media.¹⁹ Empirical support for this argument can be obtained through a consultation of the World Bank's *Governance Indicators*.²⁰ Figure 2 shows the scores for three indicators that can be considered to represent the capacity and competence of national governments.²¹ Concurrent with the above reasoning, the governance scores for Italy, Greece and also Spain are at the bottom end of the EU15 sample.

Figure 2: National Governance in the EU15 countries



¹⁹ This strong protruding support for a shift of political responsibilities to the EU-level was already present in the early 1990s ahead of the preparations of the common market. See Kuntze, O.-E. (1990), p. 41.

²⁰ The indicators are compiled as percentile ranks indicating the share of countries in a worldwide perspective that are rated below a particular country. See Kaufmann, Kraay, and Mastruzzi (2003), <http://info.worldbank.org/governance/>.

²¹ For a discussion of the measurement problems of these and other governance indicators, see, e.g. Ahrens and Meurers (2002).

Furthermore, Table 4 reveals that there is a negative correlation between accordance with the majority and the duration of membership in the EU, e.g., if one looks at the indicators for Greece, Austria, and the Scandinavian countries. The latent EU- and Euro-skeptic British certainly provide an exception from this rule. Regarding the uncertainty in the preferences of the countries' citizens, the proposed indicator seems to be independent of overall EU support or the extent of deviation from the majority position. The only regularity that one might recognize is that smaller countries like Portugal, Greece, Austria, and the Netherlands tend to have a greater variability in the preferences of their citizens. Finally, note that the number of deviations from majority and the accord index lead to almost identical conclusions.

3.3 Comparison with the preferences of the new member states

Table 5 summarizes the preference indicators with respect to the 25 policy fields of the citizens in the C12 countries. It is immediately obvious from the results that the candidate countries have a much stronger preference for EU-level decisions than the current member countries. All six policy-fields that are controversial among the EU15 are clearly preferred at

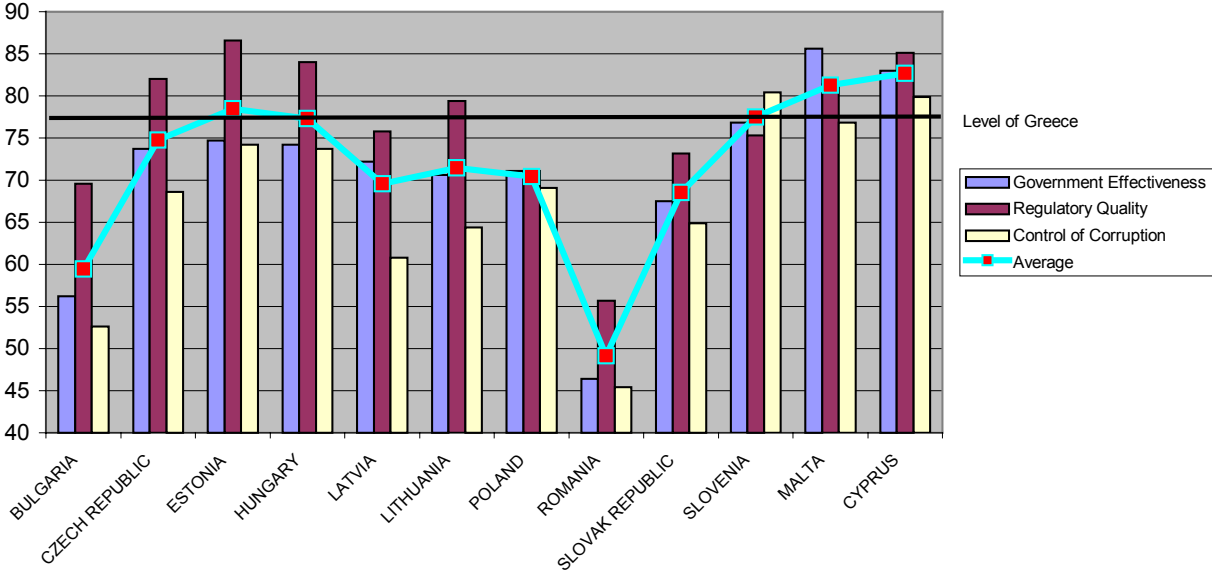
Table 5: Indicators of preferences for centralization in the C12 sample

	D	L50	Mean	S.D.
Exploit. Hum beings	12.0	100.0%	-71.3	13.5
Drugs	12.0	100.0%	-67.4	14.0
Organised crime	12.0	100.0%	-64.4	16.6
Information EU	12.0	100.0%	-64.2	10.8
Research	12.0	100.0%	-58.3	12.6
Humanitarian aid	12.0	100.0%	-57.4	12.0
Regional aid	12.0	100.0%	-49.0	13.3
Foreign Policy	12.0	100.0%	-48.6	12.9
Poverty/social exclusion	12.0	100.0%	-47.8	13.3
Unemployment	12.0	100.0%	-43.1	15.9
Environment	11.0	100.0%	-35.5	11.5
Currency	10.0	100.0%	-36.3	26.3
Defence	10.0	100.0%	-30.0	19.0
Juvenile crime	9.0	100.0%	-24.3	16.1
Health and social welfare	8.0	100.0%	-21.1	19.8
Immigration	7.0	100.0%	-19.6	18.4
Political asylum	7.0	100.0%	-17.9	17.9
Education	5.0	100.0%	-12.1	16.5
Accepting refugees	5.0	100.0%	-11.0	17.5
Agric.& Fishing	4.0	100.0%	-15.0	21.0
Urban crime	3.0	99.2%	-12.4	25.1
Mean EU	9.5	100.0%	-38.4	16.4
Justice	0.0	24.2%	-0.3	14.7
Police	0.0	7.8%	4.6	16.8
Mean undecided	0.0	16.0%	2.1	15.7
Media	-5.0	0.0%	10.4	25.3
Cultural Policy	-7.0	0.0%	13.3	20.0
Mean NAT	-6.0	0.0%	11.9	22.7
Mean Total	7.5	85.2%	-31.2	16.8

the central level. Moreover, the four policy domains *Health and Social Welfare*, *Juvenile Crime*, *Urban Crime* and *Education*, that are overwhelmingly preferred at national levels by the EU15, are also included in the set of policy fields that C12 countries would like to have

administered by European institutions. The parallel to the preferences of Italian, Greek and partly Spanish citizens indicates that the skepticism about the competence and capacities of national authorities to provide sufficient security and transparency are the likely causes for this supranational tendency. Again, this can be underpinned by a consultation of the World Bank Governance Indicators. In comparison with the data presented in Figure 2, the governance indicators for the C12 countries are significantly below the EU-average of roughly 92, and only Malta and Cyprus lie significantly above the average of indicators for Greece, the country with the lowest institutional performance in the current EU.

Figure 3: National Governance in the C12 countries



Controversies among the candidate countries remain about the assignment of *Police* and *Justice*. Unfortunately, the existing alliances with Malta, Estonia, and Bulgaria in favor of national decisions and Romania and Slovakia, and Slovenia in favor of an EU location do not provide for a starting point to infer any reason for this preference distribution. Finally, the candidate countries share the preferences with the current members for decentralization only with respect to *Media* related and *Cultural Policies*.

The only major difference between the correlation matrices for the EU15 and the C12 sample can be found for *Agriculture and Fishing*. The EU15 seem to associate these policies with environment and defense, which can be interpreted as serving as a proxy for protection of nature. The C12, however, regard issues of agriculture and fishing to be linked with their economic perspective as the high correlations with unemployment, health and social welfare, and poverty and social exclusion suggest.

Comparing the standard deviations of the preference indices of the two groups (last column in Table 3 and 5) one cannot find a notable difference in the heterogeneity of the preferences within the two groups. There is even a slight tendency for tighter attitudes of the candidate countries. Interestingly, in both groups the preferences seem to be most disparate with respect to a common *Currency*. The high within-group heterogeneity of the EU15 sample with respect to *Defense* and *Immigration* is not shared by the sample of candidate countries.

Table 6: Degree of heterogeneity in the preferences of the C12 countries

	Policy fields with EU preference	Deviations from majority position	Accord index	Uncertainty
Czech	22	1	0.99	5.6
Cyprus	22	1	0.98	3.6
Poland	23	2	0.97	2.9
Latvia	21	2	0.97	4.1
Lithuania	19	2	0.97	3.3
Hungary	21	2	0.95	5.7
Slovakia	22	3	0.97	4.2
Estonia	18	3	0.95	2.4
Romania	25	4	0.92	2.8
Slovenia	25	4	0.92	7.6
Bulgaria	17	4	0.91	3.1
Malta	13	8	0.78	3.7
Mean	21	3	0.94	4.1
Min	13	1	0.78	2.4
Max	25	8	0.99	7.6

The similar degree of within-group heterogeneity between the EU15 and the C12 is also reflected in the country specific preferences of the C12. The majority position of this group is in favor of centralizing the first 21 policy domains of Table 5 and decentralizing the 4 domains *Justice, Police, Media, and Cultural Policy*. It is not represented by the citizens of a specific country, but, according to the number of deviations, the Czechs and Cypriots come closest to it (Czechs additionally prefer issues of Justice at the EU level, whereas Cypriots additionally prefer media-related policies by the EU). The citizens of the other countries down the list to Romania are in close vicinity of these positions. They prefer the one or the other policy field more or less at the national or the EU level, without any significantly different overall EU confidence. Romania and Slovenia constitute the high end with complete commitment to EU institutions. A more skeptic view about the EU seems to persist in Bulgaria and Malta, since these countries like to have a much higher number of policy fields kept with national authorities. Comparing the summary statistics, the similarity of within-group heterogeneity to the EU15 sample is confirmed. The minimum and the maximum

number of deviations from the majority position are with 3 to 8 only slightly smaller than in the EU15 sample, and the accordance indices have exactly the same mean, with almost identical upper and lower bounds.

We can summarize the results of the empirical analysis as follows: The candidate countries are clearly more enthusiastic about centralized EU decisions than the current member states. This is reflected in the candidates' preference for EU decision-making in 21 of the 25 policy fields in comparison to the much smaller set of 11 policy domains favored by the EU15 countries. A natural explanation for this result is the candidates' desire to have certain issues administered by EU institutions, where national authorities do not have the capacity yet. This also includes policy fields, like *Health and Social Welfare*, *Education*, as well as *Juvenile* and *Urban Crime*, for which decentralized administration is clearly more efficient. Obviously, the citizens in the candidate countries prefer rather a slightly inefficient EU administration of policies for security and an improvement of livelihood than relying on their national politics and bureaucracy. Notwithstanding these pronounced differences with respect to centralization, the above indicators point out that, within the two country groups, a similar degree of heterogeneity exists in relation to a central preference. Hence, the candidate countries are not more flexible in their position than the EU15; the only difference is the clear bias toward more centralization.

As pointed out by Alesina et al. (2001a), the preferences of the current EU members are in line with an economically rational allocation of political domains to national and supranational decision levels. In addition, they seem to represent a demand for common EU policies and a joint EU position in response to rapid global changes, which is indicated by the correlation of the preferences over a mixture of policy domains that includes economy, security and international relations. The heterogeneity among the EU15 is most distinctive with respect to the policy cluster of *Immigration, Asylum and Refugees, Defense* and *Labor market* policies. The reasons of this preference distribution can be mainly seen in geographical characteristics, past political experiences and the perceived failure of national policies. Main political poles can be seen in France, Belgium, Italy and Spain, with their clear preference for centralized decisions regarding the "immigration cluster" in opposition to the U.K and the Scandinavian countries, which, in addition, prefer decentralized decisions with respect to unemployment, agriculture and fishing, and defense policies. Thus, in spite of possible constraints by the assignment of voting powers, the inclusion of the C12 countries tends to increase the difficulty for the latter fraction to influence EU politics according to their

citizens' preferences. A final point is the heterogeneity with respect to certain policy fields beyond the simple bipolar question of centralized versus decentralized decisions. Notably the high standard deviation of the preference indices for *Currency* in both groups indicates that apart from the location of decisions, there exists also a high degree of heterogeneity with respect to actual policies. Therefore, especially in this domain, joint EU decisions are likely to become more difficult to achieve in an enlarged EU.

3.4 Outlook for future decision-making in the EU

An important question that arises from the former analysis is whether the increased heterogeneity of preferences in an enlarged EU leads to a smaller scope for majorities within the actual decision-making institutions. In the Union's current institutional framework, the European Council and the Council of Ministers can be considered as the preeminent platforms for legislative decisions. Evidently, the question of deepening EU-administration in certain policy fields, which has been in the center of the previous discussion, will not be directly subjected to a Council vote. Nevertheless, there will be numerous decisions on specific matters that could bring about more EU involvement and centralization. Still, as pointed out by Garrett and Tsebelis (1996), the focus on Council voting is only a crude simplification of the power structure within the EU. In reality, a much more complicated interaction takes place between the European Parliament, the European Commission, and the Council. Therefore, we consider our results not as a definite characterization of decision processes but rather a possible indication for outcomes conflicting with economic rationality.

In anticipation of the future enlargement, the Treaty of Nice in December 2000 brought about a substantial reform of the voting procedures in the Council. For many policy fields (articles) the requirement of an unanimous vote was removed. It is still required though for important decisions relating to some of the Eurobarometer policy fields, like social policy, immigration and political asylum. Furthermore, the distribution of votes was renegotiated and, by extending the number of total votes, the future weights of the new member countries were also fixed. This included an upward adjustment of the threshold number of votes for a qualitative majority (QM).²² The most essential amendment of the Treaty, however, is the introduction of a triple majority requirement. Not only a qualified majority of votes is needed,

²² For details, see Tsebelis and Yatağanas (2002), pp. 285.

as previously, but also an absolute majority of member states, and, as an additional safety net upon request of a country, also a 62% majority of the total EU population. The second requirement invalidates some QM with fewer than 8 (EU15) or 14 (EU27) member states but certainly there are also coalitions of an absolute majority of countries that cannot reach a QM. The last requirement can override the former two but there are also coalitions of more than 62% of the populations that do not comprise with the requirements for a QM and a majority of countries.²³ The new voting method will be introduced after 1 January 2005. ***It will be effective for the EU15 even if none of the potential candidates joins the Union [check].*** In this case, the EU15 countries have altogether 237 votes such that the qualified majority is fixed at 169 (71.3%). In case of complete enlargement, the 27 countries will have 345 votes in total, and the threshold for a QM will rise to 258 (74.8%).²⁴

The benchmark in our analysis is the voting procedure of the EU15 before the Treaty of Nice, which was primarily based on decision-making by a qualitative majority. We would like to quantify the scope for decision of the Council in favor of more centralization. Specifically, we are interested in the likely results of voting on the policy fields that have been previously detected as most controversial among the current members. To calculate the likelihood of majorities, we proceed in a similar fashion as in the calculation of the index ***L50***.²⁵ The resulting likelihoods are shown in the fifth column of Table 7. Comparing the results with the previously analyzed majorities of counties (see L50 in Table 3), voting under the system before Nice turns out to lead exactly to the same assignment of those policy fields with clear majorities for either centralization or decentralization. Notably in the controversial policy fields, pre-Nice voting yields a very low likelihood of decisions in favor of more centralization, even in cases when a majority of either countries or citizens (compare with the first and the second column) has different preferences. Thus, we can conclude that even the less restrictive pre-Nice voting system already produces rather conservative results with respect to the question of centralization. Or, to put it differently, already the old system

²³ A example in the case of the EU15 is the coalition between Germany, United Kingdom, France and Italy.

²⁴ In detail, the votes are distributed as follows (Pre-Nice votes in brackets): 29 (10): Germany, France, United Kingdom and Italy, 27: Spain (8) and Poland, 14: Romania, 13: The Netherlands (5), 12: Greece (5), Czech Republic, Belgium (5), Hungary and Portugal (5), 10: Sweden (4), Bulgaria, Austria (4), 7: Slovakia, Denmark (3), Finland (3), Ireland, Lithuania, 4: Latvia, Slovenia, Estonia, Cyprus, Luxemburg (2), 3: Malta.

²⁵ Again, from the estimated normal distribution of each countries preference, we derive the probability of a country voting in favor of centralized decision-making. With these probabilities we conduct 10,000 Bernoulli experiments for each county. For each country the decision (1 for centralized, 0 for decentralized decisions) is multiplied by the votes in the council. Then, it is determined whether a majority occurs according to the requirement of a qualitative majority (pre Nice) or to the triple majority requirement. In the end the number of majorities is put into relation with the number of experiments.

guarantees a relatively powerful position of those countries with a preference for more national responsibilities. Taking into account the new distribution of votes and the triple requirement for majorities of the Nice Treaty leaves the likelihood of majorities almost unchanged (see the sixth column). Note, however, that this is not a general conclusion for voting under the new rules. Because of the triple majority requirement the new system is far more rigid in general. As Tsebelis, and Yatanganas (2002) show using the concept of the core,

Table 7: Preferences for centralization and Council voting

	Likelihood of majority of member states		Share of the Population		Likelihood of QM		
	EU15	EU27	Pop EU15	Pop EU27	EU15 pre Nice	EU15 post Nice	EU27
	(1)	(2)	(3)	(4)	(5)	(6)	(7)
	<i>Percentages</i>		<i>Percentages</i>		<i>Percentages</i>		
Exploit. Hum beings	100.0	100.0	76.5	77.6	100.0	100.0	100.0
Information EU	100.0	100.0	71.5	71.9	100.0	100.0	100.0
Regional aid	100.0	100.0	60.4	62.4	100.0	100.0	100.0
Foreign Policy	100.0	100.0	69.9	69.1	100.0	100.0	100.0
Organised crime	93.3	96.3	68.4	70.9	100.0	100.0	100.0
Research	100.0	100.0	66.3	67.3	100.0	100.0	100.0
Drugs	100.0	100.0	67.6	70.5	100.0	100.0	100.0
Humanitarian aid	86.7	92.6	68.1	69.4	100.0	100.0	100.0
Poverty/social exclusion	100.0	100.0	62.8	64.2	100.0	100.0	100.0
Currency	80.0	85.2	61.5	62.1	99.2	99.4	100.0
Environment	73.3	85.2	59.6	60.7	87.5	91.2	99.9
Agric. & Fishing	53.3	63.0	48.4	49.6	2.5	6.8	6.2
Political asylum	46.7	66.7	50.0	51.1	0.2	0.3	3.1
Immigration	40.0	63.0	48.9	50.8	0.0	0.1	3.3
Defence	46.7	66.7	48.4	51.2	0.0	0.0	7.3
Accepting refugees	46.7	59.3	51.3	51.7	0.0	0.1	3.9
Unemployment	53.3	74.1	50.9	54.9	12.0	11.6	55.3
Juvenile crime	26.7	55.6	42.7	46.1	0.0	0.0	0.0
Urban crime	13.3	33.3	37.6	41.2	0.0	0.0	0.0
Cultural Policy	13.3	14.8	39.3	39.3	0.0	0.0	0.0
Media	6.7	18.5	34.9	35.8	0.0	0.0	0.0
Justice	6.7	25.9	35.8	38.3	0.0	0.0	0.0
Health and social welfare	6.7	44.4	33.3	38.6	0.0	0.0	0.0
Education	6.7	37.0	32.7	36.8	0.0	0.0	0.0
Police	0.0	14.8	31.3	34.9	0.0	0.0	0.0

there are fewer coalitions that survive under the new blocking rules.²⁶ In contrast to this general conclusion, our results here crucially depend on the particular distribution of preferences.

Finally, in the last column of Table 7, we calculated the likelihood of majorities in an enlarged EU27. As far as the six controversial issues are concerned, apart from the decisions about labor market and defense policies, the likelihoods of majorities increase only slightly. Surprisingly, in both cases, of EU15 as well as EU27 voting under the triple majority requirement, the likelihood for a decision for centralization is never reduced by the introduction of the second and third requirement. Therefore, one can conclude that the institutional safeguards for preserving the status quo of the intensity of centralization are not binding yet, even though heterogeneity increased.

In sum, the old, the current and the future voting scheme of the Council has a tendency to prevent majorities even in policy fields where there are clear majorities of countries and citizens in favor of more centralization. The only change that might occur through enlargement is a much stronger position of the proponents of EU administration with respect to defense policies and even to a much larger extent with respect to labor market policies. Since the provision of decentralized labor market policies is presumably more efficient than centralization, this result is a first indication for the requirement of more institutional flexibility. Not less important is the cemented negation of supranational policies to regulate immigration and political asylum. Here, economic reasoning would suggest that such policies could be devised most efficiently on a centralized scale. Therefore, enlargement might reduce the chances to reach an agreement about this issue, and also might be used as bargaining potential of the new countries in exchange for an intensified EU involvement in labor market issues.

4. The Need for Greater Flexibility of the European Integration Process

The preceding empirical analysis supports the view that greater flexibility is an unalterable precondition to cope adequately with the enlargement-cum-deepening challenge and the problem of increasing heterogeneity.²⁷ The strong preference of candidate countries in favor

²⁶ Tsebelis, and Yatahanas (2002) conclude that the difficulty of reaching legislative decisions increases as a result of the extend veto powers within the council. They expect the role of the judiciary and bureaucracy in the EU to become more important, because the difficulty of changing the status quo in response to the execution of courts and bureaucracy offers these players more discretion. In anticipation of this, any new legislation will install more restrictions for the executive, thus making judiciary and bureaucratic procedures more complicated.

²⁷ This section largely follows the arguments in Ahrens and Hoen (2002).

of centralized policy making induces the danger that the EU will be overtaxed with tasks, which should be – from a normative point of view – assigned to the national level of government. The current voting schemes especially in the Council of Ministers may be suitable to constrain these demands at the margin. But as the example of labor market policy shows, in fields in which the EU15's preferences themselves are relatively diverse, it may occur that even the currently rigid voting rules cannot avoid a tendency toward over-centralization.

In general, the empirics imply that the present EU voting scheme (with its triple majority requirement) might be an imperfect device to yield an allocation of policy prerogatives that meets the normative criteria developed in Section 2. This leads us to propose – probably as the only politically feasible alternative – a normative assignment of policy responsibilities to either the EU-level or national governments as a fundamental part of a European Constitution. Such a constitutional anchor would be also suitable to avoid logrolling, because countries would be effectively constrained which otherwise would be inclined to use their bargaining power in the Council of Ministers to exchange their votes against special privileges.

The constitutional safeguard could be usefully complemented by the realization of an overall integration strategy that seeks to foster flexibility of the European integration process. In order to foster flexibility and, yet, avoid an undesirable rank growth of the overall integration process, the European deepening-cum-enlargement process needs to be rule-based, transparent, predictable, and efficient in order to account for country-specific heterogeneities with respect to different areas of integration. This condition could be basically fulfilled by combining two distinct concepts of integration: *graduated integration* and *differentiated integration*.²⁸

The concept of graduated integration means that a group of member states, which are willing and capable of making progress in distinct areas of integration at a higher pace than others, are allowed to do so. The remaining countries are obliged to follow according to specific criteria.²⁹ The pursued objective is the same for all EU-members. This concept would underlie all areas of integration in which deepening is obligatory for everybody.

The concept of differentiated integration allows groups of countries to foster integration in specific areas. Non-participating countries do not have a right to veto, and besides, they are

²⁸ These concepts are discussed at greater length in Janning and Giering (1998) and Janning and Weidenfeld (1996).

²⁹ The process of European monetary integration provides an example for an application of this concept in the past. The graduated process started with a few countries keeping their exchange rates within well-defined bounds (the so-called "Snake"). Then it moved onwards to the EMS and finally to the EMU with the Maastricht criteria as conditions for entry of further countries.

not obliged to join the group at a later stage. Moreover, the concept could be also applied at sub-national levels allowing regional or local jurisdictions to form groups seeking to coordinate policies and regulations and hence to solve common problems together. Accordingly, various (even competing) clubs (consisting of various jurisdictions within the EU) could emerge. The member of the groupings agree upon the rules, the objective, and the pace in those areas which are subject to differentiation. Outsiders do not have any right to co-determination, but they are to be granted an opting-in clause if they agree with the respective club's rules and objectives. In addition, this concept requires that hard budget constraints and appropriate budgetary procedures are in place within single groups of jurisdictions which enforce the principle of equivalence. In this concept, deepening is not obligatory, but numerous deepening options exist.

An obligation to deepen integration, i.e. the application of the graduated-integration concept, is necessary in the case of pure Samuelson goods; e.g. in order to secure the existence of the Internal Market, to conduct defense or the controversial immigration policy³⁰, and finally to avoid backward steps in the integration process. In other words: Obligatory deepening is required as far as supranational (European wide) public goods are concerned. It is these goods where the benefits of internalizing external effects and scale economies will exceed the costs that result from common policies and regulations when (national) preferences are heterogeneous. No deepening but possibly the application of a differentiated integration strategy would be efficient if this balance had a negative sign. This includes areas such social welfare, regional aid, sectoral business relations, and of course labor-market policies, where we found that the candidate countries could tip the scales toward inefficient centralization.

Together the graduated and the differentiated concept of integration ensure flexibility in designing the integration process both with regard to time and substance and account for country-specific heterogeneities. Most importantly, these concepts meet the economic criteria regarding the assignment of policy prerogatives to different levels of government that is emphasized in Section 2 of this paper. Besides some core realms in which the policy prerogatives should be transferred to the European level and with respect to which the concept of graduated integration is to be applied, this strategy opens up several political degrees of

³⁰ Working examples of graduated defense policies are the French-German military corps, the joint development and production of arms, e.g., the air-carrier Airbus A400M, and the development of a military infrastructure and capacities in Europe under the framework for a European Security and Defense Policy (ESDP), the so-called Helsinki Headline Goal.

freedom for national governments and sub-national jurisdictions which can be exploited individually or through cooperation in smaller country groupings. Eventually, these degrees of freedom in policy and rule making stimulate systemic competition and enhance the adaptive efficiency of the institutional matrix governing policy making in the EU.³¹

5. Conclusion

In order to enhance the quality of policy making in the EU, it is concluded that the increasing heterogeneity of EU-membership requires the elaboration and implementation of a more flexible integration strategy as well as a strengthening of domestic institutions in EU member countries.

Weak national governance structures imply a tendency toward greater political centralization in the EU. Evidence from Spain, Greece, and Italy as well as from all accession candidates suggests that citizens in all these countries prefer harmonization of policy making at the European level over decentralization. This can be (at least partly) explained by the relative ineffectiveness of their domestic political institutions and hence the lack of citizen confidence with respect to the problem-solving capabilities of their national governments. In contrast, citizens in those EU-member countries, who assess their domestic institutions as being effective, essentially prefer decentralization of policy prerogatives over harmonization. Given the economic rationale for an efficient assignment of responsibilities to different levels of government in the EU, it appears to be desirable to embed this rationale into a future European constitution. This should be complemented by the implementation of a graduated cum differentiated approach into the institutional matrix of the EU.

In addition, EU members with relatively weak domestic governance structures should be encouraged by the introduction of a proper incentive scheme to improve the quality of their domestic economic and political institutions and hence craft a secure politico-institutional foundation of economic policy making. This would enhance citizens' trust in domestic institutions and confidence in national (and potentially regional) governments. Moreover, such incentives for institutional progress would contribute to an adjustment of citizens' preferences, so that a greater, economically more efficient devolution of political competencies within the EU could take place and thereby greater flexibility of the European integration process could be realized.

³¹ This approach to flexible integration has been further developed by Ahrens and Hoen (2002).

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Appendix:

Correlation coefficient of preference indicators for the EU15

	Defence	Environment	Currency	Hum. aid	Health SW	Media	Poverty soc. excl.	Unemployment	Agric. Fish	Reg. aid	Education	Research	Info_EU	Foreign Pol	Cultural Pol	Immigration	Pol. asylum	Org. crime	Police	Justice	Acc. refugees	Juvenile crime	Urban crime	Drugs	Expl. Hum
Defence	1.00	0.88	0.77	0.75	0.57	0.17	0.64	0.52	0.88	0.48	0.47	0.74	0.71	0.85	0.54	0.80	0.75	0.62	0.72	0.71	0.80	0.47	0.18	0.67	0.71
Environment	0.88	1.00	0.78	0.83	0.67	0.22	0.70	0.58	0.87	0.43	0.58	0.72	0.73	0.79	0.56	0.90	0.88	0.66	0.80	0.81	0.89	0.57	0.23	0.67	0.70
Currency	0.77	0.78	1.00	0.74	0.60	0.55	0.74	0.70	0.70	0.60	0.67	0.89	0.83	0.90	0.58	0.80	0.82	0.77	0.84	0.79	0.76	0.72	0.53	0.80	0.83
Hum. aid	0.75	0.83	0.74	1.00	0.82	0.49	0.81	0.68	0.77	0.51	0.70	0.82	0.72	0.81	0.76	0.89	0.87	0.36	0.86	0.88	0.89	0.59	0.28	0.69	0.55
Health SW	0.57	0.67	0.60	0.82	1.00	0.50	0.80	0.81	0.56	0.51	0.80	0.68	0.44	0.55	0.77	0.76	0.72	0.09	0.81	0.81	0.76	0.80	0.58	0.42	0.19
Media	0.17	0.22	0.55	0.49	0.50	1.00	0.54	0.42	0.07	0.42	0.52	0.53	0.56	0.55	0.75	0.34	0.43	0.19	0.56	0.64	0.35	0.57	0.58	0.36	0.30
Poverty socialexcl.	0.64	0.70	0.74	0.81	0.80	0.54	1.00	0.89	0.56	0.52	0.93	0.77	0.72	0.75	0.85	0.81	0.80	0.40	0.93	0.83	0.81	0.82	0.58	0.73	0.52
Unemployment	0.52	0.58	0.70	0.68	0.81	0.42	0.89	1.00	0.45	0.34	0.93	0.66	0.54	0.60	0.69	0.75	0.72	0.33	0.81	0.72	0.77	0.86	0.69	0.67	0.38
Agric_Fish	0.88	0.87	0.70	0.77	0.56	0.07	0.56	0.45	1.00	0.60	0.40	0.65	0.67	0.76	0.36	0.76	0.70	0.57	0.65	0.62	0.74	0.36	0.07	0.61	0.67
Reg_aid	0.48	0.43	0.60	0.51	0.51	0.42	0.52	0.34	0.60	1.00	0.39	0.68	0.49	0.53	0.37	0.42	0.41	0.30	0.56	0.47	0.33	0.46	0.39	0.30	0.39
Education	0.47	0.58	0.67	0.70	0.80	0.52	0.93	0.93	0.40	0.39	1.00	0.67	0.54	0.58	0.76	0.76	0.76	0.31	0.86	0.76	0.75	0.85	0.61	0.65	0.40
Research	0.74	0.72	0.89	0.82	0.68	0.53	0.77	0.66	0.65	0.68	0.67	1.00	0.75	0.81	0.67	0.82	0.81	0.52	0.83	0.79	0.74	0.65	0.45	0.65	0.66
Info EU	0.71	0.73	0.83	0.72	0.44	0.56	0.72	0.54	0.67	0.49	0.54	0.75	1.00	0.95	0.68	0.72	0.77	0.68	0.69	0.79	0.71	0.45	0.25	0.73	0.84
Foreign Policy	0.85	0.79	0.90	0.81	0.55	0.55	0.75	0.60	0.76	0.53	0.58	0.81	0.95	1.00	0.71	0.78	0.81	0.69	0.79	0.84	0.79	0.54	0.31	0.79	0.84
Cultural Policy	0.54	0.56	0.58	0.76	0.77	0.75	0.85	0.69	0.36	0.37	0.76	0.67	0.68	0.71	1.00	0.69	0.71	0.19	0.78	0.86	0.73	0.68	0.49	0.50	0.34
Immigration	0.80	0.90	0.80	0.89	0.76	0.34	0.81	0.75	0.76	0.42	0.76	0.82	0.72	0.78	0.69	1.00	0.99	0.56	0.85	0.86	0.98	0.63	0.28	0.69	0.64
Pol. Asylum	0.75	0.88	0.82	0.87	0.72	0.43	0.80	0.72	0.70	0.41	0.76	0.81	0.77	0.81	0.71	0.99	1.00	0.61	0.85	0.89	0.96	0.63	0.28	0.70	0.68
Org. crime	0.62	0.66	0.77	0.36	0.09	0.19	0.40	0.33	0.57	0.30	0.31	0.52	0.68	0.69	0.19	0.56	0.61	1.00	0.52	0.44	0.55	0.39	0.24	0.71	0.90
Police	0.72	0.80	0.84	0.86	0.81	0.56	0.93	0.81	0.65	0.56	0.86	0.83	0.69	0.79	0.78	0.85	0.85	0.52	1.00	0.88	0.86	0.83	0.57	0.75	0.60
Justice	0.71	0.81	0.79	0.88	0.81	0.64	0.83	0.72	0.62	0.47	0.76	0.79	0.79	0.84	0.86	0.86	0.89	0.44	0.88	1.00	0.86	0.69	0.41	0.59	0.56
Acc. refugees	0.80	0.89	0.76	0.89	0.76	0.35	0.81	0.77	0.74	0.33	0.75	0.74	0.71	0.79	0.73	0.98	0.96	0.55	0.86	0.86	1.00	0.65	0.31	0.72	0.60
Juvenile crime	0.47	0.57	0.72	0.59	0.80	0.57	0.82	0.86	0.36	0.46	0.85	0.65	0.45	0.54	0.68	0.63	0.63	0.39	0.83	0.69	0.65	1.00	0.90	0.60	0.35
Urban crime	0.18	0.23	0.53	0.28	0.58	0.58	0.58	0.69	0.07	0.39	0.61	0.45	0.25	0.31	0.49	0.28	0.28	0.24	0.57	0.41	0.31	0.90	1.00	0.40	0.13
Drugs	0.67	0.67	0.80	0.69	0.42	0.36	0.73	0.67	0.61	0.30	0.65	0.65	0.73	0.79	0.50	0.69	0.70	0.71	0.75	0.59	0.72	0.60	0.40	1.00	0.84
Expl. Hum	0.71	0.70	0.83	0.55	0.19	0.30	0.52	0.38	0.67	0.39	0.40	0.66	0.84	0.84	0.34	0.64	0.68	0.90	0.60	0.56	0.60	0.35	0.13	0.84	1.00

Correlation coefficient of preference indicators for the C12

	Defence	Environment	Currency	Hum. aid	Health sw	Media	Poverty soc. excl	Unemployment	Agric. Fish	Reg. aid	Education	Research	Info_EU	Foreign Pol	Cultural Pol	Immigration	Pol. asylum	Org. crime	Police	Justice	Acc. refugees	Juvenile crime	Urban crime	Drugs	Expl. Hum
Defence	1.00	0.74	0.73	0.80	0.40	0.05	0.72	0.71	0.53	0.62	0.57	0.74	0.81	0.83	0.25	0.57	0.45	0.93	0.76	0.76	0.35	0.64	0.37	0.89	0.88
Environment	0.74	1.00	0.66	0.82	0.51	0.42	0.76	0.69	0.80	0.67	0.41	0.81	0.81	0.74	0.61	0.61	0.68	0.80	0.78	0.58	0.54	0.77	0.61	0.73	0.73
Currency	0.73	0.66	1.00	0.79	0.46	0.46	0.57	0.67	0.63	0.53	0.27	0.59	0.85	0.63	0.50	0.67	0.68	0.88	0.67	0.61	0.55	0.59	0.41	0.90	0.88
Hum. aid	0.80	0.82	0.79	1.00	0.67	0.39	0.80	0.75	0.79	0.78	0.30	0.82	0.96	0.88	0.48	0.82	0.82	0.91	0.66	0.59	0.69	0.74	0.44	0.90	0.91
Health SW	0.40	0.51	0.46	0.67	1.00	0.78	0.74	0.76	0.84	0.71	0.51	0.61	0.53	0.58	0.61	0.54	0.73	0.44	0.58	0.60	0.72	0.82	0.66	0.42	0.44
Media	0.05	0.42	0.46	0.39	0.78	1.00	0.48	0.55	0.76	0.44	0.32	0.40	0.34	0.26	0.78	0.34	0.65	0.19	0.45	0.39	0.64	0.65	0.67	0.18	0.19
Poverty socialexcl.	0.72	0.76	0.57	0.80	0.74	0.48	1.00	0.92	0.83	0.91	0.71	0.90	0.74	0.82	0.56	0.52	0.62	0.68	0.79	0.74	0.59	0.82	0.49	0.61	0.62
Unemployment	0.71	0.69	0.67	0.75	0.76	0.55	0.92	1.00	0.87	0.88	0.67	0.82	0.68	0.71	0.53	0.53	0.63	0.71	0.83	0.76	0.62	0.80	0.50	0.66	0.65
Agric_Fish	0.53	0.80	0.63	0.79	0.84	0.76	0.83	0.87	1.00	0.82	0.45	0.81	0.69	0.65	0.70	0.59	0.81	0.63	0.74	0.61	0.75	0.88	0.71	0.59	0.59
Reg. aid	0.62	0.67	0.53	0.78	0.71	0.44	0.91	0.88	0.82	1.00	0.51	0.83	0.71	0.74	0.54	0.50	0.67	0.65	0.73	0.63	0.62	0.82	0.49	0.61	0.62
Education	0.57	0.41	0.27	0.30	0.51	0.32	0.71	0.67	0.45	0.51	1.00	0.50	0.26	0.53	0.48	0.13	0.20	0.33	0.75	0.85	0.28	0.64	0.50	0.25	0.22
Research	0.74	0.81	0.59	0.82	0.61	0.40	0.90	0.82	0.81	0.83	0.50	1.00	0.82	0.79	0.40	0.42	0.53	0.73	0.64	0.55	0.42	0.75	0.47	0.67	0.71
Info EU	0.81	0.81	0.85	0.96	0.53	0.34	0.74	0.68	0.69	0.71	0.26	0.82	1.00	0.86	0.43	0.71	0.72	0.93	0.61	0.53	0.54	0.67	0.37	0.92	0.94
Foreign Policy	0.83	0.74	0.63	0.88	0.58	0.26	0.82	0.71	0.65	0.74	0.53	0.79	0.86	1.00	0.50	0.74	0.71	0.81	0.71	0.72	0.63	0.70	0.35	0.77	0.80
Cultural Policy	0.25	0.61	0.50	0.48	0.61	0.78	0.56	0.53	0.70	0.54	0.48	0.40	0.43	0.50	1.00	0.52	0.77	0.35	0.72	0.64	0.77	0.74	0.71	0.32	0.30
Immigration	0.57	0.61	0.67	0.82	0.54	0.34	0.52	0.53	0.59	0.50	0.13	0.42	0.71	0.74	0.52	1.00	0.89	0.73	0.55	0.52	0.86	0.48	0.24	0.73	0.72
Pol. Asylum	0.45	0.68	0.68	0.82	0.73	0.65	0.62	0.63	0.81	0.67	0.20	0.53	0.72	0.71	0.77	0.89	1.00	0.65	0.64	0.56	0.95	0.72	0.52	0.65	0.65
Org. crime	0.93	0.80	0.88	0.91	0.44	0.19	0.68	0.71	0.63	0.65	0.33	0.73	0.93	0.81	0.35	0.73	0.65	1.00	0.73	0.65	0.50	0.64	0.37	0.99	0.98
Police	0.76	0.78	0.67	0.66	0.58	0.45	0.79	0.83	0.74	0.73	0.75	0.64	0.61	0.71	0.72	0.55	0.64	0.73	1.00	0.91	0.62	0.84	0.68	0.67	0.62
Justice	0.76	0.58	0.61	0.59	0.60	0.39	0.74	0.76	0.61	0.63	0.85	0.55	0.53	0.72	0.64	0.52	0.56	0.65	0.91	1.00	0.61	0.78	0.60	0.61	0.57
Acc. refugees	0.35	0.54	0.55	0.69	0.72	0.64	0.59	0.62	0.75	0.62	0.28	0.42	0.54	0.63	0.77	0.86	0.95	0.50	0.62	0.61	1.00	0.64	0.45	0.50	0.48
Juvenile crime	0.64	0.77	0.59	0.74	0.82	0.65	0.82	0.80	0.88	0.82	0.64	0.75	0.67	0.70	0.74	0.48	0.72	0.64	0.84	0.78	0.64	1.00	0.87	0.61	0.60
Urban crime	0.37	0.61	0.41	0.44	0.66	0.67	0.49	0.50	0.71	0.49	0.50	0.47	0.37	0.35	0.71	0.24	0.52	0.37	0.68	0.60	0.45	0.87	1.00	0.36	0.33
Drugs	0.89	0.73	0.90	0.90	0.42	0.18	0.61	0.66	0.59	0.61	0.25	0.67	0.92	0.77	0.32	0.73	0.65	0.99	0.67	0.61	0.50	0.61	0.36	1.00	0.99
Expl. Hum	0.88	0.73	0.88	0.91	0.44	0.19	0.62	0.65	0.59	0.62	0.22	0.71	0.94	0.80	0.30	0.72	0.65	0.98	0.62	0.57	0.48	0.60	0.33	0.99	1.00