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ESSAYS ON THE POLITICAL ECONOMY OF EUROPEAN INTEGRATION

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INDEX

ESSAYS ON THE POLITICAL ECONOMY OF EUROPEAN INTEGRATION

SUMMARY

Recently, a rising interest in political and economic integration/disintegration issues has been developed in the political economy field. This growing strand of literature partly draws on traditional issues of fiscal federalism and optimum public good provision and focuses on a trade-off between the benefits of centralization, arising from economies of scale or externalities, and the costs of harmonizing policies as a consequence of the increased heterogeneity of individual preferences in an international union or in a country composed of at least two regions.

This thesis stems from this strand of literature and aims to shed some light on two highly relevant aspects of the political economy of European integration. The first concerns the role of public opinion in the integration process; more precisely, how economic benefits and costs of integration shape citizens' support for European Union (EU) membership. The second is the allocation of policy competences among different levels of government: European, national and regional.

Chapter 1 introduces the topics developed in this thesis by reviewing the main recent theoretical developments in the political economy analysis of integration processes. It is structured as follows. First, it briefly surveys a few relevant articles on economic theories of integration and disintegration processes (Alesina and Spolaore 1997, Bolton and Roland 1997, Alesina et al. 2000, Casella and Feinstein 2002) and discusses their relevance for the study of the impact of economic benefits and costs on public opinion attitude towards the EU. Subsequently, it explores the links existing between such political economy literature and theories of fiscal federalism, especially with regard to

normative considerations concerning the optimal allocation of competences in a union.

Chapter 2 firstly proposes a model of citizens' support for membership of international unions, with explicit reference to the EU; subsequently it tests the model on a panel of EU countries.

What are the factors that influence public opinion support for the European Union (EU)? In international relations theory, the idea that citizens' support for the EU depends on material benefits deriving from integration, i.e. whether European integration makes individuals economically better off (*utilitarian support*), has been common since the 1970s, but has never been the subject of a formal treatment (Hix 2005). A small number of studies in the 1990s have investigated econometrically the link between national economic performance and mass support for European integration (Eichenberg and Dalton 1993; Anderson and Kalthenthaler 1996), but only making informal assumptions. The main aim of Chapter 2 is thus to propose and test our model with a view to providing a more complete and theoretically grounded picture of public support for the EU.

Following theories of utilitarian support, we assume that citizens are in favour of membership if they receive economic benefits from it. To develop this idea, we propose a simple political economic model drawing on the recent economic literature on integration and disintegration processes. The basic element is the existence of a trade-off between the benefits of centralisation and the costs of harmonising policies in presence of heterogeneous preferences among countries. The approach we follow is that of the recent literature on the political economy of international unions and the unification or break-up of nations (Bolton and Roland 1997, Alesina and Wacziarg 1999, Alesina et al. 2001, 2005a, to mention only the relevant). The general perspective is that unification provides returns to scale in the provision of public goods, but reduces each member state's ability to determine its most favoured bundle of public goods.

In the simple model presented in Chapter 2, support for membership of the union is increasing in the union's average income and in the loss of efficiency stemming from being outside the union, and decreasing in a country's average income, while increasing heterogeneity of preferences among countries points to a reduced scope of the union.

Afterwards we empirically test the model with data on the EU; more precisely, we perform an econometric analysis employing a panel of member countries over time. The second part of Chapter 2 thus tries to answer the following question: does public opinion support for the EU really depend on economic factors? The findings are broadly consistent with our theoretical expectations: the conditions of the national economy, differences in income among member states and heterogeneity of preferences shape citizens' attitude towards their country's membership of the EU.

Consequently, this analysis offers some interesting policy implications for the present debate about ratification of the European Constitution and, more generally, about how the EU could act in order to gain more support from the European public. Citizens in many member states are called to express their opinion in national referenda, which may well end up in rejection of the Constitution, as recently happened in France and the Netherlands, triggering a European-wide political crisis. These events show that nowadays understanding public attitude towards the EU is not only of academic interest, but has a strong relevance for policy-making too.

Chapter 3 empirically investigates the link between European integration and regional autonomy in Italy. Over the last few decades, the double tendency towards supranationalism and regional autonomy, which has characterised some European States, has taken a very interesting form in this country, because Italy, besides being one of the founding members of the EU, also implemented a process of decentralisation during the 1970s, further strengthened by a constitutional reform in 2001.

Moreover, the issue of the allocation of competences among the EU, the Member States and the regions is now especially topical. The process leading to the drafting of European Constitution (even if then it has not come into force) has attracted much attention from a constitutional political economy perspective both on a normative and positive point of view (Breuss and Eller 2004, Mueller 2005). The Italian parliament has recently passed a new thorough constitutional reform, still to be approved by citizens in a referendum, which includes, among other things, the so called “devolution”, i.e. granting the regions exclusive competence in public health care, education and local police.

Following and extending the methodology proposed in a recent influential article by Alesina et al. (2005b), which only concentrated on the EU activity (treaties, legislation, and European Court of Justice’s rulings), we develop a set of quantitative indicators measuring the intensity of the legislative activity of the Italian State, the EU and the Italian regions from 1973 to 2005 in a large number of policy categories. By doing so, we seek to answer the following broad questions. Are European and regional legislations substitutes for state laws? To what extent are the competences attributed by the European treaties or the Italian Constitution actually exerted in the various policy areas? Is their exertion consistent with the normative recommendations from the economic literature about their optimum allocation among different levels of government? The main results show that, first, there seems to be a certain substitutability between EU and national legislations (even if not a very strong one), but not between regional and national ones. Second, the EU concentrates its legislative activity mainly in international trade and agriculture, whilst social policy is where the regions and the State (which is also the main actor in foreign policy) are more active. Third, at least two levels of government (in some cases all of them) are significantly involved in the legislative activity in many sectors, even where the rationale for that is, at best, very questionable, indicating that they actually share a larger number of policy tasks than that suggested by the economic theory.

It appears therefore that an excessive number of competences are actually shared among different levels of government. From an economic perspective, it may well be recommended that some competences be shared, but only when the balance between scale or spillover effects and heterogeneity of preferences suggests so. When, on the contrary, too many levels of government are involved in a certain policy area, the distinction between their different responsibilities easily becomes unnecessarily blurred. This may not only leads to a slower and inefficient policy-making process, but also risks to make it too complicate to understand for citizens, who, on the contrary, should be able to know who is really responsible for a certain policy when they vote in national, local or European elections or in referenda on national or European constitutional issues.

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INTRODUCTION

Recently, a rising interest in political and economic integration/disintegration issues has been developed in the political economy field. This growing strand of literature partly draws on traditional issues of fiscal federalism and optimum public good provision and focuses on a trade-off between the benefits of centralization, arising from economies of scale or externalities, and the costs of harmonizing policies as a consequence of the increased heterogeneity of individual preferences in an international union or in a country composed of at least two regions.

The two pathbreaking articles in this field were Alesina and Spolaore (1997) on the size of countries and Bolton and Roland (1997) on secessionist tendencies inside countries. Afterwards, the analysis has been extended to include issues such as the size and the functioning of international unions (Alesina et al. 2005a).

All these papers are of theoretical nature, but pay a special attention to the experience of European integration. This study stems from this strand of literature and aims to shed some light on two apparently unrelated aspects of the political economy of European integration which, instead, at a closer inspection present significant links. The first concerns the role of public opinion in the integration process; more precisely, how economic benefits and costs of integration shape citizens' support for European Union (EU) membership. The second is the allocation of policy competences among different levels of government: European, national and regional.

What are the politico-economic links between these two subjects? The role of public opinion in the process of European economic and political integration has so far been neglected by economists, whereas international relations scholars have been paying it increasing attention in the last fifteen years, because the implementation of international bargains struck by governments often requires domestic support, as the use of referendum in some member states clearly demonstrates. In 2005, France and the Netherlands rejected the European Constitution by referendum, opening a serious political crisis in the EU and probably causing the death of the Constitution itself. It seems therefore correct to argue that ‘European mass publics have the ability and the willingness to constrain and possibly forestall further progress toward a unified Europe’ (Anderson 1998, p.570). Our model (as we will discuss in more detail below) will assume and will find empirical evidence that mass support for the EU depends on economic factors, but that, to evaluate the impact of EU activity on their well-being, citizens of a certain country are not interested in the economic performance of the EU as a whole, but in that of their national economy. Despite the integrated nature of the European market and of some EU policy programs, therefore, the performance of the market is still measured at the national level.

The increasing complexity of the allocation of policy tasks between the EU and the Member States, associated with a low level of public knowledge about EU competences (as frequently testified by the European Commission's *Eurobarometer* surveys), makes the EU an easy scapegoat for unpopular national policies or for national governments' failures. For instance, claiming at the same time that Member States have exclusive competence over employment policies and that Europe has an employment strategy for ‘reforming labour markets’ and ‘achieving full employment’, as official EU documents do, may clearly lead to voters’ dissatisfaction with the European Union (Sapir 2006).

As Moravcsik (2005) observed, the ‘no’ votes in the French and Dutch referendums were above all a reaction of those fearful of unemployment, labour market reform, globalization, privatization and the consolidation of the welfare state: ‘This type of disaffection is the primary political problem for European governments today, since it is directed both against poor economic performance and against reform measures designed to improve it’ (p.3). Surmounting this difficult political problem requires clear and strong political leadership by national governments. Therefore, placing responsibility where power lies seems to be crucial for the well functioning of the EU system.

The issue to be investigated is thus the following: "who actually does what"?. To do so, it would be not enough to focus only on the relations between the EU and the Member States. One more level of government has to be considered: the regional one. As suggested by Alesina et al. (2003), 'Separatism within nations and delegation of policies to supranational entities could well be [...]

complementary parts of the same process' (p.26). Indeed, in the early 1990s, some observers prefigured the creation of a "Europe of the Regions " (e.g. Drèze 1993), where economic integration could be accompanied by political disintegration. Such an extreme scenario have proved unrealistic and no cases of secession have taken place in Western Europe, but the recent European history has actually experienced, on the one hand, a transfer of powers to a supranational entity like the EU and, on the other hand, a move towards more regional autonomy by some large Member States (Italy, the UK, Spain and, to a lesser extent, France). The last part of the study will therefore tackle this issue, by specifically analysing the case of Italy from a constitutional political economy perspective.

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CHAPTER 1: POLITICAL ECONOMY THEORIES OF INTEGRATION: A SURVEY

1. Introduction

Recently, a rising interest in political and economic integration/disintegration issues has been developed in the political economy field. This growing strand of literature partly draws on traditional issues of fiscal federalism and optimum public good provision and focuses on a trade-off between the benefits of centralization, arising from economies of scale or externalities, and the costs of harmonizing policies as a consequence of the increased heterogeneity of individual preferences in an international union or in a country composed of at least two regions.

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What are the politico-economic links between these two subjects? The role of public opinion in the process of European economic and political integration has so far been neglected by economists, whereas international relations scholars have been paying it increasing attention in the last fifteen years, because the implementation of international bargains struck by governments often requires domestic support, as the use of referendum in some member states clearly demonstrates. In 2005, France and the Netherlands rejected the European Constitution by referendum, opening a serious political crisis in the EU and probably causing the death of the Constitution itself. It seems therefore correct to argue that ‘European mass publics have the ability and the willingness to constrain and possibly forestall further progress toward a unified Europe' (Anderson 1998, p.570). The model presented in Chapter 2 will assume and will find empirical evidence that mass support for the EU depends on economic factors, but that, to evaluate the impact of EU activity on their well-being, citizens of a certain country are not interested in the economic performance of the EU as a whole, but in that of their national economy. Despite the integrated nature of the European market and of some EU policy programs, therefore, the performance of the market is still measured at the national level.

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The issue to be investigated is thus the following: "who actually does what"? To do so, it would be not enough to focus only on the relations between the EU and the Member States. One more level of government has to be considered: the regional one. Indeed, in the early 1990s, some observers prefigured the creation of a "Europe of the Regions " (Drèze 1993), where economic integration could be accompanied by political disintegration. Such an extreme scenario have proved unrealistic and no cases of secession have taken place in Western Europe, but the recent European history has actually experienced, on the one hand, a transfer of powers to a supranational entity like the EU and, on the other hand, a move towards more regional autonomy by some large Member States (Italy, the UK, Spain and, to a lesser extent, France). Chapter 3 will therefore tackle this issue, by specifically analysing the case of Italy from a constitutional political economy perspective.

This chapter introduces the topics developed in this thesis by reviewing the main recent theoretical developments in the political economy analysis of integration processes. It is structured as follows. Section 2 briefly surveys a few relevant articles on economic theories of integration and disintegration processes and discusses their relevance for the study of the impact of economic benefits and costs on public opinion attitude towards the EU. Section 3 explores the links existing between such political economy literature and theories of fiscal federalism, especially with regard to normative considerations concerning the optimal allocation of competences in a union. Section 4 concludes.

2. Political economy of integration and disintegration

As in the theory of the size distribution of firms, the fundamental question this literature must confront is (to paraphrase Ronald Coase): why are there nations? Why is the whole world not integrated in a single nation, which optimally decentralizes decisions to smaller jurisdictions? Indeed, in principle, any decentralization that is achieved with multiple nations could be replicated within a federal state by implementing the desired degree of subsidiarity.

The basic answer to this question is based on the observation that the costs and benefits of political integration are not equally distributed among all members. When two nations integrate in a single political union not all members of both nations benefit from this change; there are winners and losers. Thus, when decisions on sovereignty are taken through majority voting it is possible that a majority against integration emerges, even if it is efficient to integrate.

This parallel between the theory of integration of firms and the theory of political and economic integration of nations is useful. There are, however, some fundamental differences between the two problems. A merger is a contract between two sets of owners which is enforced by courts, while a merger of two nations is a treaty which can only be self-enforcing. Another difference concerns the decision making process. A merger goes through when a majority of voting shares in both firms is in favour of the merger proposal. In practice, this means that a handful concentrated owners carries the proposal. Thus, a merger between two firms can often be described as a negotiated contract between two owners. In contrast, large numbers are involved in deciding unification. If the democratic process is followed, the decision is adopted when a majority of voters is in favour of unification in both nations. In other words, the median voters in each nation determine the outcome. This is a fundamental point upon which we will build a link between public opinion and the political economy of integration.

What are the costs and benefits of unification? The general perspective in the literature is that unification provides returns to scale in the provision of public goods, but reduces each member state's ability to determine its most favoured bundle of public goods. The papers differ in the modelling of public-goods provision, preferences over public and private goods, and in the allocation of public-goods consumption across the population. It must be recalled that the issue of country formation is of course much more complicated and that it has several other relevant dimensions, like differences in language, culture, and so on that are not addressed in this framework, which concentrates on the economic determinants of integration or disintegration.

Alesina and Spolaore (1997) consider a location model *à la Hotelling*, but they concern themselves with a different set of issues. They ask how the type of political institution existing in different countries affects the incentives of nations to integrate, and they compare the equilibrium size distribution of nations with the socially-optimal distribution. The basic model they consider has the following features:

1) A nation is represented by an interval on a line segment, and a public good is chosen in each nation;

2) The capital of each nation is located at the midpoint of the interval and all public goods are provided in the capital. The further away from the capital individuals are located, the less they like the public good;
3) Political integration provides economic benefits; the size of these benefits is greater the higher the impediments to international trade, or the smaller the degree of economic integration. The cost of political integration is mainly borne by voters at the margins, who are located further away from the public goods.

Alesina and Spolaore (1997) show that when public good provision and political integration are determined through majority voting, then, in equilibrium, there tend to be too many small nations. Voters who are located at the borders have an incentive to form separate nations to get public goods closer to their preferences, and the democratic process does not internalize the negative externalities of separation imposed on other voters. In contrast, when political institutions are not democratic and when governments are run by self-interested individuals whose objective is to maximize net tax revenues, more political integration takes place.

Thus, an important conclusion of their study is that too many nations may emerge as democracy spreads. How do economic development and integration affect the equilibrium size distribution of nations? An increase in economic integration across countries reduces the need for political integration to achieve a given level of economic development. However, it also exacerbates the problem of political disintegration, so much so that the net effect on welfare of an exogenous increase in economic integration may be negative. Thus, even though the optimal number of nations increases with economic integration, the extent of equilibrium political disintegration may be so large that it obliterates the economic gains that may be obtained from greater economic integration.

Bolton and Roland (1997) concentrate on the role of government to redistribute income across agents. While sharing the perspective that political integration provides economic benefits, they highlight political conflicts originating from differences in income and wealth instead of differences in geographical location.

The emphasis is on the role of regional differences in income distribution in shaping regional incentives to secede. To see the main idea, consider a nation with two regions, one (region A) where income is equally distributed and the other (region B) where the income distribution is unequal. Both regions may have a majority in favour of breaking up the nation when the economic cost of separation is not too large. The reason is that under unification the median voter in neither region sees her most preferred redistribution policy implemented, since it is the median voter in the union (who is generally different) who imposes her most preferred policy. Thus, the median voter in region A may prefer lower redistribution and the median voter in region B more redistribution of income than in the union.

By splitting up, each median voter can impose a policy that is closer to her most preferred policy. Thus, the benefit of separation is to produce government policies that are "closer to the people" (that is to say, closer to the wishes of the median voters in each region). The main difference with the location approach is that differences in median voter preferences are directly tied to an observable economic variable, the regional income distribution.

The main results of the article are that:

1) Fiscal accommodation in the union reduces the likelihood of secession, but by no means prevents the break-up of a nation under all circumstances. In addition, fiscal accommodation may be in the direction of higher taxes (when the more inegalitarian region is most likely to secede) or lower taxes (when the more egalitarian region is most likely to secede);

2) A federal constitution is an adequate response to secession threats when fiscal competition between autonomous regions is likely to be small. Full independence may however be preferred to federalism, even if the overall economic efficiency loss is greater, when the constraints imposed on the median voters by fiscal competition under a federal state are large.

3) Greater labour mobility is a cementing force of the union, while greater capital mobility is not. When all factors are perfectly mobile, separation is self-defeating.

Another set of issues addressed by this strand of literature is related to the link between economic integration (i.e. the development of free trade) and political integration (separation), that is, the formation of larger (smaller) political jurisdictions providing some sort of public goods. The basic question these models address is the following: how does globalization of markets affect the incentives of countries to integrate or separate?

The main result in Alesina et al. (2000) is that in a world of trade restrictions (at the limit, in a world of autarkic countries), large nations enjoy economic benefits, because political boundaries determine the size of the market. The presence of increasing returns in the size of the economy, for example, would lead to unambiguous economic benefits from political integration. However, under free trade and global markets, the incentive to join large jurisdictions disappears, while the cost in terms of heterogeneity of national preferences remains. In this case, not only will countries not integrate, but small cultural, linguistic and ethnic groups within countries can choose to form smaller and more homogeneous political jurisdictions. In other words, international economic integration could lead to political disintegration, because it reduces the cost of political separation.

Casella and Feinstein (2002) also deal with the interaction of trade and political integration. They study a model where the link between economic and political integration comes from the fact that the public good provision directly affects returns from trade. Trade takes place in the market, where a market is a group of agents that exchange private endowments, while the public good is provided by the jurisdiction (a club of individuals that decide together, share and finance a common public good). In their analysis, economic integration, by raising the gains from trade, induces political integration, at least initially. The reason is that, at low levels of economic integration, the marginal benefit of provision of common public goods outweighs the political cost of forming a union. However, at higher levels of economic integration, the benefit may well be smaller than the cost of political integration, leading to separatism.

Casella and Feinstein (2002) and Alesina et al. (2000) capture two different aspects of the effects of economic developments on countries' incentive to integrate (separate). In the framework of Casella and Feinstein (2002), when the market becomes large, individuals may well realize that their preferences about policy and institutions are more similar to those of other trading partners outside national borders. Therefore, economic integration is accompanied by fragmentation in multiple jurisdictions, but also by an incentive to form new jurisdictions that will reshape national borders. This result is driven by the complementarity of market integration and political integration. Instead, in Alesina et al. (2000), economic and political integration are substitutes. This is why in their model, integration of markets leads only to political disintegration.

Which links can be established between this literature and the role of public opinion in European integration? As anticipated above, a crucial role in these theoretical models is played by the median voter, who ultimately decides over the integration or disintegration of unions. Therefore the subject of the analysis becomes the opinion of the majority of citizens, as shaped by a comparison of economic benefits and costs stemming from different institutional solutions.

The process of creation and development of the EU was traditionally viewed as an elite-driven process by the two leading theories of European integration, neofunctionalism (Haas 1958, 1964; Lindberg 1963) and intergovernmentalism (Hoffmann 1966), the former emphasising the role of supranational institutions, the latter that of national governments. Public opinion was not considered as a relevant actor and was assumed to show a passive attitude towards the integration process, sometimes referred to as “permissive consensus” (Lindberg and Scheingold 1970). This concept indicated that citizens in member states were either not interested in European affairs or generally supported actions to promote integration, but attributed them low political salience.

The role of public opinion in the process of European integration has been paid increasing attention by international relations scholars in the last fifteen years (to mention only a few studies, Reif and Inglehart 1991; Franklin et al. 1994; Anderson 1998; Gabel 1998a; Gilland 2002), starting from the observation that attempts to achieve international cooperation often involve the domestic ratification of international bargains. Indeed, we have witnessed an increasing use of the referendum in some member countries as an instrument for ratification of new treaties negotiated by national governments: Single European Act (1986), Maastricht Treaty (1992), Amsterdam Treaty (1997) and Nice Treaty (2001)[1], as documented in Table 1. The outcome has generally been positive, but in two cases a treaty was firstly rejected (the Maastricht Treaty in Denmark and the Nice Treaty in Ireland), then approved in a second referendum after some more concessions or clarifications. Referenda have also

[1] The years in parentheses refer to the signature of the treaties.

been held in Denmark and Sweden on a specific European issue, namely the adoption of the euro; in both cases, the majority of citizens voted against it.

The two most recent enlargement rounds have been accompanied by referenda in all accession countries (except for Cyprus); in 1994, the Norwegian citizens decided that their country would not become a member of the EU after their government had signed the accession treaty (Table 2).

Moreover, in 2005 some countries held referenda on the recently agreed "Treaty Establishing a Constitution for Europe" (the so-called "European Constitution"). Spain and Luxembourg approved it, but France and the Netherlands rejected it, opening a serious political crisis in the EU and probably causing the death of the Treaty itself (Table 1). The relevance of the role played by public opinion in the current phase of European integration stimulates the analysis of the determinants of citizens' support for the EU. A well-established concept in international relations theory is that of 'utilitarian support' (Easton 1965, 1975): an individual supports a certain political system if she believes that it promotes her own economic (or political) interests. Applying this concept to an international union like the EU, one can argue that people are in favour of European integration if it has been making them better off.

While the importance of economic conditions as a basis for citizens' evaluation of national political institutions is well-documented in the political business cycle literature (Alesina et al. 1997), only a small number of studies in the 1990s have investigated the link between national economic performance and mass support for European integration (Eichenberg and Dalton 1993; Anderson and Kalthenthaler 1996). These articles draw upon theories of economic voting (Lewis-Beck 1988; Norpoth et al. 1991), but only make informal assumptions and are mainly empirical[2]. To the best of our knowledge, this topic has never been the subject of a formal treatment. Indeed, usual formal models of political business cycle at the national level are not well suited for the EU level, because there is no EU-wide political cycle between two subsequent elections. Citizens do not periodically vote on membership of the EU and the European elections obviously cannot be considered as equivalent to national elections, because their aim is not that of choosing a European government.

[2] The findings of these studies will be discussed in Chapter 2.

A different approach is thus required to study the effect of economic conditions on public opinion support for the EU and, as discussed above, the framework of the political economy of integration appears well suited to do so. This will be the topic of Chapter 2.

Table 1. Referenda on European Issues in Member States

Treaty/Policy	Country	Year	Ratified (R)/Not Ratified (NR)
Single European Act	Denmark	1986	R
	Ireland	1987	R
Maastricht	Denmark I	1992	NR
	France	1992	R
	Ireland	1992	R
	Denmark II	1993	R
Amsterdam	Denmark	1998	R
	Ireland	1998	R
Nice	Ireland I	2001	NR
	Ireland II	2002	R
Accession to the EU	Austria	1994	R
	Finland	1994	R
	Norway	1994	NR
	Sweden	1994	R
	Czech Republic	2003	R
	Estonia	2003	R
	Hungary	2003	R
	Latvia	2003	R
	Lithuania	2003	R
	Malta	2003	R
	Poland	2003	R
	Slovakia	2003	R
	Slovenia	2003	R
Adoption of the Euro	Denmark	2000	NR
	Sweden	2003	NR

European Constitution	France	2005	NR
	Luxembourg	2005	R
	Netherlands	2005	NR
	Spain	2005	R

Source: European Commission

Table 2. Referenda on Accession to the EU since the 1990s

Country	Year	Ratified (R)/Not Ratified (NR)
Austria	1994	R
Finland	1994	R
Norway	1994	NR
Sweden	1994	R
Czech Republic	2003	R
Estonia	2003	R
Hungary	2003	R
Latvia	2003	R
Lithuania	2003	R
Malta	2003	R
Poland	2003	R
Slovakia	2003	R
Slovenia	2003	R

Source: European Commission

3. Fiscal federalism and integration processes: the issue of competence allocation

The public sector in nearly all countries consists of several different levels. Hence the basic issue is that of aligning responsibilities and fiscal instruments with the proper levels of government. This is the subject matter of fiscal federalism: as a subfield of public finance, it addresses the vertical structure of the public sector, in order to understand which functions and instruments are best centralised and which are best decentralised. In other words, fiscal federalism explores, both in normative and positive terms, the roles of the different levels of government and the ways in which they relate to one another through such instruments as intergovernmental grants. It is appropriate to notice that the economic meaning of the term "federalism" is somewhat different from the standard use in political science, where it is used with reference to a political system with a constitution guaranteeing some range of autonomy and power to both central and decentralised levels of government. For an economist, almost all public sectors are more or less federal, in the sense of having different levels of government which provide public services and have some scope for de-facto decision making (irrespective of the formal constitution).

At the most general level, this theory contends that the general government should have the basic responsibility for the macroeconomic stabilisation function and for income redistribution in the form of assistance to the poor (Musgrave 1959). In both cases, the basic argument stems from some fundamental constraints on lower level governments. In the absence of monetary and exchange-rate prerogatives and with highly open economies that cannot contain much of the expansionary impact of fiscal stimuli, local governments simply have very limited means for traditional macroeconomic control of their economies. Similarly, the mobility of economic units can seriously constrain attempts to redistribute income. An aggressive local program for the support of low-income households, for instance, is likely to induce an influx of the poor and encourage an exodus of those with higher income, who have to bear the tax burden. In addition to these functions, the central government must provide certain "national" public goods (like national defence) which grant services to the entire population of the country.

Decentralised levels of government should provide goods and services whose consumption is limited to their own jurisdictions. By tailoring outputs of such goods and services to the particular preferences and circumstances of their constituencies, decentralised provision increases economic welfare compared to the more uniform levels of such services which are likely under national provision.

These precepts, however, should be regarded more as general guidelines than firm principles. Moreover, they do not offer a precise delineation of the specific goods and services to be provided at each level of government. In this context, the appropriate degree of differentiation has still to be determined. A lot of factors have been taken into account in the literature, however the discussion of classical economists focuses primarily on heterogeneity of local preferences (as a criterion in favour of a decentralised provision) on the one hand, and economies of scale and spillover effects (as a criterion in favour of a centralised provision) on the other hand.

Referring to the two central theorems of Oates (1972), namely the decentralisation theorem and the correspondence principle, the significance of heterogeneous preferences becomes clear. The decentralisation theorem is a normative proposition stating that 'in the absence of cost-savings from the centralized provision of a [local public] good and of inter-jurisdictional externalities, the level of welfare will always be at least as high (and typically higher) if Pareto-efficient levels of consumption are provided in each jurisdiction than if any single, uniform level of consumption is maintained across all jurisdictions' (Oates 1972, p.54).

Following the argument of Quigley (1997), assume that all households in a given area must consume the same amounts of the goods, necessitating some compromise. With any diversity of need among the population, a division into smaller groups of the population would likely result in less compromise among the citizenry. When population groups are smaller, the demands of any randomly chosen household will be closer to the demand of the average household in the group. Economic welfare will thus be improved, as the provision of services for each group is closer to each member household's optimum. Therefore, a uniform level of public services offered in each community is inappropriate. Pareto efficiency can be raised through fiscal decentralisation. Thus, governments should provide each public good including the respective set of individuals who consume the good: there is ''perfect correspondence'' in the provision of public goods (Oates 1972). Or as Cremer et al. (1994) put it, 'each type of good should be provided by a level of government […] enjoying a comparative advantage in accounting for the diversity of preferences in its choice of service delivery' (p.5). To sum it up: a strong case in favour of decentralisation can be deduced from the consideration of the diversity of local preferences.

However, meaningful critical remarks blur this clear recommendation. The realisation of economics of scale and the internalisation of external effects are the main decisive factors for the assignment of functional responsibilities to the central government level. We can observe that average costs can be reduced with increasing output quantities. This is an argument in favour of a central provision of such goods. However, dealing with public goods, decreasing as well as increasing (e.g., costs in congested urban areas) average cost functions can be detected when additional output is produced. Furthermore, even in the case of decreasing costs the centralisation recommendation is blurred: information costs for local citizens, the lack of accommodation and near usage as well as control costs for the central level have to be taken into the assignment calculus (Oates 1999)

Coping with these externalities, different directions can be distinguished in the literature. On the one hand, the existence of interregional spillovers does not necessarily require the dispersion of the respective competence upwards to the central level, since grants-in-aid, fiscal transfers or horizontal co-operation among sovereign jurisdictions are valuable tools in order to internalise the externalities (Pigou 1932; Hemming and Spahn 1997; Quigley 1997). On the other hand, externalities arising from the provision of public goods vary immensely, from planet-wide in the case of global warming to local in the case of most city services. In order to internalise these multifaceted externalities, multi-level governance would be required (Hooghe and Marks 2001).

Inman and Rubinfeld (1992) point out that public goods with significant cross-border externalities could also be provided by voluntary arrangements between member states. But (besides the fact that, at a minimum, a central government administrative structure will be needed to enforce the arrangements) efficient provision should not be expected. This so-called ‘‘decentral policy failure'' leads to a necessary condition regarding the centralisation decision: if the uncooperative behaviour of regions leads to worse results than the co-operative behaviour, and this co-operation is not credible without centralisation (because of free-rider effects), then the assignment to the central level would be necessary. This condition emblematises the famous principle of subsidiarity, which is inscribed in general terms in the Maastricht Treaty.

Another strand of the literature on fiscal federalism bears in mind the ‘‘benchmark-effect’’ of a multi-level structured government system. Decentralised systems strengthen political and organisational (bottom-up) innovations and enforce competition between the different authorities (Sinn 2003). They can realise efficiency gains by utilising their comparative advantages (Cremer et al. 1994) and by dividing labour efforts corresponding to the respective local resources.

While the previous arguments point to a decentralised system, there are arguments in the literature which deal with negative effects of inter-jurisdictional competition. Combining the internalisation of externalities and the division of labour, the concept of ‘‘Functional Federalism’’ plays a crucial role. Frey and Eichenberger (1999) design the model of "Functional, Overlapping and Competing Jurisdictions" (FOCJs) in the following way: the number of jurisdictions is vast rather than limited; they are not aligned on just a few levels, but operate at diverse territorial scales; they are functionally specific rather than multi-task and flexible rather than fixed; they guarantee vast representative and direct-democratic rights to their citizens and levy own taxes.

On the one hand, FOCJs allow reactions on the technological developments that change the spatial characteristics of public goods over time (Tanzi 1995), guarantee democratic control and fiscal equivalence (Ebel and Yilmaz 2002), cope with the correspondence principle of Oates (1972) and ‘‘are an institutional way to vary the size of the jurisdictions in order to minimize spillovers’’ (Frey and Eichenberger 1999, p.41). On the other hand, their establishment has to take organisational difficulties, economic costs (control, co-ordination, information, non-realised economies of scale) as well as a potential lack of transparency into account.

Regarding these inconsistencies, the challenge of an optimal distribution of competencies cannot be simply satisfied establishing overlapping and task-specific jurisdictions. Nevertheless, as Casella and Frey (1992) emphasise, ‘‘even if an entire political system could not be organised solely through uni-dimensional clubs, still the role of these clubs should not be undervalued’’ (p. 645).

The discussion so far has centred on centralisation and decentralisation inside a country, but it can be extended to encompass one more level of government: the supranational one. The existence of international spillovers is a traditional argument in favour of international political integration and is related to the theory of fiscal federalism. Both Oates' Decentralization Theorem and the subsidiarity principle (as enshrined in the Maastricht Treaty) state that the provision of public services should be located at the lowest level of government encompassing all benefits and costs. When there are important international spillovers, the natural implication of this theory is to delegate prerogatives to an international level of government (i.e. to form an international union) capable of internalizing all relevant externalities. This main idea is at the heart of several recent papers on political integration. Work along this line includes Alesina and Grilli (1993) and Alesina and Barro (2002) on monetary unions and Yi (1996) on custom unions.

Alesina et al. (2001, 2005a) make some progress in merging the two literatures on fiscal federalism and on the political economy of international unions. They notice that the former usually takes the size of a union as given and assumes a uniform policy across countries, even if recent contributions by Lockwood (2002) and Besley and Coate (2003) have started to explore alternative arrangements that do not impose policy uniformity, taking the size of the union as given. By contrast, the latter discusses the endogenous determination of the size of the union, assuming policy uniformity.

Alesina et al. (2001, 2005a) propose a model of an international union as a group of countries deciding together the provision of certain public goods and policies because of international spillovers; the countries, however, are heterogeneous either in preferences and/or in economic fundamentals. These papers obtain a number of results. First, the size of spillovers between countries and the heterogeneity between their preferences or their economic fundamentals determines endogenously the size of the union and its composition. Even if multiple equilibria can arise because of strategic complementarities in the choice to join the union, under mild conditions all of these equilibria are characterized by countries with similar preferences, and the size of the union increases when the heterogeneity between countries is reduced or the spillovers increase.

Second, the size of the union is inversely related to the spectrum of common policies which are centralized at the union level. That is, for given heterogeneity, in equilibrium one obtains either small unions that coordinate a lot, or large unions in which very few functions are merged.

Third, the political equilibrium implies a bias toward excessive centralization and small size of the union, unless there is a constitutional commitment of the union to centralize only certain policies. The source of this inefficiency is a time-inconsistency problem: once the union is formed, a majority of members will want to increase the policy prerogatives of the union, and the expectation of this induces many countries to step back from the beginning. Therefore these results underscore the necessity of specifying ex ante a clear mandate for the union in a Constitutional stage.

Finally, Alesina et al. (2005a) remove the assumption of policy uniformity and study simple rules that add flexibility and improve the allocation of resources. Their analysis focuses on arrangements which are central in the debate on the institutional design of the EU, like enhanced cooperation, subsidiarity, federal mandates and earmarked grants, and shows that such institutions partly reduce the trade-off between size and scope of the union.

The main achievement of these models has been to build a formal framework to think about the political economy of political integration in the presence of spillovers in public goods provision. In general, this theory of formation of international unions literature has highlighted that the more the decision power is on national states and the larger the flexibility and the decentralization of the institutional setting, the more countries will be willing to join a union. Nevertheless, a large increase of flexibility and decentralization, by inducing coordination problems among member states, may harm the functioning of the union.

These findings have relevant policy implications with regard to the EU. First, increasing the prerogatives attributed to the union (i.e. reducing the sovereignty of national states) should diminish its equilibrium size. Second, with a simple majority rule, the political equilibrium should imply a bias towards excessive centralization and small size of the union. Yet, the setting of these models is still too simple to be realistic. First, governments have several prerogatives that have different spillover effects on other countries. Second, politics in an integrated world (or in an international union) may differ from politics at the national level.

Indeed the experience of the EU of the last 50 years partly contradicts this theory. First, there seems to be a tendency to enlarge both the size and the scope of the union. The number of EU members has increased from 6 in 1957 to 25 in 2004. Moreover, Alesina et al. (2005b) calculate that the effective number of prerogatives (i.e. policy areas where the EU has been active by producing legislation) has substantially increased in the same time span. Second, there is a partial inconsistency between this theory and the evidence on the allocation of competencies between the EU and national governments. Alesina et al. (2005b) show that the EU is active in areas where international spillovers are low and heterogeneities in countries' preferences are large, such as agriculture, and it is not active in areas such as defence and foreign policy, where the opposite is true.

In conclusion, it becomes evident that the basic trade-off between the realisation of scale effects and the internalisation of externalities, on the one hand, and the consideration of local preferences, on the other hand, creates meaningful tensions, which hamper clear recommendations for the practical assignment of policy tasks. Additionally, inter-jurisdictional competition, as well as politico-economic variables, affect normative assignment recommendations.

Since the described theoretical trade-off impedes the derivation of clear and precise recommendations concerning the optimal degree and the effects of decentralisation, empirical analysis gets a crucial role. Therefore in Chapter 3 we will examine the case of Italy from a political economy perspective and will analyse how policy competences are actually attributed to and exercised by the European, national and regional institutions.

4. Concluding remarks

In this chapter we have presented a survey of the recently developed theoretical literature on the political economy of integration and disintegration processes, with special emphasis on two highly relevant topics for European integration: the impact of economic costs and benefits from membership of an international union on public opinion and the allocation of competences among different level of governments. In doing so, we have also explored the links between such literature and theories of fiscal federalism, with regard to normative considerations concerning the optimal allocation of competences in a union.

To conclude, it must be acknowledged that the issue of integration or disintegration is much more complicated and that it has several other relevant dimensions like differences in language, culture, ethnicity, etc. which are not addressed in this literature. However, as Drazen (2000) argues, "it would be too much to suggest that economists should incorporate the range of important political and sociological factors into models of nation formation. The theory of comparative advantage suggests this is a bad idea, not only because economists would be treading on ground with which they are largely unfamiliar, but also because what economists do have to offer to understanding the number and size of nations would be obscured" (p.709).

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CHAPTER 2: SCALE VERSUS HETEROGENEITY: HOW THE ECONOMY AFFECTS PUBLIC SUPPORT FOR THE EU IN MEMBER COUNTRIES

1. Introduction

The role of public opinion in the process of European economic and political integration has so far been neglected by economists, whereas international relations scholars have been paying it increasing attention in the last fifteen years, because the implementation of international bargains struck by governments often requires domestic support, as the use of referendum in some member states clearly demonstrates. What are the factors that influence public opinion support for the European Union (EU)? We assume that citizens are in favour of membership if they receive economic benefits from it. To develop this idea, we propose a simple political economic model drawing on the recent economic literature on integration and disintegration processes. The basic element is the existence of a trade-off between the benefits of centralisation and the costs of harmonising policies in presence of heterogeneous preferences among countries.

Afterwards we empirically test the model with data on the EU; more precisely, we perform an econometric analysis employing a panel of member countries over time. The second part of the paper therefore tries to answer the following question: does public opinion support for the EU really depend on economic factors? The findings broadly confirm that economic benefits and costs do consistently shape citizens' attitude towards EU membership, even if some differences over time and across countries can be noted. Consequently, the key to regain the significant amount of support lost in the last fifteen years is to be found in economic policies effectively promoting growth and employment. Our analysis may thus shed some light also on the awkward process of ratification of the European Constitution. Citizens in many member states are called to express their opinion in national referenda, which may well end up in rejection of the Constitution, as recently happened in France and the

Netherlands, triggering a European-wide political crisis. These events show that nowadays understanding public attitude towards the EU is not only of academic interest, but has a strong relevance for policy-making too.

The paper is structured as follows. Section 2 provides a concise historical overview of the evolution of public support for the EU. Section 3 presents a political economic model of citizens' support for membership of an international union like the EU. Section 4 presents the estimation of the model and its results. Section 5 discusses the relevance of our findings for the present debate about ratification of the European Constitution and the future of public attitude towards the EU. Section 6 briefly concludes.

2. Public Opinion Attitude Towards European Integration

Comparative public opinion research is often subject to a host of potential problems involving the measurement of citizens' opinions: variations in question wording across different studies; irregularity in the timing or frequency of surveys; changes in sampling frame or survey procedures, and so on. In the case of public support for European integration, the unparalleled resources of the *Eurobarometer* surveys enable us to avoid these problems. Indeed, since 1973 the European Commission has regularly undertaken these semiannual European-wide opinion polls (in spring and in autumn)[3], conducted by private polling agencies in each member state through interviews of a sample of approximately 1000 people in each country (Gabel 1998b; Hix 1999)

The *Eurobarometer* surveys ask a series of identical questions about public support for the EU and the integration process. We can therefore analyse public attitudes towards the EU, using a standard question that has been regularly repeated in each of the EU member states. This permits meaningful cross-national and cross-temporal comparisons of data. Throughout this paper, we will use the following measure of public support for the EU: the percentage of people answering 'a good thing' to the question: 'Generally speaking, do you think that (your country's) membership of the European Union/Community is a good thing, a bad thing, neither good nor bad?'

[3] In the following figures, the suffix S after a date will indicate 'spring issue' and the suffix A 'autumn issue' of the *Eurobarometer* surveys.

Figure 1 depicts the evolution of the percentages of EU citizens supporting their country's membership of the EU, from autumn 1973 to autumn 2003, and claiming that their country has benefited from EU membership, from spring 1984 (when a question about membership benefits started to be regularly asked) to autumn 2003. No single trend for the whole period can be detected. Support for membership was slightly declining over the 1970s and reached a minimum of 50% in 1981, then it rose significantly throughout the 1980s, reaching an historical maximum of 72% in 1991. Afterwards, it fell dramatically down to 46% in 1997[4], then it followed an erratic path within a 48-55% range. The most significant emerging from Figure 1 is that opinions about benefits followed a very similar path: actually the correlation coefficient between the two series is 0.84.

Indeed, the EU has had and still has, first, an economic nature. However, economic integration has not made member states irrelevant in the eyes of public opinion. To evaluate the impact of EU activity on their well-being, citizens of, say, Italy are not interested in the economic performance of the EU as a whole, but in that of the Italian economy. Despite the integrated nature of the European market and of some EU policy programs, therefore, the performance of the market is still measured at the national level.

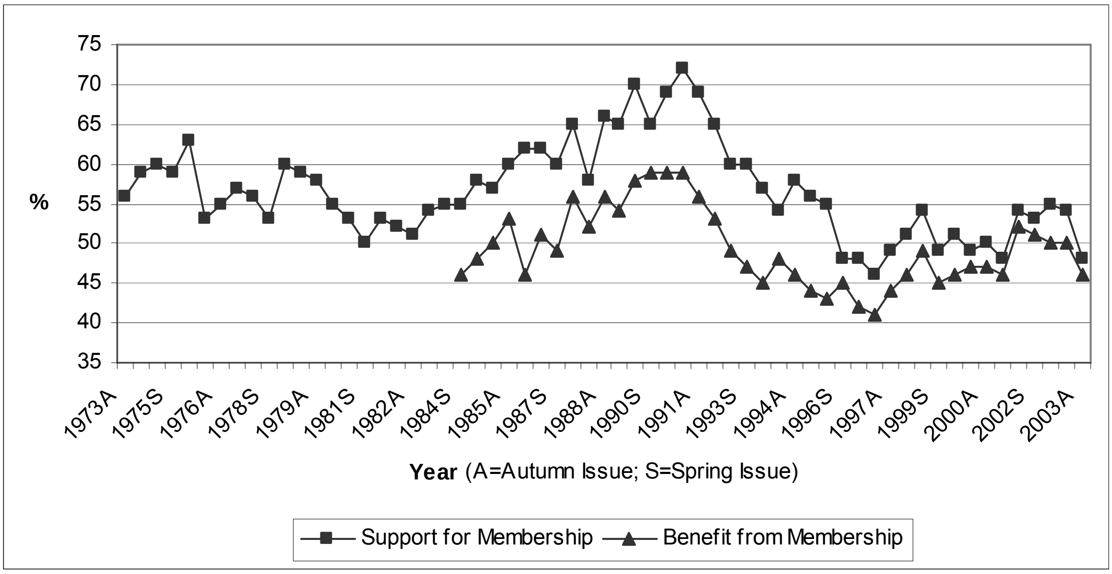
Public opinion support for European integration is thus influenced by factors that occur at the national level. With a metaphor, one might say that the image of the EU is filtered through national lenses. More precisely, the hypothesis is that citizens of a member state realise that the EU does affect their economic welfare and they make it a target of their evaluation, which, however, is based on the performance of their national economy. Support for the EU is higher (lower) when the national economy is doing well (badly). In other words, it is assumed that public opinion perceives that the national economy is influenced by membership of the EU.[5]

The EU average support, indeed, hides very large differences among countries[6]. If we look at countries' average support for membership in the 1973-

[4] The entry of Austria, Finland and Sweden in 1995 (three countries showing a very low level of support for membership) significantly contributed to reducing the EU average.
[5] This assumption does not require public opinion to have an exact knowledge of how the EU works and what its competencies and activity are, which would be definitely unrealistic.
[6] Luxembourg is not included in the analysis conducted in this paper, because of its very small size.

2004 period (or since their entry, if they became members after 1973), a differentiated picture emerges (Figure 2). The Netherlands and Italy hold the first ranks (76% and 70% respectively) with a large lead over the other members. Support in the founding members[7], the three Mediterranean countries which entered the EU in the 1980s (Greece, Portugal and Spain) and Ireland exceeds the EU average (57%), whereas the lowest values (from 35 to 40%) are registered by the UK and the protagonists of the 1995 enlargement (Austria, Finland and Sweden).

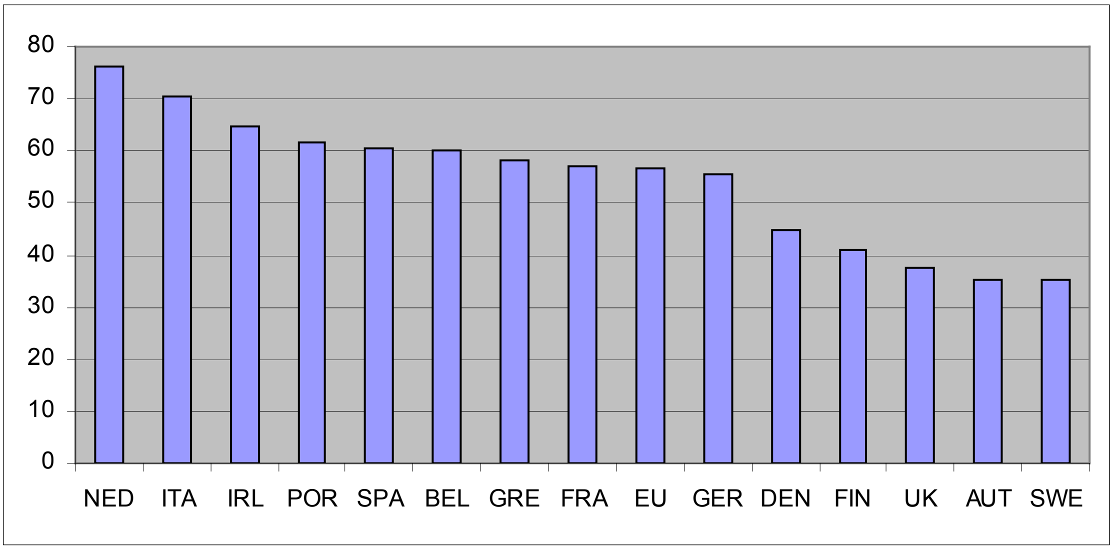
Figure 1. Support for and benefit from EU membership according to the *Eurobarometer* opinion polls (EU average)



"Support for Membership" = % of people answering "a good thing" to the following question: 'Generally speaking, do you think that [your country's] membership of the European Community/European Union is "a good thing", "a bad thing", "neither good nor bad"?'
"Benefit from Membership" = % of people responding "has benefited" to the following question: 'Taking everything into consideration, would you say that [your country] has on balance benefited or not from being a member of the European Community/European Union?'
Source: *Standard Eurobarometer*, various issues

[7] Germany represents an exception, because its average level of support is slightly lower than that of the EU as a whole (55% against 57%). However, this is largely the effect of reunification, since *Eurobarometer* data shows that support is much higher in West Germany (the founding member in 1957) than in East Germany.

Figure 2. Average support for EU membership* (%)



*1973-2004 average for Belgium, France, Germany, Italy, the Netherlands, Denmark, Ireland and the UK; 1981-2004 average for Greece; 1986-2004 average for Portugal and Spain; 1995-2004 average for Austria, Finland and Sweden

Source: own calculations based on *Standard Eurobarometer* data

To complete the picture, we may analyse the dynamics of public support for membership in each country and compare them to that for the EU as a whole. The figures for each country are in Appendix 1 and show that, even if with different intensities, all member states seem to follow a common pattern, similar to that already identified for the EU average. Table 1 reports the values of an index of "relative intensity" of support for EU membership, which describes concisely the results of comparison between national and EU levels of support. It is defined as the ratio between the number of surveys in which the level of support registered in country *i* was higher than the EU average and the total number of surveys. It may range between 0 (if support was always lower than the EU average) and 1 (if support was always higher than the EU average).

Only Italy and the Netherlands (the most "europhile" countries in press jargon) reach 1, while the UK, Austria, Finland and Sweden (the most "eurosceptical" countries) score 0. This mirrors the situation previously described in Figure 1 and does not come as a surprise. More interestingly, even countries showing, on average, a very high level of support for the EU, like Belgium, Portugal or Ireland, have experienced some moments of relatively low support. For instance, Belgium scores 0.81, which means that its support was lower than the EU average in roughly one survey out of five. Conversely, a traditionally "eurosceptical" member like Denmark actually scored better than the EU average in almost thirty per cent of times. On the whole, the index of relative intensity confirms that the countries with a more favourable attitude towards the EU are the founding members and the Mediterranean countries, plus Ireland.

Table 1. Relative intensity of support for EU membership

Country	Value
ITALY	1,00
NETHERLANDS	1,00
BELGIUM	0,81
PORTUGAL	0,81
SPAIN	0,73
GREECE	0,68
IRELAND	0,63
FRANCE	0,52
GERMANY	0,42
DENMARK	0,29
UK	0,00
AUSTRIA	0,00
FINLAND	0,00
SWEDEN	0,00

Source: own calculations based on *Standard Eurobarometer* data

3. The Model

3.1 The basic model

The approach I will follow is that of the recent literature on the political economy of international unions and the unification or break-up of nations (Alesina and Spolaore 1997, Bolton and Roland 1997, Alesina and Wacziarg

1999, Alesina et al. 2001, 2005a, to mention only the most relevant). Here I emphasise some basic features which may be relevant to the modelling of public opinion support for the EU. The general perspective is that unification provides returns to scale in the provision of public goods, but reduces each member state's ability to determine its most favoured bundle of public goods. These papers focus on a trade-off between the benefits of centralization, arising from economies of scale or externalities, and the costs of harmonizing policies as a consequence of the increased heterogeneity of individual preferences in a union. Alesina et al. (2001) argue that 'the core of our model, and an element that in our view is central to the political economy of all unions [...], is the existence of a tension between the heterogeneity of individual countries' preferences and the advantage of taking certain decision in common' (p. 4).

Bolton and Roland (1997) employ heterogeneity in economic fundamentals (income or productivity) and distortionary taxation to study the conditions under which a majority in favour of secession (or unification) arises in the regions of a democratic country. Alesina et al. (2001, 2005a) analyse the determinants of the degree of centralisation and the size of international unions by modelling a union as a group of countries deciding together on the provision of public goods or policies which produce a spillover effect across members.

These papers do not deal explicitly with the issue of mass support for membership of an international union, but their reasoning can be extended to include it. The public goods can be interpreted in a broad sense as common policies (not only in the economic field, but also in areas like social policy or defence), where for each country the benefits of centralisation derive from the exploitation of economies of scale or externalities, while the costs are represented by the loss of independent policy-making.

Actually, the promise of increased prosperity and employment through the gains from free trade has been the most prominent argument offered in support of the original Common Market and then the Single Market: producers and consumers would gain access, respectively, to larger markets and to a greater variety of products (Tsoukalis 1997, Gabel 1998a). As argued by Eichenberg and Dalton (1993), 'if the EC has promised anything, it has promised the enhancement of member states' national economic welfare' (p. 510).

At the same time, countries may have different preferences with regard to certain kinds of policies. Social policy is a good example; large differences in the level of protection offered by national welfare systems can be observed, which have led many economists and sociologists to identify different "European social models" (Esping-Andersen 1990, Sapir 2006). In such cases a centralised solution entails a net cost for citizens and thus reduces support for EU membership.

The model presented in this section is a modified version of that proposed by Bolton and Roland (1997) explicitly taking heterogeneity in preferences among countries into account. While they focus on a country made up of two regions, I consider here a union composed of *n* countries. The population and capital in a generic member country *i* are indicated by L_i and K_i; total national output Y_i and per capita output y_i are given respectively by:

$$Y_i = K_i^{\alpha} L_i^{1-\alpha} \quad \text{and} \quad y_i = \frac{Y_i}{L_i} = k_i^{\alpha} \tag{1}$$

I assume perfectly competitive labour and capital markets in each country *i*. Productive factors are mobile inside countries, but not across them. Therefore the equilibrium real rate of return on capital r_i and the equilibrium real wage s_i are:

$$r_i = \alpha(y_i/k_i) \quad \text{and} \quad s_i = (1-\alpha)y_i \tag{2}$$

Individuals differ in their labour and capital endowment; hence an individual *v* in country *i* will have an income of:

$$w_{vi} = s_i L_{vi} + r_i K_{vi} \tag{3}$$

The income distribution in each country *i* is given by a density function $z_i(w_v)$; thus $z(w_v) = \sum_i z_i(w_v)$ is the income distribution in the whole union, with support $[0,\overline{w}]$. Total output equals total income:

$$Y_i = \int_0^{\overline{w}} w_v z(w_v) dw_v \tag{4}$$

The differences between regions are fully summed up by differences in factor returns (determined by the absence of factor mobility) and in income distribution.

The assumption of factor immobility may sound quite inaccurate in the case of an international union like the EU and thus needs explaining. First, labour mobility among EU countries is actually very low (Hantrais 2000). Capital mobility is much more intense, but it can be easily shown that introducing it in our framework would lead to more unrealistic results. Indeed capital mobility would imply that $r_i = r$ for any i=1,..., n. Since it follows from (1) and (2) that $r_i = \alpha k_i^{\alpha-1}$, then we would obtain equal capital-output ratio k, equal per capita income y and equal wage s in all countries in equilibrium, while distribution of income could still differ among countries. At present, by contrast, we observe very large differences in per capita income, even when expressed in purchasing power parity, among EU countries: the richest member country (Luxembourg) is about five times more wealthy than the poorest one (Latvia)[8]. Second, and most important, the fundamental element characterising the union in this model is the common provision of a public good G_u, which does not require factor mobility to be implemented.

Following Alesina et al. (2001), G_u can be interpreted in a broad sense as a common policy (not only in the economic field, but also in areas like social policy or defence), where for each country the benefits of centralisation derive from the exploitation of economies of scale or externalities, while the costs are represented by the loss of independent policy-making.

The provision of the public good is financed with a linear income tax; in per capita terms, this implies:

$$g_u = t_u y_u \tag{5}$$

[8] If one only takes the "old" fifteen members into account, Luxembourg is about three times richer than the poorest country (Portugal).

where t_u is the union's tax rate. An individual's utility is defined over the consumption of a private good c_{vi} and the public good g_u. To keep things as simple as possible, the individual utility function assumes the following form:

$$U_{vi}^{IN}(c_{vi}, g_u) = u_v(c_{vi}) + H(g_u) = \log c_{vi} + \log(\beta_i g_u) \qquad (6)$$

where the superscript *IN* means "when country *i* is a member of the union". $\beta_i \in [0,1]$ is a parameter capturing the heterogeneity in preferences over the public good among countries. The lower β_i, the higher the cost deriving from the loss of independent policy-making for country *i*.[9]

The most preferred per capita amount of public good for an individual with income w_{vi} is given by the solution to the following problem:

$$\max_g \left[\log c_{vi} + \log(\beta_i g_u)\right] \qquad (7)$$

$$\text{s.t. } c_{vi} = (1-t_u)w_{vi} \text{ and } g_u = t_u y_u \qquad (8)$$

By substituting (8) in (7), we find that the optimum per capita amount of public good is:

$$g_u^*(w_{vi}) = \frac{y_u}{2} \qquad (9)$$

which is independent of w_{vi} and therefore the same for all individuals in the union. Hence (9) is the per capita amount of public good provided by the union, with an equilibrium tax rate of 0.5. An agent with income w_{vi} receives the following payoff when his country is inside the union:

$$U_{vi}^{IN}(w_{vi}) = \log w_{vi} + \log \beta_i + \log y_u - 2\log 2 \qquad (10)$$

[9] Alternatively, we may think of β_i as of the extent of the spillover effect in the provision of the public good at the union level. In this case, the higher β_i, the higher the benefits of centralisation.

Now we have to find what the utility of the individuals would be if country i were not a member of the union. In such case, the public good g_i is autonomously provided in country i and therefore there are no heterogeneity costs. However, the absence of integration carries a different kind of cost: an efficiency loss for the national economy, since potential benefits from international coordination are missing. For instance, imagine the simple case of a free trade area: as noticed by Bolton and Roland (1997), production costs and consumer prices in a country may be higher when it is outside the union than when it is inside, because its trade with the members of the free trade area is lower. To put it bluntly, the better (worse) the performance of the national economy inside the union, the higher (lower) the cost that being outside the union would entail.

To model this effect, I assume that outside the union individuals get a pre-tax income of only ${w_{vi}}^{\lambda}$, where $\lambda \in [0,1]$ is a parameter (the same for all countries) capturing the efficiency loss from autarchy: the lower λ, the greater the loss. The individual utility function now takes the following form:

$$U_{vi}^{OUT}(c_{vi}, g_i) = \log c_{vi} + \log g_i \qquad (11)$$

The most preferred per capita amount of public good for an individual with income w_{vi} is given by the solution to the following problem:

$$\max_{g}\left[\log c_{vi} + \log g_i\right] \qquad (12)$$

$$\text{s.t. } c_{vi} = (1 - t_i){w_{vi}}^{\lambda} \text{ and } g_i = t_i y_i \qquad (13)$$

By substituting (13) in (12), we find that the optimum per capita amount of public good is:

$$g_i^*(w_{vi}) = \frac{y_i}{2} \qquad (14)$$

which is independent of w_{vi} and therefore the same for all individuals in country i. Hence (14) is the per capita amount of public good autonomously provided by country i. Consequently the equilibrium tax rate is again 0.5. An agent with income w_{vi} receives the following payoff when his country is outside the union:

$$U_{vi}^{OUT}(w_{vi}) = \lambda \log w_{vi} + \log y_i - 2\log 2 \tag{15}$$

An individual with income w_{vi} supports his country's membership of the union when $U_{vi}^{IN}(w_{vi}) > U_{vi}^{OUT}(w_{vi})$. Since $U_{vi}^{IN}(w_{vi}) - U_{vi}^{OUT}(w_{vi})$ is always increasing in w_{vi}, it follows that a majority of individuals supports membership of the union if so does the agent with the median income (the median voter).

The median voter in country i has the following utility when his country is inside the union

$$U_{mi}^{IN} = \log w_{mi} + \log \beta_i + \log y_u - 2\log 2 \tag{16}$$

whereas his utility if country i is outside the union is given by:

$$U_{mi}^{OUT} = \lambda \log w_{mi} + \log y_i - 2\log 2 \tag{17}$$

Hence the median voter prefers his country to be inside the union than outside it when

$$\Delta = U_{mi}^{IN} - U_{mi}^{OUT} = (1-\lambda)\log w_{mi} + \log \beta_i + \log y_u - \log y_i > 0 \tag{18}$$

We can rewrite (18) as: $\Delta > 0 \Leftrightarrow \frac{{w_{mi}}^{1-\lambda} \beta_i y_u}{y_i} > 1$. It is straightforward to notice that Δ is increasing in the union's average per capita income y_u, the parameter β_i and the median voter's income w_{mi} and decreasing in country i's average per capita income y_i and the efficiency parameter λ.

A particular situation arises if we assume λ=1 and β_i =1 (no efficiency loss nor heterogeneity). In this case we obtain the following result:

PROPOSITION 1. If λ=1 and β_i =1, a majority of country *i*'s citizens is in favour of membership if y_u>y_i, i.e. if country *i* is poorer than the union's average.

This happens because of an implicit redistribution effect in the provision (and financing) of the public good in the union; from (9) and (14), we find indeed that $y_u > y_i \Rightarrow g_u^* > g_i^*$. Poorer countries receive a higher per capita amount of public good inside the union than outside it while paying the same fraction of their income in taxes[10]; the reverse is true for richer-than-average countries. Hence the difference constitutes an implicit transfer from the latter to the former.

3.2 Endogenous heterogeneity

So far the heterogeneity parameter β has been treated as exogenous for simplicity. Here I extend the model by assuming a relation between the degree of heterogeneity in preferences among members of the union and the amount of public good g_u. The new utility function of an individual *v* becomes:

$$U_{vi}^{IN}(c_{vi}, g_u) = \log c_{vi} + \log(\beta(g_u) g_u) \tag{19}$$

I hypothesize that $\beta(g_u)$ is the same for all countries in the union and is decreasing in the per capita amount of public good supplied by the union. The idea is that countries' preferences become more heterogeneous when more competences are attributed to the union. This assumption seems consistent with the historical evidence of European integration (Alesina et al. 2005b). On this subject, Alesina and Wacziarg (1999) argue that '[Since the early 1990s] we have witnessed increased skepticism concerning European unification on the part of the voters. This could be viewed as resistance, on the part of heterogeneous constituencies, to attempts to impose excessive uniformity over an increasing range of policies over Europe' (p. 28). It is worth noting that such a kind of preference heterogeneity is different from that stemming from an

[10] Remember that the tax rate is 0.5 in both cases.

enlargement of the union, which has been dealt with by Alesina et al. (2001, 2005a) and is frequently mentioned in the present political and economic debate about European integration. Here we emphasise that an international union may become more heterogeneous not only because new members join it, but also simply as a consequence of deeper integration in sectors where policy preferences differ among countries.

We choose the following functional form for $\beta(g_u)$:

$$\beta(g_u) = \frac{1}{1+g_u} \tag{20}$$

which is monotonically decreasing in g_u, with $\lim_{g\to 0} \beta(g_u) = 1$ and $\lim_{g\to\infty} \beta(g_u) = 0$, and thus respects the constraint $\beta \in [0,1]$. By substituting (20) in (19) and maximizing with respect to g_u, we find:

$$g_u^*(w_{wi}) = \sqrt{(1+y_u)} - 1 \tag{21}$$

which is again independent of w_{vi} and therefore the same for all individuals in the union. g_u^* is clearly increasing in y_u, but, if we compare (21) to (9), we discover that, for all values of y_u, it is lower in the case of endogenous heterogeneity than in that of exogenous heterogeneity. Not surprisingly, a positive relation between heterogeneity and centralization reduces the amount of public good supplied by the union in equilibrium. Consequently, the new tax rate is:

$$t_u^* = \frac{(1+y_u)^{1/2} - 1}{y_u}$$

which is lower than the previous value of 0.5 for all positive values of y_u.

From (20) and (21), the value of $\beta(g_u)$ in g_u^* is:

$$\beta(g_u^*) = \frac{1}{\sqrt{1+y_u}} \qquad (22)$$

As in section 3 above, we calculate the utility of country *i*'s median voter:

$$U_{mi}^{IN} = \log w_{mi} + \log(1 - \frac{\sqrt{1+y_u} - 1}{y_u}) + \log\sqrt{1+y_u} + \log(\sqrt{1+y_u} - 1) = \log w_{mi} + \log\frac{[1+y_u - \sqrt{1+y_u}]^2}{y_u}$$

(23)

His utility when country *i* is outside the union does not change. Hence a majority of citizens of i is in favour of membership of the union when:

$$\Delta = U_{mi}^{IN} - U_{mi}^{OUT} = (1-\lambda)\log w_{mi} + \log\frac{[1+y_u - \sqrt{1+y_u}]^2}{y_u} - \log y_i + 2\log 2 > 0 \qquad (24)$$

Inspection of (24) provides the following result:

PROPOSITION 2. Support of membership of the union is increasing in the union's average income and decreasing in country *i*'s average income and in the efficiency parameter λ.

Proof

It is straightforward to check that $\frac{\partial \Delta}{\partial y_i} < 0$ and $\frac{\partial \Delta}{\partial \lambda} < 0$.

$$\frac{\partial \Delta}{\partial y_u} = -\frac{1}{y_u} + \frac{2 - (1+y_u)^{-\frac{1}{2}}}{1+y_u - \sqrt{1+y_u}} = \frac{\sqrt{1+y_u}(y_u - 1) + 1}{y_u[1+y_u - \sqrt{1+y_u}]\sqrt{1+y_u}} \qquad (25)$$

To establish that $\frac{\partial \Delta}{\partial y_u} > 0$, first notice that the denominator is clearly positive for all y_u>0. Define the numerator as $f(y_u) = \sqrt{1+y_u}(y_u - 1) + 1$. It is easy to check that $f(0) = 0$ and $f^{'}(y_u) = \sqrt{1+y_u} + \frac{y_u - 1}{2\sqrt{1+y_u}} = \frac{3y_u + 1}{2\sqrt{1+y_u}} > 0,\ \forall y_u \geq 0$.

Thus we have $f(y_u) > 0$ for all y_u>0, which implies $\frac{\partial \Delta}{\partial y_u} > 0$. QED.

In the model of the previous section, an individual received a higher amount of g inside the union than outside it when his country was poorer than the union's average. With endogenous heterogeneity, we have already observed that the amount of public good provided by the union and the tax rate are lower in equilibrium. From (21) and (14), in order to have , now it must be

: a country needs to be much poorer than the average to get a higher amount of g from the union.

To summarize, the qualitative nature of our findings does not change dramatically when endogenous heterogeneity is introduced in the model: support for membership of the union is still increasing in the union's average income and decreasing in country *i*'s average income and in the efficiency parameter λ. The quantitative implications, however, point to a reduced scope of the union.

4. Econometric analysis

In the last fifteen years, citizens' support for European integration has been investigated empirically in a number of studies, which can be divided into two different categories, according to the focus of their analysis: individuals or countries. The former include the works by, among others, Gabel and Palmer (1995), Anderson and Reichert (1996), Anderson (1998), Gabel (1998), which took personal economic and social factors into account and identified systematic differences in individual-level support for integration related to partisanship, age, income, occupation, cognitive skills and political values .

However, we are primarily interested in the latter strand of literature, because our focus too is on cross-national determinants of support. The two most prominent examples of this kind of studies are Eichenberg and Dalton (1993) and Anderson and Kaltenthaler (1996). Both used a panel data approach. Eichenberg and Dalton analysed eight countries (the founding members, except for Luxembourg, plus Denmark, Ireland and the UK) for the 1973-88 period, using a number of economic and political variables to explain the dynamics of public support for EU membership. They found a significant effect of inflation, but not of unemployment nor of GDP. Anderson and Kaltenthaler examined a larger number of countries (twelve) for a slightly longer time period (1973-93) and found that also unemployment (besides inflation) was significant, while GDP growth remained insignificant. Interestingly, they highlighted an upward trend in support; this is not surprising, because, as shown in Figure 1, the period taken into account ended when public support for the EU had reached its all-time high and was just starting to decline.

The main aim of this section is not simply to update those previous studies, but to test our model with a view to providing a more complete and theoretically grounded picture of public support for the EU. According to our model, national economic conditions do influence citizens' attitude towards European integration, since membership of the EU increases the efficiency of the national economy. Therefore, a good economic performance positively affects public support for the EU. We follow the previous studies in choosing three variables as basic indicators of national economic performance: GDP growth, unemployment rate and inflation rate. We also add public debt and public deficit, which, especially after the signature of the Maastricht Treaty, have become increasingly relevant to public opinion's eyes in determining whether the management of public finances is sound or poor. GDP growth is expected to exert a positive impact, whereas unemployment, inflation, public debt and public deficit should have a negative effect.[11]

However, two are the really novel elements of the model. First, it indicates that support for EU membership depends negatively on the ratio between national per capita income and the EU average one: the poorer a country

[11] Inequality would have been another interesting variable to be incorporated in the estimations. However, we could not do so because all the series of the various measures of inequality provided by Eurostat (the Gini index, the at-risk-of-poverty rate and the ratio of the richest to the poorest quintile of the population) were incomplete and presented a large number of breaks.

(compared to the other EU members), the more positive its citizens' attitude towards EU membership.

Second, the model explicitly includes preference heterogeneity among member countries. It is not obvious how to measure it, hence we adopt two different strategies to do so. Firstly, we propose a simple measure consistent with our model, where we defined a parameter β which captured heterogeneity over the provision of a public good (β=1 meant complete homogeneity, while β=0 implied complete heterogeneity). By analogy with it, we take public expenditure as a proxy for the public good and thus construct the following indicator:

$$EXPEND = (1 - |G_i - G_{EU}|)*100 \qquad (26)$$

defined as one minus the absolute value of the difference between the ratio of public expenditure to GDP in country i (G_i) and the EU average (G_{EU}), expressed in percentage terms. It takes a maximum value of 100 if $G_i = G_{EU}$; the farther the value of G_i from that of G_{EU} (irrespective of whether it is larger or smaller), the lower *EXPEND* is. Since a higher degree of heterogeneity should reduce support for the EU, its coefficient is expected to have a positive sign.

Secondly, we also generate a more indirect proxy variable capturing preference heterogeneity: we group member countries according to their date of accession to the EU and attribute each group a different score. The basic argument runs as follows. The founding states created the European Community, shaped its institutions and its policies (such as the Common Agricultural Policy) and then pressed for the advancement of the integration process after the accession of new members. Therefore we may assume that, among all member states, their preferences have been the most similar to the policies actually enacted by the EU throughout its existence.

By contrast, public opinion was less favourably predisposed towards integration in the countries entering the EU in 1973[12]; the 'permissive consensus' mentioned in Chapter 1 (Lindberg and Scheingold 1970), did not

[12] The extreme case was Norway, which, after signing the accession treaty, rejected EU membership by referendum.

exist in those countries, thus constraining elites' aspirations to join early (Rabier 1989, Reif and Inglehart 1991). Moreover, even after quite a long period of membership, they chose to opt out of some new common policies: the UK and Denmark have not adopted the euro and the UK and Ireland are not part of the "Schengen area". The Mediterranean countries joining in the 1980s are different still: they entered late not because of a lack of enthusiasm for the EU as an organisation, but because they were previously excluded for political reasons, since until the mid-1970s they were run by undemocratic governments. Finally, the 1995 enlargement brought in three countries that had previously resisted accession to the EU for almost forty years and whose publics have shown a very low level of support for EU membership; hence, their preferences are assumed to be the most different from those of the founding members.

Consequently, we attribute a score of 4 to the five founding members, 3 to Greece, Portugal and Spain, 2 to Denmark, Ireland and the UK, and 1 to Austria, Finland and Sweden. The sign of the coefficient of this new variable (labelled ENTRY) is expected to be positive; this is analogous to what happened in our theoretical model, where a higher β indicated a higher degree of preference homogeneity. Certainly this definition of heterogeneity is quite crude; moreover, alternative criteria for the division of countries into groups might be suggested. Nevertheless, our choice seems consistent with the historical development of the European integration process.

After defining the relevant variables, the estimation of the model was carried out employing two different panel datasets, the first comprising all the EU member states (except for Luxembourg) for the 1995-2003 period, the second covering a smaller number of countries (the five founding members, Denmark, Ireland and the UK), but a longer time span (1978-2003)[13]. All the results reported here were obtained using EViews 5.0. The model can be specified as follows:

$$MEMB_{i,t} = \alpha + \beta_1 GROWTH_{i,t} + \beta_2 UNEMPL_{i,t} + \beta_3 INFL_{i,t} + \beta_4 DEBT_{i,t} + \beta_5 DEFICIT_{i,t} + \quad + \beta_6 GDP\_RATIO_{i,t} + \beta_7 EXPEND_{i,t} + \beta_8 ENTRY_i + \varepsilon_{i,t}$$

$$i=1,..,N \quad t=1,...,T \tag{27}$$

[13] *Eurobarometer* data start in 1973. However, quarterly GDP figures for Denmark were only available since 1978. Thus, in order to have a balanced panel, our sample starts in 1978.

where

$MEMB_{i,t}$ is the percentage of people supporting their country's membership of the EU, as defined in Section 2;

$GROWTH_{i,t}$ is the quarterly real GDP growth rate[14] in country *i*, in the quarter prior to that in which the *Eurobarometer* survey was conducted, expressed in percentage terms;

$UNEMPL_{i,t}$ is the unemployment rate in country *i*, in the quarter prior to that in which the Eurobarometer survey was conducted, expressed in percentage terms;

$INFL_{i,t}$ is the quarterly inflation rate[15] in country *i*, in the quarter prior to that in which the *Eurobarometer* survey was conducted, expressed in percentage terms;

$DEBT_{i,t}$ is the ratio of country *i*'s general government consolidated gross debt to GDP in the year in which the *Eurobarometer* survey was conducted, expressed in percentage terms;

$DEFICIT_{i,t}$ is the ratio of country *i*'s general government net borrowing to GDP in the year in which the *Eurobarometer* survey was conducted, expressed in percentage terms;

$GDP\_RATIO_{i,t}$ is the ratio of country *i*'s real per capita GDP to the EU average, in the quarter prior to that in which the *Eurobarometer* survey was conducted, expressed in percentage terms;

$EXPEND_{i,t}$ is the measure of heterogeneity in public expenditure defined above;

$ENTRY_i$ (as specified above) takes a value of 4 for the five founding members, 3 for Greece, Portugal and Spain, 2 for Denmark, Ireland and the UK, and 1 for Austria, Finland and Sweden;

$\varepsilon_{i,t}$ is the error term;

N is the number of cross-sectional units (countries);

T is the number of time points.

[14] The model was also estimated using annual (instead of quarterly) GDP growth rates, obtaining very similar results.

[15] Measured as the consumer price index (CPI) growth rate.

Since the Eurobarometer surveys are carried out in spring and autumn (corresponding to the second and four quarter), first- and third-quarter figures were employed for *GROWTH*, *UNEMPL*, *INFL* and *GDP_RATIO*. Details about data sources are reported in Table 2.

Given the structure of the dataset, we expected to have to deal with some problems in the estimation process: cross-sectional heteroskedasticity, contemporaneous correlations of the residuals for different cross-sectional units[16] and autocorrelated residuals within each time series. Diagnostic tests for results from an ordinary least squares (OLS) estimation of Equation (27) confirmed the presence of such problems.[17]

Table 2. Data sources

Variable	Source
MEMB	European Commission, *Eurobarometer* surveys, various issues.
GROWTH	OECD, *Economic Outlook*, No 75. Figures for Denmark are from Eurostat *New Cronos* database. All data are expressed at 1995 prices.
UNEMPL	OECD, *Economic Outlook*, No 75.
INFL	IMF, *International Financial Statistics*
DEBT	Eurostat, *Government Statistics*
DEFICIT	See DEBT
GDP_RATIO	See GROWTH
BALANCE	European Commission, *Annual Report on Allocated Expenditure*, various issues
EXPEND	See DEBT

A strategy frequently followed in political economy literature is the application of a feasible generalised least squares (FGLS) estimator, which corrects, on the one hand, for both cross-section heteroskedasticity and contemporaneous correlations, and, on the other hand, for autocorrelations of the errors by assuming that they follow a first-order autoregressive process (AR(1)):

[16] By contemporaneous correlations, we mean that the residuals for unit *i* at time *t* are correlated with the residuals for unit *j* at time *t*. In our context, a relevant example could be a similar business cycle between two or more EU countries.
[17] See Wooldridge (2002) and Greene (2003) for a detailed description of tests for hetroskedasticity, contemporaneous correlations and autocorrelation in panel data models.

$$\varepsilon_{i,t} = \sigma_i \varepsilon_{i,t-1} + u_{i,t} \quad |\sigma_i|<1 \tag{28}$$

This methodology was firstly proposed by Parks (1967) and is often referred to as the Parks estimator. However, it presents a potentially severe pitfall: Beck and Katz (1995) show that, unless T is much larger than N, the FGLS methodology tends to strongly underestimate the true variability of the estimator. Consequently, this produces highly overconfident standard errors and, therefore, t-ratios are much higher than the correct value. They suggest a different strategy: first, use OLS and the appropriate covariance matrix to obtain standard errors which are robust to contemporaneous correlations as well as different error variances in each cross-section (labelled "panel corrected standard errors"); second, impose the restriction of equal autocorrelation coefficients across units ($\sigma_i = \sigma$ for all i).

Hence we estimated Equation (27) for the EU-14, where T=16 and N=14, by pooled OLS with panel corrected standard errors (provided by EViews following Beck and Katz methodology) and an AR(1) correction. For the EU-8 equation, where T=50 and N=8, we employed both this methodology and (since in this case T is actually much larger than N) a FGLS specification correcting for both cross-section heteroskedasticity and contemporaneous correlations of the errors, termed "Cross-section SUR" by EViews, because it is analogous to a seemingly unrelated regressions (SUR) framework[18]. The latter approach is also very similar to that adopted by Eichenberg and Dalton (1993) and Anderson and Kaltenthaler (1996) and thus facilitates comparison with their findings.

The results for the EU-14 clearly confirm our theoretical predictions (Table 3). Both the positive impact of economic growth and the negative one of unemployment are significant, even if the former is stronger than the latter, as shown by comparison of their t-ratios. Inflation does not seem to be of concern for the European public opinion, probably because it has permanently been low throughout the period considered in our analysis. Economic growth and unemployment are thus the variables of the business cycle that matter most in

[18] The AR(1) correction with a common σ is retained.

citizens' view. By contrast, price stability appears to be taken for granted, even if one may argue that its achievement has represented precisely one of the main successes of economic integration, through monetary policy coordination in the European Monetary System and the three phases of the European Monetary Union, leading to a single monetary policy run by the ECB for most EU members since 1999. Public debt seems to matter more than public deficit to European citizens: the negative effect of the former is significant (even if not very large) whilst that of the latter is not. As shown in Table 3, we estimated Equation (27) with both EXPEND and ENTRY and with only one of them at a time. When only EXPEND was included, we also performed a regression including country fixed effects.[19] There are no considerable differences among the various specifications and this is reassuring as regards the stability of the results. The degree of preference homogeneity has a strongly positive effect on support for membership, confirming the predictions of the theoretical model.

The coefficient of GDP_RATIO is negative and highly significant: ceteris paribus, the poorer a country the higher its support for the EU, as we expected. This may happen because of the redistribution enacted in the EU budget in favour of the less developed members to promote the goal of economic and social cohesion by means of the Structural Funds.[20] Indeed, allocation of EU expenditure has become one of the most delicate issues in intergovernmental negotiations, even if the EU budget is equal to only 1.1-1.2% of its total GNP, because "winners" and "losers" can be easily identified on the basis of the difference between benefits received from EU budget and contributions paid to it (Laffan and Shackleton 2000).

We may test this hypothesis directly, by replacing the variable GDP_RATIO in Equation (27) with a new variable BALANCE, defined as a country's benefits from minus contributions to the EU budget, expressed as a percentage of GNP. In this case, we should expect a positive sign for the BALANCE coefficient, since poorer countries are generally net beneficiaries. The results shown in Table 4 fully corroborate our hypothesis.

[19] Time fixed effects cannot be used with AR terms because of multicollinearity problems.
[20] For a detailed presentation and discussion on the Structural Funds, see, for instance, Allen (2000).

With regard to the EU-8 equation for the 1978-2003 period (Tables 5 and 6)[21], we may first notice that both the OLS and the FGLS specifications yield qualitatively and quantitatively similar results;[22] the main difference is just the value of the UNEMPL coefficient, which is quite larger (in absolute value) in the former than in the latter. Second, our model performs well in the long run too, with some interesting differences in comparison with the previous EU-14 case. Economic conditions are still important, but now inflation is the most significant of these variables, whereas GDP growth and public debt exert no effect on support for the EU. Unemployment remains significant at 5% level. These findings are similar to those of Anderson and Kaltenthaler (1996) for the 1973-1993 period, where inflation and unemployment were significant, but economic growth was not. By contrast, Eichenberg and Dalton (1993) found that only inflation was significant, but they used a slightly different definition of the dependent variable[23] and, as mentioned above, their analysis focused on a shorter period (1973-1988).

It is not surprising that inflation plays a relevant role in shaping mass support for the EU over the extended time period, because economic policy in the late 1970s and the 1980s exhibited a strong anti-inflationary stance all over Western Europe, and also at the EC level through the creation of the EMS. Hence we may argue that citizens seemed to share the concern of their governments about price stability after the stagflation phenomenon in the 1970s.

Another difference compared with the EU-14 results is the insignificance of EXPEND and ENTRY (both when employed one at a time and together), which suggests that heterogeneity of preferences becomes relevant only when a larger number of countries is included in the analysis. That is to say, subsequent enlargement rounds (especially the 1995 one) have made the EU more diverse and only in the last few years such increased heterogeneity has affected support for EU membership. The coefficient of GDP_RATIO is still negative and significant, which implies that, ceteris paribus, support for the EU is higher in poorer member countries.

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[21] The DEFICIT variable is not included in these regressions because data for some countries were not available for the whole period.

[22] As shown in Table 4, an F-test rejected the presence of country fixed effects when the model is estimated with OLS. However, the results obtained with fixed effects are reported for comparison.

[23] Instead of absolute support for EU membership, they employed net support (percentage of citizens in favour of membership minus percentage of citizens against it).

Finally, in order to test the robustness of our results, we also estimated the model for the EU-14 with different measures of economic performance. More precisely, we employed indicators of “relative” (instead of “absolute”) economic performance, constructed by substituting the values of GROWTH, UNEMPL, INFL, DEFICIT and DEBT with the difference between them and the EU average. Such new variables are termed R_GROWTH, R_UNEMPL, R_INFL, R_DEFICIT and R_DEBT respectively (Tables 7 and 8). We found no dramatic differences with the standard model. The relative debt level becomes insignificant, but relative growth and unemployment always remain significant at 5% level at least (sometimes at 1% level) and relative inflation and deficit are as insignificant as were their absolute values. The most important variables of our model, namely GDP_RATIO, BALANCE, EXPEND and ENTRY, remain highly significant, whether associated with indicators of relative or absolute macro-economic performance.

Table 3. Determinants of public opinion support for EU membership in the EU-14: regression results, 1995-2003

Dependent Variable: MEMB Method: Pooled OLS-AR(1) with Panel Corrected Standard Errors and Covariances				
Variable	Coefficient (Std. Error)	Coefficient (Std. Error)	Coefficient (Std. Error)	Coefficient (Std. Error)
CONSTANT	11.188	19.446	6.348	10.699
	(2.901)**	(3.123)**	(1.481)**	(4.946)*
GROWTH	0.634	0.624	0.625	0.737
	(0.289)*	(0.284)*	(0.293)*	(0.324)*
UNEMPL	-1.796	-1.669	-1.435	-1.630
	(0.365)**	(0.391)**	(0.288)**	(0.523)**
INFL	-0.217	-0.184	-0.203	-0.241
	(0.298)	(0.308)	(0.270)	(0.282)
DEBT	-0.165	-0.173	-0.187	-0.107
	(0.041)**	(0.077)*	(0.038)**	(0.031)**
DEFICIT	-0.155	-0.034	-0.266	-0.220
	(0.306)	(0.381)	(0.312)	(0.542)
GDP_RATIO	-0.211	-0.239	-0.256	-0.332
	(0.045)**	(0.054)**	(0.050)**	(0.093)**
EXPEND	0.489	1.048		0.412
	(0.123)**	(0.367)**		(0.113)**
ENTRY	10.392		9.775	
	(1.247)**		(1.165)**	
Fixed Effects	No	No	No	Country
F-test for country fixed effects	-	-	-	1.799*
Adjusted R-squared	0.901	0.899	0.899	0.919
σ	0.812	0.806	0.822	0.798
N observations	224	224	224	224
F-statistic	88.820	86.354	91.955	63.705

* significant at 5% level
**significant at 1% level

Source: author's calculations

Table 4. Determinants of public opinion support for EU membership in the EU-14: regression results, 1995-2003

Dependent Variable: MEMB Method: Pooled OLS-AR(1) with Panel Corrected Standard Errors and Covariances				
Variable	Coefficient (Std. Error)	Coefficient (Std. Error)	Coefficient (Std. Error)	Coefficient (Std. Error)
CONSTANT	9.808	14.380	4.645	11.175
	(1.978)**	(3.577)**	(0.835)**	(4.648)**
GROWTH	0.519	0.535	0.534	0.582
	(0.253)*	(0.255)*	(0.257)*	(0.273)*
UNEMPL	-1.717	-1.708	-1.258	-1.695
	(0.355)**	(0.379)**	(0.271)**	(0.518)**
INFL	-0.132	-0.089	-0.044	-0.125
	(0.304)	(0.309)	(0.302)	(0.293)
DEBT	-0.293	-0.101	-0.314	0.169
	(0.041)**	(0.043)*	(0.038)**	(0.076)*
DEFICIT	-0.202	-0.204	-0.054	-0.110
	(0.260)	(0.404)	(0.276)	(0.344)
BALANCE	5.687	4.339	4.808	6.082
	(1.223)**	(0.790)**	(1.045)**	(1.585)**
EXPEND	0.537	0.919		0.640
	(0.204)**	(0.419)*		(0.226)**
ENTRY	12.939		11.892	
	(0.999)**		(0.900)**	
Fixed Effects	No	No	No	Country
F-test for country fixed effects	-	-	-	2.422**
Adjusted R-squared	0.905	0.893	0.903	0.907
σ	0.872	0.856	0.843	0.813
N observations	224	224	224	224
F-statistic	93.638	85.869	95.932	65.239

* significant at 5% level
**significant at 1% level

Source: author's calculations

Table 5. Determinants of public opinion support for EU membership in the EU-8: regression results, 1978-2003

Dependent Variable: MEMB Method: Pooled OLS-AR(1) with Panel Corrected Standard Errors and Covariances				
Variable	Coefficient (Std. Error)	Coefficient (Std. Error)	Coefficient (Std. Error)	Coefficient (Std. Error)
CONSTANT	3.572	5.433	2.789	7.236
	(2.798)	(3.247)	(1.789)	(3.157)*
GROWTH	0.064	0.066	0.062	0.104
	(0.199)	(0.201)	(0.200)	(0.206)
UNEMPL	-1.051	-1.100	-1.055	-0.734
	(0.449)*	(0.487)*	(0.471)*	(0.282)**
INFL	-0.620	-0.607	-0.613	-0.587
	(0.194)**	(0.198)**	(0.201)**	(0.189)**
DEBT	-0.071	-0.070	-0.069	-0.107
	(0.049)	(0.056)	(0.050)	(0.212)
GDP_RATIO	-0.0643	-0.099	-0.098	-0.095
	(0.021)**	(0.027)**	(0.028)**	(0.258)**
EXPEND	0.120		0.086	0.084
	(0.254)		(0.258)	(0.259)
ENTRY		5.500	5.663	
		(5.069)	(5.121)	
Fixed Effects	No	No	No	Country
F-test for country fixed effects	-	-	-	1.122
Adjusted R-squared	0.899	0.899	0.899	0.902
σ	0.778	0.796	0.781	0.752
N observations	400	400	400	400
F-statistic	239.072	255.161	256.747	175.210

* significant at 5% level
** significant at 1% level

Source: author's calculations

Table 6. Determinants of public opinion support for EU membership in the EU-8: regression results, 1978-2003

Dependent Variable: MEMB				
Method: FGLS-AR(1)				
Variable	Coefficient (Std. Error)	Coefficient (Std. Error)	Coefficient (Std. Error)	Coefficient (Std. Error)
CONSTANT	1.454	4.231	1.874	5.934
	(1.929)	(3.209)	(1.313)	(2.546)*
GROWTH	0.088	0.068	0.090	0.037
	(0.104)	(0.132)	(0.131)	(0.122)
UNEMPL	-0.449	-0.506	-0.433	-0.342
	(0.186)*	(0.220)*	(0.184)*	(0.141)*
INFL	-0.559	-0.556	-0.558	-0.530
	(0.161)**	(0.174)**	(0.173)**	(0.156)**
DEBT	-0.032	-0.023	-0.032	-0.083
	(0.033)	(0.041)	(0.039)	(0.065)
GDP_RATIO	-0.101	-0.162	-0.161	-0.096
	(0.032)**	(0.046)**	(0.046)**	(0.031)**
EXPEND	0.049	0.100		0.065
	(0.166)	(0.179)		(0.145)
ENTRY	6.096		6.167	
	(7.156)		(7.264)	
Fixed Effects	No	No	No	Country
F-test for country fixed effects	-	-	-	2.315*
Adjusted R-squared	0.927	0.926	0.926	0.965
σ	0.822	0.857	0.865	0.833
N observations	400	400	400	400
F-statistic	1169.618	1252.968	1249.245	934.814

* significant at 5% level
**significant at 1% level

Source: author's calculations

Table 7. Determinants of public opinion support for EU membership in the EU-14: regression results, 1995-2003

Dependent Variable: MEMBERSHIP
Method: Pooled OLS-AR(1) with Panel Corrected Standard Errors and Covariances

Variable	Coefficient (Std. Error)	Coefficient (Std. Error)	Coefficient (Std. Error)	Coefficient (Std. Error)
CONSTANT	6.484	16.597	5.655	10.594
	(2.463)**	(3.493)**	(1.634)**	(3.915)**
R_GROWTH	0.616	0.647	0.608	0.500
	(0.284)*	(0.269)*	(0.283)*	(0.185)**
R_UNEMPL	-0.496	-0.693	-0.411	-0.365
	(0.154)**	(0.197)**	(0.143)**	(0.173)*
R_INFL	-0.098	-0.036	-0.102	-0.102
	(0.227)	(0.349)	(0.223)	(0.231)
R_DEBT	-0.022	-0.074	-0.017	-0.060
	(0.037)	(0.069)	(0.034)	(0.144)
R_DEFICIT	-0.142	-0.004	-0.128	-0.167
	(0.330)	(0.034)	(0.324)	(0.317)
GDP_RATIO	0.187	0.127	0.184	0.248
	(0.025)**	(0.029)**	(0.024)**	(0.037)**
EXPEND	-0.866	-1.043		-0.646
	(0.241)**	(0.362)**		(0.204)**
ENTRY	3.652		3.634	
	(0.560)**		(0.583)**	
Fixed Effects	No	No	No	Country
F-test for country fixed effects	-	-	-	2.645**
Adjusted R-squared	0.895	0.890	0.893	0.907
σ	0.718	0.749	0.785	0.702
N observations	224	224	224	224
F-statistic	88.164	86.630	92.456	64.563

* significant at 5% level
**significant at 1% level

Source: author's calculations

Table 8. Determinants of public opinion support for EU membership in the EU-14: regression results, 1995-2003

Dependent Variable: MEMBERSHIP
Method: Pooled OLS-AR(1) with Panel Corrected Standard Errors and Covariances

Variable	Coefficient (Std. Error)	Coefficient (Std. Error)	Coefficient (Std. Error)	Coefficient (Std. Error)
CONSTANT	19.438	18.065	28.590	12.511
	(2.690)**	(2.821)**	(2.075)**	(3.789)**
R_GROWTH	0.580	0.725	0.585	0.599
	(0.279)*	(0.248)**	(0.277)*	(0.206)**
R_UNEMPL	-0.412	-1.039	-0.495	-0.394
	(0.187)*	(0.364)**	(0.217)*	(0.178)*
R_INFL	-0.104	-0.040	-0.099	0.086
	(0.248)	(0.288)	(0.245)	(0.228)
R_DEBT	-0.037	-0.070	-0.031	-0.085
	(0.050)	(0.075)	(0.048)	(0.078)
R_DEFICIT	-0.004	-0.140	-0.016	-0.087
	(0.332)	(0.370)	(0.237)	(0.218)
BALANCE	2.220	3.449	2.457	2.314
	(0.621)**	(0.738)**	(0.724)**	(0.703)**
EXPEND	-0.916	-1.330		-0.707
	(0.259)**	(0.307)**		(0.196)**
ENTRY	8.165		9.161	
	(1.987)**		(1.729)**	
Fixed Effects	No	No	No	Country
F-test for country fixed effects	-	-	-	2.840**
Adjusted R-squared	0.894	0.890	0.892	0.906
σ	0.793	0.845	0.810	0.781
N observations	224	224	224	224
F-statistic	87.078	87.091	91.667	68.557

* significant at 5% level
**significant at 1% level

Source: author's calculations

5. Citizens' response to economic performance: what implications for the European Constitution and the enlargement process?

We can draw some policy implications from our analysis. Firstly, the timing of national referenda on EU issues affects their chance of success. Ceteris paribus, if a country holds a referendum when its economic growth is sluggish and its unemployment is high, it will be more likely to see a majority of citizens voting against further integration. This is consistent with the experience of the recent referenda in France and the Netherlands, where citizens have rejected the European Constitution: according to the latest Eurostat figures, the unemployment rate in France reached 9.8% in April 2005 and quarterly real GDP growth in the Netherlands was –0.1% in the first quarter of 2005[24]. Unfortunately, national policymakers have little freedom for choice in this respect, because EU treaties usually indicate a date for their entry into force and referenda can only be held during a period starting after the signature of the treaty and ending before the envisaged date of entry into force. For instance, the European Constitution should have been ratified by 1 November 2006, two years after its signature; the first referendum took place in February 2005 in Spain, while the last ones were originally scheduled in the UK or the Czech Republic in late spring 2006. In such a short time span, economic conditions are not very likely to change dramatically. The only really effective tool at government's disposal is choosing parliamentary ratification instead, provided that a referendum is not compulsory according to national constitutional rules, because, as Moravcsik (1994) argued with regard to the near rejection of the Maastricht Treaty in France, 'referenda on international issues are likely to be risky' (p.59).

Secondly, it appears quite clear that, in order to boost public support, the EU should concentrate its activity on policies promoting economic growth and fighting unemployment. However, the picture is complicated by the fact that many elements of economic policy still remain of national competence, even if member states have to coordinate their economic policies and each year the

[24] The Netherlands also pays the largest net contribution to the EU budget in percentage of GNP (0.43% in 2003), corresponding to roughly 120€ per capita.

Council of Ministers adopts a recommendation setting out broad economic policy guidelines for the member states.25 At present, EU countries are engaged in the so-called Lisbon Strategy, launched at the Lisbon European Council in 2000, aiming at making the EU 'the most competitive and dynamic knowledge-based economy in the world, capable of sustainable economic growth with more and better jobs and greater social cohesion' (European Council 2000).

So far the outcome has been disappointing and in 2005 the European Commission has proposed a revision of the Lisbon Strategy, giving a higher priority to growth and employment (European Commission 2005). However, its implementation still depends on how seriously national governments take their commitments. EU institutions should then focus their activity on areas where they can really exert a strong impact, namely the single market. Indeed, according to the words of the European Constitution, the Union has 'exclusive competence' on 'the establishing of the competitions rules necessary for the functioning of the internal market' (Art. I-13), while the internal market as a whole is an area of 'shared competence' (Art. I-14), which means that 'the Member States shall exercise their competence to the extent that the Union has not exercised, or has decided to cease exercising, its competence' (Art. I-12).

The most topical issue in the internal market area is the liberalisation of trade in services, which account for roughly 70% of jobs in the EU. A real single market for services has not been established yet, because numerous sectors still hide, de facto, behind national barriers. In 2004 the Commission proposed a directive (usually referred to as 'services directive') precisely aiming at abolishing those barriers. According to an independent study, the liberalisation of services could create up to 600,000 new jobs and add €33 billion a year to EU GDP (Copenhagen Economics 2005), giving a relevant contribution to the relaunch of the Lisbon Strategy. However, in March 2005 the European Council did not endorse the proposed directive and invited the Commission to redraft it, by stating that:

[25] See European Commission (2002) for details on the procedures for coordination of economic policies in the EU.

> 'In order to promote growth and employment and to strengthen competitiveness, the internal market of services has to be fully operational while preserving the European social model. [...][The] ongoing debate [...] shows that the directive as it is currently drafted does not fully meet these requirements' (European Council 2005, p.7).

Indeed, the strongest opposition to the services directive came from France (followed by Germany), that feared a risk of "social dumping", in which competition from poorer EU countries would drive down French welfare standards and could trigger a wave of job losses for French nationals (Gros 2005). The most interesting feature of the story is that rejection of the services directive was linked to the referendum on the European Constitution that France was going to hold in May 2005: preservation of the "European social model", allegedly threatened by the proposed liberalisation in the services sector, was perceived by the French government as one of the elements able to persuade the French people to vote in favour of the Constitution (Franck 2005)[26]. Therefore, a policy measure which could boost economic growth and employment over the next few years and consequently increase public support for the EU in the long run, has faced opposition because in the short run it is deemed to be very unpopular and may worsen the image of the EU in people's eyes. At present, the text passed by the European Parliament at first reading in February 2006 was significantly watered down (Gros 2006).

In terms of government popularity, the trade-off between long-term benefits and short-term costs of economic reforms is well known at the national level, but this paper suggests that a similar trade-off is relevant also at the EU level, in terms of support for the integration process. The main difference is that in the former case citizens may vote against the government at the following election, while in the latter they can only express their discontent by voting against further integration when (and if) a referendum on EU issues is held in their country.

[26] An opinion poll conducted by TNS-Sofres on the referendum day in France actually found that the most frequently mentioned reason for voting "No" was precisely that 'the Treaty will worsen unemployment in France' (see http://www.tns-sofres.com).

Finally, looking at the future of public opinion support for the EU, we may use our model to make some tentative predictions about the impact of the 2004 enlargement, which brought in eight central and eastern European countries (CEECs), plus Cyprus and Malta. According to our analysis, on the one hand heterogeneity of preferences should increase, since public expenditure in the new member states is generally much lower than the EU average[27]; this would negatively affect the level of mass support for EU membership. On the other, the new members are much poorer than the EU average (thus they should be large net beneficiaries from the EU budget) and are enjoying much higher GDP growth rates. According to Eurostat figures, in 2004 per capita GDP among the CEECs ranged from 81% of EU average in Slovenia to 47% in Latvia, while growth in 2004 varied from 8% in Latvia to 4% in Czech Republic, Hungary and Slovenia and in 2005 it ranged from 10% in Latvia to 3% in Poland. These two features should boost support for the EU in the CEECs.[28] The net effect could therefore be ambiguous and only in the next few years one could determine whether it is positive or negative.

6. Concluding remarks

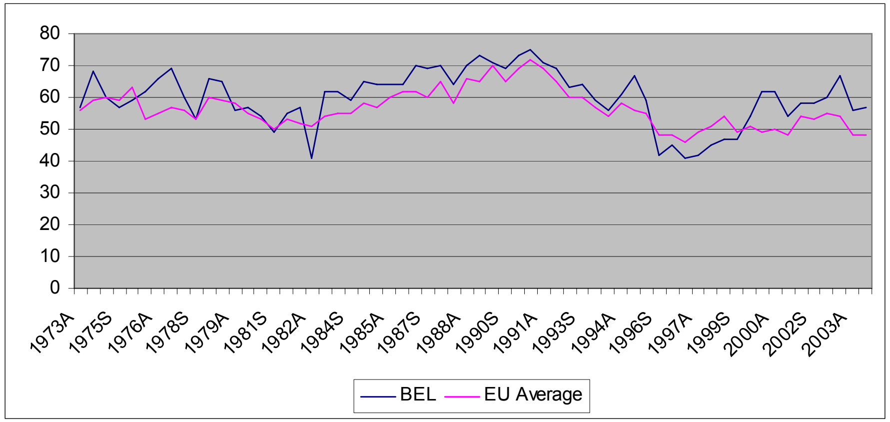
In this paper we firstly proposed a model of citizens' support for membership of international unions, with explicit reference to the EU. The core of the model is the existence of a trade-off between the advantages of centralising the provision of public goods and the heterogeneity in preferences among countries. Subsequently we tested the model on a panel of EU countries. The findings were consistent with our theoretical expectations: the conditions of the national economy, differences in income among member states and heterogeneity of preferences shape citizens' attitude towards their country's membership of the EU. Consequently, this analysis offers some interesting policy implications for the present debate about ratification of the European Constitution and, more generally, about how the EU could act in order to gain

[27] According to Eurostat, in 2004 the average public expenditure in the ten new member states was 42.7% of GDP whereas the EU-25 average equalled 47.7%.
[28] The accession of the CEECs might also have a negative effect on support for the EU in some "old" member countries like Italy and, to a lesser extent, Spain and Ireland, which are going to receive a lower amount of Structural Funds as from 2007.

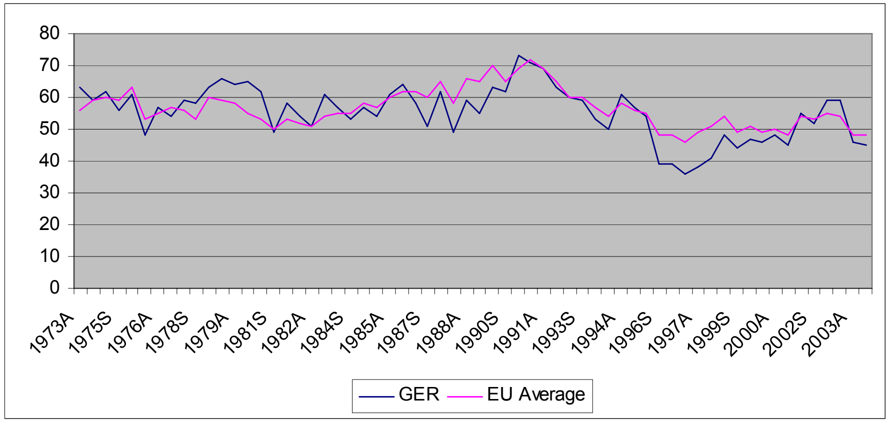
more support from the European public. The broad conclusion which we can draw is that the reaction of the Europeans to the advance of the integration process does not seem to be a priori either positive or negative. It may well depend on the impact of integration on the economic performance of their country.

Annex 1. Evolution of public opinion support for EU membership in member states

BELGIUM

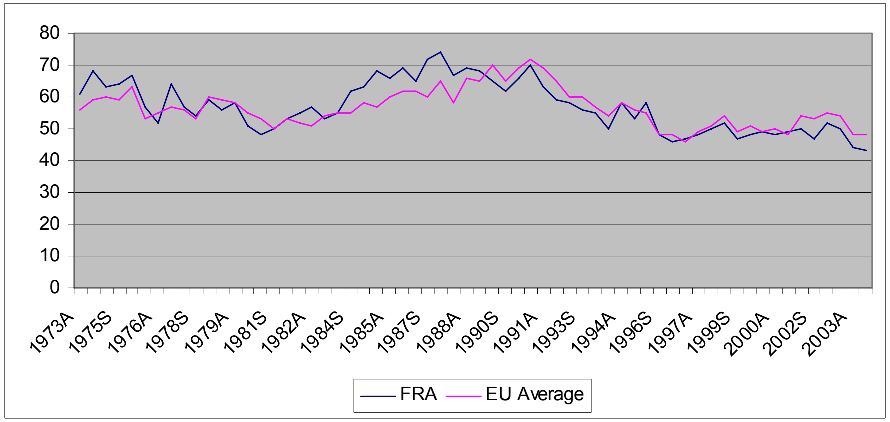


GERMANY*

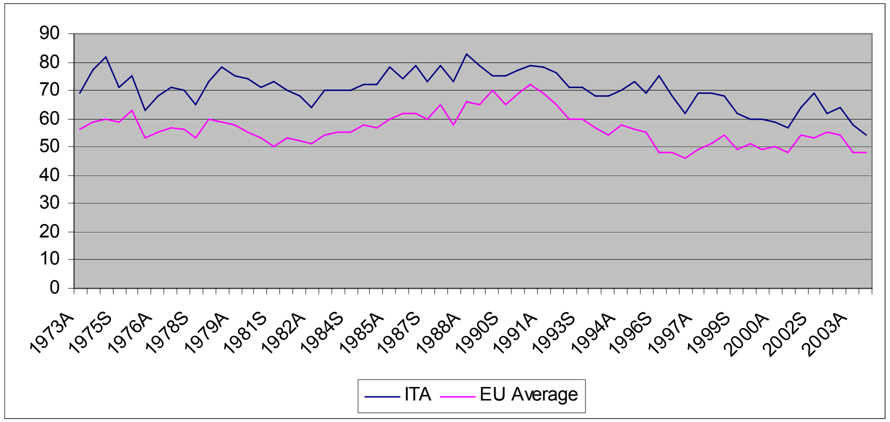


*West Germany until 1991

FRANCE



ITALY



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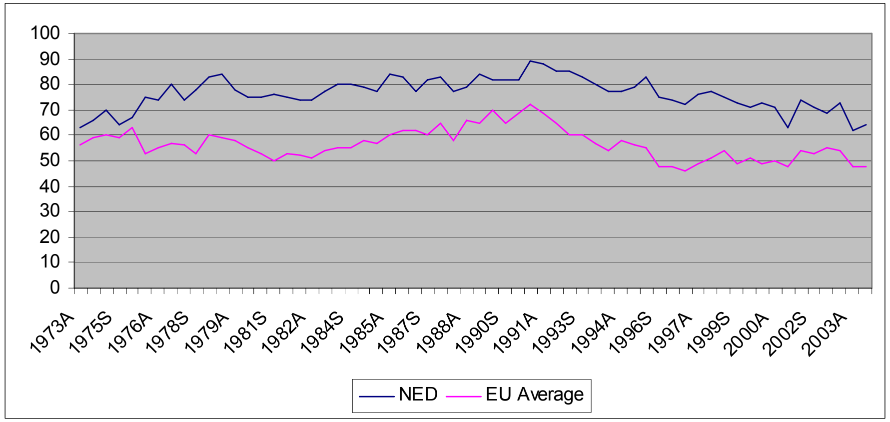
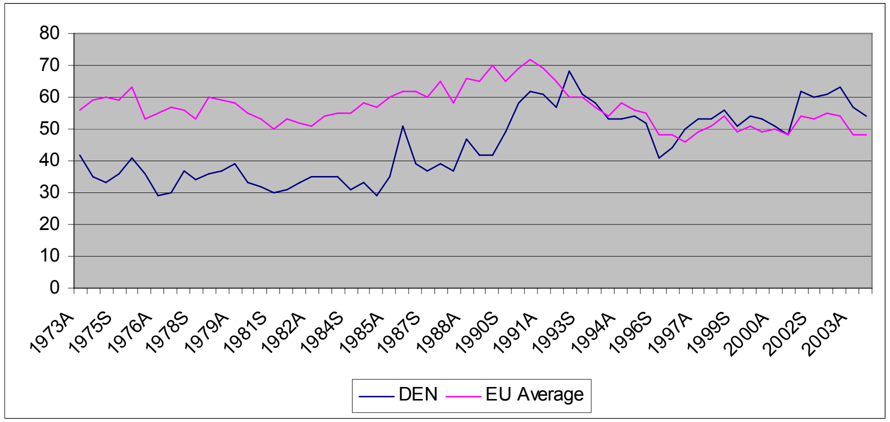
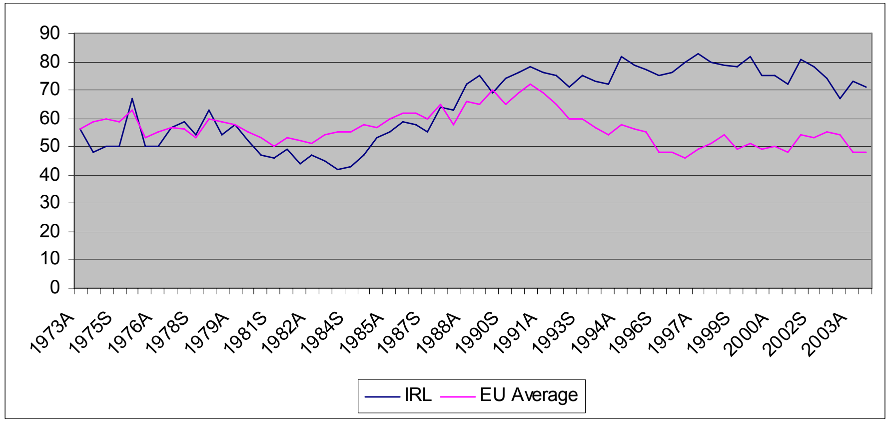
NETHERLANDS



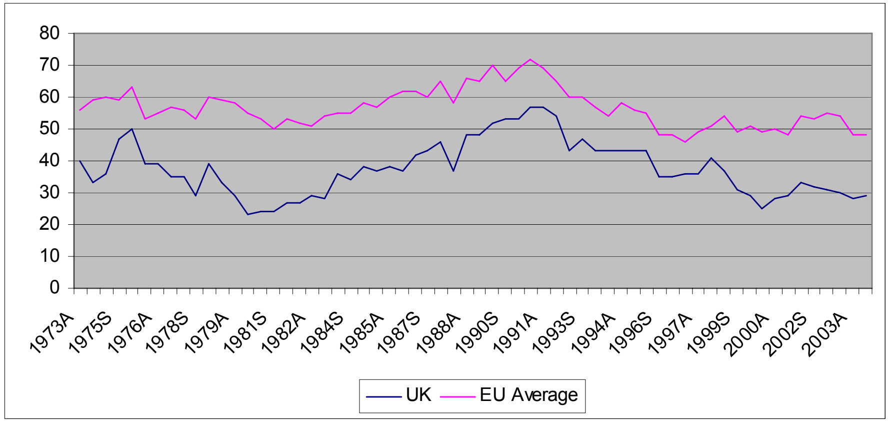
DENMARK



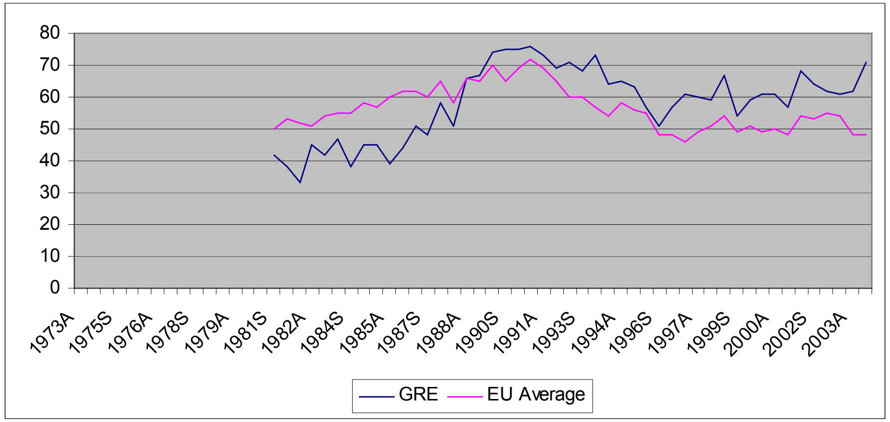
IRELAND



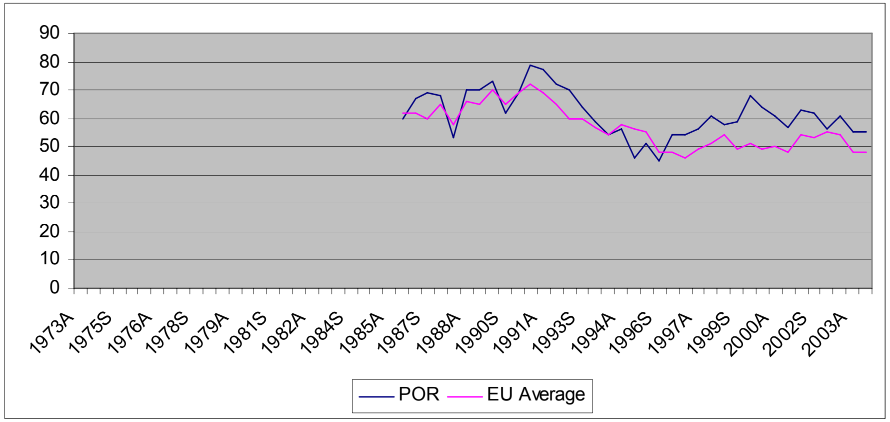
UNITED KINGDOM



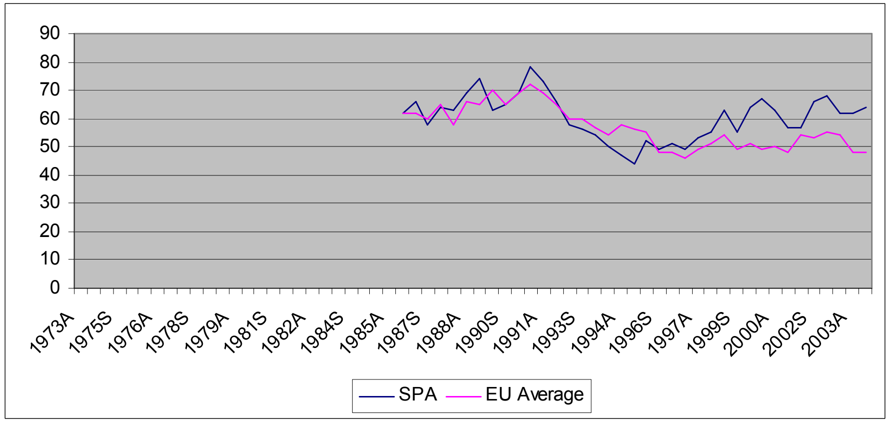
GREECE



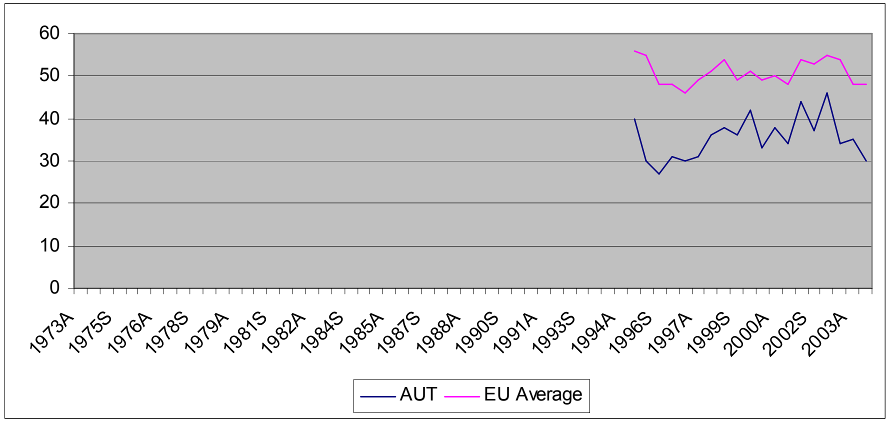
PORTUGAL



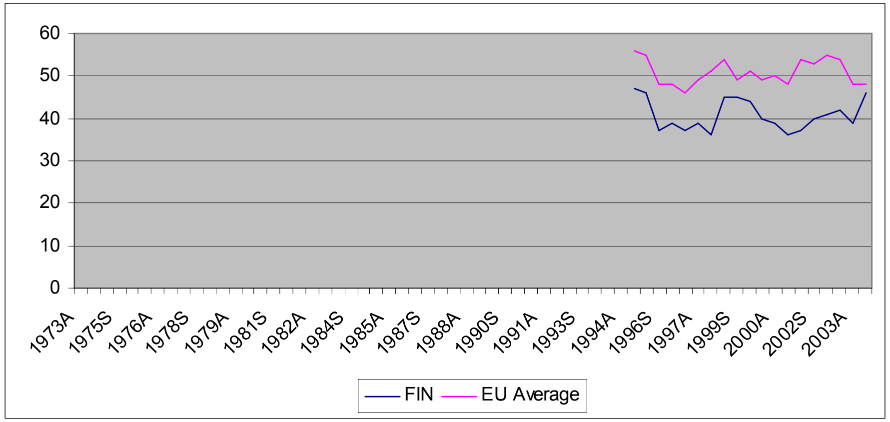
SPAIN



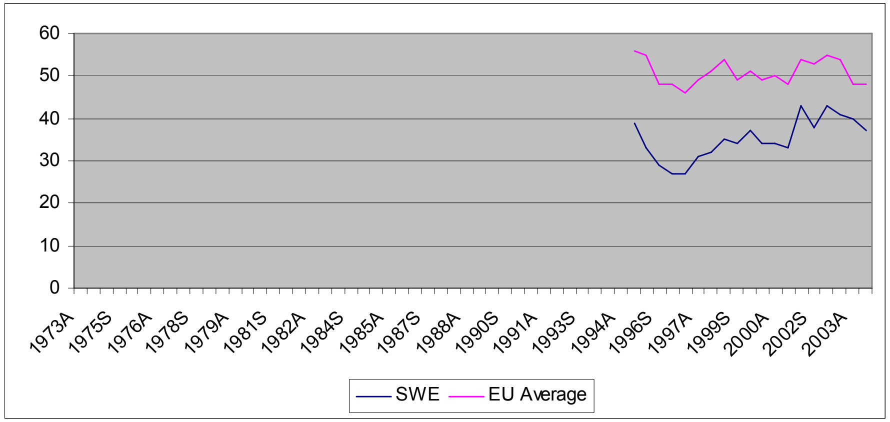
AUSTRIA



FINLAND



SWEDEN



Source: *Eurobarometer* surveys, various issues

Annex 2. Correlation matrices of variables

Table A.1. Correlation matrix of variables for EU-14 models

	MEMB	GROWTH	UNEMPL	INFL	DEBT	DEFICIT	GDP_RATIO	BALANCE	EXPEND	ENTRY	R_GROWTH	R_UNEMPL	R_INFL	R_DEBT	R_DEFICIT
MEMB	1.000														
GROWTH	0.255	1.000													
UNEMPL	-0.220	0.065	1.000												
INFL	-0.073	0.001	-0.085	1.000											
DEBT	-0.227	-0.073	0.140	0.046	1.000										
DEFICIT	-0.028	0.084	-0.353	-0.228	-0.443	1.000									
GDP_RATIO	-0.244	-0.103	-0.253	-0.317	-0.259	0.156	1.000								
BALANCE	0.428	0.312	0.226	0.320	0.171	-0.228	-0.723	1.000							
EXPEND	-0.369	-0.322	-0.001	-0.021	0.263	-0.216	-0.134	-0.186	1.000						
ENTRY	-0.492	-0.129	0.185	0.081	0.333	-0.309	-0.215	-0.006	0.268	1.000					
R_GROWTH	0.343	0.848	0.101	0.082	-0.073	0.011	-0.143	0.338	-0.318	-0.156	1.000				
R_UNEMPL	-0.339	0.058	0.936	-0.069	0.278	-0.187	-0.362	0.213	0.024	0.181	0.091	1.000			
R_INFL	-0.083	0.037	-0.130	0.937	0.024	-0.091	-0.330	0.332	-0.017	0.087	0.064	-0.094	1.000		
R_DEBT	-0.146	-0.085	0.291	0.057	0.989	-0.380	-0.257	0.158	0.287	0.342	-0.086	0.276	0.044	1.000	
R_DEFICIT	-0.042	0.052	-0.243	-0.172	-0.346	0.819	0.144	-0.232	-0.301	-0.286	0.069	-0.194	-0.169	-0.431	1.000

Source: author's calculations

Table A.2. Correlation matrix of variables for EU-8 models

	MEMB	GROWTH	UNEMPL	INFL	DEBT	GDP_RATIO	EXPEND	ENTRY
MEMB	1.000							
GROWTH	0.014	1.000						
UNEMPL	-0.159	0.054	1.000					
INFL	-0.170	-0.126	-0.094	1.000				
DEBT	0.232	-0.025	0.176	-0.166	1.000			
GDP_RATIO	-0.379	-0.031	-0.206	-0.348	-0.251	1.000		
EXPEND	0.102	-0.214	0.098	0.010	0.152	0.006	1.000	
ENTRY	0.052	-0.103	-0.129	-0.141	0.161	0.155	0.308	1.000

Source: author's calculations

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CHAPTER 3: BETWEEN EUROPEAN INTEGRATION AND REGIONAL AUTONOMY: THE CASE OF ITALY FROM AN ECONOMIC PERSPECTIVE

1. Introduction

Over the last few decades, a double tendency has characterised some European States: the transfer of certain powers to a supranational entity like the European Union (EU), on the one side, and a move towards regional autonomy, on the other. Italy represents a very interesting case in this respect, because, besides being one of the founding members of the EU, it implemented a process of decentralisation during the 1970s, further strengthened by a constitutional reform in 2001.

Moreover, the issue of the allocation of competences among the EU, the Member States and the regions is now especially topical. The process leading to the drafting of European Constitution (even if then it has not come into force) has attracted much attention from a constitutional political economy perspective both on a normative and positive point of view (Tabellini 2003a,b, Alesina and Perotti 2004, Breuss and Eller 2004, Mueller 2005). In 2005 the Italian parliament passed a new thorough constitutional reform, which included, among other things, the so called “devolution”, i.e. granting the regions exclusive competence in public health care, education and local police; however, such reform was rejected by citizens in a referendum in June 2006 and thus will not come into force.

The goal of this paper is empirical. Following and extending the methodology proposed in a recent influential article by Alesina et al.(2005b), which only concentrated on the EU activity (treaties, legislation, and European Court of Justice’s rulings), we develop a set of quantitative indicators measuring the intensity of the legislative activity of the Italian State, the EU and the Italian regions[29] from 1973 to 2005 in a large number of policy categories. By doing so,

[29] Throughout the paper, we will define the sub-national level in Italy as the regions, since more local levels of government (provinces and municipalities) have no legislative power.

we seek to answer the following broad questions. Are European and regional legislations substitutes for state laws? To what extent are the competences attributed by the European treaties or the Italian Constitution actually exerted in the various policy areas? Is their exertion consistent with the normative recommendations from the economic literature about their optimum allocation among different levels of government? The main results show that, first, there seems to be a certain substitutability between EU and national legislations (even if not a very strong one), but not between regional and national ones. Second, the EU concentrates its legislative activity mainly in international trade and agriculture, whilst social policy is where the regions and the State (which is also the main actor in foreign policy) are more active. Third, at least two levels of government (in some cases all of them) are significantly involved in the legislative activity in many sectors, even where the rationale for that is, at best, very questionable, indicating that they actually share a larger number of policy tasks than that suggested by the economic theory.

This paper is structured as follows. Section 2 briefly outlines the framework for our analysis, drawing on the normative recommendations for the optimum degree of centralisation or decentralisation of competences suggested by the economic literature on integration and disintegration processes and fiscal federalism. Section 3 describes the rules governing the actual allocation of policy tasks among the EU, the Italian State and the Italian regions. Section 4 introduces the empirical analysis by discussing the relation between national legislation, on the one side, and European and regional ones, on the other. Section 5 presents our indicators measuring various aspects of the involvement of the three level of governments in different policy sectors. Section 6 concludes.

2. A simple framework: "who should do what?"

The recent economic literature on integration and disintegration processes provides a useful framework for a discussion about the optimum allocation of policy competences among different levels of governments[30]. Alesina et al. (2001, 2005a) analyse the determinants of the degree of centralisation and the size of international unions by modelling a union as a group of countries deciding together on the provision of public goods or policies which produce a spillover effect across members. Bolton and Roland (1997) employ heterogeneity in economic fundamentals (income or productivity) and distortionary taxation to study the conditions under which a majority in favour of secession (or unification) arises in the regions of a democratic country.

These papers focus on a basic trade-off between the benefits of centralisation, arising from economies of scale or externalities, and the costs of harmonising policies as a consequence of the heterogeneity of preferences, which suggest decentralisation of policy tasks. The normative conclusions imply that competence in areas with large economies of scale and relevant externalities to be internalised should be attributed to a supranational level of government, whilst sectors whose dominant feature is heterogeneity of preferences should be of national or local competence. These ideas are also related to theories of fiscal federalism, pioneered by Tiebout (1956), Musgrave (1959) and Oates (1972).[31] Fiscal federalism, however, is especially relevant when discussing about allocation of competences between national and sub-national levels of government (thus leaving aside the supranational level), because it emphasises the roles of individual mobility and fiscal transfers, which are both much larger inside a single country than in an international union like the EU.

The application of the theoretical principles outlined above to the real world first requires a classification of policy areas. Throughout the paper we will follow that proposed by Alesina et al. (2005b), which presents the advantages of being quite simple and broadly consistent with existing data sources, and identify the following nine policy categories (some of them are further split into sub-categories in order to obtain more homogeneous policy sectors):

International trade: it includes external trade provisions;

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[30] See Ruta (2005) for a detailed survey of this strand of literature.

[31] An excellent survey of fiscal federalism can be found in Oates (1999).

Common Market: this area encompasses all the provisions aimed at promoting the free movement of goods, services, capital and people inside the EU, and at harmonising or establishing mutual acceptance of national norms;

Money and Fiscal: this broad chapter covering economic policy is divided into two sub-categories. *Money and macro policy* concerns monetary and macroeconomic policy, including budgets. *Taxation* refers to provisions concerning direct and indirect taxation;

Education, research and culture: this category encompasses a wide range of policies, including also youth policies, tourism and sport;

Environment: it includes protection of the environment and measures against pollution;

Sectoral business relations: this broad area is further split into three sub-categories: *Agriculture and fisheries*, *Industry and energy*, *Transport*;

Non-sectoral business relations: it includes competition policy, undertaking laws and state aid;

International relations: this chapter encompasses foreign policy (except for commercial policy), defence and foreign aid;

Citizen and social protection: this area covers a wide range of policies and therefore is divided into three sub-categories: *Justice and migration* (including home affairs, civil rights and fight against crime) *Health, employment and social protection* (including consumer protection), *Regional aid*.

Table 1. Allocation of competences: normative recommendations from the economic literature

	EU level	National level	Sub-national level
International trade	X		
Common Market	X		
Money and fiscal			
Money and macro policy	X	X	x
taxation		X	X
Education, research, culture	x	X	X
Environment	X	X	X
Sectoral business relations			
agriculture and fisheries		X	
industry and energy		X	
transport	x	X	X
Non-sectoral business relations	X		
International relations	X	X	
Citizen and social Protection			
justice and migration	x	X	X
health, employment and social protection		X	X
regional aid		X	

X = large role; x = small or supporting role;

Source: adapted from Breuss and Eller (2004) and Alesina et al. (2005b)

The normative insights about the allocation of competences among different levels of government from the economic literature are summarised in Table 1, with the caveat that inevitably judgements on such issue are quite tentative and include a certain degree of subjectivity. For a more detailed discussion see Alesina et al. (2005b) and the extensive survey by Breuss and Eller (2004).

Firstly, there exists a group of competencies which should be attributed to only one level of government. Among them, the areas of *International trade* and *Common Market* should quite clearly be assigned to the EU; consequently the EU should have exclusive competence in *Non-sectoral business relations* too, since the maintenance of different national regulations about competition policy or state aid could distort the functioning of the Single Market. On the contrary, *Agriculture and fisheries*, *Industry and energy*, *Regional aid* should be assigned to the national level, because they do not provide public goods on an international scale (the first two policy sectors) or because of large heterogeneity of preferences (the last sector).

Secondly, some competences should be shared among different levels of government. *Environment*, *Transport* and *Justice and migration* may reasonably involve the EU, the Member States and the regions, because they present some effects of scale or some kind of externalities calling for EU-wide action (for instance, problems of global warming, international transportation and communication network, international crime), but have also a clear national or local dimension (think of preservation of environmental heritage, national or local transportation network, local crime). *International relations* shows significant economies of scale and externalities to be exploited at the EU level (especially in the defence sector), but also preference heterogeneity because of different national geo-political interests; therefore both the EU and the Member States should probably have competence on such policy area.

Finally, in a certain number of policy sectors the optimal allocation of competences is quite controversial and hotly debated in the literature. This is the case for *Money and fiscal*, *Education, research and culture* and *Health, employment and social protection*. The first has been the subject of a long debate concentrating on the benefits and costs of centralisation of monetary policy at the EU level in the light of the theory of Optimum Currency Area (Mundell 1961, De Grauwe 2003) and of coordination of national fiscal policies (Eichengreen and Wyplosz 1998, Brunila et al. 2001); another issue in this field concerns the assignment of taxing powers to the different levels of government according to the principles of fiscal federalism. The second policy area presents heterogeneous national or local preferences and limited externalities as regards educational and cultural matters, but it has been pointed out that there exists economies of scale in research and development which might call for a supranational intervention (Hoeller et al. 1996). The last category is characterised by large differences in the level of protection offered by national welfare systems, which have led many authors to identify different 'European social models' (Sapir 2005). Heterogeneous preferences also provide a strong argument in favour of decentralisation at the sub-national level; however, a role for the EU has sometimes been advocated with a view to avoiding the risk of social dumping, which could produce a negative externality between Member States (Persson et al. 1997).

In order to provide a rough guide for our subsequent empirical analysis, we may argue that *Money and macro policy* should be shared between the EU and the Member States (with an obvious role for the sub-national governments in defining their own budgetary policy), whereas *Taxation* and *Health, employment and social protection* and *Education, research and culture* between the national and the sub-national levels. As regards the latter area, however, economies of scale in research activities suggest at least a supporting role for the EU in that field.

3. The actual allocation of competences

This section gives a concise presentation, only providing the essential background for our empirical analysis, of the actual allocation of competences between the EU and the Member States and between the State and the regions in Italy (for more details on the former, see Hix 2005, Nugent 2002; on the latter, see Rescigno 2005).

The evolution of the EU's policy responsibilities is shown in Table 2. It can be easily noted a pattern characterised by more and more competences assigned to the EU in an ever larger number of policy sectors, which have added to the Community's original tasks (concerning international trade, common market and agriculture). Such transfer of competence has taken place over the last twenty years through the Single European Act (1987), the

Maastricht Treaty (1993), the Amsterdam Treaty (1999) and, to a lesser extent, the Nice Treaty (2003).[32]

According to the European Constitution[33] and the working documents of the European Convention which drafted it (European Convention 2002a,b), three categories of EU competence can be identified: exclusive, shared and complementary. The first confers the EU the exclusive right to legislate in a specific area; the Member States can only act to implement EU law. This category includes: customs union, competition rules for the internal market, monetary policy for the Euro area, common commercial policy and conservation of marine biological resources under the common fisheries policy. The second applies to areas in which 'the Member States shall exercise their competence to the extent that the Union has not exercised [...] its competence' (Art. I-12). In other words, once the EU has adopted a legislative act, Member States may no longer legislate in the field covered by it and EU laws prevail over those of the Member States. Most policy areas fall into this category, including, among others, agriculture and fisheries, internal market and environment. The third is defined as the 'competence to carry out supporting, coordinating or complementary action' (Art. I-17); the EU's activity cannot supersede Member States' competence nor entail harmonisation of their laws. Areas falling into this category are, for instance, industry, education and culture.

The EU's activity has to conform to the principles of subsidiarity and proportionality. According to the former, the EU should not act unless its action is more effective than that taken at national, regional or local level. is intended to ensure that decisions are taken as closely as possible to the citizen and that constant checks are made as to whether any proposed action at the EU level is actually justified by reason of its scale or effects; however, subsidiarity does not apply to the areas falling into the EU's exclusive competence. The latter states that any action by the EU should not go beyond what is essential to achieve the objectives envisaged in the Treaties. Nevertheless, since they are rather general, these principles are often difficult to translate into practice (Begg 1993; Berglof et al. 2003).

[32] The years in parentheses refer to the entry into force of the treaties.
[33] Even if it has not entered into force, the European Constitution provides a very useful classification of the present system of EU competence.

The primary source of EU law is represented by the Treaties, which also identify the main legal instruments available to the EU institutions (secondary law). Here the classic division is between binding acts (regulations, directives and decisions) and non-binding acts (recommendations and opinions). As regards binding acts, both regulations and directives are of general scope, and are by their nature normative. The former are addressed directly to citizens and are binding in their entirety, whereas the latter are addressed to Member States and are binding with regard to the objective, but leave Member States the freedom to choose the appropriate legal instrument to achieve it. By contrast, a decision 'constitutes an individual act which is not of general scope' (European Convention 2002b, p.5): it is usually addressed to specific individuals, firms or countries and is binding in its entirety.

The 1948 Italian Constitution provided for the formation of regions as autonomous entities with own powers and functions, but they were actually created only in 1970 and started to function in April 1972 after a series of decrees had operated a first (and quite restrictive) transfer of competences, which was then widened and completed in 1977 by legislative decree 616/77 (Putnam 1993). There are two categories of regions: most of them (15 out of 20) are classified as "ordinary", while the other five are called "special", as they are granted a slightly larger degree of autonomy because of their peculiar geographical and cultural characteristics.[34]

The ordinary regions were given legislative power in policy areas falling into their competence, but all their laws had to respect the ‘fundamental principles’ established by state law and could not go against the ‘national interest’ or the interests of other regions. Therefore the regions had no exclusive competence in any matters; their legislative power always had to be shared with the State. In 2001, a constitutional reform changed such system.[35] Now the Constitution provides a list of matters in which the State retains exclusive legislative competence, has enlarged the number of areas of shared competence (called ‘matters of concurrent legislation’) and attributes exclusive competence to the

[34] This category is composed of three small regions located at the northern borders of the country, with a large presence of ethnic and linguistic minorities (Valle d'Aosta, Friuli-Venezia Giulia and Trentino-Alto Adige) plus the two largest Italian islands (Sardinia and Sicily).

[35] This reform became fully operative in May 2003 after the passing by parliament of the so called “La Loggia Act” (see Bordignon and Cerniglia 2004 for more details).

regions in all other matters. A detailed comparison between State and regional competences before and after 2001 is provided in Annex 1.

Table 2. Evolution of the EU's policy responsibilities (1970-2005)

		1970	1987	1993	2005
1	International trade	4	4	4	4
2	Common Market				
2a	harmonization of legislation	4	4	4	4
2b	four freedoms	3	3	3	3
3	Money and fiscal				
3a	Money and macro policy policy				
	money	1	2	3	4
	macroeconomic policy	1	1	2	2
3b	Taxation				
	direct	1	1	1	1
	indirect & common market	1	3	3	3
4	Education, research, culture				
4a	education and research	1	2	2	2
4b	culture	1	1	2	2
5	Environment	1	3	3	3
6	Sectoral business relations				
6a	Agriculture and fishery	3	3	3	3
6b	Industry	1	2	2	2
	Energy	1	1	3	3
6c	Transport	1	3	3	3
7	Non-sectoral business relations (competition/subsidies/company law)	3	3	3	3
8	International relations				
8a	foreign policy	1	2	3	3
	defence	1	1	2	2
	foreign aid	2	2	2	2

9	Citizen and social protection				
9a	Justice and migration	1	1	2	3
9b	Health, employment and social protection				
	consumer protection	1	1	3	3
	health	1	1	2	2
	employment	1	1	1	2
	social protection	2	3	3	3
9c	Regional aid	1	3	3	3

1=States' exclusive competence 2=Complementary competence 3=Shared competence 4=EU's exclusive competence

Source: adapted from European Convention (2002a) and EC/EU Treaties.

Here we highlight the discrepancies between the actual allocation of competences among the EU, the Italian State and the Italian regions and the normative recommendations outlined above in Table 1. Table 3 shows that the policy responsibilities of the State are broadly in line with the theoretical prescriptions, except for *Non-sectoral business relations*, where its role does not seem justified. The EU has an excessively large role in *Sectoral business relations* and *Citizen and social protection*, even if this does not sound very surprising if some politico-economic reasons are taken into account. For instance, as regards *Agriculture and fisheries*, the Common Agricultural Policy was the first genuine European policy, put in place when the European Community was a net importer of food products and a large share of its workforce was still employed in agriculture, in order to guarantee food self-sufficiency and a fair income to farmers (Tracy 1992). Another prominent example is *Regional aid*, where the role of the EU has found a political justification as a provider of side payments for those Member States supposed to be penalised from the completion of the Single Market and the creation of the Economic and Monetary Union (Allen 2000). With regard to the Italian regions, they can play a large role in *Money and macro policy* (especially as regards banking and coordination of public finance) and have also been granted (quite surprisingly) some responsibilities for *International trade* and *International* *relations*, where, according to the economic theory, they should have no competence at all.

In all, each level of government seems to have an excessive number of competences and can thus act also in areas where its involvement is, at best, very questionable. However, what has been discussed so far is only the situation "on paper", according to the European Treaties and the Italian Constitution. In section 5 below, we will investigate to what extent such competences are actually exercised.

To conclude our discussion, we may now look at what the people think about the allocation of competences between the various levels of government. To evaluate the actual preferences of the Italians, we may look at data from *Eurobarometer*, a public opinion survey conducted, twice a year, face-to-face with a representative sample of individuals in each member State. An identical set of questions is asked 1000 people in each member State. In autumn 2003, EU citizens were asked whether policy decisions in a certain number of areas should be taken jointly by the EU and the national governments (shared competence) or by the national governments only. In interpreting these data, however, two caveats are in order. First, the exact meaning of "Shared" is unclear; different interpretations by respondents in different countries cannot be ruled out. Second, the responses to certain questions (for example: regional aid) could be biased in certain countries by the presumption that transferring policy responsibility to the EU may result in net benefits for those countries. Having said that, we may notice two interesting facts (Table 4).

Table 3. Actual allocation of competences

	EU	STATE	REGIONS
International trade	X	**x**	**x**
Common Market	X	**x**	
Money and fiscal			
Money and macro policy	X	X	**X**
taxation	**x**	X	X
Education, research, culture	x	X	X
Environment	X	X	X
Sectoral business relations			
agriculture and fisheries	**X**	X*	X*
industry and energy	**X**	X**	X**
transport	**X**	X	X
Non-sectoral business relations	X	**X**	**x**
International relations	X	X	**x**
Citizen and social protection			
justice and migration	**X**	X	X
health, employment and social protection	**X**	X	X
regional aid	**X**	X	

X = large role; x = small or supporting role. Characters in bold indicate discrepancy with the desired allocation of competences as defined in Table YY.

* In Italy, before the 2001 constitutional reform, competence in *Agriculture and fisheries* was shared between the State and the regions; afterwards, the regions have been granted exclusive competence in such area, with the important exception of *food*.

** In Italy, before the 2001 constitutional reform, the State had exclusive competence in *Industry and energy*, with the notable exception of *handicrafts*; afterwards, the regions have been attributed exclusive competence in *Industry* (including *handicrafts*), while *Energy* has become an area of shared competence.

Source: EC/EU Treaties and Italian Constitution

Table 4. Desired allocation of competences according to Italian and EU-15 citizens

Policy category		ITALY EU (1)	National	EU15 EU (2)	National	(1)-(2)
9a	Terrorism	87	8	84	13	+3
9a	Exploit. hum. beings	82	13	79	17	+3
8a	Foreign policy	81	11	72	20	+9
8c	Humanitarian aid	79	17	69	26	+10
4	Research	76	18	66	28	+10
3	Currency	75	20	63	32	+12
9a	Political asylum	73	20	53	41	+20
9a	Immigration	73	23	51	45	+22
9a	Organised crime	71	25	71	25	0
9a	Accepting refugees	70	24	53	43	+17
9a	Drugs	70	25	68	29	+2
9b	Poverty/ social exclusion	66	30	57	39	+9
9b	Ageing	63	23	48	42	+15
5	Environment	62	33	62	34	0
8b	Defence	62	34	50	45	+12
4	Cultural policy	58	33	42	51	+16
9b	Unemployment	58	38	44	53	+14
9c	Regional aid	54	40	58	36	-4
9a	Juvenile crime	49	45	38	58	+11
6	Agric. & Fishing	45	44	50	43	-5
9a	Justice	46	50	32	65	+14
4	Education	45	50	32	64	+13
9b	Health & Social Welfare	42	54	29	67	+13
9a	Urban crime	37	57	33	63	+4
9a	Police	38	58	27	70	+11

Question: '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?' "EU" = percentage of people preferring joint decision-making. "National" = percentage of people preferring national decision-making only. The percentage of "do not know" is not reported.

Source: European Commission, *Standard Eurobarometer 60.1* and own calculations

Table 5. Opinion poll on devolution (July 2004)

Statements	% of people agreeing
"The State should transfer most of its competences (for instance, education, public health care and police) to the Regions, and grant them a high degree of financial autonomy"	24
"The State should grant more autonomy to the Regions, especially with regard to education, public health care and police, while retaining however a role in controlling and coordinating them"	42
"The State should retain its competences in the areas of education, public health care and police"	34
N of persons interviewed	

Source: Corriere della Sera (2004)

Firstly, the Italian citizens prefer joint decision-making in 20 areas out of 25; only with regard to *Justice*, *Education*, *Health and social welfare*, *Urban crime* and *Police* a majority of people think they should be of exclusive national competence. Secondly, the Italians are much more "europhile" than the average of the European citizens. As shown in the last column of Table 4, the difference between the former and the latter is especially large in sectors related to *Justice and migration*, *Health, employment and social policy* and *Education, Research and Culture* (only in the areas of *Agriculture and fishing* and *Regional Aid* are the Italians less in favour of joint decision-making than the European average)

Unfortunately, similar surveys with regard to the allocation of competences between the State and the regions do not exist in Italy. However, in a recent opinion poll a sample of citizens were asked to express their view about the proposed "devolution" of powers in the fields of education, public health care and police from the State to the regions (Table 5). A relative majority of citizens seem to prefer a model of shared competence (42%), while the percentage of people against any transfer of competences to the State from the regions is higher than that of people saying that such competences should exclusively belong to the regions (34% against 24%).

It is finally interesting to look at the degree of fiscal autonomy of the supranational and the sub-national levels of government and at where their expenditure goes. As regards the EU, in contrast to the regulatory role, its direct fiscal role has grown only slowly and has remained very limited. EU expenditure as a share of GDP and relative to national public spending has increased somewhat, but minimally in respect to the legislative activity. It also remains very low in absolute terms, i.e. if one compares with the size of government spending in any existing example of federal government. Indeed, EU expenditure only rose from 0.4% of GDP in 1975 to 1.1% in 2004 (European Court of Auditors 2005). In 2004, appropriations for commitments the Common Agricultural Policy (40.5%), followed by regional policy (36,8%), other internal policies (8.8%) and administration (5.7%).

With regard to the Italian regions, their expenditure has risen from 4% of Italian GDP in 1975 to 10% in 2004. In the second half of the 1990s, they enjoyed a strong growth in their financial autonomy, especially with the introduction of a new regional business tax (IRAP) in 1998; indeed, their ratio of current tax revenue to total current revenue has sharply increased from 8.5% to 44.2% in 2000 (Table 6). According to the Italian Treasury Ministry, as regards appropriations for commitments in 2003 (the last year for which a sectoral breakdown is available) the lion's share goes to health care (54,5%), followed by transport (5.4%), administration (5.0%) and education and vocational training (3.3%).

Table 6. Basic data on regional public finances

	1975	1980	1985	1990	1995	2000	2004
Total Expenditure/National GDP	4.2%	8.7%	9.1%	9.9%	8.8%	8.9%	10.1%
Current Transfer/Current revenue	90.6%	94.6%	96.2%	95.8%	90.9%	53.8%	54.3%
Current Tax Revenue/Current revenue	3.6%	1.5%	0.8%	1.6%	8.5%	44.2%	44.2%

Source: own calculations based on data from Italian Treasury Ministry (various years)

4. The evolution of legislative activity

This section provides a general overview of the evolution of the legislative activity carried out by the Italian State, the EU and the Italian regions, before moving to a sectoral analysis in the next section. First, we have to define what kinds of acts are to be included in our definition of "laws". In order to make meaningful comparisons, for each level of government only the following categories of acts are taken into account:

- Italy: ordinary laws passed by the Italian parliament (henceforth, the State);
- EU: regulations and directives (decisions are excluded because they are not of general scope);
- Regions: regional laws passed by both ordinary and special regions.

All legislative acts passed by each level of government from 1973 (when the ordinary regions started to operate) to 2005 are counted, regardless of whether they are still into force or not. The split into three sub-periods in Table 7 shows that the number of state laws remained almost stable from 1973 to the mid-1990s, then sensibly declined over the last decade. The opposite is true for the EU: just a slight increase in 1984-94 from the number registered in 1973-83, then a dramatic rise over the last decade. The pattern followed by regional laws is quite similar to that of state laws, even if their declining trend is smoother. If one looks at the ratio of EU to state laws and to that of regional to state laws, the former has been marked by a spectacular increase in the last sub-period (from 7.7 to 17.4), whilst the latter has not varied very significantly throughout the 1973-2005 period.

Table 7. Number of laws passed by the State, the EU and the regions

	1973-83	1984-94	1995-2005	Total (1973-2005)
State	2246	2218	1660	6124
EU	15436	16974	28915	61325
Regions	13646	11735	9261	34642
EU/State	6.9	7.7	17.4	10.0
Regions/Italy	6.1	5.3	5.6	5.7

Source: see Annex 2

The number of state laws is negatively correlated (-0.41) with that of EU laws and positively correlated (0.40) with that of regional laws (Table 8). Therefore there appears to be a certain degree of substitutability between EU laws and state laws, while regional laws and state laws tend to be complementary. The latter phenomenon may seem surprising at first sight, but can be accounted for if we consider the different characteristics and timing of the transfer of competences from the State to the supranational and sub-national levels respectively. In the former case, a certain number of policy areas are of exclusive competence of the EU and even when they are shared with Member States, EU legislation prevails over national ones; moreover, the transfer has been progressive but almost continuous during the last two decades, mainly through the 1987 Single European Act, the 1993 Maastricht Treaty and the 1999 Amsterdam Treaty. Hence EU and state laws may be substitutes.

Table 8. Correlation matrix of variables

	LAW_ITA	LAW_EU	LAW_REG	EARLY_EL	REGULAR_EL	EL
LAW_ITA	1					
LAW_EU	-0.410	1				
LAW_REG	0.396	-0.516	1			
EARLY_EL	-0.433	-0.186	0.209	1		
REGULAR_EL	-0.121	0.129	-0.259	-0.119	1	
EL	-0.457	-0.095	0.043	-	-	1

Source: own calculations

In the latter case, on the contrary, over most of the period considered the ordinary regions had no exclusive competences and in areas of shared competence regional laws were submitted to the 'fundamental principles' established by state laws; moreover, the process of transfer of competences was concentrated in a short time span (from 1972 to 1977), then no further increase in regional powers took place until the 2001 constitutional reform, which, however, is too recent to produce notable effects. These features thus explain why regional laws actually add to state ones, not substitute for them.

May these statistical correlations imply a causal relationship between the annual number of EU and regional laws, on the one side, and the annual number of state laws, on the other? In other words, is the latter really influenced by the former? From the above discussion, we may suppose that the growing legislative activity of the EU does have played a role in reducing that of the State, whereas we should not expect any significant effect of the number of regional laws on that of state laws.

Obviously, before testing econometrically these hypotheses, it must be noted that the number of state laws passed in a certain year should be influenced also by other factors; in particular, it should be lower in years where parliamentary elections take place, which impose a few-month stop to the legislative activity. According to the Constitution, the two chambers of parliament are elected for five years, but, throughout the 1973-2005 period, early elections have been very frequent (they took place in 1976, 1979, 1983, 1987, 1994 and 1996), whilst regular elections (at the end of a complete five-year term) were only held in 1992 and 2001. One may suppose that the negative impact of early elections on the number of laws is larger than that of regular elections, because in the former case, which usually takes place after a government crisis, the dissolution of parliament is not anticipated by the institutional actors, while in the latter they expect the dissolution of parliament and can adapt their behaviour accordingly (for instance, by intensifying their legislative production in the months prior to the dissolution). To test whether the number of EU laws and that of regional laws significantly affect the number of state laws after controlling for election years, we estimate the following two equations:[36]

$$LAW\_ITA_t = \alpha + \beta_1 LAW\_EU_t + \beta_2 LAW\_REG_t + \beta_3 EL_t + \varepsilon_t \qquad (1)$$

$$LAW\_ITA_t = \alpha + \beta_1 LAW\_EU_t + \beta_2 LAW\_REG_t + \beta_3 EARLY\_EL_t + \beta_4 REGULAR\_EL_t + \varepsilon_t \qquad (2)$$

$t = 1973,...,2005$

[36] We also tried to include other political variables in the equations, namely the existence of a centre-left or centre-right majority in parliament and the use of proportional or majority electoral rules. However they not only prove insignificant, but also suffered from serious problems of multicollinearity with the other explanatory variables.

where

LAW_ITA_t is the number of ordinary laws passed by the State in year *t*;

LAW_EU_t is the number of regulations and directives adopted by the EU in year *t*;

LAW_REG_t is the number of regional laws passed by the Italian regions in year *t*;

EL_t takes a value of 1 if parliamentary elections took place in Italy year *t*, 0 otherwise;

$EARLY\_EL_t$ takes a value of 1 if early parliamentary elections took place in Italy in year *t*, 0 otherwise;

$REGULAR\_EL_t$ takes a value of 1 if regular parliamentary elections took place in Italy in year *t*, 0 otherwise;

ε_t is the normally-distributed error term.

The two specifications explain respectively about 40 and 45 per cent of the variance of the dependent variable (Table 9). The Ljung-Box *Q-statistic* shows no sign of autocorrelation of the residuals; this is not surprising, since the variables in the model do not have an economic nature. The coefficient of LAW_EU is negative and always highly significant, while that of LAW_REG is positive but not significant. However, their quantitative impact is fairly low. An increase of 100 in the annual number of EU laws implies a decrease of almost 3 in the annual number of state laws. The hypotheses on elections are fully corroborated by the data. According to specification (1), in an election year the Italian parliament approves on average 55 laws less than in a normal year, but equation (2) shows that this negative effect is much larger for early elections than for regular ones (-70 against -12) and is only significant in the former case.

Moreover, we performed a Chow test in order to check for a possible breakpoint in our data in 1994, when the change from proportional to (prevalently) majoritarian electoral rules took place, but no structural change between the two subperiods (1973-1993 and 1994-2005) was detected, as reported in the last line of Table 9.

Table 9. Estimation results

Dependent Variable: LAW_ITA		
Method: OLS with White Heteroskedasticity-Consistent Standard Errors		
	Equation (1)	Equation (2)
Variable	Coefficient (Std. Error)	Coefficient (Std. Error)
C	191.760 (53.056)*	176.414 (52.162)*
LAW_EU	-0.026 (0.009)*	-0.027 (0.009)*
LAW_REG	0.053 (0.037)	0.070 (0.037)
EL	-54.774 (16.477)*	
EARLY_EL		-69.616 (18.618)*
REGULAR_EL		-12.190 (10.203)
Adjusted R-squared	0.407	0.456
N observations	33	33
F-statistic	8.321	7.702
Ljung-Box Q-statistics ($\chi^2(5)$)	2.660	3.997
Chow Breakpoint Test for 1994 (F-statistic)	1.382	1.547

* significant at 1% level

Summary statistics are reported in Annex 2.

Source: own calculations

With the caveats that the number of available observations is necessarily quite limited, what conclusions can be drawn from these regressions? The progressive transfer of competences to and the consequent growing legislative activity of the EU actually seem to have contributed, albeit not to a very large extent, to the diminution of the legislative activity of the State. By contrast, the regions have played no role in it. As discussed above, from the late 1970s to the beginning of this century their policy competences did not change and all of them were shared with the State; their legislative production has followed a pattern similar to that of the State, but, as expected, the statistical effect of the former on the latter is not significant.

5. Sectoral breakdown of legislation

We now proceed to analyse the sectoral distribution of all the legislative acts passed in the 1973-2005 period by the State, the EU and a sample of ordinary regions composed of the five most populous ones (Region-5): Lombardy, Campania, Lazio, Veneto and Piedmont, together accounting for 50% of the Italian population (29.5 million people out of 58.5 million).[37] Laws are classified according to the policy categories defined in Section 2 above. For details on data sources, see Annex 2.

Our exercise is purely quantitative and presents the advantage of being objective and transparent. However, laws may be more or less influential. For instance, the Italian parliament has traditionally made frequent use of the so called *leggine* ("small laws"), targeted at satisfying very narrow and specific, often local, interests (Spotts and Wieser 1986). The approach followed in this paper does not permit to assess the quality of legislation, but, if one assumes that differences in the relevance and effectiveness of legislative acts are randomly distributed across policy areas, this problem becomes much less severe, since we use very large samples and thus can reasonably rely upon the law of large numbers (Alesina et al. 2005b).

Tables 10 and 11 provide an overview of the legislative activity of the State, the EU, and the Region-5 in the various sectors. A further category, termed *Institutional provisions*, is added for practical reasons, namely to ensure that all legislative acts can be classified. This is not a real policy sector, but a residual category covering all those norms concerning the internal functioning and

[37] The correlation coefficient between the annual number of laws passed by the Region-5 and those passed by all the 20 regions in the 1973-2005 period is 0.90.

organisation of the institutions (including elections and referenda), which could not enter the other policy areas.

The bulk of State's activity is in *Citizen and social protection* (27.6%), *International relations* (17.8%), *Sectoral business relations* (17.3%), *Money and fiscal* (12.0%) and *Education, research and culture* (11.7%). The fall in the number laws passed in 1995-2005 mainly came from *Citizen and social protection* (especially *Health, employment and social protection*), *Sectoral business relations* and *Money and fiscal*, while *International relations* registered a considerable increase.

It is important to note that these findings about the State's legislative activity are not affected by the need to transpose EU directives into national legislation, since only a negligible number of ordinary laws transposing EU directives were passed: 21 in 1973-1983, 24 in 1984-94 and 8 in 1995-2005. Indeed in Italy EU directives are usually transposed by instruments other than ordinary laws. Since 1989, most directives are implemented in the following way: parliament passes an ordinary law, known as *legge comunitaria* ("Community Act"), delegating the government to adopt the necessary measures by means of legislative decrees or other instruments (Rescigno 2005): for instance, 309 legislative decrees transposing EU directives were issued in the 1995-2005 period. A legislative decree is an act with legal force issued by the government after receiving a delegation by parliament, which issues an ordinary law identifying the subject covered by such delegation and specifying principles and criteria of guidance to be followed by the government. The government may issue more than one legislative decree for each delegation. Legislative decrees are not included in our analysis because, until 1988, they were simply termed "decrees", making it very difficult to distinguish between decrees with legal force and other kinds of government decrees.

With regard to the EU, almost 90% of its legislation is concentrated in just two areas: *Agriculture and fisheries* (54.7%)[38] and *International trade* (33.5%). It is interesting to note the increase in *International relations* in 1984-94, mainly due to the development of tools such as association or cooperation agreements

[38] As pointed out by Alesina and Spolaore (2003, p.240), such an impressive figure also reflects the high degree of specificity and detail of EU legislation in this sector.

and financial assistance to third countries[39], and in *Citizen and social protection* (notably in *Health, employment and social protection*) and *Money and macro policy* in 1995-2005, as a result of the new competences in social and economic policy attributed to the EU by the Maastricht and Amsterdam Treaties. The Region-5 are active, above all, in *Citizen and social protection* (25.7%), *Sectoral business relations* (18.4%), *Money and macro policy* (17.4%)[40] and *Education, research and culture* (15.6%). The number of laws experienced a decline in all categories in 1995-2005, but it was particularly sharp in *Health, employment and social protection*.

The basic data presented so far can only give a partial and quite fragmented picture of the involvement of the State, the EU and the Region-5 in the various policy domains. In particular, they do not yet enable us to effectively compare the activity of the three levels of government in a specific sector, because the size of their legislative production is very different (6124 laws for the State, 61325 for the EU, 8944 for the Region-5). To do so, we construct a few summary indicators whose values depend on the relative weights of the nine policy categories[41] for each level of government, but not on the absolute number of legislative acts. Such indicators permit us to extend our analysis and answer the following questions: in what categories is the activity of each level of government more intense, both in absolute terms and in comparison with the other levels? What are the most heavily regulated sectors? In which areas are competences actually more shared between different levels of government or more exclusively exercised by a single level?

We proceed in two steps. First, following the methodology proposed by Alesina et al. (2005b), we create a new indicator for each of the three level of governments, termed *ITA*, *EU* and *REG* respectively, by dividing the number of laws in each of the nine policy categories in Table 10 by the column mean (reported in the last row of Table 10) and then normalising such new values so that the column mean in Table 12 equals 1 (columns 1, 2 and 3).[42] Hence a

[39] Relations with Central and Eastern Europe after 1989 probably represent the most prominent example.
[40] This surprisingly high figure is chiefly due to budget laws and their frequent amendments during the financial year and to laws approving the budget of various regional administrative bodies.
[41] *Institutional provisions* is excluded from the following analysis because it is a category not corresponding to a real policy sector.
[42] Sub-categories' values are normalised so that their mean equals the value of the indicator for their own category.

value above (below) 1 indicates large (small) legislative activity of the corresponding level of government in a certain area. We term this feature "absolute involvement" (Table 13).

Afterwards, we construct three more indicators (Table 12, columns 4, 5 and 8): arithmetic mean (*A*), geometric mean (*G*) and minimum value (*M*), defined as follows:

$$A = (ITA+EU+REG)/3 \tag{3}$$

$$G = \sqrt[3]{ITA * EU * REG} \tag{4}$$

$$M = \min (ITA; EU; REG) \tag{5}$$

We also calculate *M* and *G* with respect to *ITA* and *EU* only, and *ITA* and *REG* only (Table 12, columns 6, 7, 9, 10). The values of *A*, *M*, and *G* are normalised so that their column mean in Table 12 equals 1.[43] The three indicators serve different purposes. *A* performs two functions: first, it provides a measure of how heavily "regulated" a policy sector is, irrespective of which levels of government actually legislate in it (the column labelled *TOTAL* in Table 13); second, by comparing its value to those of *ITA*, *EU* and *REG*, we may evaluate the "relative involvement" of each level of government in a certain category, i.e. whether its legislative activity is more or less intense than that category's average (Table 14).[44] By contrast, both *G* and *M* measure the intensity of the joint legislative activity of all the levels of government considered;[45] the former indicator gives equal weight to the values of *ITA*, *EU* and *REG*, whereas the latter only takes into account the smallest among them. We use their arithmetic mean to assess whether legislative competence is shared among the three levels of government (or between two of them) or exclusively exerted by a single level of government (Table 15).

[43] As before, sub-categories' values are normalised so that their mean equals the value of the indicator for their own category.
[44] A level of government may show, at the same time, a low absolute involvement and a high relative involvement (or vice versa) in a certain sector; this is the case, for instance, of the EU in the *Common market* category (see below).
[45] Both indicators score 0 in a certain category if at least one level of government is not involved in legislative activity.

The main findings for each policy sector can be summarised as follows:

International trade: this category offers the clearest example of EU's exclusive competence; the EU's involvement is very high (both in absolute and relative terms), but, since the role of the State is negligible and that of the regions is nil, this policy sector presents, as a whole, a medium degree of regulation.

Common market: it shows many similarities to *International trade* (almost exclusive EU's competence, limited role of the State, no role for the regions), but the EU's absolute involvement is very low and thus the degree of regulation is very low too.

Money and fiscal: in both *Money and macro policy* and *Taxation*, the EU's absolute and relative involvement are very low; *Money and macro policy* is shared between the State and the regions and is a highly regulated sector, with a higher involvement of the regions; *Taxation* is of almost exclusive State's competence and presents a low degree of regulation.

Education, research and culture: the competence in this category is mainly shared between the State and the Regions, with a higher involvement of the latter; the EU plays a very small role and the overall degree of regulation is medium.

Environment: this is a lowly regulated sector, where the main role is played by the regions, which display a medium absolute involvement, while the presence of the State and the EU is much lower.

Sectoral business relations: competences in all three subcategories are highly shared among the three levels of government; *Agriculture and fisheries* is the only policy area where the absolute involvement of the EU, the State and the regions is high or very high and therefore it is very highly regulated; in relative terms, the EU's involvement is however much higher than that of the other two levels; both *Industry and energy* and *Transport* show a high absolute involvement of the State and the regions and a low one of the EU; the former sector is characterised by a medium degree of regulation, the latter by a high one.

Non-sectoral business relations: this category is mainly of State's competence, with some role played also by the regions, whereas the EU's involvement is very low; however, the overall degree of regulation is very low.

International relations: the competence in this area is partially shared between the State and the EU, with high absolute and relative involvements of the former and small ones of the latter; the role of the regions is negligible and the overall degree of regulation is low.

Citizen and social protection: the situations of the three subcategories are rather different, even if the EU's involvement in all of them is low or very low; *Justice and migration* is a highly regulated sector, shared between the State and the regions, which are both highly involved in it; *Health, employment and social protection* is highly shared among the three levels of government and very highly regulated, with a high involvement of the State and the regions; finally, *Regional aid* presents a low degree of regulation and is mainly of State's competence.

Table 10. Sectoral breakdown of legislative acts passed by the three levels of government (1973-2005)

	Number of laws			% of total		
	ITALY	EU	REGION-5	ITALY	EU	REGION-5
International trade	15	20522	0	0.2%	33.5%	0.0%
Common Market	81	1247	0	1.3%	2.0%	0.0%
Money and fiscal	734	437	1697	12.0%	0.7%	19.0%
Money and macro policy	*352*	*295*	*1558*	*5.7%*	*0.5%*	*17.4%*
Taxation	*382*	*142*	*139*	*6.2%*	*0.2%*	*1.6%*
Education, research, culture	714	107	1399	11.7%	0.2%	15.6%
Environment	200	507	1044	3.3%	0.8%	11.7%
Sectoral business relations	1061	34677	1642	17.3%	56.5%	18.4%
Agriculture and fisheries	*336*	*33554*	*656*	*5.5%*	*54.7%*	*7.3%*
Industry and energy	*287*	*562*	*418*	*4.7%*	*0.9%*	*4.7%*
Transport	*438*	*561*	*568*	*7.2%*	*0.9%*	*6.4%*
Non-sectoral business relations	228	298	264	3.7%	0.5%	3.0%
International relations	1093	1839	40	17.8%	3.0%	0.4%
Citizen and social protection	1693	1291	2302	27.6%	2.1%	25.7%
Justice and migration	*588*	*157*	*546*	*9.6%*	*0.3%*	*6.1%*
Health, employment and social protection	*823*	*930*	*1756*	*13.4%*	*1.5%*	*19.6%*
Regional aid	*282*	*204*	*0*	*4.6%*	*0.3%*	*0.0%*
Institutional provisions	304	399	556	5.0%	0.7%	6.2%
TOTAL	6124	61325	8944	100.0%	100.0%	100.0%
*Mean**	646.6	6769.4	932.0			

*Excluding *Institutional provisions*

Source: see Annex 2

Table 11. Sectoral and temporal breakdown of legislative activity (1973-2005)

	Italy			EU			Region-5		
	1973-83	1984-94	1995-2005	1973-83	1984-94	1995-2005	1973-83	1984-94	1995-2005
International trade	5	9	1	7878	5739	6905	0	0	0
Common Market	26	47	8	336	477	435	0	0	0
Money and fiscal	290	281	163	111	0	326	598	617	482
Money and macro policy	*99*	*161*	*92*	*71*	*45*	*179*	*554*	*564*	*440*
Taxation	*191*	*120*	*71*	*40*	*52*	*50*	*44*	*53*	*42*
Education, research, culture	222	270	222	13	22	72	583	504	312
Environment	63	72	65	67	177	263	381	410	253
Sectoral business relations	477	374	210	7784	11567	15326	813	521	308
Agriculture and fisheries	*161*	*117*	*58*	*7381*	*11331*	*14842*	*352*	*205*	*99*
Industry and energy	*123*	*104*	*60*	*306*	*73*	*184*	*172*	*146*	*100*
Transport	*193*	*153*	*92*	*98*	*163*	*300*	*289*	*170*	*109*
Non-sectoral business relations	86	86	56	25	72	202	79	98	87
International relations	294	341	458	118	845	876	2	24	14
Citizen and social protection	684	607	402	139	254	898	1006	861	435
Justice and migration	*199*	*214*	*175*	*0*	*15*	*142*	*202*	*205*	*139*
Health, employment and social protection	*363*	*288*	*172*	*108*	*189*	*633*	*804*	*656*	*296*
Regional aid	*122*	*105*	*55*	*31*	*50*	*123*	*0*	*0*	*0*
Institutional provisions	99	130	75	63	97	239	201	195	160
TOTAL	2246	2218	1660	16557	19347	25421	3663	3230	2051

Source: see Annex 2

Table 12. Main summary indicators of legislative activity (1973-2005)

	1	2	3	4	5	6	7	8	9	10
					G	G	G	M	M	M
	ITA	EU	REG	A	TOTAL	ITA-EU	ITA-REG	TOTAL	ITA-EU	ITA-REG
International trade	0.02	3.01	0.00	1.05	0.00	0.44	0.00	0.00	0.08	0.00
Common Market	0.12	0.18	0.00	0.10	0.00	0.25	0.00	0.00	0.45	0.00
Money and fiscal	1.08	0.06	1.71	0.99	0.91	0.45	1.59	0.29	0.24	1.46
Money and macro policy	*1.03*	*0.09*	*3.14*	*1.48*	*1.33*	*0.52*	*2.42*	*0.39*	*0.33*	*2.30*
Taxation	*1.12*	*0.04*	*0.28*	*0.50*	*0.48*	*0.38*	*0.75*	*0.19*	*0.16*	*0.62*
Education, research, culture	1.05	0.02	1.41	0.86	0.53	0.22	1.42	0.07	0.06	1.42
Environment	0.29	0.07	1.05	0.49	0.52	0.25	0.65	0.34	0.28	0.40
Sectoral business relations	1.56	5.09	1.65	2.88	4.35	4.84	1.87	7.06	5.95	2.12
Agriculture and fisheries	*1.48*	*14.77*	*1.98*	*6.33*	*8.85*	*11.46*	*2.01*	*15.88*	*13.39*	*2.11*
Industry and energy	*1.27*	*0.25*	*1.26*	*0.96*	*1.85*	*1.37*	*1.48*	*2.66*	*2.24*	*1.80*
Transport	*1.93*	*0.25*	*1.71*	*1.35*	*2.36*	*1.69*	*2.13*	*2.65*	*2.23*	*2.44*
Non-sectoral business relations	0.34	0.04	0.27	0.22	0.29	0.21	0.35	0.20	0.17	0.36
International relations	1.61	0.27	0.04	0.67	0.48	1.13	0.30	0.18	1.03	0.05
Citizen and social protection	2.49	0.19	2.32	1.73	1.90	1.18	2.80	0.86	0.72	3.14
Justice and migration	*2.59*	*0.07*	*1.65*	*1.50*	*1.43*	*0.76*	*2.69*	*0.37*	*0.26*	*2.95*
Health, employment and social protection	*3.63*	*0.41*	*5.30*	*3.24*	*4.27*	*2.18*	*5.72*	*2.20*	*1.56*	*6.48*
Regional aid	*1.24*	*0.09*	*0.00*	*0.46*	*0.00*	*0.60*	*0.00*	*0.00*	*0.34*	*0.00*

Source: own calculations

Table 13. The "absolute involvement" of the three level of governments in legislative activity*

	EU	STATE	REGIONS	TOTAL
International trade	very high	very low	nil	medium
Common Market	very low	very low	nil	very low
Money and fiscal				
Money and macro policy	very low	medium	very high	high
Taxation	very low	medium	low	low
Education, research, culture	very low	medium	high	medium
Environment	very low	low	medium	low
Sectoral business relations				
Agriculture and fisheries	very high	high	high	very high
Industry and energy	low	high	high	medium
Transport	low	high	high	high
Non-sectoral business relations	very low	low	low	very low
International relations	low	high	very low	low
Citizen and social protection				
Justice and migration	very low	very high	high	high
Health, employment and social protection	low	very high	very high	very high
Regional aid	very low	medium	nil	low

*TOTAL is given by the arithmetic mean of ITA, EU and REG. The degree of "absolute involvement" is calculated as follows. Let "x_i" (i=ITA, EU, REG, TOTAL) be the value of indicator *i* in each policy sector. If $x_i<0.25$ then "very low"; if $0.25\leq x_i<0.75$ then "low"; if $0.75\leq x_i<1.25$ then "medium"; if $1.25\leq x_i<2.5$ then "high"; if $x_i\geq 2.5$ then "very high"

Source: own calculations

Table 14. The "relative involvement" of the three level of governments in legislative activity*

	EU	STATE	REGIONS
International trade	very high	very low	nil
Common Market	high	medium	nil
Money and fiscal			
Money and macro policy	very low	low	high
Taxation	very low	high	low
Education, research, culture	very low	medium	high
Environment	very low	low	high
Sectoral business relations			
Agriculture and fisheries	high	very low	low
Industry and energy	low	high	high
Transport	very low	high	high
Non-sectoral business relations	very low	high	medium
International relations	low	high	very low
Citizen and social protection			
Justice and migration	very low	high	medium
Health, employment and social protection	very low	medium	high
Regional aid	very low	very high	nil

*The degree of "relative involvement" is calculated as follows. Let "x_i" (i=ITA, EU, REG) be the value of indicator *i* in each policy sector. If $x_i<0.25*A$ then "very low"; if $0.25*A\leq x_i<0.75*A$ then "low"; if $0.75*A\leq x_i<1.25*A$ then "medium"; if $1.25*A\leq x_i<2.5*A$ then "high"; if $x_i\geq 2.5*A$ then "very high"

Source: own calculations

Table 15. The degree of "competence sharing" between different levels of government*

	EU + STATE + REGIONS	EU + STATE	STATE + REGIONS
International trade	nil	low	nil
Common Market	nil	low	nil
Money and fiscal			
Money and macro policy	medium	low	high
Taxation	low	low	low
Education, research, culture	low	very low	high
Environment	low	low	low
Sectoral business relations			
Agriculture and fisheries	very high	very high	high
Industry and energy	high	high	high
Transport	very high	high	high
Non-sectoral business relations	very low	very low	low
International relations	low	medium	very low
Citizen and social protection			
Justice and migration	medium	low	very high
Health, employment and social protection	very high	high	very high
Regional aid	nil	low	nil

*The degree of "competence sharing" is calculated as follows. Let $GM = (G+M)/2$ be the value of the mean of G and A in each policy sector. If $GM<0.25$ then "very low"; if $0.25\leq GM<0.75$ then "low"; if $0.75\leq GM<1.25$ then "medium"; if $1.25\leq GM<2.5$ then "high"; if $GM\geq 2.5$ then "very high"

Source: own calculations

The overall picture emerging from our analysis suggests two main remarks. Firstly, whereas the situation in some areas (such as *International trade* or *Education, research and culture*) is in line with the previous normative recommendations, in too many policy sectors competences appear to be really shared among the three levels of government, contrary to what the economic theory would suggest. This is especially true for *Agriculture and fisheries*, *Industry and energy* and *Health, employment and social protection*. The first area is particularly interesting, not much because of the very large role of the EU, which is well documented in the literature, but just because, despite it, also the State and the regions intervene heavily. The lack of clarity stemming from the joint involvement of different levels of government in too many areas may make it difficult for citizens to understand "who actually does what".[46]

Secondly, in spite of an extensive transfer of competence to the EU and to the regions, the legislative role of the State in Italy is still crucial in most sectors. This is broadly consistent with an intergovernmentalist view of the European integration process (Moravcsik 1998, Milward 2000) and contrast with the vision of a "Europe of the Regions" predicted by some observers a few years ago (for instance, Drèze 1993), where increasing international economic integration would possibly lead to domestic political disintegration.

6. Conclusions

This article has analysed the legislative production of the EU, the Italian parliament and the Italian regions in various policy sectors over the last three decades, in order to evaluate the effects of two phenomena occurred in Italy almost at the same time: the progressive transfer of powers to a supranational entity like the EU and the move to regional autonomy. The main findings have shown that European and national legislations (but not regional and national legislations) are, to a certain extent, substitutes and that an excessive number of competences are actually shared among different levels of government.

[46] A notable exception to such pattern is *Environment*, the area in which the involvement of all three levels of government would probably be most justified according to the economic theory, where, by contrast, the role of the regions is clearly predominant.

From an economic perspective, it may well be recommended that some competences be shared, but only when the balance between scale or spillover effects and heterogeneity of preferences suggests so. When, on the contrary, too many levels of government are involved in a certain policy area, the distinction between their different responsibilities easily becomes unnecessarily blurred. This may not only leads to a slower and inefficient policy-making process, but also risks to make it too complicate to understand for citizens, who, on the contrary, should be able to know who is really responsible for a certain policy when they vote in national, local or European elections or in referenda on national or European constitutional issues.

This latter remark raises relevant issues of accountability in modern democracies. An unclear allocation of competences, on the one side, makes politically convenient for the central government to criticise the EU for unpopular domestic decisions (the “blame Brussels” strategy, in press jargon); on the other, if a regional government is run by a different coalition of parties than that supporting the central government, it provides a strong incentive for the former to blame the latter (or vice-versa) in case of some local political problems or policy failures. However, such strategies can become very costly, because, when they are called to express their opinion, citizens may even block the political processes promoting European integration or regional autonomy through their vote.[47] In the last few years, the issue of the optimum allocation of competences is therefore likely to become not only of increasing academic interest, but also more and more pressing for policy-makers.

Finally, the findings of this article offer some suggestions for further work. First, national legislation, even when it is not explicitly transposing EU directives, may however be influenced or constrained by the EU (for instance, via Court of Justice's rulings). A quantitative analysis like that performed in this paper could actually underestimate the real impact of the EU activity on Italian legislation. A careful examination of the content of national legislative acts would be required in order to shed more light on this point.

Second, it might be interesting to test whether, ceteris paribus, the "electoral effects" detected for the Italian parliament also apply to the European

[47] A recent example is the rejection of the European Constitution in France and the Netherlands.

Parliament, which, since the entry into force of the Treaty of Maastricht (1993), act as a co-legislator on an equal footing with the Council in a relevant number of policy areas through the co-decision procedure. Unfortunately, it does not yet seem possible to do so at present, because only three elections were held since 1993 and all of them took place at regular five-year intervals (1994, 1999 and 2004). It can be noticed, however, that the most intense activity by the European Parliament was actually registered in 2004 (a regular electoral year), when 104 legislative acts (55 regulations and 49 directives) were passed. This might suggest that regular elections have no effect on the legislative activity of the European Parliament, just as happens in Italy, but clearly more observations will be necessary before being able to draw meaningful conclusions.

Third, our research could be extended to other EU countries characterised by a federal structure or strong regional autonomy (such as Germany, Spain, the United Kingdom). This would permit to make interesting comparisons and probably to generalise our findings about the relations among national, supranational and sub-national levels of government in Europe.

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Annex 1. Allocation of legislative competences between the State and the regions in Italy

	AFTER 2001	BEFORE 2001
State's exclusive legislative competence	1) foreign policy and international relations of the State; relations of the State with the European Union; right of asylum and legal status of the citizens of States not belonging to the European Union; 2) immigration; 3) relations between the republic and religious denominations; 4) defence and armed forces; state security; weapons, ammunitions and explosives; 5) money, protection of savings, financial markets; protection of competition; currency system; state taxation system and accounting; equalization of regional financial resources; 6) state organs and their electoral laws; state referenda; election of the European Parliament; 7) organization and administration of the State and of national public bodies; 8) law, order and security, aside from the local administrative police; 9) citizenship, registry of	Any matters not expressly reserved to concurrent legislation

	personal status and registry of residence; 10) jurisdiction and procedural laws; civil and criminal law; administrative tribunals; 11) determination of the basic standards of welfare related to those civil and social rights that must be guaranteed in the entire national territory; 12) general rules on education; 13) social security; 14) electoral legislation, local government and fundamental functions of municipalities, provinces and metropolitan cities; 15) customs, protection of national boundaries and international prophylactic measures; 16) weights, units of measurement and time standards; coordination of the informative, statistical and information-technology aspects of the data of the state, regional and local administrations; intellectual property; 17) protection of the environment, of the ecosystem and of the cultural heritage.	
Shared legislative competence (concurrent legislation)	1) international and European Union relations of the regions; 2) foreign trade; 3) protection and safety of labour; 4) education, without infringement of the autonomy	1) organization of regional offices and administrative bodies; 2) local urban and rural police; 3) fairs and markets; 4) public charity and health care and hospitals;

	of schools and other institutions, and with the exception of vocational training; 5) professions; 6) scientific and technological research and support for innovation in the productive sectors; 7) health protection; 8) food; 9) sports regulations; 10) disaster relief service; 11) land-use regulation and planning; 12) harbours and civil airports; 13) major transportation and navigation networks; 14) regulation of media and communication; 15) production, transportation and national distribution of energy; 16) complementary and integrative pensions systems; 17) harmonization of the budgetary rules of the public sector and coordination of the public finance and the taxation system; 18) promotion of the environmental and cultural heritage, and promotion and organization of cultural activities; 19) savings banks, rural co-operative banks, regional banks; 20) regional institutions for credit to agriculture and land	5) craft schools, vocational training and educational assistance; 6) local museums and libraries; 7) urban planning; 8) tourism and hotel industry; 9) tramlines and motorways of regional interest; 10) roads, waterworks and public works of regional interest; 11) lake navigation and harbours; 12) mineral and thermal waters; 13) quarries and peat-bogs; 14) hunting; 15) fishing in internal waters; 16) agriculture and forests; 17) handicrafts; 18) other matters indicated by constitutional laws.*

	development.	
Regions' exclusive legislative competence	Any matters not expressly reserved to state law.	-

*According to legislative decree 616/77, the regions might legislate in all matters in which administrative functions were delegated to them by the State. In addition to those mentioned in the Constitution, some more matters were thus included, especially in the environmental and cultural sectors.

Source: Italian Constitution (Art. 117)

Annex 2. Data sources and summary statistics

Data on EU legislation are taken from the *EUR-Lex* database, available at http://europa.eu.int/eur-lex/lex/en/index.htm. For the breakdown into policy categories, see the classification in Alesina et al. (2005: 316-17). Only the two following modifications have been applied: *Money and macro policy* also includes category 01.6 and *Institutional provisions* includes categories 01.1-5.

Data on national legislation comes from the UTET *LEX + CODEX* database, available at http://www.utetgiuridica.it/. Legislative acts have then been reclassified by the author to match the policy categories as defined in the paper.

Data on regional laws is from the House of Representatives (*Camera dei Deputati*) database, available at http://camera.ancitel.it/lrec. Since no classification is provided by the database, regional laws have been directly classified by the author according to the policy categories as defined in the paper.

Table A.2 displays the summary statistics of variables employed in the regressions presented in section 4.

Table A.2 Summary statistics of variables

	Observations	Mean	St. Dev.	Min	Max
LAW_ITA	33	185.7	47.7	102	274
LAW_EU	33	1867.0	603.0	1168	3161
LAW_REG	33	1052.6	221.2	538	1462
EL	33	0.2	0.4	0	1
EARLY_EL	33	0.2	0.4	0	1
REGULAR_EL	33	0.1	0.2	0	1

Source: own calculations