



# 1 The Powers of The Central Governments and the 2 Problems of Enlarging and Deepening 3 the European Union<sup>1</sup>

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13

14 **Abstract.** In this paper we present an adaptation of Buchanan and Tullock's [Buchanan, J., and Tullock, G.  
15 (1962) *The Calculus of Consent: Logical Foundations of Constitutional Democracy*. Ann Arbor: University of  
16 Michigan Press] model in order to apply it to the constitutional choices regarding the assigning of powers to a  
17 supranational authority. The outcome of the economic-political model developed in this paper demonstrates  
18 that there are constraints in the supply of integration, suggesting that the enlargement and deepening of the  
19 European Union will have to be based on federalist conceptions.

20 **JEL classifications:** D71, D72, O52

21 **Key words:** constitutional economics, European Union, public choice

## 23 1. Introduction

24 Quite a lot of work on the EU – in fact, much of the best work – is concerned  
25 with decision-making (see Kirchner 1992; Peterson 1995a; Richardson 1996a, c;  
26 Moravcsik and Nicolaidis 1999). The EU is a powerful level of governance although  
27 the policy-making capacities of the Union have not been strengthened nearly as  
28 much as capabilities at the level of Member States have declined (see Scharpf 1994a).

29 Our strategy for understanding the EU is to study it as a unique system of *multi-*  
30 *level governance*. The term governance is everywhere in the recent EU literature (see  
31 Frey and Eichenberger 1999; Armstrong and Bulmer 1998; Hix 1998; Sandholtz and  
32 Stone Sweet 1998) but it is rarely defined very clearly. Governance is synthetic: It  
33 results from a mix of factors, including political leadership, state–society relations,  
34 institutional competition, electoral politics, and so on.

35 The impossibility of extending, due to a simple matter of quantity, the present  
36 composition of community institutions leads once more to the decision-making



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37 problems that are characteristic of the opening-up of new stages in the process of  
38 European integration. The possible dilemma between deepening and enlarging has  
39 been faced with the principle of *reinforced integration* nevertheless, the reform of the  
40 European Union's institutional system is still a problem of the first magnitude in  
41 order to facilitate both the development of the Union and the unavoidable challenge  
42 of its enlargement to the Central and Eastern European Countries (CEEC).

43 Our purpose is to present an adaptation of Buchanan and Tullock's (1962) model in  
44 order to apply it to the constitutional choices regarding the assigning of powers to a  
45 supranational authority. The model allows us to identify the main problems associ-  
46 ated with the institutional reform required by the historical challenge of its enlarge-  
47 ment to CEEC. Taking into account that the *classical integration process* has reached  
48 a *critical point* and *constitutional limits*, the outcome of the economic-political model  
49 developed in this paper suggest a qualitative change in the system of EU government.  
50 Our results make an original contribution in the context of economic models of the  
51 decision-making processes. In the mathematical model built in this paper, we consider  
52 that the logical analysis of the integration decisions requires the study of the condi-  
53 tions under which governments and citizens interact within the framework of both,  
54 the constitutional rules of the different Member States and the EU institutional sys-  
55 tem. The way that citizens and governments perceive the benefits and costs of the  
56 integration processes can be defined through an *integration demand* and an *integration*  
57 *supply* functions *respectively*, which constitutes the Section 2 of the paper. The  
58 analysis of the interaction between *integration demand* and an *integration supply*  
59 functions is given in Section 3 of the paper. In this section we remark the constraints in  
60 the supply side by the Government and we warn the existence of constitutional limits  
61 in the integration process. Finally in Section 4 we establish the main conclusions.

## 62 **2. A Constitutional Model of the European Union: Integration Supply and Demand**

63 The constitutional choices regarding the advisability of supporting the integration  
64 process are based on the balance between the perceptions of the benefits of increasing  
65 integration and the costs resulting from joint supranational action. The former are  
66 the most evident aspects of the integration process and are the ones that have always  
67 been highlighted by European movements and institutions. Nevertheless, the latter  
68 and their main components are key elements in order to understand the factors  
69 underlying the integration processes and their constitutional design (see Cecchini  
70 et al. 1988; Pelkmans 2001).

### 71 **2.1. Benefits of Increasing Integration Process**

72 On the 50th anniversary of the Schuman Declaration it seems unnecessary to  
73 underline the positive elements of constructing a democratic community, whose rules  
74 discipline the exercise of the governments' powers. As Jean Monnet highlighted, the  
75 objective is to surpass mere international cooperation, creating a fusion of interests

76 that surpasses the mere maintenance of its balance, so that by sharing areas of  
 77 sovereignty an institutional system may be created that would promote cooperative  
 78 strategies based on agreement and on the exercise of civil and economic rights.

79 The international order generates problems with a certain Hobbes-like nature  
 80 (Buchanan 1975) in the sense that governments are faced with a dilemma of indi-  
 81 vidual incentives that prevents them from relinquishing the exercise of pressure. The  
 82 pressures and counterpressures among governments constitute best-response mutual  
 83 actions (Nash-Cournot equilibriums) and, at worst, they originate escalations of  
 84 conflict (absence of equilibrium), as shown in Figure 1, which represents the  
 85 respective paths of moderate and accelerated reactions that explain both kinds of  
 86 situations.

87 The same analytical outline can also be applied to the needs generated by devel-  
 88 opment processes and the extension of markets. Pressure can be understood as one  
 89 more kind of protectionism. The protection intensities are counterbalanced among  
 90 the different parties and only lead to a useless effort and to an inefficient compart-  
 91 mentalization of the market, but again the optimum, relinquishing the protection  
 92 and integration of markets, is an unstable solution without an institutional structure  
 93 that disciplines the governments' commitment.

94 It is not necessary to stress the benefits that the European Union provide the public  
 95 and governments with. These benefits, which have also and correctly been called the  
 96 *costs of non-Europe*, constitute the positive factor or the potential benefits of inte-  
 97 gration that are evaluated by the citizens and by the Governments at the time of  
 98 deciding whether they want to increase the EU powers and its degree of integration.

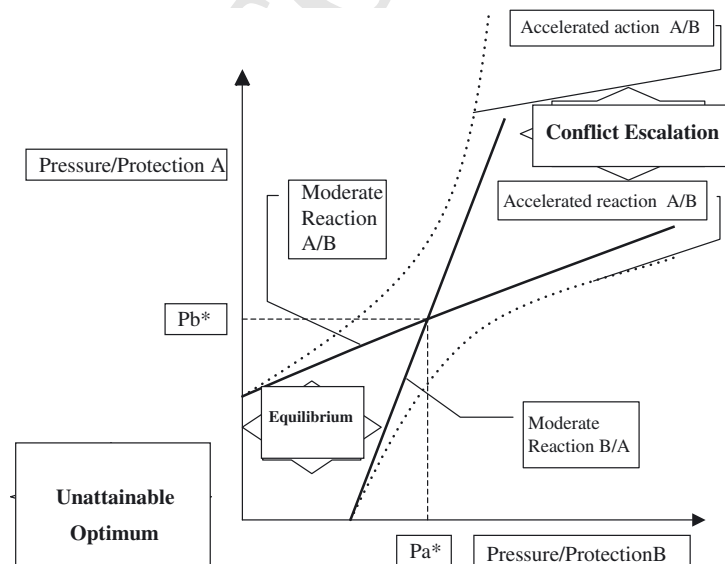


Figure 1. Hobbes-like features in international relations.

99 We can define in an analytical way the Benefits function of the degree of integration  
 100 ( $I$ ) as the current expected value of the utility gains linked to sequences of social states  
 101 and the corresponding individual positions foreseen according to de different degrees  
 102 of integration. These benefits can be understood as the market benefits, i.e, those  
 103 associated to the efficiency gains – economies of scale, technical progress, increased in  
 104 the market size – that in the market sector generates the enlargement of the economic  
 105 space related with the integration processes,  $U_g$ . This means:  
 106

$$B : (I) \rightarrow B(I) = U_g(I) \quad (1)$$

109 We suppose  $B$  being concave and twice differentiable.

## 110 2.2. *Costs of Joint Supranational Action*

111 However, as opposed to this positive or beneficial factor, we should not forget that  
 112 the creation of an area of supranational decision making also generates a negative or  
 113 curbing factor, the costs of Europe itself, which are the result of the difficulties and  
 114 problems of bringing together, under a common jurisdiction, peoples with different  
 115 economies, histories and cultures.

116 The factors that influence the costs related to the creation, extension and func-  
 117 tioning of supranational institutions are numerous and complex. Nevertheless, for  
 118 analytical purposes, we will consider three main factors or basic variables: political  
 119 influence, degree of integration and the national heterogeneity.

120 The constitutional dimensions that determine the decision-making processes within  
 121 Europe's supranational institutions are combined in what we will call the degree of  
 122 political influence  $P$ , which reflects the capacity of blocking a decision contrary to  
 123 our interests. In this sense, political influence varies between two extremes, 0, when  
 124 there is no influence over the decisions affecting us, and 1, when there is complete  
 125 control in this regard, unanimity or the right of veto, which enables the blocking of  
 126 any undesirable decisions.

127 The costs resulting from joint supranational action itself are the losses of individual  
 128 utility  $U_i$  caused by the decisions adopted at this level, after the powers have been  
 129 assigned to the Community by the member states. Both kinds, imposition and  
 130 decision-making costs, are not independent of the rules governing the decision-  
 131 making procedures nor the starting positions and the distributions of interests within  
 132 the different areas of the states committed to the integration process. Such costs can  
 133 be divided into two main kinds:

134 (1) External costs ( $C$ ). These costs are, according Buchanan and Tullock (1962),  
 135 those costs which individuals bear when the amount or type of public good provided  
 136 does not maximize a given individual's utility, or when the marginal costs an indi-  
 137 vidual must pay to finance a public good exceeds the individual marginal valuation  
 138 of that good. In our definition we extend the Buchanan and Tullock model to allow  
 139 for changes in political influence  $P$ , degree of integration ( $I$ ) and group homogeneity  
 140 ( $H$ ).<sup>3</sup> Analytically we can define them as:

$$C : (P, I, H) \rightarrow C(P, I, H) = U_1(P, I, H)$$

143 (2) Decision costs ( $D$ ), i.e., those costs related with gathering information, debating  
 144 proposals, circumventing strategic behaviour, and reaching consensus. Toumanoff  
 145 (1989) defined these costs as “opportunity costs of the resources devoted to the  
 146 identification, negotiation and enforcement of transactions”. Again, we extend the  
 147 Buchanan Tullock model allow for changes in political influence ( $P$ ), degree of  
 148 integration ( $I$ ) and group homogeneity( $H$ ). Analytically we can define them as:

$$D : (P, I, H) \rightarrow D(P, I, H) = U_1(P, I, H)$$

151 We suppose that  $C$ ,  $D$  functions are nicely behave (convex, continuous and twice  
 152 differentiable). Both functions are increasing (more than proportionally) respect to  $I$   
 153 and  $H$ , but  $C$  and  $D$  are respectively decreasing and increasing respect to  $P$ . Con-  
 154 sequentially, over the intervals of relevant values of  $(P, I, H)$  the signs of the different  
 155 partial derivatives of the above functions are as follows:  
 156

$$159 \quad \frac{\partial C}{\partial P} < 0; \quad \frac{\partial D}{\partial P} > 0; \quad \frac{\partial^2 C}{\partial P^2} > 0; \quad \frac{\partial^2 D}{\partial P^2} > 0;$$

$$\frac{\partial^2 C}{\partial P \partial I} > 0; \quad \frac{\partial^2 C}{\partial P \partial H} > 0; \quad \frac{\partial^2 D}{\partial P \partial I} > 0; \quad \frac{\partial^2 D}{\partial P \partial H} > 0;$$

162 The total cost, TC, of the joint supranational action is the result of the aggregations  
 163 of both costs, so:  
 164

$$TC(P, I, H) \rightarrow C(P, I, H) + D(P, I, H) \quad (2)$$

167 Total costs is also a function nicely behave (convex, continuous and twice differ-  
 168 entiable). By the same reason, total costs of the joint supranational action are  
 169 increasing respect to the degree of integration and the national heterogeneity.

170 Total costs depends on both, the degree of integration and the national heterogeneity.  
 171 For every given level of national heterogeneity,  $H$ , we can compute the optimal value of  
 172 political influence,  $P^*$ , that minimize, the total costs for every degree of integration,  $I$ .  
 173 We obtain a parameterized family of convex (minimizing) programming:  
 174

$$177 \quad \begin{aligned} & \text{Min } TC(P, I, H) \\ & H = \bar{H} \end{aligned}$$

180 This parameterized family provides us the optimal value function, the minimum of  
 181 the total costs for a given couple of heterogeneity and integration degrees, VTC ( $P^*$ ,  
 182  $I, H$ ) and the solution function,  $P^*(I, H)$ .

183 This solution function reflects a clear relationship between the degrees of national  
 184 heterogeneity and the minimum total costs of joint supranational action under every  
 185 possible degree of integration. High degrees of national heterogeneity generate

186 terribly high expected costs and require very high levels of political influence to keep  
187 under control expected cost.

188 The relationships among these variables can be studied through the derivatives of  
189 the minimum total costs function, VTC:  
190

$$\frac{\partial \text{VTC}(I, H)}{\partial I} > 0 \quad \frac{\partial \text{VTC}(I, H)}{\partial H} > 0 \quad \frac{\partial^2 \text{VTC}(I, H)}{\partial I \partial H} > 0$$

193 Graphically, this can be seen in the following Figure 2.

194 The figure shows that the greater the level of national heterogeneity, the greater the  
195 slope of the minimum total costs for every level of integration, i.e., in mathematical  
196 terms the second derivative of the minimum total costs respect to the degree of  
197 integration and the level of heterogeneity must be positive.

198 In a similar way, the solution function for the optimal degree of political influence  
199 depends on the degree of integration and the level of national heterogeneity,  $P^*(I, H)$ .

200 It can be assumed that greater degrees of integration require higher levels of  
201 political influence and also the derivative of the optimal political influence,  $P^*(I, H)$   
202 respect to the degree of integration is an increasing function of the levels of national  
203 heterogeneity, i.e, in mathematical terms we obtain the following expressions:

$$\frac{\partial P^*(I, H)}{\partial H} > 0 \quad \frac{\partial P^*(I, H)}{\partial I} > 0 \quad \frac{\partial P^*(I, H)}{\partial I \partial H} > 0$$

### 206 2.3. *Constitutional Choice: Optimal Degree of Integration*

207 The evaluation of benefits and costs by the citizens (the public in general and its  
208 different interest groups: workers, businessmen, economic sectors, functionaries, etc)  
209 generates what we may call the *integration demand*, i.e. the correspondence between  
210 the different values of the political influence and the level of integration that the  
211 public wants according to the degree of national heterogeneity and the risks and  
212 problems that this may generate in a common organization. Thus the integration  
213 demand will be the value of  $I^*$  that maximizes their net gains of utility.

$$\text{Max} B(I) - C(P, I, H) - D(P, I, H) \quad (3)$$

214 The solutions of this maximizing problem must verified the following condition:

$$\left( \frac{\partial C}{\partial P} + \frac{\partial D}{\partial P} \right) = 0$$

221

$$\frac{\partial B}{\partial I} - \left( \frac{\partial C}{\partial I} + \frac{\partial D}{\partial I} \right) + \left( \frac{\partial C}{\partial P} + \frac{\partial D}{\partial P} \right) \frac{\partial P}{\partial I} = 0$$

224 where the marginal value of degree of integration, MI, will be given as follows:

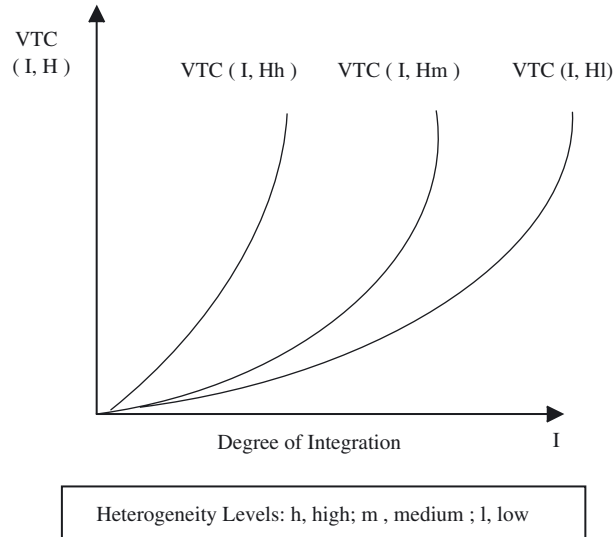


Figure 2. Minimum total costs of joint supranational action as a function of the degree of integration and the heterogeneity levels.

$$MI = \frac{\partial B}{\partial I} - \left( \frac{\partial C}{\partial I} + \frac{\partial D}{\partial I} \right) + \left( \frac{\partial C}{\partial P} + \frac{\partial D}{\partial P} \right) \frac{\partial P}{\partial I}$$

227 and if we derive respect to the national heterogeneity we obtain:  
 228

$$\frac{\partial MI}{\partial H} = - \left( \frac{\partial^2 C}{\partial I \partial H} + \frac{\partial^2 D}{\partial I \partial H} \right) + \left( \frac{\partial^2 C}{\partial P \partial H} + \frac{\partial^2 D}{\partial P \partial H} \right) \frac{\partial P}{\partial I} < 0$$

231 Now, the first condition, giving the optimal political influence,  $P^*$  for minimizing  
 232 total costs from joint supranational action can be omitted if we work with the value  
 233 function VTC which provides the minimum value of these costs for every degree of  
 234 integration and every level of national heterogeneity. In these terms, the relationship  
 235 between the levels of integration and the levels of heterogeneity are explicitly shown:

236 This is,  $B(I) - VTC(I, H)$  must be positive and the maximum when  $I$  runs the  
 237 interval  $(0,1)$ .

238  $B(I) - VTC(I, H)$  is a nicely behave function (concave and twice differentiable), so  
 239 its maximum is achieved when:  $\frac{\partial B}{\partial I} = \frac{\partial VTC}{\partial I}$ . The marginal value of the integration,  
 240 MI, will be given by  
 241

$$MI = \frac{\partial B}{\partial I} = \frac{\partial VTC}{\partial I}$$

244 and deriving respect to  $H$ :

245

$$\frac{\partial MI}{\partial H} = \frac{\partial^2 VTC}{\partial I \partial H} < 0$$

248 Thus, once we have overcome the critical threshold, where the profits of the inte-  
 249 gration process start to balance and overcome its costs,  $H^*$ , the subjective value of  
 250 the integration will be the higher the lower the degree of national heterogeneity will  
 251 be.

252 The relationship among the national heterogeneity levels and the optimal degrees  
 253 of integration can be shown in the following Figure 3:

#### 254 **2.4. Integration Demand: Constitutional Bases of Monnet Method**

255 Let us now see how the levels of national heterogeneity affect the costs of joint  
 256 supranational action, which involves considering the form of the curves of total costs  
 257 according to the degree of national heterogeneity. It is clear that the higher the  
 258 perception of the degree of heterogeneity, the higher the expected costs of imposi-  
 259 tion, which will therefore require decision-making rules that are more inclusive,  
 260 closer to unanimity – which means that the minimum total costs will increase with  
 261 the level of heterogeneity and the efficient levels of political influence will approach  
 262 1. When the level of homogeneity is very low, the minimum of the costs is attained  
 263 precisely at unanimity and is considered to be very high. Joint action should be  
 264 limited to what is absolutely necessary and its basis should be very close to inter-  
 265 governmentalism in the decision-making procedure. As the heterogeneity decreases,  
 266 the expected costs of imposition also decrease and this enables less inclusive decision-  
 267 making rules, whose lower total costs require greater degrees of integration and more  
 268 supranational powers, since the balance between the benefits and costs of the joint  
 269 supranational action are more and more favourable.

270 As far as coexistence under supranational jurisdiction increases the degree of  
 271 homogeneity, a process of cost displacement is produced that promotes new de-  
 272 mands for assigning power to the supranational authorities. This is the essence of the  
 273 self-cumulative process of the *Monnet Method* and of the gradual logic of successive  
 274 steps in European construction.

275 The problems arising from enlargement can be considered in a similar way, since  
 276 the effect of increasing the size and number – as well as the corresponding hetero-  
 277 geneity – involves an effect similar to that of reducing the degree of homogeneity: i.e.  
 278 an increase in expected costs and a rise in the inclusiveness and caution of the  
 279 decision-making processes.

280 Precisely for these reasons, the principle of flexibility and strengthened integration  
 281 is a guarantee of importance, since it enables a closer circle of integration among the  
 282 members with a higher degree of national homogeneity and it facilitates the con-  
 283 struction of a leading group of countries promoting the integration process in  
 284 concentric waves from a central nucleus.



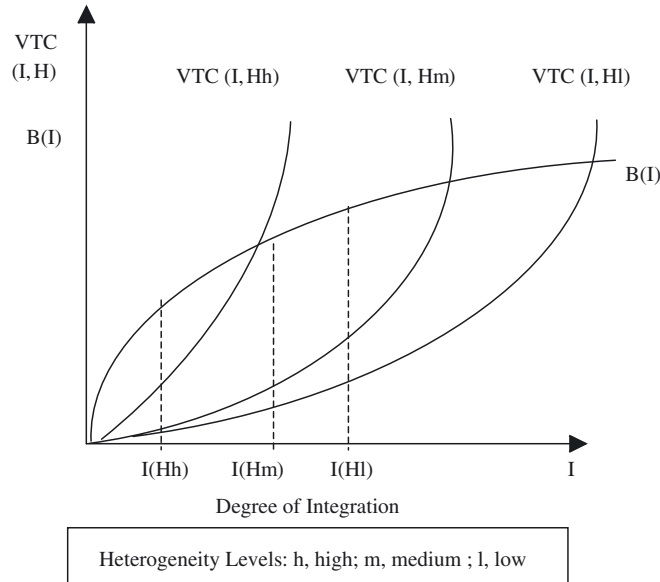


Figure 3. Optimal degrees of integration as a function of national heterogeneity.

285 Taking into account the above expression, we can obtain the long-term integration  
 286 demand that is linked to the reduction of the national heterogeneity. We define it as a  
 287 long-term correspondence between the degree of integration that the citizens wish  
 288 and the levels of political influence that the citizens would accept on the supranational  
 289 institutions. This relation is described in the following graph (Figure 5) where  
 290 we offer the existing relation between the different values of the political influence  
 291 and the level of integration that is wished in the collective supranational action. This  
 292 correspondence will be defined as the integration demand, DI

$$DI : H \rightarrow DI(H) = (P^*, I^*) \tag{4}$$

295 where  $(P^*, I^*)$  are the optimal values of  $P$  and  $I$  in the constitutional calculus for the  
 296 citizens. This integration demand starts from the above mentioned critical threshold  
 297 of heterogeneity level where the benefits of integration begin to overcome  
 298 the minimum total costs of the joint supranational action.

299 The central idea of the *Monnet method* points out that Europe cannot be  
 300 constructed suddenly, nor under the mere impulse of great ideals, but rather little by  
 301 little, creating and progressively broadening the common bonds of interest and the  
 302 actual and rightful solidarity among the European people. This seems substantially  
 303 correct and highlights two fundamental characteristics of the *demand for European*  
 304 *integration*:

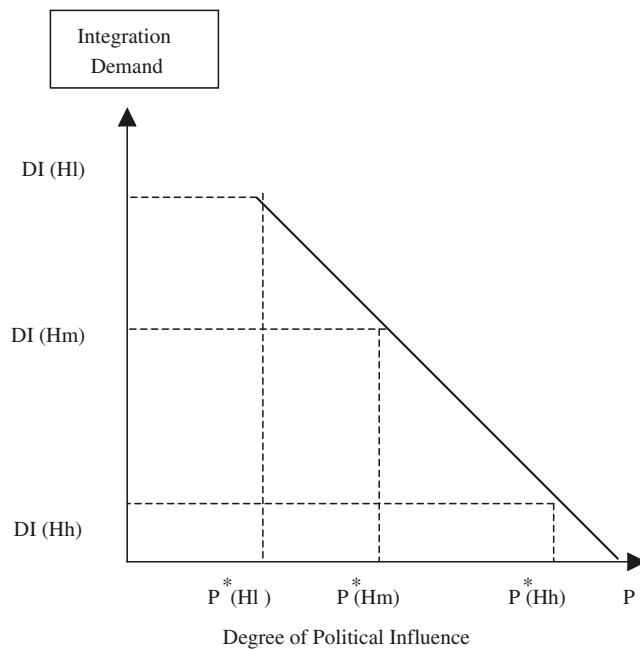


Figure 4. Integration demand and political influence.

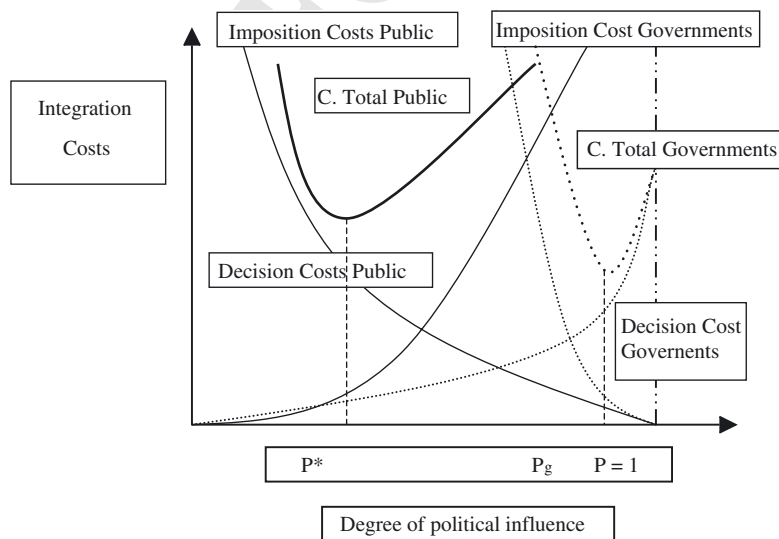


Figure 5. Decision-making rules and integration costs.

- 305 • On the one hand, it considers the costs of integration itself, since when the de-  
306 gree of national homogeneity is high, any attempt at sudden unification could  
307 cause such high costs that would make it impossible.
- 308 • On the other hand, it highlights the *self-accumulative* and *self-driving* nature of  
309 the integration demand. If at the different levels of integration, regardless of  
310 their limited extent initially, a legal framework with a view to stability and a  
311 set of common rules in one or more sectors are created, their action regarding  
312 the different behaviours and individual decisions will reduce the degree of national  
313 heterogeneity. This harmonizing process reduces the costs of unification  
314 and generates a demand for greater levels of integration, giving rise to a self-  
315 propelled spiral of integration that would converge towards an economic and  
316 political union under different confederate or even federal forms.

317 Nevertheless, the gradualist optimism that seems to be implicit in certain con-  
318 ceptions of the European integration process does not deserve much credibility. Not  
319 even from the sole perspective of integration demand can a mechanical process be  
320 proposed. The constitutional decisions and support for the integration systems are  
321 not independent of their systems of rights, nor of the balance and justice of their  
322 institutional rules and balance.

### 323 2.5. *Central Government and the Supply of Integration*

324 The supranational integration process is conducted by the central Governments.  
325 They are the only bodies with attributions in international relationships and hold a  
326 kind of monopoly or exclusive power to negotiate international agreements.

327 The nature of Joint Supranational action costs from the government point of view  
328 is significantly different from that of the citizens. The main difference can be explain  
329 with the help of the following figure

330 Figure 6 represents the basic characteristics of the relationship between integration  
331 costs and the decision-making rules that determine the degree of political influence  
332 over the decision-making process. Two different positions are highlighted, that of the  
333 public in general, represented by unbroken lines, and that of the governments in  
334 particular, represented by dotted lines. In both cases, the expected imposed costs are  
335 higher the lower the degree of influence in order to avoid a decision contrary to our  
336 interests. At the limit when the political influence tends towards zero, the expected  
337 costs of an arbitrary dictatorship tend towards infinity. On the other hand, the  
338 expected costs of imposition decrease as the capacity for blocking a decision contrary  
339 to our interests increases and, at the limit for the case of unanimity,  $P=1$ , they are  
340 zero. However, in the case of the public, the decision-making costs (null in the case of  
341 an arbitrary dictatorship) increase as the degree of political influence increases and,  
342 for very inclusive rules close to unanimity, the decision-making costs increase rap-  
343 idly, tending towards infinity. Consequently, the optimum situation, that which  
344 minimizes both kinds of costs, is precisely the one that corresponds to the lower  
345 vertex of the curve representing the total cost for the public,  $P^*$ .

346 The situation in the case of governments is different for two reasons: (1) firstly, due  
 347 to the number; since the number of governments involved is small, the costs of the  
 348 negotiation processes with rules that are very inclusive, verging on unanimity, do not  
 349 become infinite, even when higher than desired, and (2) secondly, since governments  
 350 are accountable to the public (parliaments and elections), the inconsistent exercising  
 351 of the right of veto and the blocking of the decision-making process generates  
 352 political costs that tend to curb the costs resulting from unanimity or decision-  
 353 making rules verging on it. As a result, the curve representing the total costs for  
 354 governments reaches its minimum in an area of political influence that is a lot higher  
 355 and verges on unanimity or very qualified majorities.

356 Such conclusions can also be applied in order to analyse the effect of quantity on  
 357 the decision-making institutions; as the number of governments increases, the curve  
 358 representing the costs of joint supranational action rises and the efficient solution  
 359 requires the reduction of the inclusiveness of the decision-making rule, moving it  
 360 away from unanimity, with the resulting loss of political influence, which is extremely  
 361 undesirable for governments.

362 However, progress in integration does not only depend on its demand, since neither  
 363 the public in general nor its different professional sectors and interest groups can  
 364 produce the constitutional changes involved in subjecting governments to a system  
 365 of supranational assigning of sovereign spheres to be jointly administered: The  
 366 capacity to promote this process, the *supply of European integration*, still corresponds  
 367 almost exclusively to central governments.

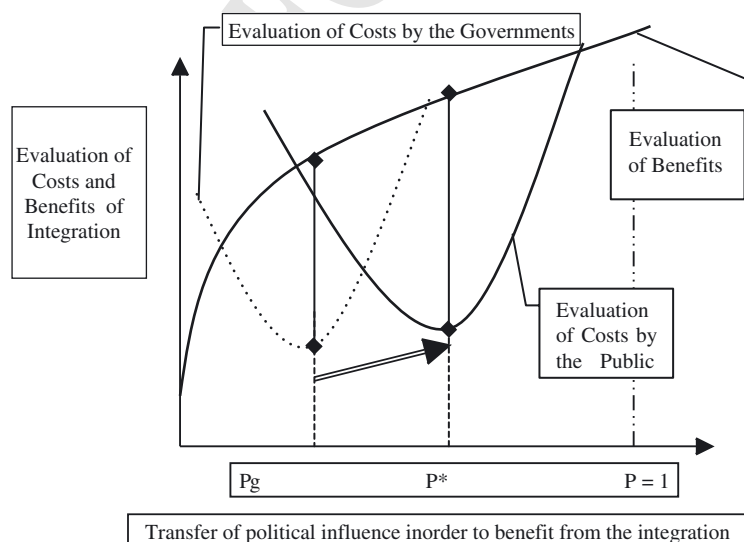


Figure 6. Supply deficit in integration decisions.

368 Central governments have wide-ranging powers of monopoly in the field of the  
 369 reform of treaties and are present in the EU's basic decision-making centres.  
 370 The calculations about costs and benefits of the progress in integration made by the  
 371 central governments from their constitutional position in the EU and in the repre-  
 372 sentative democracies of the member states determine another basic coordinate of  
 373 the process of European integration: the *integration supply*, i.e. the correspondence  
 374 between the levels of integration and the degrees of control and influence over the  
 375 EU institutions sought by the governments. In an similar way as it has been done  
 376 before from the citizens constitutional choices, we can derive now the integration  
 377 supply function according to the governments own calculus on their utility maxi-  
 378 mization. Analytically, the integration supply is defined as:  
 379

$$SI : H \rightarrow SI(H) = (P^*, I^*) \quad (5)$$

382 where  $(P^*, I^*)$  are the optimal values for  $P$  and  $I$  in the governmental calculus. The  
 383 integration supply will respond positively to the reduction in the national hetero-  
 384 geneity and its marginal values will be given by the expression:  
 385

$$MI = \frac{\partial B}{\partial I} - \left( \frac{\partial C}{\partial I} + \frac{\partial D}{\partial I} \right) + \left( \frac{\partial C}{\partial P} + \frac{\partial D}{\partial P} \right) \frac{\partial P}{\partial I}$$

388 The problem is based in the extraordinary importance and elasticity of the last sum,  
 389 that gathers the expected effect on the external and decision costs (although basically  
 390 in the first ones) produced by the reductions of the political influence in order to  
 391 achieve higher levels of the integration.

392 The logical analysis of the central governments' integration decisions, Frey (1984)  
 393 and Vaubel (1986), taking into account their aspirations and determining factors in a  
 394 representative democracy, reveals a certain degree of pessimism regarding the diffi-  
 395 culties of the integration process in a political-economic union:

- 396 • At the initial levels of integration, where it is possible to operate over a wide-  
 397 ranging basis of intergovernmental unanimity, it is probable that the integra-  
 398 tion supply will even exceed the demand and that it will mainly be the central  
 399 governments themselves that will initially promote the integration process.
- 400 • Nevertheless, once the process goes beyond its initial stages and greater and  
 401 more solid levels of integration are demanded, the situation changes and  
 402 supply restrictions appear. High levels of integration are incompatible with the  
 403 rule of unanimity in the intergovernmental organ and the decision-making  
 404 processes have to be streamlined with rules, increasingly less inclusive and fur-  
 405 ther removed from the veto and easy blocking minorities. The high decision  
 406 costs of unanimity and of very inclusive decision rules (blocking coalitions are  
 407 easily generated) hinders the adoption, in minimally efficient conditions, of the  
 408 greater volume of supranational decisions required in the advanced phases of  
 409 the process. As the majority decisions arise and become more widespread, the

410 central governments become more stubborn and cautious, since they are afraid  
411 of the high political costs of been obliged to carry out decisions imposed by  
412 other institutions and by their partners as regards matters of great importance.  
413 But in turn, as the level of power of the community system is extended, there  
414 also arise limitations due to the governments' capacity of constitutional supply:  
415 the capacity and constituent legitimacy in order to increase the power of the  
416 supranational system in absence of appropriate citizen representation and par-  
417 ticipation. The conclusion is that, in the long term, all integration processes  
418 will have to face increasing supply restrictions.

419 Such restrictions do not involve any determinism as regards the final evolution of  
420 the integration processes. The representative governments have wide-ranging degrees  
421 of freedom in order to attain their interests, but they also have to face the restriction  
422 of maintaining their probability of re-election above a critical level. The final result  
423 will therefore depend on the force and intensity of the demand for integration and  
424 the transparency and efficiency of the *political markets*.

### 425 3. Decision-Making Rules and Constitutional Choices of Supranational Integration

#### 426 3.1. *Supply Deficits and Integration Decisions*

427 Beyond the first steps in the integration process, where the intergovernmental ele-  
428 ments of the decision-making process enable the central governments to advance in  
429 integration with a low risk of expected costs, restrictions in the integration supply  
430 begin to arise on the part of the central governments. This is the case shown in  
431 Figure 4 below:

432 The rising curve represents the evaluation of the benefits of a new step forward in  
433 joint supranational action and the two U-shaped curves represent the total costs of a  
434 new step forward in integration according to the estimates of the public, unbroken  
435 curve, and the central governments, dotted-line curve. The central governments, with  
436 a more cautious estimate, fear the costs of imposition and decide to cede a very small  
437 part of their political influence,; the balance of this position is high for the gov-  
438 ernments but very low for the public in general, who cannot take advantage of the  
439 benefits of the increased integration. The integration demand clashes with a supply  
440 restriction and it is therefore impossible, in the short term, to reach point , where a  
441 greater transfer of political power enables the public to take full advantage of the  
442 benefits of integration.

443 Situations of this kind have been frequent in the history of the European Union.  
444 The procedures for their solution have always been the same, generating an idea that  
445 has produced a current of public opinion in their favour that not even the most  
446 recalcitrant governments have been able to successfully oppose for a long time. The  
447 case of the last long wave of integration that arose from the idea of the domestic  
448 market and its logical consequence, monetary union, seems to indicate such.

449 **3.2. *Constitutional Limits in the Process of Integration***

450 The previous evolution has most probably promoted European construction at the  
451 first levels of integration. Nevertheless, the old structure, according to which the  
452 central governments used their exclusive competence in the supply of European  
453 integration in order to shape the Community to suit themselves with the inter-  
454 governmental organ at the centre of the decision-making processes, has reached its  
455 own constitutional limits due to the integration process' maturity and progress.  
456 This is illustrated in Figure 5 below, which shows the process' constitutional limits  
457 (Figure 7).

458 The aforementioned figure shows five successive levels or stages of integration.  
459 Beyond the first steps in which the integration supply exceeds the public's integration  
460 demand, the supply evolves in step-like fashion along the broken line of arrows due  
461 to the impulse or pull of demand, Downs (1957).

462 The maturity and progress of the process leads to a stage or phase of integration  
463 (shown in the figure as  $I_4$ , Economic and Monetary Union) in which the supply  
464 becomes permanently rigid. What is the reason for this? Unlike previous situations,  
465 two constitutional factors prevent the continuation of the process based on the  
466 previous model of supply impulse:

- 467 • First, the supply becomes rigid because it is at the limit of its own constitu-  
468 ent capacity. To what extent can the simple procedure of reforming the trea-  
469 ties, without strengthening the constitutional dimension, give rise to a closer  
470 union?
- 471 • Secondly, the very demand for integration becomes vertical and loses its driv-  
472 ing force. This is so because at the level of important transfers of power to  
473 supranational jurisdiction, the loss of the central governments' political influ-  
474 ence required in order to progress with integration also involves a loss of the  
475 representation and influence of national interests on the part of the public,  
476 who do not have any other national authorities of representation in the EU  
477 system.

478 The risks of continuing with integration, without promoting other mechanisms  
479 of representation and connection with national interests, could be very high and  
480 the positive impulse of public opinion in the member states could be lacking. The  
481 best solution to the problem consists in completing the loss of influence of the  
482 governments in the Council with an increase in the cooperation with other  
483 political authorities in the member states (national parliaments and regional  
484 authorities), thereby producing the necessary constitutional change: ending the  
485 central governments' monopoly in the representation of the member states'  
486 national interests.

487 This solution is totally analogous as regards the problems arising from enlargement  
488 and the loss of political influence due to the EU institutions' adaptation to a large  
489 number of countries.

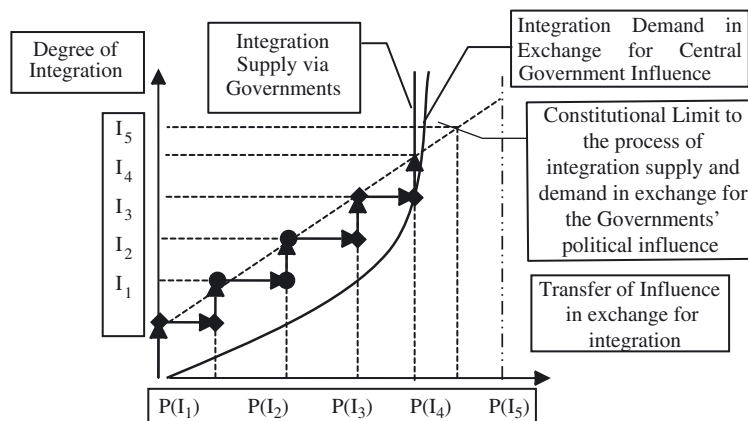


Figure 7. Constitutional limits in the integration process.

#### 490 4. Concluding Remarks

491 The main conclusion that is reached by the analysis of the constitutional choices of  
 492 citizens and governments using our political-economic model, is the necessity for  
 493 breaking the central governments' monopoly in the representation of national  
 494 interests of the Union's member states, both at a constitutional level (reform of  
 495 treaties) and in the institutional balance (decision making).

496 The reactivation of the European integration process in the last years has led to a  
 497 degree of maturity in the transfers of power and has become so widespread that it has  
 498 reached a point where it is impossible to continue without breaking the central  
 499 governments' monopoly in the representation of the member states' national inter-  
 500 ests. Due to the importance of the community system of government's powers and  
 501 functions, it is not sufficient to lighten and facilitate the Council's decision-making  
 502 procedures by means of less inclusive rules that are further removed from unanimity  
 503 and blocking possibilities; it is also necessary to maintain a suitable representation of  
 504 the national interests of the member states' citizens (whose only representatives are  
 505 still the central governments). Reform should therefore be carried out in the sense of  
 506 extending the guarantees and possibilities of participation and influence of the citizens  
 507 and their regional and national interests, which involves the following main reforms,  
 508 among others: (1) Strengthening citizen guarantees and rights, (2) Associating  
 509 national and regional parliaments to the Union's decision-making processes, possibly  
 510 by means of collaboration with the European Parliament, and (3) Increasing the  
 511 participation of regional authorities, possibly by means of the Committee of Regions,  
 512 in cooperation with other institutions such as the Parliament and the Commission.

513 In short, the objective is not only to limit the influence of the intergovernmental  
 514 organs and procedures, but the necessary institutional reform should also find new



515 authorities of cooperation and participation in order to take into account national  
 516 and regional interests in the EU's decision-making processes. This involves giving up  
 517 the principle that the representation of national interests should correspond exclu-  
 518 sively to central governments. The implications have a double dimension: (1) First, as  
 519 regards the adoption of constitutional rules, the exclusive and monopolistic role of  
 520 central governments should be surpassed by means of the Intergovernmental Con-  
 521 ference and representative organs should be linked with greater constituent capacity,  
 522 as is the case of the cooperation between the European Parliament and the national  
 523 parliaments. (2) Secondly, the reform should lay the foundations of a new *institutional*  
 524 *balance*, where the representation of the member states' national interests does not  
 525 correspond exclusively to the central governments and their organs of representation  
 526 (Council) and administrative influence (Committees), linking the procedures to na-  
 527 tional parliaments and regional authorities, possibly by means of cooperation be-  
 528 tween the European Parliament, the Commission and the Committee of Regions.

529 Finally, the analysis of the factors underlying the constitutional decisions of the public  
 530 and the governments and the interrelation between integration supply and demand,  
 531 presents a clear conclusion that, to some extent, supports the federalist conceptions of  
 532 European construction: The institutional reform required by the deepening towards  
 533 political and economic union cannot be conceived as a constant process of adding suc-  
 534 cessive spheres of sovereignty, assigned by the member states to the EU institutions in  
 535 order to be jointly administered under the pre-eminence of intergovernmental organs:  
 536 European Council, Council of Ministers and their related committees. Both the extension  
 537 to a large number of countries and the construction of the minimum political union  
 538 backing economic and monetary union require a change of structure – perhaps slow and  
 539 gradual but decisive – to put an end to the central governments' monopoly in the EU's  
 540 decision-making nucleus, as regards both the reform of treaties and the institutional  
 541 balance of power and decision-making procedures.

#### 542 **Notes**

- 543 1. The authors should like to thanks seminar participants at European Public Choice conference (Belg-  
 544 irate 2002) and ECSA-C conference (Toronto 2002) where earlier versions of the paper have bene-  
 545 fited from constructive suggestions. The authors assume the sole responsibility for any errors  
 546 remaining in this version.
- 547 2. The authors should like to thanks seminar participants at European Public Choice conference  
 548 (Belgirate 2002) and ECSA-C conference (Toronto 2002) where earlier versions of the paper have  
 549 benefited from constructive suggestions. The authors assume the sole responsibility for any errors  
 550 remaining in this version.
- 551 3. Kafoglis and Cebula (1981) extended the Buchanan and Tullock model allowing for changes in  
 552 group size and group homogeneity.

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