Marcin Święcicki

European Movement Forum, Poland, President

Effective European Governance – A Comparative Analysis of the Present and Potential Federal Solution

Paper for the EUROFRAME 10th European Conference on Economic Policy Issues in the European Union, 24 May 2013, Warsaw, Poland

1. Modern democratic states operate according to principles that have been developed over hundreds of years. Democratic systems of government differ in form. We might have, for example, parliamentary or presidential systems of government, even constitutional monarchies. But there are several features that are common to modern democracy such as a general election to allow voters to amend legislative and executive powers in the direction favoured by the majority; separation of powers; and division of authority among different levels of government in accordance with the principle of subsidiarity. Each level of government has its own powers and its own resources for their implementation and varied authorities responsible for policy. Voters at the local, regional and national level know who is accountable for what. They know how to vote if they wish to change authorities.

2. The implementation at the European level of democratic mechanisms developed at national and subnational levels is heavily infringed by rules applied to an intergovernmental organisation. The result is a hybrid that works inefficiently and non-transparently, causing voters to be confused as to who is responsible for what. Consequently, the whole experience of democratic mechanisms is denied. This is called the democratic deficit that is unsuccessfully addressed by subsequent treaties.

3. Let us start with the principle of subsidiarity, which is often considered as a major concern, but in our opinion, is only one of the problems. The Union has been already entrusted with a lot of responsibilities: the single internal market, foreign trade, the Common Agricultural Policy and many others. The most significant deficiency is defence and foreign policy. In defence, there are duplicating budgets, lack of common systems of weapons and supplies, lack of common intelligence. In foreign policy, the EU can act only if Member States entrust it with a mandate concerning particular matter. On the other hand, there are doubts as to whether some powers, such as environmental or agricultural legislation, that have only local

significance, should be carried out by at the European level. But the key weakness in the EU lies not so much in allocation of responsibilities but in the way in which decisions are taken.

4. It might be illuminating to refer to the European Charter of Local Self-Government (ECLS), adopted by the Council of Europe in 1985. This Charter, ratified by almost 50 countries, clearly defines not only the principle of separation of competences of one level from another but also requires rules concerning accountability of local authorities and financing of local government.

Article 4, paragraph 2 provides that "Local authorities shall, within the limits of the law, have full discretion to exercise their initiative with regard to any matter which is not excluded from their competence nor assigned to any other authority." And paragraph 4 reads: "Powers given to local authorities shall normally be full and exclusive. They may not be undermined or limited by another, central or regional, authority except as provided for by the law." If we weigh the system of power of the European Union against the above principles we immediately notice the great confusion of levels of authority.

Supranational authorities, such as the Parliament and the European Commission can not practically do anything without the consent of the national authorities that make up the Council of the European Union and the European Council. Moreover, the European Commission, whose members are required to act solely in the interest of the Union, is composed of delegates of the national governments. The President of the EC is also designated by the European Council, which is composed of national head of states. The role of the EP is only secondary: to approve, reject or dismiss what national governments decided. The Commission has no ideological colour, to which voters are accustomed in national democracies. It might be composed of Christian Democrats, socialists, liberals and conservatives at the same time.

If a voter wants to change the ideological colour of the Commission, he/she does not know for whom to vote because Commission has no colour. There is no clear answer for a very simple question in any democratic system: for whom to vote, if I want to choose another Commission? There is no alternative shadow cabinet, there is no alternative candidate for the post of the President of the Commission. Rules that connect the act of voting and its political results -- to which voters are accustomed at the national (and regional and local levels) -- do not operate at the European level. It is thus no surprise that election turnout is lower and lower with each European election; it was 62 per cent in 1979 and only 43 per cent in 2009, despite the fact that Parliament is gaining more competencies.

Let us imagine that a similar confusion of levels would occur at the national level, for example in Germany. No law could be adopted by the Bundestag without the consent of the Council of German lands. The Government of the Federal Republic would consist of one representative designated by the government of every land. Some lands would have designated social democrats, others Christian Democrats and still some others liberals or greens. The Chancellor would be chosen by agreement of prime ministers of all the lands. Only then would such a mosaic have been presented for the approval by the Bundestag.

5. Let us turn again to the ECLS. Article 9 paragraph 1 reads: "Local Authorities shall be entitled (…) to adequate financial resources of their own, of which they may dispose freely within the framework of their powers."

Only 12% of the European Union budget is financed from its own resources, with 87% being financed by national governments (2011 budget). Initiatives to increase its own funding were repeatedly formulated before each financial perspective, without success.

We note just two things.

5a. If the above proportions were applied to local or regional levels of government the letter and spirit of the ECLS would have been broken.

5b. Let us imagine that national budgets would be based on the principle that only a small proportion of revenue would come from own resources, and the rest would come from regions. There is no doubt that every region would start very detailed calculations of its net benefit. It is a politically different weight to be aware that the tax base in your region is exploited by national taxation and to obtain approval by a regional government of the real contribution to the national budget at the expense of the wide range of one's own regional projects. Could one imagine the process of negotiations among German lands, Spanish autonomous communities, Polish voivodeships, Italian regions, etc., on how much is to be contributed/received by each regional unit to/from the national budget?

6. But at the European level we have negotiations over the EU budget (I mean here the multiyear financial framework that determines annual budgets) by the very same politicians responsible for national budgets. The national leaders spend hundreds of hours, including nights, negotiating small details of the European budget from the point of view of their national interests. In consequence, the EU budget is small, plagued by rebates, blizzard allocation criteria, individual allocations outside any criteria used as small gifts to buy the electorate in a specific country, etc. For example, the European Council decided that the

existing correction mechanism for the United Kingdom will continue to apply in the 2014-2020 financial perspective. Denmark, The Netherlands and Sweden will benefit from gross reductions in their annual GNI contribution of € 130 million, € 695 million and € 185 million, respectively . Sixteen countries will get specific allocations ranging from € 1.2 billion for Italy to € 50 million for Malta, outside any rules. Each government has to be able to sell the European budget to its national electorate. Some consider this a virtue. If such a procedure had been adopted at the national level no one would dare to call it anything other than extremely inefficient if not absurd.

7. The Council of the European Union has the right to co-decision with respect to all directives, regulations and decisions. Therefore, the European Commission is personally, substantively and financially fully dependent on national governments. National governments have a responsibility, not to the European Union electorate, but to the national electorate. The formal mandate of the European Commission and the duty to deal with European affairs is based on a very weak foundation. The Commission is politically obliged to implement the recommendations of the European Council.

8. The European Union as a public authority would not have met the criteria of democratic accountability set by the European Charter of Local Self-Government.

9. There have been developed many projects of a European federal solution. The federal method treats the European Union in a pragmatic way, as another level of authority. Like the lower levels - local, regional, or national – the European level of authority should have its own competencies, its own authorities elected by the citizens of the federation and its own sources of funding. A Federation has the following advantages. It secures genuine autonomy and independence in matters of national importance, including the right to exit from the Federation. It assures efficiency, similar to the efficiency at the national level, in dealing with matters of supranational importance. Proposals of a federal European state have been put forward by Joschka Fischer, the Union of European Federalists with Andrew Duff at the helm, Guy Verhofstad and Daniel Cohn-Bendit, and many others. They date back to the idea of community method, formulated by the Founding Fathers: Schuman and Monnet. The problem with the federal idea is that under the present arrangements it would need unanimous approval of Member States; the all-powerful European Council, composed of national leaders, would have to be dismantled in the first place.

10. The financial crisis has forced the further integration of the monetary union by developing complementary unions: a fiscal and a banking union. Arriving at a Fiscal Compact and a

banking union so far has taken five years, from autumn 2007 to spring 2013 (from 23 October 2007 when ECB President Jean–Claude Trichet proposed that the EU adopt a form of fiscal union to 1 January 2013 when 16 states completed ratification) and required 29 European summits to date. The key Fiscal Compact is not at all an act of EU law, despite the use of the EU institutions, and requires ratification by national parliaments. Revision of the EU Treaties would have been even more difficult.

11. It took eight long months from the disclosure of the budget gap by Greek government to the decision by the European Council to extend financial assistance. Saving Greece came too late. When Greece was apparently in crisis, its debt stood at 120% of GDP. In 2009, it was enough to save Greece by securing € 110 billion. In October 2011, the cost of rescuing Greece reached € 210 billion, and the expected effect is to be a return to debt amounting to 120% of GDP in 2022. It can be assumed that a federal government would solve the Greek crisis faster and at lower cost.

13. In the U.S. it took just a few weeks to prepare and pass through the House of Representatives and the Senate and to have signed by the President Barack Obama the American Recovery and Reinvestment Act of 2009. The cost of the package amounted originally to $ 787 billion. The Emergency Economic Stabilization Act was announced on September 19, 2008 and enacted on October 3, 2008.

14. Total income of the U.S. federal budget in 2007 amounted to 19.7% of GDP. In the European Union, the budget revenue accounted for only 1% of GDP in 2011.

15. In the U.S., each state analyses how much it pays to the federal budget and how much it benefits from federal projects. New York state is the largest net donor state. New York taxpayers contribute $ 87 billion to the federal budget, that is, 7.9% more of the gross state product of New York state than the federal budget spends in New York state. The net contribution of New Jersey amounts to $ 57.7 billion, which is equivalent to 12.5% of the gross state product.

In the European Union Germany is the largest contributor to the EU budget. The net contribution of € 9.2 billion represented 0.37% of the GDP of Germany in 2011, the contribution of the Netherlands amounted to 0.31% of its GDP, and France and Italy to 0.27% each. In terms of net contribution per capita, the largest net contributor to the federal budget in the United States is a citizen of Delaware, who contributed $ 12.500, whereas in Europe, an inhabitant of Luxembourg – € 213; a German - € 107 in 2010.

16. The scale of net interstate transfers in the USA is more than 10 times greater than net transfers among members of the EU. Despite such huge scale of transfers the issue is not as politicised as relatively modest transfers in Europe. The main reason is that federal budget in the U.S. is based on federal taxes and not on contributions from states. In the EU, the EU budget is the responsibility of individual Member State governments and agreements between them. A European Parliament can only accept it or make cosmetic changes requiring consent from the European Council anyhow. If the U.S. federal budget were adopted in the negotiations between all the states, it would have been inefficient and inadequate to the challenges. United States would never have become a superpower.

17. Perhaps today's Europe does not need such a large federal budget as the U.S. Nevertheless, it is worth paying attention to three things: firstly, federal spending in the United States allowed the creation of U.S. military capabilities, many times exceeding the defensive capabilities of the European Union and all its members together. Secondly, in the U.S. there is no problem in ensuring interoperability of network systems: interstate highways, gas and oil pipes, railroads, electricity supply, roaming etc. Thirdly, the spread in the living standards among states in US is smaller than among European Union member states.

18. The present model of governance at European level leads to disaster in economic and political dimensions. The European level organised as a federal level of governance with a directly elected parliament and executive power controlled by Parliament and not by national states is a must to make financial decisions more adequate to the challenges. The federal budget should be financed by own sources and not by national contributions.

18. The national state cannot disappear. But it should restrain itself from dealing with issues that require a supranational approach. The national level needs to remain for national issues.

19. Raising federal taxes does not necessitate equalisation of tax rates for state or local taxes. Some discretion left in the EU for national taxation can remain as it is a case in the U.S.

20. National leaders should concentrate on national issues. Making state leaders who report to a national electorate responsible for supra-national issues leads to inefficiencies, conflicts of motivation, and lack of transparency. The European level requires European leaders responsible for European affairs.