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## How much Europe makes sense?

An economic analysis of the benefits and drawbacks of centralisation based on the theories of fiscal federalism and European integration

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Few economists would doubt that European economic integration is a good idea, in principle. Can the same be said about the continent's political integration? Would a centralised EU government be economically more efficient than individual decision-making by the member states? And what advantages of national autonomy risk being lost should this come to pass?

With the aim of providing a basis for this discussion, this study reviews the main arguments for and against centralised government as they are proposed by the theory of fiscal federalism. It does so in light of the characteristics of EU policy-making that distinguish the European Union from a mature federation. Examples from various policy areas are cited to illustrate the potential benefits and drawbacks of centralisation in Europe. The first part closes with a brief summary of the theory's main recommendations regarding task allocation in the EU.

Subsequently, two theories from the sphere of political science are examined: neofunctionalism and liberal intergovernmentalism. The purpose here is to determine how these approaches to European integration can help refine the economic proposals made in the first part. Both neofunctionalism and LI offer their own explanations as to why European states integrate. Here, their theses are incorporated into the normative considerations of fiscal federalism.

These two theories do, in fact, confirm fiscal federalism theory, each highlighting a particular component of the trade-off between centralisation and decentralisation. A few disregarded aspects come into view as well, such as the phenomenon of functional spillover and the benefits of institutionalisation. The study concludes with an overview of the arguments for and against centralisation brought up in the course of the text. These conclusions provide a starting point for assessing whether certain policy responsibilities are better handled at the national or EU level.