The EU Budget: The Excess Power Puzzle

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Power politics (public choice) related literature in explaining the EU budget allocation

- First G: Baldwin (1994): the pork barrel view
- Baldwin, Francois and Portes (1997), Baldwin, Berglöf, Giavazzi and Widgrén (2000, 2001)
  - Net payments can be explained by power
- Second G: Baldwin (2005a, 2005b), Blankart & Kirchner (2004), Kandogan (2000), this paper
  - Power politics drive budget reforms (financial perspectives)
  - Note: Thatcher's statement, UK rebate
- 3G: Kauppi & Widgrén (2004, 2007, 2008), Widgrén (2007), this paper
  - The importance of gross payments due to sound theoretical base in explaining them

Benchmark: the Shapley-Shubik index

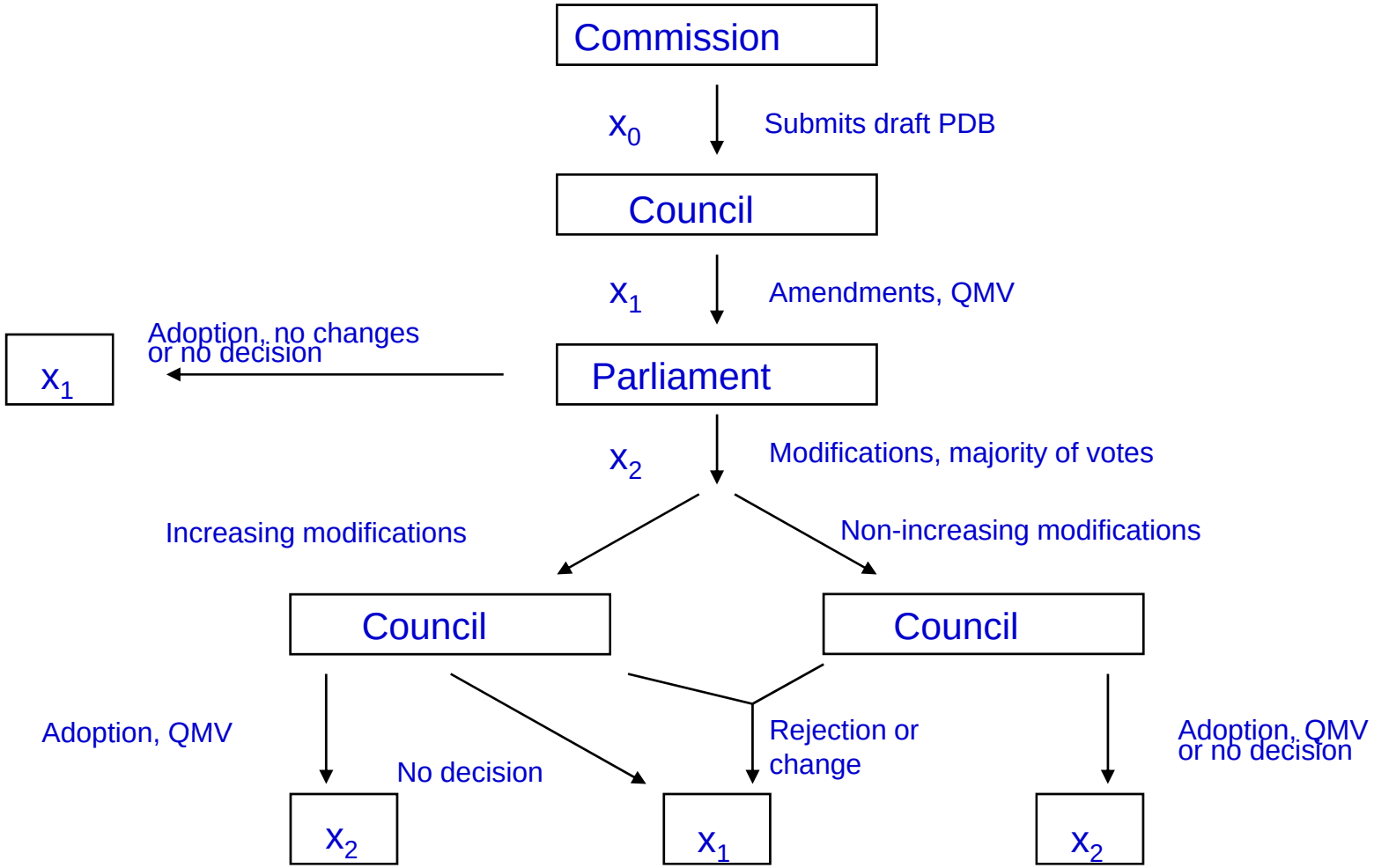
$$\phi_i = \sum_{\substack{S \in N \\ i \in S}} \frac{(n-s)!(s-1)!}{n!}\left(v(S) - v(S - \{i\})\right)$$

Note: SSI is often used as a measure of the **fair allocation** in the sense that it tells how the cake should be divided (e.g. Aumann & Maschler, about Talmud, Fairchild & Owen, airport landing fees)

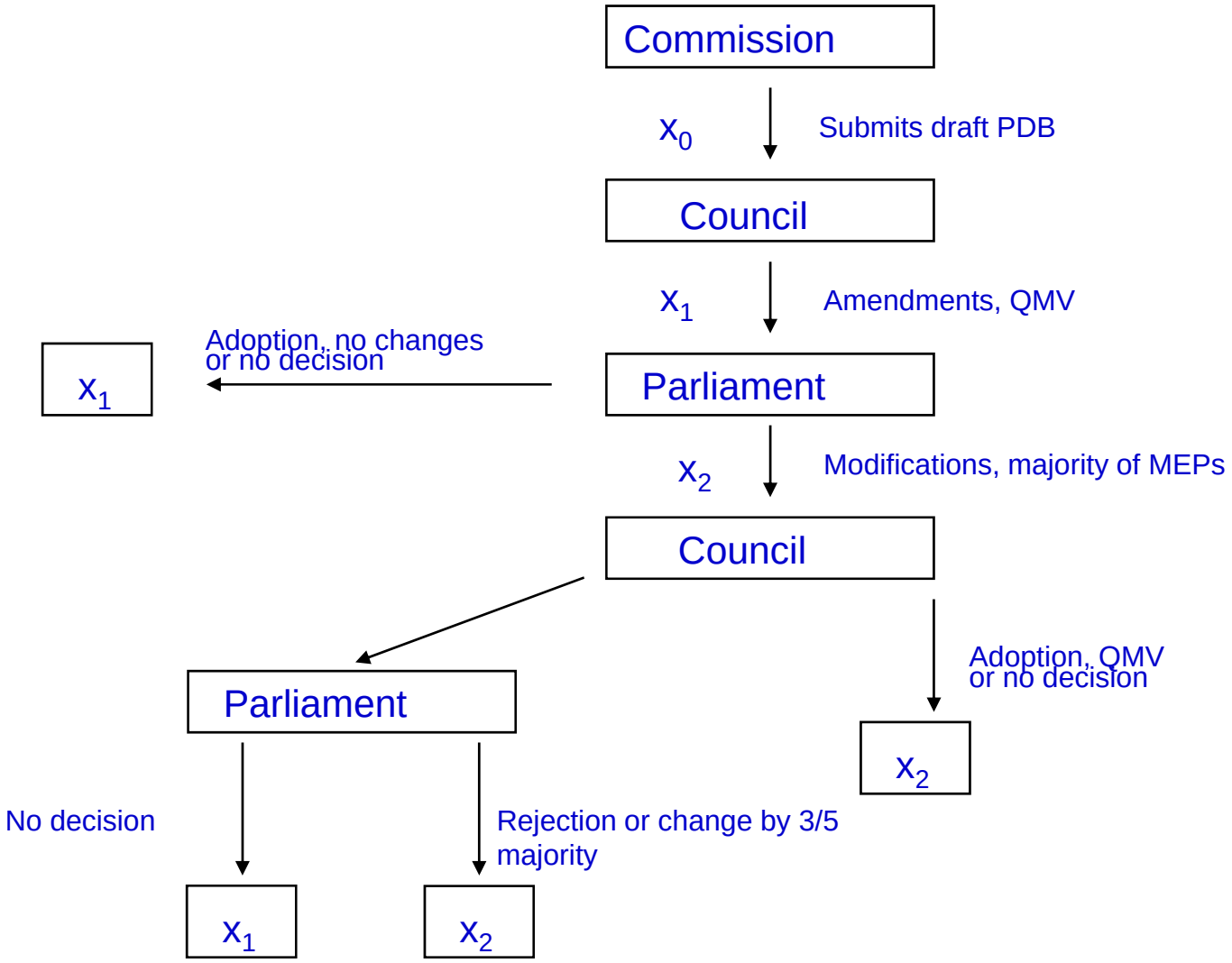
Evidence

- Do actual budget shares match with SSI?
- Note:
  - CM has almost full power on ”compulsory” spending (CAP), while European Parliament has some power on ”non-compulsory” (STR) spending.
  - Is there a difference?

Compulsory expenditure



Non-compulsory expenditure



Difference between shares and SSI

$$\chi^2 = \sum_j \left(\frac{share_j - SSI_j}{SSI_j} \right)^2$$

	Total	CAP	Structural
EU-25	7.34	11.66	18.82
EU-15	3.79	4.06	10.59
EU-12	1.76	2.81	4.74
EU-10	1.90	2.36	8.57
EU-9	1.09	1.30	3.28

Observations and Questions

- SSI has poorest match with STR shares
  - Does this mean EP's influence and solidarity matters for budget allocation?
- SSI has better match with CAP
  - Does this mean benchmark political power explains CAP shares?
- SSI has even better match with total allocation
  - Does this mean political power alone matters, CAP and STR shares deviate from SSI for technical reasons only ("compensation" story), SSI is right on average?

Multiple view explanation?

- Needs
  - Proxied by income
- *Bring the bacon back home view* (Baldwin 1994)
  - Contribution share
- Political power
  - Shapley-Shubik Index

Regression results

	RED	*AGRI*	*STR*	*TOTAL*
SSI	**0.835**	**0.584**	**1.771**	**0.0865**
	(5.77)	**(3.40)**	**(6.29)**	**(8.02)**
INCOME	**-0.006**	**0.001**	**-0.024**	**-0.002**
	(1.02)	**(0.19)**	**(-1.62)**	**(-0.40)**
CONTRB	**0.221**	**0.403**	**-0.409**	**0.185**
	(2.56)	**(3.57)**	**(2.13)**	**(2.70)**
CONSTANT	**0.002**	**-0.001**	**-0.001**	**-0.002**
	(0.24)	**(-0.006)**	**(-0.07)**	**(-0.24)**
R^2	**0.81**	**0.80**	**0.64**	**0.87**

But What Explains Excess Power?

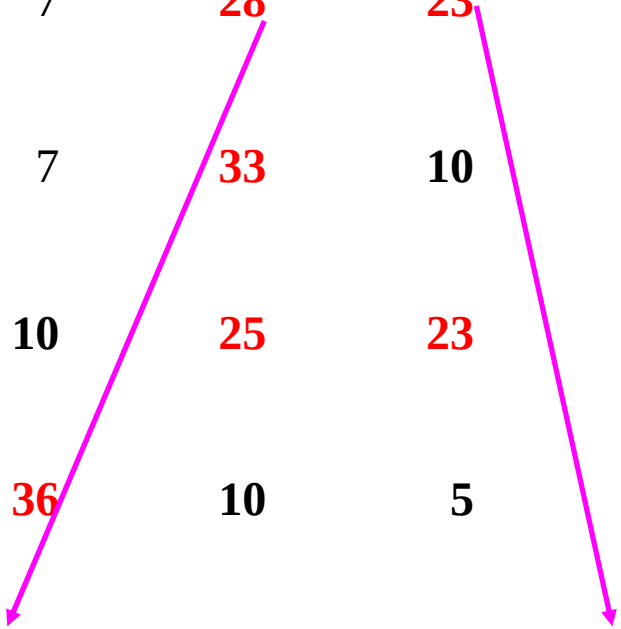
- Especially France and Spain have persistent excess power
- Post-1995 members are losing
- Status quo bias of the budget structure
- Excess power suggests a high status quo bias

EU-15 Budget Shares, Benchmark Power and "Excess Power"

	Budget shares			Power	Excess Power		
	Total	CAP	Struct.	SSI	Total	CAP	Struct.
France	.170	.232	.079	.117	**.054**	**.115**	-.038
Germany	.144	.146	.137	.117	.027	.029	.020
Italy	.121	.118	.128	.117	.005	.001	.011
UK	.088	.097	.065	.117	-.028	-.020	-.051
Belgium	.026	.027	.012	.055	-.029	-.029	-.043
Netherlands	.029	.036	.011	.055	-.026	-.019	-.045
Denmark	.022	.031	.004	.035	-.013	-.004	-.031
Ireland	.040	.043	.040	.035	.005	.008	.005
Luxembourg	.002	.001	.001	.021	-.019	-.020	-.020
Greece	.074	.066	.097	.055	.019	.010	.042
Portugal	.053	.018	.114	.055	-.002	-.037	.059
Spain	.180	.132	.282	.096	**.084**	.036	**.187**
Austria	.019	.022	.011	.045	-.026	-.023	-.034
Finland	.015	.015	.010	.035	-.020	-.020	-.025
Sweden	.017	.017	.009	.045	-.028	-.028	-.036

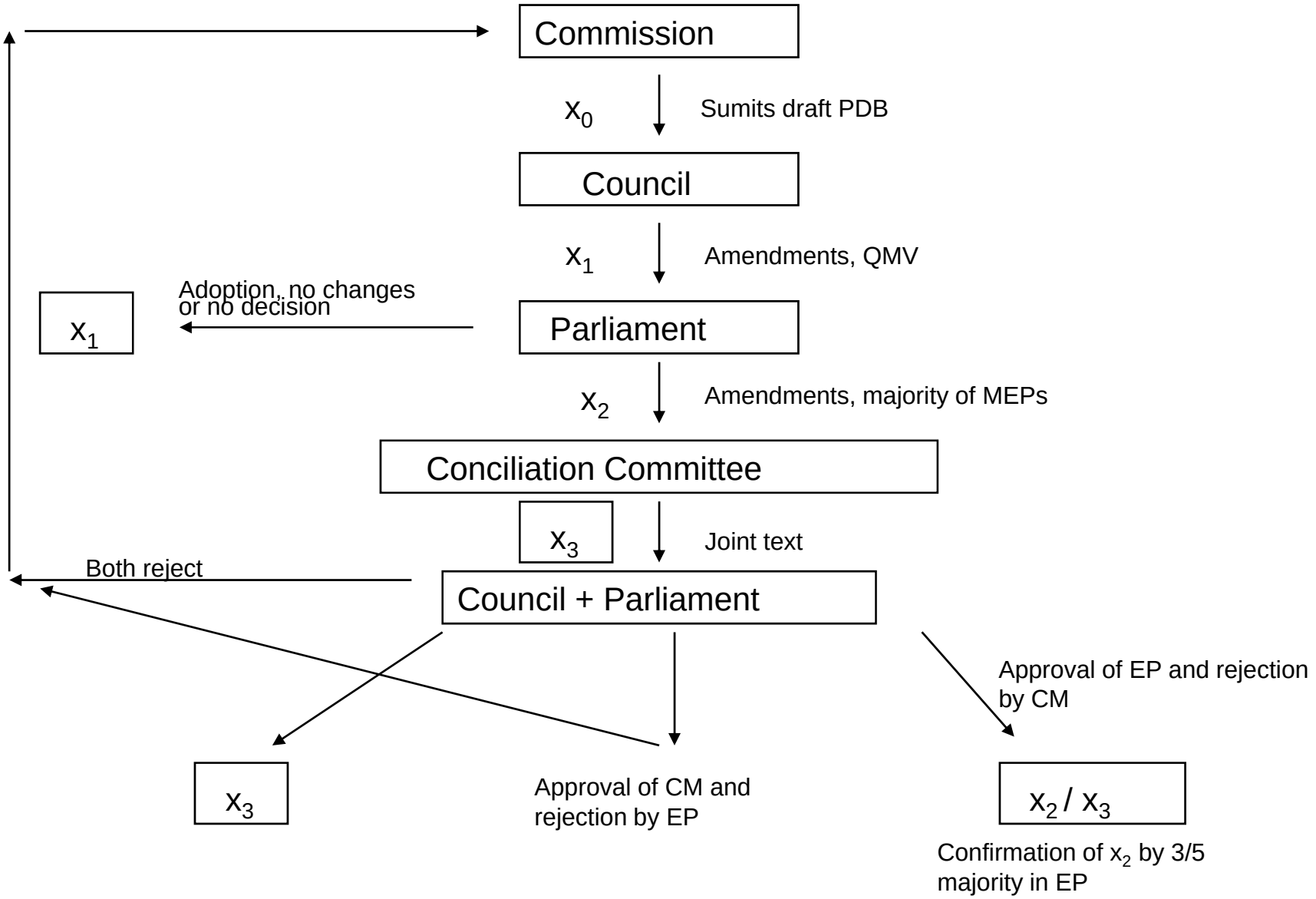
Excess Power in CAP and STR

	(-,-)	(-,+)	(+.-)	(+,+)	TOT	QMV	BM
76-80	7	**28**	**23**	**0**	**58**	**41**	**18**
81-85	7	**33**	**10**	**13**	**63**	**45**	**19**
86-94	**10**	**25**	**23**	**18**	**76**	**54**	**23**
95-04	**36**	**10**	**5**	**36**	**87**	**62**	**26**
04-06	**169**	**43**	**12**	**97**	**321**	**232**	**90**



(-,-): no ExP, (-,+): ExP in CAP, (+,-): ExP in STR, (+,+): ExP in both

The Lisbon procedure



The Lisbon change