Stefan Collignon

The Governance of European Public Goods

European integration has been built on market integration. From free trade areas to customs unions, to the Economic Community and finally to the single market with the use of a single currency, deeper integration has been driven by rules that facilitated the exchange of private goods. However, little attention has been paid to the fact that European integration has also generated a thick layer of European public goods, which cannot be provided efficiently by markets, but need to be managed by public authorities at the European level. This paper will discuss the nature of these goods and explain how they can be provided efficiently.

The debate about the best regime for managing public goods has largely been inspired by the theories of federalism, in particular fiscal federalism, which concerns the layers of government and the assignment of competencies to different jurisdictions in traditional nation states. However, as Desai (2003) rightly pointed out, the roles and functions of the state have changed considerably over the past three decades, and this requires new ways of thinking about public goods. This more evident in Europe than it is anywhere else.

This chapter will first explain the nature of public goods, in particular European public goods. It will then discuss the problems of collective action because of the underlying incentives of such goods and explain how the monetary union has changed the provision of European public goods. The last section will cover the governance of European public goods and suggest that a republican approach to efficiency problems is better than traditional federalist solutions.

Defining public goods

Although public goods have always existed, a rigorous definition of the concept goes back to Samuelson (1954: 387), who defined a public good as one “which all enjoy in common in the sense that each individual's consumption of such a good leads to no subtracting from any other individual's consumption of that good." Thus, the consumption of public goods is 'joint'. Recent economic theory has often discussed these 'joint effects' resulting from public goods under the heading of external effects. External effects that confer appreciable costs or benefits to parties that are not fully consenting in reaching the decisions that led to the event in question are called externalities (Meade, 1973). According to whether these external effects increase or decrease the utility of the affected person, one speaks of positive or negative externalities. Pollution is a classic example of a negative externality, while the frequently celebrated synergies that result from European policies are positive externalities. In contrast to public goods, private goods can be parcelled out among individuals and consumption is 'rival' in the sense that only one person can consume it. For example, if one person eats an apple (consumes a private good) the other person cannot do so. Hence, private goods are defined by their exclusive individual consumption, and total consumption can be found by summing all the goods that individuals in a group have consumed separately. How this group of individual consumers is defined is relatively arbitrary given that the group only determines the aggregate. Public goods, however, are characterised by the fact that *all* individuals together may consume *one and the same good*. For example, if two individuals walk down a street at night, they both together enjoy the streetlight. No one takes light away from the other; the light is no dimmer because many people use it simultaneously. In this case, the group of consumers is defined by the public good and the scope of its benefits. In logical terms, the distinction between private and public goods is a one-to-one relation between private goods and consumers, while for public goods it is one-to-many. We will see that this logical distinction has far-reaching consequences for the provision of private and public goods.

When economists differentiate between private and public goods, they do not only refer to rivalry and non-rivalry in consumption, but also to the so-called *exclusion principle* (Musgrave and Musgrave, 1973). This principle applies when a person’s consumption is contingent on paying a price, which requires that private property rights are in place, thereby allowing the exclusion of a person who does not pay. For public goods in the strictest sense, this is not possible. Consider the famous example, first mentioned by John Stuart Mill, of a lighthouse showing the way for ships. Clearly, one cannot and should not exclude sailors from seeing the lighthouse because they have not paid for its maintenance. In the context of European public goods, non-exclusion means that European public goods affect all citizens in the EU together. The concept of European citizenship reflects this idea nicely insofar as it assigns equal rights and obligations to European citizens without constituting the citizenship of a super-state.

When a good is simultaneously rival and excludable, it is private; if it is non-rival and non-excludable, it is a pure public good (Cullis and Jones, 1998). Private goods are efficiently allocated by markets, but for public goods the market mechanism breaks down. In markets, consumers react to being charged the same unit price by choosing different amounts of consumption. Each buyer must reveal his/her preferences by bidding. Markets will satisfy all consumers who are willing to pay the marginal costs, and they will exclude those who are not willing or able to put up the money. The exclusion principle, which is the foundation of private property rights that allow the price mechanism to work effectively in markets, has often conflicted with the idea of distributive justice, and public goods have often been thought to remedy injustice because they cannot be rationed by price. This consideration is a frequent source for the demand of public goods in Europe, traditionally through the democratic institutions of member states, but increasingly also at the European level.

While all consumers are provided with the same amounts of public goods, irrespective of whether they have paid for them or not, public goods will only be supplied if *the sum* of each individual's contribution to pay for the public good covers the marginal cost of producing it. Some form of collective action is, therefore, necessary to ensure that individuals are forthcoming and that the rule for efficient provision requires that everyone contribute to the point where the private marginal cost of the contribution equals the social marginal benefit. However, consumers may only be willing to contribute according to the evaluations of their marginal benefits; if the sum of these contributions does not cover the marginal costs, the public good will not be produced. This makes the provision of public goods dependent on the honest and correct revelation of individual preferences and marginal benefits. As long as consumers of public goods can reasonably expect that their own contributions are too small to make a difference in securing the public good, they may act as free riders. However, if each consumer of the public good has this attitude, the provision of public goods will be suboptimal (Musgrave, 1996; Olson, 1971).

'European' public goods

This logic of public goods has two implications. The first is well discussed in the literature of public finance: a mechanism for preference revelation is needed. Voting on budgets can be such a mechanism. I will return to this argument below. However, the second aspect is crucial for defining what may be 'European' about public goods because it implies that the size of the group of the potential consumers of a public good depends on the nature of the good itself. I will now discuss the definition of European public goods.

First, what do we call a 'good'? For our purposes here, it suffices to say that an economic good is a reproducible thing or event that affects individuals' needs, desires and preferences positively or negatively. We include therefore tangible and non-tangible objects in this definition. Hence, we may call public goods not only physical things such as government buildings, roads, schools and armies, but also policies that affect people's lives, such as peace, national defence and the protection of property and law. In this sense, Europe's common agricultural policy, the single market, freedom of movement, competition and anti-trust policies and price stability and exchange rates are European public goods.

Second, when is a public good 'European'? Most importantly, such goods are available for all European residents and they exclude non-Europeans. This is the case for fundamental rights such as the four freedoms, market regulation, non-discrimination, the use of the euro or public services provided by European institutions. However, there are also public goods that may originate in member states and then have external effects on citizens elsewhere. Building up human capital through education, securing external borders against uncontrolled immigration, fighting cross-border crime within the Union and even fiscal policy are such public goods. More broadly, Collignon and Paul (2008) classified policy areas such as European defence, foreign policy, internal security, industrial policy, macroeconomic stabilisation policy and the protection of climate and energy as European public goods. Verhofstadt (2006) came to a similar conclusion. Coeuré and Pisani-Ferry (2007) derived the 'Europeanness' of public goods from the existing distribution of competences within the EU.

All these classifications are certainly subject to debate and disagreement. In fact, Kaul and Mendoza (2003) rightly made the point that the distinction between the private and the public are social constructs and, therefore, reflect concern for the public domain among all actors. I will argue below that the decision of what is or what is not a European public good must emerge from the democratic debates among citizens. Nevertheless, the nature of externalities is the crucial criterion for the definition and scope of public goods, and it is the European scope of externalities that makes public goods European.

We have said the consumption of a public good is characterised by the fact that each consumer enjoys benefits (or suffers disadvantages) from a given thing or event and that the group is defined by who is affected by them. It is therefore the nature and communality of public goods that defines the group of affected individuals.[i] In fact, the scope of a public good results from its degree of excludability and delineates what is a local, national, European or global public good. Private goods affect only the utility (costs and benefits) of one individual, whereas, for instance, people living in a local community cannot be excluded from consuming local public goods. European public goods, therefore, affect all European citizens together, and global public goods have inextricable effects for all of humankind. Tanzi (2008) insisted that globalisation has created global public goods as trade has increased, transport costs have fallen and communication networks have become denser, and this would “justify a global government if it existed” (p. 710). However, these arguments are much stronger for European public goods, which have been generated systematically by successive steps of economic and political integration.

What's more, the communality of a public good is defined by the nature and scope of its external effects and not by the characteristics of the group of users. It is therefore not possible to say that the public good is defined by the quality and character of consumers or their tastes and preferences. For example, a streetlight is a public good because it can be 'consumed' by anyone; it would be absurd to say that it is a Christian or Islamic public good because these are the groups of people who mainly use it. By contrast, a church or a mosque is a Christian or Islamic public good because that is the function such buildings are constructed to serve. Hence, a public good belongs to – or is the property of – all potential consumers for whom it fulfils specific functions; it is not the property of a group – its character, tastes or preferences – that defines what is theirs and what is not.

If we admit that policies are a form of public goods, the distinction between European and national public goods, therefore, must derive from the functions that European policies have for all European citizens. This is because all citizens are affected by them; national public goods have a more narrow scope insofar as they only fulfil a function for citizens living in a particular nation state. It would be a categoric mistake to think that national policies can be European or that European policies can be made by nation states. The implication is that the competences for governing European public goods must be defined top-down and not bottom up:[ii] the scope and function of public goods defines who is affected.

Collective action problems

Providing public goods is never free from costs. If individuals want the benefit of these goods, they must pay for them. That much is clear. But are they willing to do so? Behind this question lurks the problem of incentives for collective action. The incentive problem of providing public goods efficiently has long been recognised. Hume (1740) recognised it 270 years ago[iii] and thought it justified the existence of governments. Dougherty (2001) showed that collective action problems were the main reason why the United States ditched the dysfunctional *Articles of Confederation* for the federal Constitution in 1787. The modern literature on public goods has linked the incentive problems of collective action to public goods through the concept of externalities.

In his famous book The *Logic of Collective Action*, Mancur Olson (1971: 44) argued that whether people are willing to pay for a public good depends on the size of a decision-making group. If the group is large, he argued, rational self-interested individuals would not contribute to a collective project, while in small groups self-interests may ensure its realisation:

> "In a small group in which a member gets such large fraction of the total benefit that he would be better off if he paid the entire cost himself, rather than go without the good, there is some presumption that the collective good will be provided. … By contrast, in a large group in which no single individual's contribution makes a perceptible difference to the group as a whole, or the burden or benefit of any single member of the group, it is certain that a collective good will not be provided unless there is coercion or some outside inducements that will lead the members of a large group to act in their common interest."

One may easily deduce from this argument that with the enlargement of the European Union, its efficiency in providing public goods is diminishing (Collignon, 2003). Gridlock in the Council has been widely acknowledged (Tsebelis and Garrett, 2001; Schulz and König, 2000; Hix, 2008) and frequent Treaty revisions have been precisely designed to increase the efficiency of policymaking in a larger Union. Coercion with different degrees of constraints in the form of outside inducements, peer pressure and binding rules under the Stability and Growth Pact are the tools by which the EU has responded to Olson's problem.

However, in a careful analysis, Richard Tuck (2008: 12) dismissed Olson's argument:

> "Olson believed this (…) because (on an analogy with perfect competition) any particular contribution to the common project makes no appreciable difference to the outcome and it is therefore irrational for me to make the contribution. The problem with his solution, however, is that if this is so, then on the face of it enforcing any particular contribution to the common project can make no appreciable difference in itself and is therefore (by the same reasoning) an irrational action for the enforcement agency to take."

Hence, more coercion, harder rules and binding or automatic sanctions will not necessarily overcome Europe's policy gridlock. The recent euro crisis was precisely caused by the lack of the enforcement of policy rules that Tuck described.

Tuck (2008: 13) rightly pointed out that Olson's problem resulted from an economic framework of perfect competition and separate agency. If we drop this assumption and "imagine individuals committing themselves to contribute to the common good on condition that other members of the group do likewise, (…) there is no difficulty in principle about ensuring that the commitments once made will be honoured. The difficulty lies rather in specifying the conditions under which the individual will bind himself to participate."

I will now show that a combination of the theory of public goods and that of strategic interaction can clarify these conditions, which enable people to cooperate. However, when we move to strategic interaction, the cognitive dimension of allocating resources to collective preferences also becomes important.

Incentive structures

Cooper and John (1988) presented a simple framework for analysing cooperation between many individuals that generates multiple equilibria or even no equilibrium at all. Their society consists of many identical individuals that choose to act in such a way that they maximise their utilities after taking the (optimal) choices of all others as given. How they make their decisions is called the reaction function. There is a cooperative equilibrium when the actions of one individual coincide with those of all others such that everyone's utility is maximised. It turns out that there are two possible reaction functions, one with strategic *complementarities* and another with strategic *substitutabilities*. In the first case, an individual's decision generates externalities, which cause everyone else to move in the same direction. Hence, the actions are complementary and actors cooperate in the interest of the common good. In the second case, an individual can increase his/her own utility by doing the opposite of what everyone else would like to do. In this case, namely strategic substitutabilities, cooperation breaks down.

The prisoner dilemma and free riding are typical examples of cooperation failure. However, even in the case of strategic complementarities cooperative strategies can fail if information is asymmetrically distributed. For, if we admit interactions between individuals occur, it is necessary that actors have information and knowledge about how the others will behave. If agents expect the others to behave in a certain way *and* expect that their cooperative behaviour generates benefits for themselves, they will choose to cooperate; otherwise they will not. Thus, multiple equilibria are possible: if cooperation is expected, it will happen; if it is not expected, it will not happen. Asymmetric information about agents' intentions can generate expectations of non-cooperation and, therefore, yield suboptimal welfare equilibria.

This model has often been applied to macroeconomic issues, but it is also highly relevant for analysing the provision of public goods. Thus far, we have discussed pure public goods, but we must now look at two hybrid forms, which form impure public goods. First, so-called *club goods* emerge when a good is non-rival in consumption, but it is possible to exclude certain groups of individuals from access to its benefits. For example, sports clubs provide joint benefits for members, but only if they pay their fees. From this perspective, the European Union and the Euro Area provide European club goods, because only those who fulfil certain criteria are admitted as members. Club goods exist even within the European Union when some member states do not participate in a given policy. For example, Schengen gives full freedom of movement only to citizens under the Schengen Agreement and the euro only benefits those who have no derogation or opt-out.

Second, so-called *common resource goods* exist, where the consumption of a good is rival (what one person gets, another does not), but the access to it is open and no consumer can be excluded. This applies particularly to limited resources (thereby rival consumption) to which consumer access cannot be controlled. Such common resources are often underpriced and lead to the “tragedy of the commons” (Hardin, 1968). Typical examples are the exploitation of oil wells or fishing in the ocean, but I will show below that with the creation of the euro common resource goods have become dominant within the European Union.

These hybrid features of common goods provide contrasting incentives for coordinated action. Club goods are inclusive in the sense that strategic compatibilities generate incentives to cooperate, provided the problems of asymmetric information are overcome. This can be achieved by appointing an impartial adjudicator that ensures that the information circulates freely and completely. In the European Union, this was one of the principal functions of the European Commission, which reassured member state governments that they had good reasons to expect their contributions to yield benefits that would increase general welfare and the approval by citizens. Hence, governments will cooperate in providing club goods. In the European policy context, this logic has often been expressed by statements such as this:

> "Actions by any one Member State (…) would be all the more effective if all other Member States acted in concert; a jointly created economic tide would be even more powerful in its capacity to lift every European boat. The more the EU could develop its knowledge and market opening initiatives in tandem, the stronger and more competitive each Member State’s economy would be." (Kok, 2004)

This kind of argument was successful in the early stages of European integration, because in those days European public goods were essentially club goods. For example, the creation of a customs union, up to the single market, could be justified in terms of welfare gains from cooperation. The synergy argument has also been used to justify the open method of coordination that was adopted following the Lisbon Strategy. Yet, this strategy has failed to achieve many of the intended objectives, just as the Stability and Growth Pact has not been implemented. The reason for these frequent coordination failures is that European public goods are now increasingly dominated by strategic substitutabilities, and governments have incentives to do the opposite of what is in the common interest. In this case, cooperation is bound to fail. This failure has often been blamed on nationalist egoism, but it should be clear that it has more profound systemic foundations.

The range of common resource goods and related policies has significantly increased since the Maastricht Treaty and the creation of the euro. In fact, money is a common resource good par excellence and I will now explain why the euro requires new forms of governing public goods.

Money as a common resource

In a market economy, money must function as the *hard budget constraint*. It is created by the central bank, which needs to keep money scarce in order to ensure that markets function efficiently. This is the principle behind central bank independence and the European Central Banks's (ECB) primary objective of maintaining price stability. If the ECB was not independent and governments could oblige it to give them money, the euro would become a soft budget constraint. Price stability would be lost and resources would no longer be allocated to their most productive uses. Hence, money supply is limited, and therefore 'rival in consumption' (meaning money that is mine is not yours). By contrast, banks must always be liquid, which means their access to liquidity in the money market is free and unrestricted. However, the interest rate determines the conditions under which the banking system can obtain money and lend it into the 'real' economy. This therefore reflects the relative scarcity of money as a common resource. These conditions are equal for all economic agents, even if banks and capital markets charge a premium for risk considerations. Therefore, money defines the Euro Area as an integrated economy and the euro is a public good.

Because money is a common resource good, the euro introduces strategic substitutabilities into the interactions of member states and creates political incentives for governments to free ride on their partners. This logic does not only apply to a currency union, but also to a common budget, which is defined in terms of a common unit of account. This is, of course, the case of the European budget, which is set in euro, even if the actual contribution by some member states must be converted by the given exchange rate. Each member state could increase its welfare if it could free ride on the contributions made by others. Margaret Thatcher famously claimed, “I want my money back” from the European budget, but the unwillingness of the German government to use taxpayers money to sustain financial stability in the Euro Area, and thereby provide stability as a European public good, is much more damaging than is Thatcher’s avarice.

Because the European budget dissociates funding and allocation, member states see their net contributions to the European budget as rivalling national expenditure; therefore, they have an incentive to minimise their contributions and to underfund the provision of European public goods such as research, technological development, the common agricultural policy and the institutional capacities of domestic and foreign securities. Similarly, in a monetary union 'sovereign' borrowers are on par with any other debtors because they all face the hard budget constraint of monetary liquidity in the same manner. Given that any borrower has free access to the capital market, whereas total funds are limited, strategic substitutabilities generate an incentive to over-borrow, which drives interest rates up, or worse threatens financial stability. This behaviour can cause serious negative externalities, as we have witnessed.

The governance of European public goods

We can now draw some conclusions for the governance of European public goods. Such goods affect all European citizens collectively, although the contributions made for the efficient provision of these goods will depend on the incentives generated by different classes of public goods. Club goods can be provided by the voluntary contributions of member states, although this requires overcoming the obstacles of asymmetric information. Common resource goods, which are largely generated by the need for funding in the monetary union, require much more stringent forms of governance. Hence, differentiated forms of governing the provision of European public goods may be necessary.

Coeuré and Pisani-Ferry (2008: 22) claimed that “the desirability of a common policy depends on the degree to which member states agree with each other.” It should be clear that this is wrong. The statement contains the categoric mistake described above. The desirability of common policy derives from externalities, and member states are often an obstacle to achieve efficient solutions. However, the mistake is frequently made in European policy circles, where convenience often beats coherent logical thinking or, even worse, violates the fundamental norms of modern democracy.

What is at stake here is the concept of sovereignty. Pre-democratic ideas identified sovereignty with the ruler; the modern democratic concept locates sovereignty in the people, i.e. in the set of citizens who are affected by the externalities and policies related to a public good. The pre-democratic version claims with Hobbes that the people have surrendered or delegated their authority to the state or government;[iv] the modern approach distinguishes between the *authority* of the people as principal and the *power* of governments as their agents that manage their public goods. From a democratic point of view, member states cannot be the principal that authorises the delegation of policymaking competences to the European level. Rather, the citizens must always own and consume the public goods.

However, this distinction between authority and power poses a number of questions. The first concerns ownership: who are the proprietors of public goods? Typically, ownership covers the right to receive certain benefits and the obligation to assume liabilities related to a given good. Hence, the owners of public goods are all the citizens who are affected by the benefits and externalities of such a good. It is precisely this right of ownership that makes citizens the sovereign and not governments. Yet, public goods have different scopes and functions. Any individual citizen is, therefore, simultaneously the owner of different public and private goods, some of them with local or national external effects, some with European or even global impacts. Because citizens are the owners of public goods, their authority is indivisible; but insofar as citizens consume different goods, it is divided. If we call *res publica* the set of all public goods, we must conclude that the republic can be '*une et divisible*'.[v]

This raises the second question of how the principal can control the agent. If governments are the agents of citizens, there must be, as federalist theories claim, different governments that manage public goods with different scopes and functions for different groups and constituencies of owners. However, because federalism follows a bottom-up approach, it cannot define the competences of these different layers.[vi] The federalist solution to the problem of assigning competences is to start with geographically defined subdivisions of the polity, in which some socially constructed conceptions of political identity prevail (Feeley and Rubin, 2008). Fiscal federalism describes this identity by the heterogeneity of given social preferences and concludes that the efficient provision of public goods should be decentralised to the level where the marginal benefit of collective action equals the cost preference frustration (Oates, 1972). However, political and fiscal federalism share the fundamental assumption of given preferences. They have no theory about how preferences can change and converge. Federalism is therefore not a theory that can explain how to manage public goods efficiently in the process of European integration with the important transformations it produces in societies.

If federalism fails, the republican paradigm is an alternative (Collignon, 2003, 2004, 2007). Here, citizens assume responsibility for their common property and the public goods they share, and appoint a government as their agent that manages their common concerns but remains responsible and accountable to the principal. It is this freedom of the principal to appoint an agent that justifies calling republicanism a form of self-government. The shared responsibility for the common good requires that interdependent citizens first deliberate and then realise the common good – their *res publica* – which promotes their individual interests and protects their individual rights (Honohan, 2002).

This participation in the process of deliberating and defining public policies is not only the cultivation of civic virtues that generates legitimacy for policy output; it also has the important consequence that policy preferences will converge, provided some minimal conditions, namely bounded rationality and connectedness, are fulfilled (Lehrer and Wagner, 1981; Collignon, 2008). With bounded rationality, citizens who know that they do not know everything with certainty will consult others, and this generates convergence to consensus. While bounded rationality may be a pervasive feature of society because knowledge is imperfect, the process of convergence to consensus can, of course, fail and cause conflicts when people self-righteously stop taking into account the views of others. Democratic processes and mechanisms to sustain them, however, can help prevent such communication breakdown, because the transparency of democratic deliberation obliges citizens to reveal their preferences. Furthermore, democratic institutions will accomplish connectedness precisely because every citizen must make a choice about the government he/she wants to see as his/her agent, and with bounded rationality citizens will discuss their choices before they vote. Hence, the republican approach provides a theory that goes beyond the limitations of fixed preferences, which underlay federalism and the pre-democratic ideas of sovereign statehood.

The implications of this republican paradigm are that the efficient provision of European public goods cannot be dissociated from the issue of democracy in Europe. The intergovernmental approach to governing [vii] Europe's common resource goods reflects pre-democratic Hobbesian ideas, whereby once the people have conferred their authority to the sovereign, he may rule with absolute power. But with many sovereigns, this reply will inevitably cause cooperation failure. With the creation of the euro, such common resource goods have now become the dominant feature of European economic life and they call for an Economic government with full democratic controls.

However, there remains a third question. If public goods are defined by the scopes of externalities, there may be many functional levels for the government of public goods. This could lead to a system of functional overlapping and competing jurisdictions for the provision of specific public goods (Oates, 2001). Europeans discuss this under the heading of variable geometry or multispeed integration. The problem is that the complexity of European public goods creates excessive functional separation between different public goods and this makes democratic control practically impossible: who could envisage democratic elections for each agency that has to administer public goods with different scopes? Maybe direct democracy works in small republics such as Switzerland, but in the European Union it would be dysfunctional.

Parliamentary democracy was precisely invented to overcome this problem. Policy issues are bundled together and controlled by parliaments that represent the sovereign for a limited period of time. Hence, the efficient and democratic management of European public goods would require that citizens exert their ultimate authority as the sovereign by electing the European Parliament, which then controls the Commission as the agent of European citizens. In this way, public goods could be administered democratically without falling into the trap of inefficient intergovernmentalism or identitarian federalism.

Conclusion

It is time to become aware of the far-reaching externalities that have emerged with European integration. They need new forms of governance, and some even a government. However, the precise distinction of what counts as a European or a national or international public good, and what needs to be represented by a European government within the Union outside in the global context, will always remain subject to political deliberation and public choice.

References

Coeuré, B. and J. Pisani-Ferry, 2007. The Governance of the European Union's International Economic Relations: How Many Voices? In: André Sapir (ed.), *Fragmented Power: Europe and the Global Economy*, Bruegel

Collignon, S. 2003. *The European Republic. Reflections on the Political Economy of a Future Constitution*. London: The Federal Trust/Kogan Press

Collignon, S. 2004. Is Europe going far enough? Reflections on the EU's Economic Governance. *Journal of European Public Policy*, 11.5:909–925

Collignon, S. 2007. *Bundesrepublik Europa? Die demokratische Herausforderung und Europas Krise.* Vorwärts Verlag: Berlin

Collignon, S. 2008. *Deliberation and Stochastic Consensus.* Available from: http://www.stefancollignon.de/PDF/DeliberationandStochasticConsensus2.pdf

Collignon, S. and C. Paul. 2008. *Pour la république européenne*. Odile Jacob, Paris

Cooper R. and A. John, 1988. Coordinating Coordination Failures in a Keynesian model; in: *Quarterly Journal of Economics* 103, August 1988: 441-463.

Cullis, J. And Ph. Jones. 1998. *Public Finance and Public Choice* (2nd ed.), Oxford University Press

Desai, M. 2003. *Public Goods: A Historical Perspective*. In: Kaul et al. (2003)

Dougherty, K.L. 2001. *Collective Action under the Articles of Confederation.* Cambridge: Cambridge University Press

M. M. Feeley and E. Rubin. 2008. *Federalism: Political Identity and Tragic Compromise*, Ann Arbor, MI: University of Michigan Press

Hardin G. 1968. The Tragedy of the Commons. *Science*, 162.3859:1243–1248

Hix, S. 2008. *What's Wrong With the European Union and How to Fix It.* Polity Press

Honohan, I., 2002. *Civic Republicanism.* Routledge: London, N.Y.

Hume, D. 1740. *A Treatise of Human Nature*; multiple editions

Kaul, I. and R. Mendoza, 2003. *Advancing the concept of public goods*. In: Kaul et al. 2003

Kaul, I., P. Conceicau, K.L. Goulven and R.U. Mendoza, 2003. *Providing Global Public Goods: Managing Globalisation*, Oxford University Press

Kok, W. 2004. *Facing the Challenges. The Lisbon Strategy for Growth and employment.* European Communities: Brussels

Lehrer, K. and Wagner, C. 1981. *Rational Consensus in Science and Society*; D. Reidel Publishing Company: Dordrecht, Holland

Meade, J.E. 1973. *The Theory of Economic Externalities. The Control of Environmental Pollution and Similar Social Costs.* Sijthof-Leiden: Geneva

Musgrave R. and P. Musgrave, 1973. *Public Finance in Theory and Practice*. McGraw-Hill: New York

Musgrave, R. 1996. The Role of the State in Fiscal Theory. *International Tax and Public Finance*, 3:247–258; reprinted in Musgrave (2000)

Oates, W. 1972: *Fiscal Federalism*. New York/Chicago: Harcourt Brace Jovanovich Inc.

Oates, W. 2001. Fiscal Competition and European Union: Contrasting Perspectives. *Regional Science and Urban Economics* 31:133–145

Olson, M. 1971. *The Logic of Collective Action. Public Goods and the Theory of Groups*. Cambridge, Mass: Harvard University Press

Rawls, J. 1996. *Political Liberalism.* Columbia University: New York

Samuelson, P. A. 1954. The Pure Theory of Public Expenditure, in: *Review of Economics and Statistics*, 36, 387-389.

Schulz, H. and T. Konig, 2000. Institutional Reform and Decision-Making Efficiency in the European Union. American *Journal of Political Science*, 44.4:653–666

Sinn, H. W. 1994. How much Europe? Subsidiarity, Centralisation and Fiscal Competition. *Scottish Journal of Political Economy*, 41.1:85–107, February

Tanzi, V. 2008. The future of fiscal federalism; *European Journal of Political Economy* 24: 705-712

Tsebelis G. and G. Garrett, 2001. The Institutional Foundations of Intergovernmentalism and Supranationalism in the European Union; *International Organization*, 55.2:357–390

Tuck, R. 2008. *Free Riding*. Harvard University Press

Verhofstadt, G. 2006. *The United States of Europe*. The Federal Trust: London

[i] This does not exclude the possibility that a community defined by comprehensive doctrines (see Rawls, 1996) and homogeneous preferences may decide to create public goods that serve its doctrines.

[ii] This is a consequence of the logical structure of the relation between public goods and consumers being one-to-many. For, if the relation could be inverted to many-to-one, while externalities continue as one-to-many, public goods would become equivalent to the one-to-one relation of private goods. This is precisely what happens when subgroups appropriate public goods to serve their own preferences.

[iii] "Two neighbours may agree to drain a meadow, which they possess in common; because it is easy for them to know each other's mind; and each must perceive, that the immediate consequence of his failing in his part, is, the abandoning the whole project. But it is very difficult, and indeed impossible, that a thousand persons should agree in any such action; it being difficult for them to concert so complicated a design, and still more difficult for them to execute it." Hume (1740: Section vii. *Of the Origin of Government*)

[iv] Coeuré and Pisani-Ferry (2008) provided a neat description of different forms of such delegation, which they call either *unconditional* or *supervised*. Nonetheless, their vision is clearly Hobbesian and pre-democratic.

[v] Unitary state constitutions such as those in France and Italy claim that '*la république est une et indivisible*'.

[vi] The confusion is perfectly clear when federalism recurs to the so-called principle of subsidiarity of which Sinn (1994: 86) stated that "it places the burden of proof on those who want more centralization. However, apart from that it is empty and meaningless. It does not say anything about which of the government's functions should be centralized and which should be kept with lower levels of government."

[vii] As Chancellor Merkel said, "The economic government is us", meaning it is member state governments.