# The EU: From cooperation between states to a state in itself?

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## Summary

- The EU operates primarily as a cooperation between sovereign states rather than a centralised state, with key decisions often requiring unanimity.

- The EU's structure contrasts with federal states like the US or Germany; member states retain significant sovereignty, as illustrated by the UK's ability to exit the union.

- The EU budget is relatively small, relying on member state contributions rather than direct taxation, which limits its centralisation and redistributive capacity compared to federal states.

- Lowering majority voting thresholds in the EU could lead to more centralisation, increased income redistribution from the poorest segments of wealthy countries to less wealthy countries, and potentially poorer quality policy decisions.

- Majority voting can create instability and inefficiencies, as coalition dynamics can lead to cyclical majorities and strategic vetoing, which may result in increased lobbying and redistributive policies that favour certain groups or countries at the expense of others.

- The current EU model – with ingrained systemic inertia – is still significantly better than most conceivable alternatives, which might lead to a much worse union.

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# Introduction

The European Union functions, to a remarkable degree, as a cooperation between states, and not as a state formation in itself. This is due to the presence of constitutional constraints on exercising simple majority voting, including unanimity requirements in key policy areas. If it becomes 'easier to make decisions', well-established public choice theory suggests that the EU will move towards becoming a more centralised state, and that there will be much more redistribution from high-income to low-income countries – especially from the lower incomes in high-income countries – and that the quality of policy decisions at the community level will decline.

The EU is a union of independent states – unlike federal states, such as the US, Germany, and Russia, or the municipalities in relation to the Danish state. The EU does not have a classic pyramid structure, except where countries have ceded sovereignty through treaties. While it is questionable whether American, German, or Russian states have the option of withdrawing from the federal structure, the UK's exit from the EU shows that EU members still have this option.

Nation states play a significant role in establishing and maintaining the political authority of the EU. The political weight lies in the Council, constituted by the representatives of the heads of the government. Each member state appoints a Commissioner to the European Commission, the executive arm of the EU. Only the Parliament is directly elected, bypassing national parliaments and governments, and its role is relatively modest compared to the parliaments of federal states.

The EU budget is quite modest compared to those of federal states. It corresponds to just over 1 per cent of the EU's GDP, compared to almost 23 per cent in the US. Most of the revenue is collected by member states and paid as contributions to the EU. The Union has relatively few independent revenue sources and does not collect taxes.

Decisions in the EU are only taken by a simple majority to a limited extent, except in the Parliament. In the Council, the most well-known majority requirement is that the majority should be constituted by at least 55 per cent of countries that cumulatively represent at least 65 per cent of the EU population. This applies to decisions in areas such as the internal market, environmental policy, consumer protection, transport, energy, justice, and home affairs. In key areas – such as foreign and security policy, tax policy, accession of new members, treaty changes, and EU institutions– unanimity requirements apply. In a number of less important areas, qualified majority voting is possible; otherwise, unanimity is required. These include social policy, agriculture, fisheries and – not insignificantly – the EU budget.

The unanimity requirement means that any member state can block a potential decision. This means that every member state has veto powers. The EU's decision requirements are constantly criticised because they can make it more difficult to make decisions. Hungary's head of government, Victor Orban, in particular, has used the threat of veto to force decisions or push through national benefits. Following Putin's invasion of Ukraine, there has been a desire in a number of member states to strengthen decision-making power, especially in the areas of security and foreign policy.

This highlights the benefits of increasing the use of simple majority in decision- making and there are several arguments in favour of this.

However, a closer analysis reveals three key conclusions. First, it is not at all certain that a simple majority will make it easier to make decisions. Second, lower majority requirements will lower the quality of the decisions that are taken. Third, the widespread use of simple majority voting will change the fundamental character of the EU and transform it into a centralised, federal state with income redistribution among countries, probably from wealthy to less wealthy countries. The EU will become more similar to federal states, while its member states will become more similar to states in the US. We will discuss these matters here based on fairly well-established and well-known results from public choice theory and political theory.

## The unanimity rule is ideal

Wicksell (1896) realised the formal similarity between market equilibrium and a political decision made unanimously. In both cases, the individual right to veto ensures that there are no transactions or decisions that leave anyone worse off. Market transactions lead to Pareto improvements. Unanimous decisions in politics benefit all, or at least leave no one worse off. Therefore, according to Wicksell, the ideal for political decisions should be unanimity and not majority decisions. Majority decisions do not prevent anyone from losing. They do not even ensure that the winners win more than the losers lose – and thus do not fulfil even a mere utilitarian criterion.

Majority decisions – unlike unanimous decisions – do not have any inherently attractive ethical properties.

However, there are significant differences between market transactions and political unanimous decisions. Political unanimity requirements may give some parties strategic incentives to hijack the decision-making process and veto an otherwise mutually beneficial transaction. In a perfectly competitive market, there are no such incentives for using one's veto power. There is a given market price at which the trade can be carried out (or not), depending on whether the price is worthwhile.

In bilateral transactions without perfect competition, such as horse trading in a marketplace, the seller may be tempted to refuse to sell at a price that would otherwise be beneficial if there was a prospect of obtaining an even better price. The reverse applies to the buyer. The result of either party using the veto in this way is that the negotiations could break down and the deal could fall through, or that time and other resources are wasted on haggling. However, this example is only a simple, bilateral transaction. If the seller has a monopoly, or the buyer has a monopsony, the scope of the veto may be slightly larger. It is well known that an otherwise mutually beneficial marginal revenue may be lost in this case, but the scope of this kind of strategic veto is still limited to a portion of the revenue of a single product.

In political decisions, however, a veto can have enormous reach. When it comes to generating consensus, combining many issues in one package is often necessary. Ultimately, all decisions can get sucked into the veto. The problem of strategic veto games – so-called 'hold-outs' that try to capture as much collective gain from a collective decision as possible – is much greater in politics than in the market.

Buchanan and Tullock (1962) pointed out that there can be a trade-off between the cost of reaching an agreement and the cost associated with risking being a minority in a political decision. With unanimity, there is no risk of ending up a minority, as it ensures the right of veto – but there can be a high cost to reaching an agreement due to strategic behaviours. If the majority requirement is relaxed compared to unanimity, the cost of agreement decreases, but the cost of being part of a minority increases. This led Buchanan and Tullock to suggest that when establishing constitutional rules for post-constitutional political decisions, a majority requirement should be established, which minimises the sum of the expected costs of minority risks and of negotiating a solution.

As an alternative to unanimity, they also pointed to other constraints that can be used to improve the quality of decisions made through simple majority. A system with multiple authorities, such as a first and second chamber, minority-protecting rights, and decentralisation with the real possibility of moving to other jurisdictions could also lower the risk of exploitation by the majority. For the same reason, it may be more beneficial for small entities with relatively homogeneous populations to do without other checks and balances, which may be correspondingly more useful for large entities with power over large areas and very heterogeneous populations.

There are, therefore, good theoretical reasons why it can be difficult to make decisions in the EU – and impossible to dominate a minority in important decisions, even though it may reduce the EU's overall ability to make decisions.

If quorum was the only criterion, dictatorship would be the obvious solution, but it could also lead to poor-quality decisions if no one can challenge them.

## Is it easier to reach an agreement by majority rule?

The argument that the cost of agreement decreases with smaller majority requirements is not necessarily true. As Riker (1980) pointed out, majority constellations tend to be unstable. At worst, the majority can be cyclical, such that any conceivable majority constellation can be defeated by at least one other (which in turn can be defeated by at least one and so on).

It is easy to visualise a cyclical process. Assume three voters (or voter groups) in total. Let it be possible for a majority (consisting of two voters, A and B) to impose a tax of $50 on the third, C. A and B can share this equally, keeping $25 each. But C can offer A a larger share, say, $35, if A forms a coalition with C and taxes B with $50. But now B can invite C to form a coalition with, say, a $25–$25 split. It will always be possible to form a new coalition that makes two voters better off if it involves redistributing to the coalition from outside voters. Riker (1982) also pointed out that no matter what the formal subject of the majority decision is, it can always be used to split the bill in favour of the winning coalition. There is thus always a distributive dimension to any majority decision. The problem of cyclical majorities will permeate all kinds of political decisions made with a majority. Just as hold-outs have an incentive to hijack decision-making processes that require unanimity, voters have an incentive to change the distribution in their favour in the case of majority decisions – the issue remains the same.

The ability to dominate a minority can also make decision-making processes more vulnerable to lobbying, as the transaction costs of organising a coalition behind group interests become smaller as the size of the coalition that aims to win reduces. In principle, lobbying is ineffective in decision-making requiring unanimity unless it benefits everyone. Mere lobbying under a simple majority can help drive cyclical majorities.

However, it can be easier to break a deadlock using a majority rather than in unanimous decisions. For example, if one of the parties has the power to set the agenda – for example, if it puts a specific proposal to vote. With majority requirements, the proposal will pass, while it will still fall in the case of unanimity requirements if a hold-out vetoes it.

There may thus be some justification for Buchanan and Tullock's assumption that decision costs decrease with the majority requirement, although cyclical majorities can also pose a problem. However, the ability to make decisions with less than unanimity comes with significant costs, at which we will now take a closer look.

## Non-unanimity leads to worse decisions

It is a given that majority voting can lead to poorer policies, i.e., policy solutions that are not efficient and can lead to overall welfare–economic deterioration. As we have mentioned, unanimity requires that a proposal entails an overall welfare–economic gain. Otherwise, not everyone will benefit, and the losers will veto it.

We illustrate this point with a simple example. Suppose three voters have to decide on a project that gives two of them a gain of $10, but which costs the last one $30. In a simple majority system, the project will pass regardless of a net loss of $10. It is also possible that a project that gives one voter a gain of $30 but costs the other two $10 each, will be rejected, despite an overall net gain of $10. More generally, the majority will implement projects right up to the point where their share of the marginal benefit equals their share of the marginal cost. There may be a small chance that the share of benefits and costs will be the same; however, the majority will be incentivised to find projects that particularly benefit the majority and funding sources that particularly burden the minority. In many cases, this will lead to greater public spending than is efficient, but the opposite can also occur (see Brøns-Petersen 2018 for further discussion).

In some cases, there may be a decisive marginal voter who is able to capture a significant portion of the majority's gain, but this is not necessarily the case. In pure redistribution games, for example, there is no median voter.

With unanimity, it will not be possible to approve any project unless everyone wins. This does not have to apply to every project, but there must be a package of projects where this is the case. At the very least, the package must not disadvantage any party– otherwise, the losers will veto it.

It is easy to see that the majority of decisions involve an externality problem. The decisions can affect the minority both positively (through the positive effects of the expenditure) and negatively (through the minority's costs). Both are a problem because neither the positive nor the negative externalities affect the majority decision.

It is the externality that implies that poor economic decisions can be made. Because there is no minority in case of unanimity, this externality does not exist, and all solutions must provide an overall gain to carry through.

## Side payments by unanimity, but hardly by majority decisions

On the face of it, some efficient projects will not pass under the unanimity requirement – such as in the example above, where one voter wins $30 while two voters each lose $10.

But if side payments are available, this will change the equation making efficient solutions more viable. Side payments mean that voters who would otherwise not make gains are compensated. In the example just mentioned, suppose the voter with an immediate gain of $30 offers to pay $12 to each of the other two voters. They will then gain $2 ($12 − $10), while the third voter gains $6 ($30 – $12 − $12).

In principle, side payments could also be used to make efficient decisions pass and avoid inefficient ones under simple majority rule. In the example where two voters want to implement a decision that gives them each a gain of $10, but the third voter a loss of $30, side payments could help prevent an inefficient decision. The minority voter could offer the two majority voters $12 each. They would then each gain $12 by not doing the project, rather than $10 by implementing it, while the minority voter would only lose $24 rather than $30.

More generally, with any inefficient project, (or any project of an inefficient scale), it will always be possible for the minority to 'bribe' the majority not to take on the project. Side payments are in theory a universal solution.

However, it is far less likely that side payments will be used under majority rule. Side payments introduce arbitrary payments from and to each voter. This is not a problem if they have veto power, but it can be extremely risky without it, as the majority can, in principle, impose unlimited burdens on the minority and thus obtain unlimited side payments from the losing side. To mitigate this risk, constitutional rules will have to be implemented that restrict the levying of arbitrary payments and instead general tax rules to which every party must submit must be introduced.

It is well known that such side payments mostly do not take place in democratic systems. No 'political Coase theorem' can be observed (Acemoglu 2003).

## Majority rule will lead to forced redistribution

While unanimity with access to side payments will lead to voluntary redistribution, majority rule will certainly lead to involuntary redistribution, as pointed out not least by Riker (1982). It follows that in majority rule, there will be a minority whose preferences will not be taken into consideration. Similarly, the more the minority loses, the more the majority gains. Although the political decision might not concern a distributional issue per se, the majority's gains can be increased by linking a redistributive dimension to the issue. For example, if the issue is about deciding the size of a public good, the distribution of the payment becomes an issue. It can also be about choosing the public goods that matter most to the majority and least to the minority, or spending less on the public good in favour of a private good that benefits the majority in particular.

For example, assume 11 decision-makers have to share $100. The gain for the winning coalition will depend on its size. If everyone participates in the coalition, the average gain per participant will be $9. If the coalition is reduced to 10 people (and there is a minority of one), the average win will increase to $10. The smallest possible winning coalition is a six-member coalition, which will also maximise the average win – at just under $17 (a five-member coalition cannot win and will, on average, achieve zero). In a game theoretical setup, larger coalitions are dominated by smaller ones, until the minimum winning one is reached.

It is not a coincidence that all political systems based on a simple majority involve redistribution. Redistribution occurs in all democratic countries. In all federal systems, redistribution takes place between the states, just as it does between Danish municipalities.

There is also some redistribution within the EU, but with a limited budget, checks and balances, and the use of qualified majority rules – including unanimity requirements for passing the budget, the extent of redistribution is limited for now.

## Redistribution is likely to go from high- to low – income countries

The problem with cyclical majorities implies that it is impossible to predict who the winning coalition will be. The cycle occurs because the rest of the coalition always stands to accrue potential gains when a member is replaced with a non-coalition member. It is therefore less theoretically certain in which direction the redistribution will move rather than that redistribution will occur.

However, there is good evidence that the redistribution will be from higher- to lower-income countries, as pointed out by de Jasay (2008) and others. If the majority coalition can redistribute from the minority in an unlimited way, a minority consisting of the wealthiest countries will give the majority the potentially largest gains. So while a democracy could, in principle, result in redistribution from low to high incomes, it is striking that in actual democracies, the distribution systematically goes in the opposite direction. In all OECD countries, incomes are more equally distributed after taxes and transfers than market incomes (OECD 2024).

Cyclical majorities can also lead decision-makers to attempt to form more permanent coalitions. This depends on how coalition participants weigh the risk of ending up in the minority against the potential gain of replacing one of the other coalition members. On the one hand, if they weigh the risk high enough, it can lead to the coalition becoming more stable than a lasting for a single decision, and there will be fewer problems with cyclical majorities. And, if we assume that a coalition of low-income parties is more natural in the first place, it can reinforce the tendency for the distribution to occur from high to low incomes. High-income parties will find it harder to break a permanent coalition formation, even where immediate opportunistic interests might suggest including them in a temporary coalition.

## Low incomes in rich countries could be hit hardest by redistribution in the EU

The theory thus suggests that a more or less permanent distributional coalition is likely to form within each country – and within any political subunit with access to distributional policy tools. If it is ultimately successful, it will tighten distributional policy close to the point where further taxation of the high-income minority will not yield more revenue. This is also known as the top of the Laffer curve.

The available empirical evidence broadly points in this direction. Lundberg (2017), for example, finds that in a third of 27 OECD countries, the highest tax slabs had self-financing rates above 80 per cent (100 per cent is the top of the Laffer curve). Accounting for uncertainty, this suggests that distributional policy arcs are strung as tightly as possible.

However, if the internal distribution policy is already stretched to the limit, this also means that further redistribution between countries will primarily go from the majority coalition of lower incomes in high-income countries to the corresponding coalitions in low-income countries. In other words, the lower half of income earners in high-income countries will be primarily affected by increased redistribution between EU countries.

This is fundamentally because low-income earners in richer countries have a higher position in the income distribution across the EU than nationally. For example, the median income in the EU is only 57 per cent of the median income in Denmark. A part of the Danish income distribution will then shift from being below the national median income to being above the common median in the EU.

Therefore, resistance to more majority decisions should eventually be expected from those who are most concerned with national distribution policies in Denmark. This may sound paradoxical, but it is a natural consequence of their interests. On the other hand, higher incomes may be more stoic if they are already affected by a distribution policy that flirts with the top of the Laffer curve.

## Industrial policy and government support can modify the picture

We cannot rule out that coalitions can also be formed across the traditional income distribution. State aid to selected industries can favour such special interests, which may be defined to a greater extent by national differences, conditioned, among other things, by the countries' business structure. Depending on the design, business subsidies can favour employees, business owners, and consumers in the industries in question – at the expense of other industries. As with normal distribution policy, the consequence of corporate welfare will also be a net loss for society as a whole.

There are currently strong currents in the EU that are pushing for increased state aid, even though the EU has traditionally aimed to limit state aid races among member states. This takes the form of both overt state aid and more hidden forms such as regulation, protectionism, and industrial policy. Part of the EU Commission's motive for pushing such an agenda may be an attempt to ‘buy’ support for greater political centralisation from established interests in the more prosperous and traditionally more skeptical countries. The focus is therefore very much on ‘green’ projects – i.e., industries that are particularly prevalent in these countries – and there is probably a presumption that voters here are more motivated by green rhetoric.

Even if it proves possible to favour the selected interests, the question remains whether they will also be able to dominate in future coalition formations under relaxed majority requirements in the EU. It must be remembered that current policy is being shaped under current institutional decision-making structures. If it is used as leverage to establish new structures or a larger budget, it will be these conditions which will decide the future redistribution via industrial policy, state aid, and protectionism.

Having an EU with a larger budget than today and even the right to levy taxes would probably also lead to a significant strengthening of the Brussels bureaucracy’s power and ability to look after its own interests. It might not even necessarily favour low-income earners. However, there has been a tendency in Denmark to form a so-called ‘welfare coalition’ between distribution policy interests and 'producer interests' in the public sector, i.e., public employees. There may be good reasons for this if they each have their own power factor – the ability to form a winning coalition and an information monopoly, respectively.

## The consequences of 'greater decision-making power'

The EU is consistently unloved by much of its citizens and the lack of 'decision-making power' is often frustrating. But for this very reason – systemic inertia – the EU can be significantly better than most conceivable alternatives, which might lead to a much worse union. As a concrete warning, consider the debt problems, redistribution, economic problems, and centralisation that have resulted from the running over of the constitutional rules for Euro cooperation (Brøns-Petersen 2023).

So what will be the consequence of introducing lower barriers to majority decision-making in the EU?

Overall, it cannot be denied that relaxed majority requirements in the EU – including the abolition of the unanimity requirement in key areas – will result in 'greater decision-making power', although due to the problem of cyclical majorities, this is by no means certain. But it will certainly lead to significantly more redistribution across the countries of the EU, most likely from higher- to lower-income countries, but primarily at the expense of lower income earners within the richest countries. This pattern of redistribution will especially result in less redistribution to low-income earners in high-income countries, while the high-income earners in these countries already largely pay their potential maximum Additional taxation will run into Laffer curve problems.

Majority decision-making is known to lead to less efficient solutions and, in short, poorer quality policy. This is an inevitable price to pay when it is easier to take decisions that the paying minority will find it harder to defend against.

*The original briefing has been published in Danish by CEPOS.*

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