



Federalism in Western Europe

by Amy K. Frantz

Dr. Keith Yanner explores the European experience with federalism in his chapter, "Fiscal Vacations and Federalism in Western Europe: A Search for Sovereignty" in *FEDERALIST GOVERNMENT IN PRINCIPLE AND PRACTICE*. Federalism, "a form of government where citizens reside within at least two governmental jurisdictions, each of which has independent power to tax and regulate,"¹ has been the trend in Western Europe since the end of World War II, both within countries and as a whole, with the creation of the European Union (EU).

Yanner looks at the conflict between federalism and sovereignty using a dispute over state-aid policy among the European Union, the Spanish government, and the Basque Autonomous Community government as a case study. Spain's seventeen regional governments are not treated equally under the Spanish Constitution. Only two regional governments, one of which is the Basque government, are allowed to set their own tax policy. Other differences in power and authority occur among regions because each region must negotiate a separate autonomy statute with the Spanish state.

The Basque Autonomous Community government provides tax incentives (or what they call fiscal vacations) to attract business and industry to the region. Basques believe they need these incentives, which other regions do not have the authority to provide, to compensate for the disincentives of violence, kidnapping of company officials, and the imposition of a "revolutionary tax" by the radical pro-independence organization ETA.

Other regions of Spain see the Basque tax incentives as unfair, particularly when the incentives are used to lure a business from elsewhere in Spain to the Basque region. One such region filed a complaint charging that the Basque fiscal vacations violated the EU Treaty. This dispute raises the question of who has the ultimate authority to set fiscal policy? At the time of writing this chapter, the question and the case had yet to be resolved.

The European Union is at once both a federal and an intergovernmental institution. For example, the executive functions of the EU are shared by the European Council and the EU Commission. The Council is made up of the heads of state of each EU member. Their primary interest is first their own country, while the interests of Europe as a whole come second. This reflects an intergovernmental institution, in which nations cooperate but retain their separate decision-making authority.

The Council, however, has delegated some of its authority to the Commission, which has a "Europe-first perspective," making it more of a federal institution, although not completely, as cooperation with its decisions is essentially voluntary. "The only area in which the EU is

A Publication of:

Public Interest Institute at Iowa Wesleyan College

600 North Jackson Street

Mt. Pleasant, Iowa 52641-1328

Phone: 319-385-3462 Fax: 319-385-3799

E-Mail: public.interest.institute@limitedgovernment.org Web Site: www.limitedgovernment.org

unambiguously federal is monetary policy.” A single European currency forces nation-states to give up some of their control over interest and currency exchange rates, moving the EU toward federalism.

Yanner also discusses the individual characteristics of several Western European nations to demonstrate the trend toward federalism. Spain, France, Italy, and the United Kingdom have decentralized and devolved more power to regional governments, although for different reasons. In Spain, the autonomous regions were established to counteract a strong and oppressive central government. In Italy, decentralization was meant to compensate for a weak and ineffective central government. In the United Kingdom, the government in London has given in to pressure from ethnic nationalists and allowed the creation of regional parliaments in Scotland and Wales, with some limited power of decision-making. Given “the pace of decentralization and devolution...the UK probably will look much more like a federation than a unitary democracy within the next decade.”

While there is no single explanation for the growth of federalism in Western Europe, Yanner suggests two variables that should command our attention. The first is that “citizens throughout Western Europe have increasingly demanded the decentralization of political power to create tiers of government closer and more responsive to local communities.” The second is that regional groups, such as the Basques in Spain, have come together politically to demand autonomy from national governments.

Western Europe continues the struggle between sovereignty and federalism. The question of who has the ultimate authority, in the fiscal policy disagreement in Spain, as well as in matters in all of Western Europe, has not been definitively answered. “Federalism does not prevail in either the EU or most Western European countries, but the region continues to move toward federalism at both levels.”

¹Racheter, Donald P. and Wagner, Richard E. (eds.) *Federalist Government in Principle and Practice*, Preface, p. xiii, Massachusetts: Kluwer Academic Publishers.

This Institute Brief is one in a series on the chapters of a just published book, FEDERALIST GOVERNMENT IN PRINCIPLE AND PRACTICE, edited by Dr. Don Racheter, President of Public Interest Institute, and Dr. Richard Wagner, Economics Professor at George Mason University and Chairman of the Institute's Academic Advisory Board. FEDERALIST GOVERNMENT IN PRINCIPLE AND PRACTICE looks at the relationship between federalism and liberty and explores the substantive practice of federalism, particularly the centralizing processes at work and the opportunities for decentralization.

The author of this chapter of FEDERALIST GOVERNMENT IN PRINCIPLE AND PRACTICE is Dr. Keith M. Yanner, Associate Professor of Political Science at Central College, Pella, Iowa.

This summary of Dr. Yanner's chapter was written by Amy K. Frantz, a Research Analyst with Public Interest Institute.

Permission to reprint or copy in whole or part is granted, provided a version of this credit line is used: "Reprinted by permission from INSTITUTE BRIEF, a publication of Public Interest Institute." The views expressed in this publication are those of the author and not necessarily those of Public Interest Institute. They are brought to you in the interest of a better-informed citizenry.