

Non-compliance in the European Union: A Monetary Policy Substitute

Tobias Hofmann

General Research Question

- Why do governments violate their international legal commitments?

Specific Research Question

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- What explains infringements of Single European Market-related law?

Today's Answer

- Why do governments violate their international legal commitments?
- What explains infringements of European Single Market-related law?
 - (Un)intended consequences of institutional change (cf. Grossman & Helpman 1994)

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- What explains infringements of European Single Market-related law?
 - (Un)intended consequences of institutional change
 - European Union governments (ab)use EU's infringement proceedings as flexibility mechanism
 - Eurozone governments provide non-compliance to special interests in 'hard times' as substitute for traditional monetary policy interventions

Roadmap

- Motivation
- Theoretical arguments
 - Conventional wisdom
 - International institutions & domestic interests
- Research design
 - Data, operationalization of variables, and method of analysis
- Findings
 - Eurozone members violate more!
- Implications and outlook
 - Ever closer, deeper, ... better union?

Motivation

- Euro crisis
 - Bank of England Governor Mervyn King said the bank will “do all it can” to pull the economy out of recession (WSJ) 
 - If Greece had its own currency, it could try to offset this contraction with an expansionary monetary policy (NYT) 

Motivation

- Euro crisis
- Wide range of existing literatures
 - Policy substitution
 - Copelovitch & Pevehouse 2013, Broz et al. 2015, ...

Motivation

- Euro crisis
- Wide range of existing literatures
 - Policy substitution
 - Flexibility
 - Milner & Rosendorff 2001, Rosendorff 2005, ...

Motivation

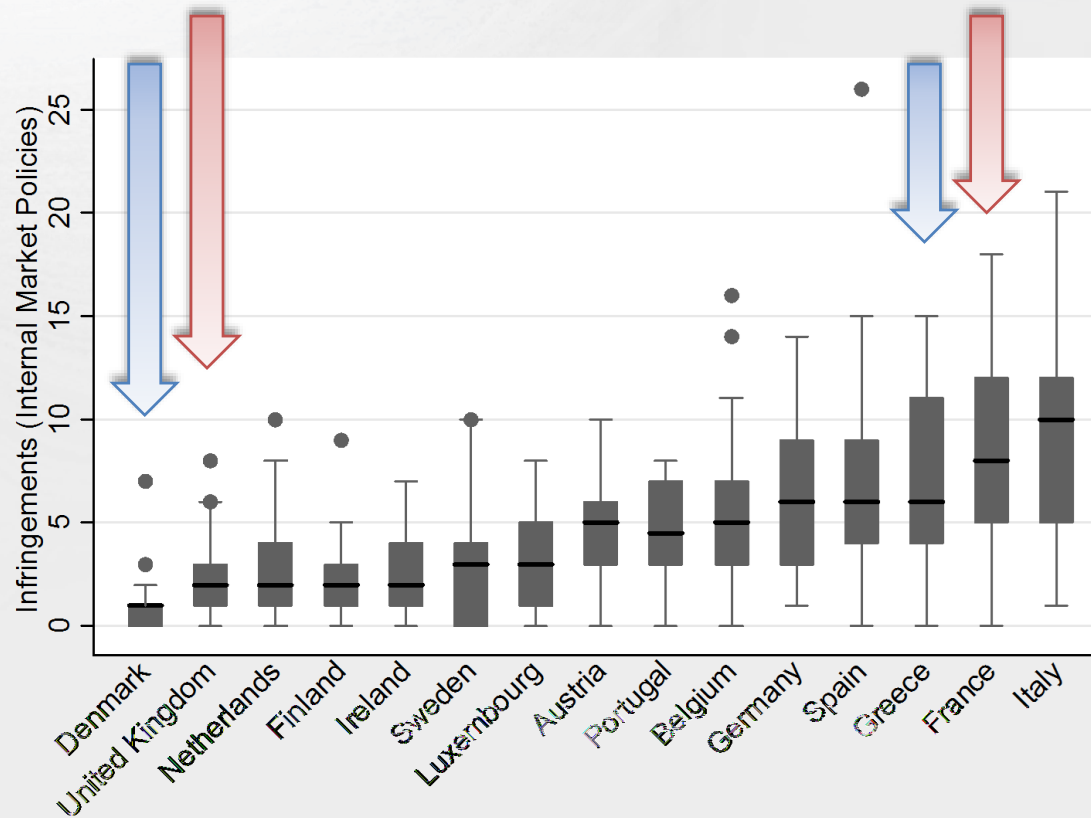
- Euro crisis
- Wide range of existing literatures
 - Policy substitution
 - Flexibility
 - Exchange rates in the EU
 - Bodea 2015, ...

Motivation

- Euro crisis
- Wide range of existing literatures
- Unexplained variation

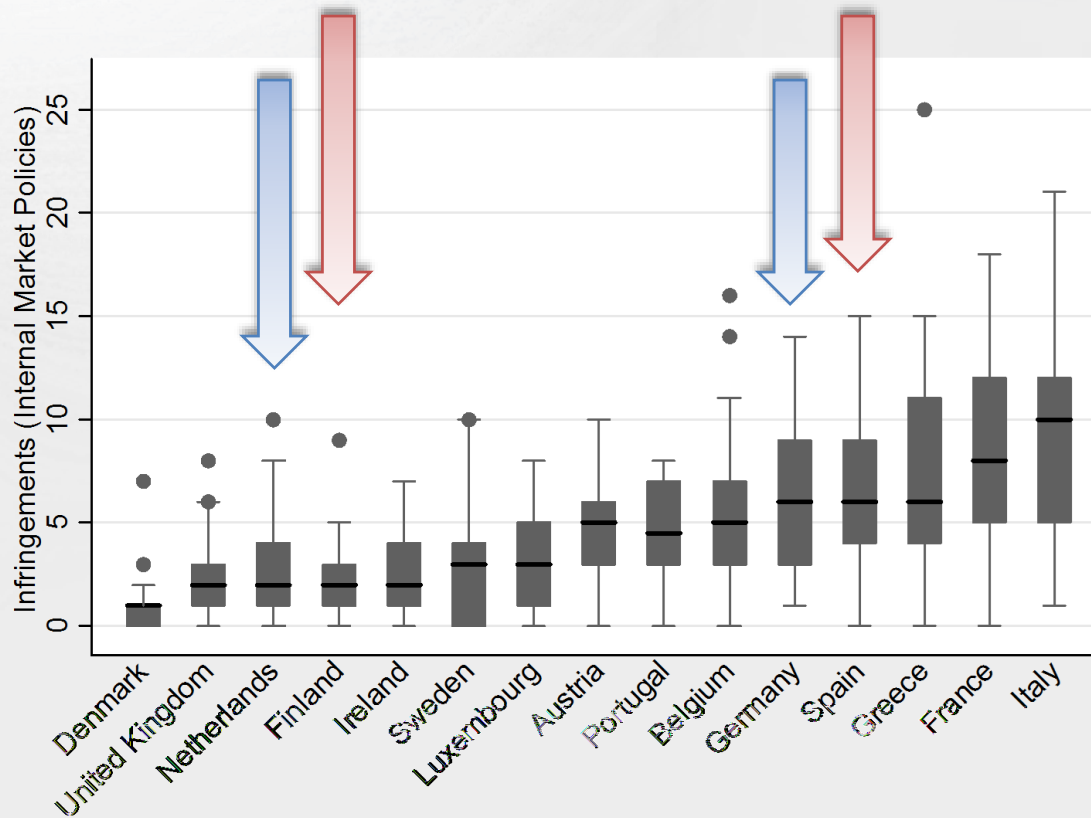
Unexplained Variation

- Large small



Unexplained Variation

- Large small, new old -



- Large small, new old, ...- and support for

Motivation

- Euro crisis
- (Un)intended consequences of institutional change
- Wide range of existing literatures
- Unexplained variation
- Focus of existing EU compliance literature
 - Environment, social policy, etc.

Motivation

- Euro crisis
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- Unexplained variation
- Focus of existing EU compliance literature
 - Environment, social policy, etc.
 - ‘Cottage industry’ with few links to IPE research

Conventional Wisdom

- (Downs et al. 1996)
 - ‘Misfit’ makes policy-seeking, national interest-oriented governments less interested in compliance

Conventional Wisdom

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 - ‘Misfit’ makes policy-seeking, national interest-oriented governments less interested in compliance,
 - Compliance with Articles 28, 30, 34, and 36 TFEU generates welfare benefits

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- (Chayes & Handler Chayes 1993)
 - Domestic political and bureaucratic institutions function as stumbling blocks to compliance

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- (Downs et al. 1996)
- (Chayes & Handler Chayes 1993)
 - Domestic political and bureaucratic institutions function as stumbling blocks to compliance,
 - Compliance requires no capacity
 - Articles 28, 30, etc. have been around since 1950s
 - Veto players lock in compliance
 - Bureaucracy has to refrain from implementing restrictions to intra-EU trade

Consequences of EMU

- Increased trade among currency union members
 - Reduction of currency risk and transaction costs due to absence of exchange rate volatility,
 - Some evidence that initial effect on trade were short lived

Consequences of EMU

- Increased trade among currency union members
- Loss of macroeconomic policy autonomy
 - Monetary policy of Eurozone countries is set by European Central Bank
 - Fiscal policy is heavily constrained by Stability and Growth Pact, Fiscal Compact, etc.

Back to Basics

- Demand for infringements
 - Domestic firms/industries facing strong intra-European import competition organize and lobby for protection

Back to Basics

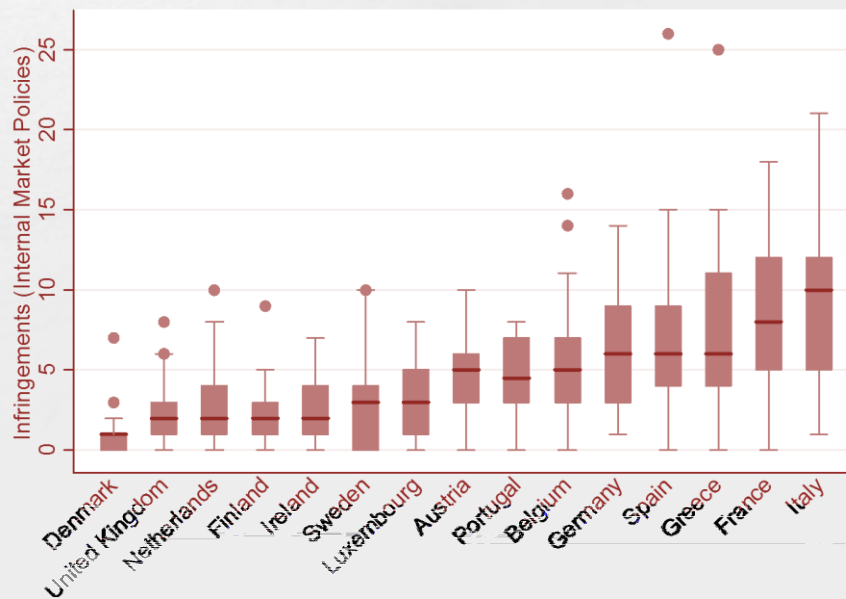
- Demand for infringements
- Supply of infringements
 - Survival-maximizing governments exchange protection for political support

Hypothesis

- EMU conditions effect of ‘bad times’ on non-compliance
 - **Eurozone** (vs. non-Eurozone and pre-Eurozone)
governments can not rely on ‘natural’ barriers to trade and monetary policy for protection revert to **infringements** on provisions governing SEM to achieve protectionist objectives when domestic industries face increased **import competition**

Research Design

- EU 15
 - Euro adopters and non-adopters



Research Design

- EU 15
- 1978-2012
 - Pre- and post-Euro adoption

Research Design

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Research Design

- EU 15
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- **Alternative response variables**

(10,000+ infringements)

Articles 28 to 37 TFEU, i.e., all Articles from

Articles and secondary legislation prosecuted by

Secondary legislation from of the

Secondary legislation with Articles 28 to 37 TFEU as legal basis

Research Design

- EU 15
- 1978-2012
- Infringements on Articles 28, 30, 34, and 36 TFEU
- Alternative response variables
- Negative binomial regression

Explanatory Variables

Import competition _{i,t-1}	+
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Euro _{i,t-1}	+
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Import competition _{i,t-1} * Euro _{i,t-1}	+
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GDP _{i,t-1}	+
----------------------	---

GDP per capita _{i,t-1}	-
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Shapley Shubik index _{i,t-1}	+/-
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Bureaucratic quality _{i,t-1}	-
---------------------------------------	---

Access points _{i,t-1}	+
--------------------------------	---

...

Year fixed effects	
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Explanatory Variables

- Import competition $_{i,t-1}$ =

Intra-EU import penetration ration

$$\frac{\text{Imports from EU}_{i,t}}{\text{GDP}_{i,t} - (\text{Exports to world}_{i,t} - \text{Imports from world}_{i,t})} \times 100$$

- Euro $_{i,t-1}$ =

Eurozone membership = 1

France 1978-1999 = 0, Greece 1981-2001 = 0, UK = 0, ...

Findings

- Eurozone members commit particularly many violations when faced with increasing import penetration
 - Substitution happens!

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 - Substitution happens! ... non-compliance as intra-EU trade policy

Findings

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Table 1: The Effects of the Euro on Infringements

	(1)	(2)	(3)	(4)	(5)
<i>Import competition</i> _{<i>i,t-1</i>}	1.0130*** (0.384)	1.6678*** (0.363)	1.6262*** (0.389)	1.4529*** (0.333)	1.5746*** (0.378)
<i>Euro</i> _{<i>i,t-1</i>}	0.4928*** (0.119)	0.4165*** (0.109)	0.4560*** (0.126)	0.4244*** (0.099)	0.3859*** (0.116)
<i>Import comp.</i> _{<i>i,t-1</i>} * <i>Euro</i> _{<i>i,t-1</i>}		0.0472*** (0.007)	0.0444*** (0.009)	0.0410*** (0.007)	0.0396*** (0.009)

Findings

- Eurozone members commit particularly many violations when faced with increasing import penetration
- What else?
 - Domestic institutions provide opportunities for lobbying
 - Management, enforcement ...

<i>Shapley Shubik index_{i,t-1}</i>	0.8337*	0.8015*
	(0.445)	(0.482)
<i>Bureaucratic quality_{i,t-1}</i>	-0.0166***	-0.0089**
	(0.003)	(0.003)
<i>Access Points_{i,t-1}</i>		0.7107***
		(0.080)

Implications and Outlook

- Some lessons
 - Institutional change has unforeseen and unintended consequences
 - Beyond EMU, Lisbon, ..., new generation of PTAs and BITs

Implications and Outlook

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 - Institutional change has unforeseen and unintended consequences
 - Tightening the corset of harmonized rules needs built in flexibility ... ‘nature’ will find a way

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- Some lessons
 - Institutional change has unforeseen and unintended consequences
 - Tightening the corset of harmonized rules needs built in flexibility
 - Future treaty revisions that go beyond ‘fines & funds’
 - Mobilize and empower pro-compliance constituencies to raise political and economic cost of infringements (cf. WTO)

Implications and Outlook

- Some lessons
 - Institutional change has unforeseen and unintended consequences
 - Tightening the corset of harmonized rules needs built in flexibility
 - Future treaty revisions that go beyond ‘fines & funds’
 - Mobilize and empower pro-compliance constituencies to raise political and economic cost of infringements (cf. WTO) ... more on that at IPES 2018

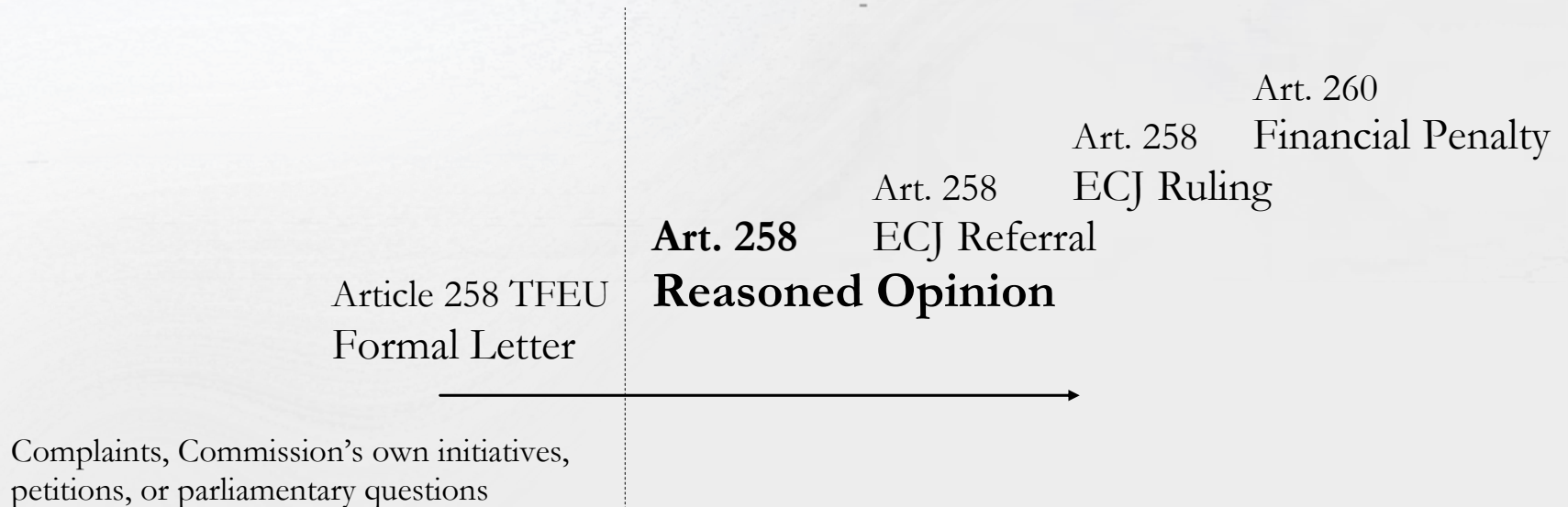


Thank You!

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Infringement Proceedings



Article 28 TFEU Infringement



EUR-Lex

Access to European Union law

български (bg)

61995CJ0265

Judgment of the Court of 9 December 1997.

Commission of the European Communities v French Republic.

Free movement of goods - Agricultural products - Trade barriers resulting from actions by private individuals - Obligations of the Member States.

Case C-265/95.

... instructions had been given to expedite settlement or compensation for the loss or damage sustained by the economic operators concerned.

12 According to the Commission, however, in 1995 the French Minister for Agriculture stated that, although he disapproved of and condemned the violence by the farmers, he in no way contemplated any intervention by the police in order to put a stop to it.

13 On 3 June 1995 three lorries transporting fruit and vegetables from Spain were the subject of acts of

Legal Basis



EUR-Lex

Access to European Union law

English (en)

EUROPA > EUR-Lex Home > Simple search > Search results > Bibliographic notice

31970L0050

Title and reference

Commission Directive 70/50/EEC of 22 December 1969 based on the provisions of Article 33 (7), on the abolition of measures which have an effect equivalent to quantitative restrictions on imports and are not covered by other provisions adopted in pursuance of the EEC Treaty

OJ L 13, 19.1.1970, p. 29–31 (DE, FR, IT, NL)

Danish special edition: Series I Volume 1970(I) P. 10 - 12

English special edition: Series I Volume 1970(I) P. 10 - 12

...

Relationship between documents

- ▶ **Treaty:**
European Economic Community
- ▶ **Legal basis:**
[11957E033](#) -P7