REFORMING EUROPEAN ECONOMIC GOVERNANCE: Lessons from existing institutions

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Abstract

Four EU institutions are evaluated in terms of democratic accountability, capture, commitment and contribution to European integration. These institutions are the telecomunications policy framework, competition policy, infrastructure subsidies and the UEFA Champions League. Lessons from these existing institutions are applied to other policy areas, such as fiscal policy and financial regulation. There is nothing in policies with distributive components that prevents positive lessons from being learned.

1.Introduction

The importance of institutions taking into account that they are endogenous (and therefore must be to some degree self-enforcing) has been acknowledged by numerous scholars. Institutional reforms have to be part of a political equilibrium: they must take into account efficiency and distribution, common interest and rivalry. In Europe, the need for reforms that make progress in the process of economic and political integration, and at the same time improve democratic accountability and commitment and reduce capture, should follow the same logic.

Economists such as Spolaore (2013) or Alesina and Giavazzi (2006) are of the view that integrated policies should be limited to "economic" policies where the costs of heterogeneity are low, and where distributive concerns are scarce. However, from the analysis of existing institutions, there is nothing that prevents lessons from being learned and applied to policies with distributive concerns.

In this paper, four EU institutions are evaluated in terms of democratic accountability, capture, commitment and European integration. These institutions are the telecomunications policy framework, competition policy, infrastructure subsidies and the UEFA Champions League. Lessons from these existing institutions are applied to other policy areas, such as fiscal policy and financial regulation. There is nothing in policies with distributive components that prevents positive lessons from being learned.

The rest of this paper is organized as follows. In section 2 I present a simple theoretical framework, based on the theory of time inconsistency and independence in regulation. Section 3 analyzes four existing institutions in terms of a number of desirable criteria. Lessons from them are applied in a preliminary way to other policy areas in Section 4. And Section 5 concludes.

2. Theoretical framework

The following theoretical framework discusses the importance of commitment, and the potential trade-offs with capture and democratic accountability. It is framed in terms of regulatory decisions, but it can be interpreted more generally. Although regional (European) integration is not explicitly addressed in this model, the investment decision can be loosely interpreted as an action that contributes to economic integration.

To formalize the idea of time inconsistency in regulation and the corresponding convenience of delegating into a pro-industry regulator in the simplest way, let us assume a sequential relationship between a firm with objective function $\Pi = p - I$ and a government with objective function $W = \gamma I - p$, with $\gamma > 1$ (thus guaranteeing that the investment is socially valuable). The firm can invest in period 1 a completely asset-specific sum I=1 or not invest, i.e. I=0. If the firm does not invest, the game finishes and the pay-off is 0 for both players. If the firm does invest, then in period 1 the government can choose between p=0 and with $p = 1 + \varepsilon$ $\varepsilon \geq 0$. If the regulator chooses a zero price, then the pay-off of the firm is -1 and the payoff of the government is γ. The value of this parameter can of course vary across different regulated sectors. If the government chooses the positive price, then the pay-off of the firm is ε and the pay-off of the regulator is γ-1-ε. Since the regulator obtains a higher pay-off when the the price is zero, this is the decision that the firm will expect when it must decide whether to invest or not, and therefor the sub-game perfect equilibrium of the game is that there is no investment. This illustrates the well-known under-investment problem in utilities regulation. Strategic delegation into an independent regulator with preferences characterized by some positive weight on firm's profits would avoid the zero price branch of the game, and hence would induce positive investment. In practice, different industries will vary in terms of the degree of asset specificity and the degree to which governments care or not about industry profits (depending on policy complementarities, distributive concerns and industrial structure). Therefore, the optimal degree of regulatory independence will vary across industries.

For industries that are organized as systems so that isolating individual lines or projects is complex, the alternative to organize them through concession contracts (which in theory would not need a standing agency, but could be enforced by courts of justice) is certainly difficult. Of course, delegation of important decisions or policy areas to agents that are not politicians and that have some degree of discretion, has many forms and is not limited to network industries regulation. Politicians are better at making decisions when the policy has far reaching redistributive implications so that compensation of losers is important; criteria of aggregate efficiency do not easily pin down the optimal policy; and if there are interactions across different policy domains so that policy packaging or evaluating controversial trade-offs is required to build consensus or achieve efficiency. Non-elected expert officials are better when the electorate is poorly informed; feedback about the quality of decisions is slow so that there is a time- inconsistency problem; the majority's preferences are likely to inflict large negative externalities on the minority; the criteria for good performance can be easily described ex ante and are stable over time; the legal system is strong; the policy consequences touch narrowly defined interest groups. It seems clear that among all these criteria, the one that most uncontroversially fits all network industries is the presence of a time inconsistency problem. It is more debatable whether the other criteria apply to regulation, and they will be discussed below, when some qualifications are introduced to the independence solution.

The alternative to reputational and contract based solutions to commitment and other problems in the infrastructure sectors and, increasingly, the preferred solution to the time inconsistency problem, has therefore been for governments to delegate the operation of some elements of the policy vector to authorities with powers of discretion. The solution is similar to the one in Central Banking but it can be argued that it is actually more necessary and more difficult to achieve at the same time in regulation, because slow depreciation and slow demand growth may increase the length of the "temptation period" to renege on initial commitments, as compared to monetary policy. One problem is that delegation does not solve, but it relocates, the commitment problem, which is transformed into one of the government committing to respect regulatory indepenence, which some countries have found difficult. Another problem is that it is assumed that the government can choose a regulator with the appropriate, optimally pro-industry preferences, as if there was a pool of potential regulators with known track records from which to choose.

The need to appoint authorities with a high expertise in complex matters and to avoid policy polarization reinforces the arguments in favor of delegation. In many cases regulation and contracts are complementary, because i) some sort of supervision is necessary to enforce previous agreements and react to unforeseen contingencies or contract renegotiation; and ii) discretional independent regulation needs to be accompanied by mechanisms of social control, accountability, and adequate procedures, if it is to obtain social legitimacy and market credibility.

An important issue that is related to specialized regulators is the possible proximity to the industry and its interests. It is not unusual that in new regulatory agencies a fair proportion of the staff and officials come from the historically incumbent firm (and additionally, regulators may value future employment in the industry –the revolving doors phenomenon). However, that is precisely one of the objectives of strategic delegation: to take into account the rents of the industry. But an independent regulator must not value excessively industry rents, because that would yield too high prices, possibly getting close to monopoly prices, thereby reducing consumer welfare. That is, there is a socially optimal level of weight that the regulator must attach to industry rents, as there is a socially optimal level of "conservatism" in the independent central banker.

Insulating agencies from politics may have the undesired effect of keeping alive policies that are not feasible in the medium to long run. Some political discretion that allows for well targeted concessions to stakeholders may be useful to make short term agreements, find the collaboration of some agents and increase the political legitimacy of policies. Reform policies need local politicians that can build alliances that make policies feasible on the ground.

It must be said that although here so far the independent regulator has been characterized as a discretionary, specialized, usually appointed entity, there is also a literature characterizing separate regulators as basically an informative agent that supplies a signal to political principals, who are the ones that make the final decisions. In practice, most regulatory agencies are both decision making actors and suppliers of information.

Some practical problems with independent regulators have already been mentioned: the problem to know and choose the person with the right preferences, and the problem to committing to respect independence. But even if these problems were solved, some more substantial issues have been raised for a long time. Criticism of the institution can be based on the following arguments:

-A specialized regulator raises the risk of capture, because the specialists come from the same places as the firm's managers and staff, and because they will be in a repeated relationship with firms without many other parties involved. Discretion and insulation may make regulators less accountable.

-A separate regulator who sees as one of his or her most important missions to preserve his or her autonomy will be reluctant to coordinate with government even though regulatory decisions interact with the rest of public interventions. This is usually answered as saying that regulators take day to day decisions on a few policy variables and policy is set by elected politicians choosing among a variety of long run options (such as fuel decisions, ownership decisions, financing decisions). But some policies such as many on structural regulation (vertical integration, number of firms, mergers and acquisitions) affect both the long and the short run and the distinction between policy or regulation becomes then blurred.

-A regulator that is insulated from the political process will lack the skills and the tools to push some needed reforms through the political process, in terms of convincing the public opinion, or building the necessary alliances. Politicians that anticipate that regulators will be insulated and in the job for many years will be reluctant to appoint regulators with strong political skills. Classic regulators such as Alfred Kahn in the US and Stephen Littlechild in the UK were probably political enterpreneurs as much as good regulators, but their stature has revealed as hard to replicate. Notice that the problem is not fixed just by having regulators that are pedagogic and that spend resources educating the public opinion. Sometimes, it is not enough with education and pedagogy, but political enemies have to be defeated and the corridors of democratic politics (political parties, parliaments, executive powers, judicial arenas) have to be used so that needed reforms are passed.

Other problems of independent regulators must be associated to the agency costs of delegation: the agent may behave in ways that are not in the best interest of the principal (the voters, the politicians). Incentive contracts are theoretically possible, but problematic in practice.

Regulation of public utilities or of specific industries are thus in principle examples of policies that lend themselves to bureaucratic delegation, since they pit special interests against those of consumers as a whole, do not have large spillover effects, and policy performance can be evaluated on the basis of efficiency or other semi-technical criteria. The spillover effects and large distributional implications would make, say, fiscal or trade policy less amenable to delegation, and the changing and vague objectives of foreign policy would make it a typical field reserved to politicians (at least, at the top of the hyerarchy). However, in many cases things are less clear cut concerning regulation. Regulatory decisions often have important redistributive implications, especially in developing countries (but also in Spain, for example concerning the tariff deficit in electricity); regulation interacts with many other policies, such as environmental policy or industrial policy; and objectives are much more multi-faceted and changing than, say, a target level of inflation in monetary policy. It is not clear either that the electorate is poorly informed as required for reserving a field for agents other than politicians (actually the case can be made that the electorate is often too informed for commitment purposes). And often, as in access pricing or cross subsidies, it is not true that policies just pit firms against consumers, but also some firms against others and some consumers against others.

If there is commitment in one policy dimension (monetary policy) but not in another complementary dimension (fiscal policy), discretionary decision makers in this complementary dimension may ruin the work of those with commitment. In some cases, if there is policy interaction between several dimensions, it may even be better to avoid committing in the first dimension, unless commitment can be achieved in the other dimension as well. This may be applicable to regulation, when the work of independent agencies interacts with interventions that are usually in the hands of politicians, such as industrial policy, fiscal policy or environmental policy. Or when the work of independent agencies in one dimension of regulation interacts with the intervention of politicians at some other dimension. The latter is relevant in decentralized countries when the fixed costs of specialized regulation make it possible to create independent agencies at the national level, but not at the regional or local level. More generally, the recommendation to create national regulatory agencies with broad powers may conflict with the institutional structure of decentralized countries.

Many theoretical models see the risk of capture as concentrated in the separate regulator, whereas the principal is assumed as benevolent. And there is some consensus that specific ex-ante continuous regulation is more prone to capture than generic competition policy. In practice, however, to many scholars and observers, independence is interpreted as introducing expert benevolence in a context of executive non-benevolence. More independence is associated to less capture and to a transition from a clientelist model of regulation to a formal one. The positive political theory literature, however, mostly based on the experience of the U.S., sees independent regulators as appointees (the alternatives being elected regulators or civil servants) who may be as vulnerable to interest groups as politicians.

Of course an idealized vision of the independent regulatory commission making reasoned decisions based on an expert assessment of all of the relevant information available often does not match the reality very well. No regulatory agency can be completely independent of political influences. Commissioners and senior staff members are political appointments and while they cannot be fired without just cause they are also unlikely to be appointed or reappointed if their general policy views are not acceptable to the executive. Regulatory agencies are also subject to legislative oversight and their behavior may be constrained through the legislative budgetary process, unless they are fully funded by fees. Staffs may be underfunded and weak. Reporting requirements may not be adequate and/or the staff may have inadequate resources properly to analyze data and evaluate reports submitted by the parties to regulatory proceedings. The administrative process may be too slow and cumbersome to allow actions to be taken in a timely way. Under extreme economic conditions (such as exchange rate or financial crises), regulatory principles that evolved to protect investments in regulated enterprises from regulatory expropriation come under great stress. On the other hand, both the executive branch and the legislature may find it politically attractive to devolve complicated and controversial decisions to agencies.

To summmarize, the literature on regulatory independence shows that independence has advantages in terms of regulatory commitment, recruitment of experts and smoothing the political volatility resulting from the political process. It also has disadvantges due to difficulties of coordination with the rest of government, lack of political leadership and risk of capture. These advantages and disadvantages differ across industries and countries, depending on the economic and institutional context. The empirical literature also shows that de facto independence may be as important as the iure independence, and that independence does not solve, but it relocates, the commitment problem, which becomes one of the government respecting or not regulatory independence. Democratic accountability and the fight gainst regulatory capture must be managed in a way that preserves commitment, which some institutions manage to achieve to some extent, as explained in the next section.

3. The characteristics of some existing institutions

A more integrated and democratic Europe will need innovative institutions. The salient characteristics of four existing European institutions are analyzed, and the potential for the expansion of these characteristics to new economic policy areas is discussed in Section 4. The four European institutions are the following: the EU telecommunications framework, competition policy, infrastructure subsidies and the UEFA Champions League in football.

3.1. The EU telecommunications industry regulatory framework. This is characterized by cooperative federalism: the Commission and the National Regulatory Authorities share responsibilities in analyzing product markets, identifying market power and proposing remedies. The introduction of reforms has been gradual (see Trillas, 2010) and based on a lerning process. This has facilitated the establishment of a predictable and clear regulatory system (much more than, say, in energy), but at the cost of having very few truly European policies, and reinforcing the vested interest of national regulatory authorities on keeping national rerrogatives in an industry where borders are technologically dispensable.

For decades, the telecommunications markets in Europe were based on publicly owned vertically integrated national monopolies. The telecommunications sector was not a concern for the European authorities until the 1980s, where a Green Paper expressed concern over the lack of competition in these markets and the potential role that a better functioning telecommunications sector could play in enhancing the economic dynamism of the region. The European Commission led the liberalization wave of the nineties, which was accompanied by (to different degrees) privatization of national incumbents. With a similar timing as in electricity, the first two packages of directives tried to progressively introduce competition in national markets and at the same time increase the role of the European Commission in overseeing these markets in a piecemeal way. The first Telecommunications package set a timetable for the liberalization of national markets, including provisions for open access and the removal of cross-subsidies. The second package included a detailed procedure for the analysis of each of the 18 identified markets in the sector. According to this procedure, the national regulatory authorities had to analyze these markets and determine (under the agreement of the European Commission) whether there was significant market power in each of these markets. If it was determined that market power was significant, the national authority had discretion to introduce exante regulatory remedies.

The first two packages combined implied more harmonization (clearly useful for technical standards) than market integration. Partial harmonization was promoted under the argument that regulatory inconsistencies are a major entry barrier for companies that want to operate in several countries. A reasonable framework was set for vertical cooperation between EU authorities and national authorities, with yardstick regulatory competition (benchmark reports), balancing harmonization to reduce entry barriers (and to prevent uneven competition) with knowledge of local conditions: what is called ‘‘host country rule within limits’’. Many of the harmonization rules have gone in the direction of opening the local loop, to ensure that national rules did not protect local incumbents. The Commission has also been very active on mobile telephony, for example ensuring that roaming charges for consumers that were using their handsets in foreign EU countries did not pay excessively.

The third Package (the last one approved) includes the following new features:

– Fewer markets are presumed to need ex-ante regulation (with focus on wholesale markets), but an EC role is introduced in the determination of remedies when market analysis determines the existence of significant market power.

– Creation of European Market Authority in telecoms.

– Focus on spectrum liberalization and other potential Europeanwide service markets.

However, the final result will be far from achieving the market integration level of the US, where after a process of industry consolidation a limited number of firms compete nationally in TV, fixed and mobile telephony and broadband Internet access.

It is not straightforward to separate those regulatory issues that involve significant cross-border externalities because of economies of scope between types of service (e.g. local and long distance calls).

In telecoms, federal regulation should focus on those aspects that amount to clear externalities, for example

(i) ‘‘beggar thy neighbour’’ policies in roaming wholesale termination charges (but keeping a balance that avoids precluding European-wide commercial initiatives by companies to reduce retail roaming rates);

(ii) any policies that cause the ‘‘frontier effect,’’ namely the fact that equally costly products or services are more expensive when they cross a jurisdictional border than when they take place inside the borders of a member state; more generally, legal barriers to entry should be eliminated, and only structural barriers to entry should prevail in the long run, which implies helping to integrate those markets that are only stopped by legal separate jurisdictions;

(iii) protectionist terms of access or licensing policies that entrench the position of national incumbents or are equivalent to state aid in the promotion of the international competitiveness of national incumbents. Credible entrants are typically foreign incumbents and the temptation to embark into subtle ways to promote national telecom companies are often hard to stop under conventional EU checks against 'state aid'.

It is difficult to argue that the central policy should be the only game in town due to generic network externalities, because, at least for voice telephony markets, universal service has been achieved. In those markets where the full population is not covered, such as broadband, it is hard to argue that network externalities in the sense of extending the service will be better served by European agencies than by well targeted local initiatives. Even in a competitive telecommunications sector with more integrated markets, the scope for national or regional/local policies will not disappear. First, local powers may help alleviate the collective action problem of managing the rights of way and physical infrastructures common to competing networks. Second, they may participate in efforts to achieve regulatory geographic differentiation. Finally, some territories may undertake experimentation with regulatory or competitive strategies that have not achieved a general consensus, such as functional vertical separation or others. All of these suggest a continuing role for regional and local policies, even if overall EU frameworks are likely to be set centrally.

The product markets that national and European authorities must in practice jointly analyze should undergo a more sophisticated analysis of geographic market definition, which should take into account not only the current legal conditions, but also the optimal legal conditions that should leave in place only those barriers that are due to technology and consumer preferences (in a similar way to the literature on optimal currency areas in monetary policy, but applied to all product markets, because different product markets may have different optimal geographic sizes).

It is somehow paradoxical that as liberalization progresses, the supra-national regulatory authorities take more responsibility on the ex-ante regulation of less competitive segments that are usually structurally local, and that also are progressively being opened up to competition. Besides the possible inconsistencies from the point of view of the economics of federalism, the ex-ante regulatory rules to enforce local regulation (which contrast with an orientation towards facilities based competition in the US), or Commission interventions on mobile roaming and other cross-border charges, show that the particular features of the harmonisation being imposed is perhaps enforcing a 'managed competition' outcome with possible adverse consequences for longer run innovation and competition.

Some scholars argue that liberalization requires a centralization of regulatory authority at the central, federal level, to overcome the resistance of local regulators that put incumbent or other interests above the goal of market efficiency. This would be compatible with a withdrawal of federal regulation at a later stage when the progress of liberalization is deemed sufficient. However, the control of rights of way and political sensitivity at the positive level make national or regional/local participation to some extent unavoidable. Different jurisdictions will control different parts of the multi-dimensional policy vector that affects liberalizing sectors.

Optimal modularity (fine-tuned unbundling of firms and regulatory responsibilities) decisions are often difficult to make or enforce in complementary (electricity) or rapidly changing (telecommunications) markets. This makes vertical cooperation a necessary attribute of a sound regulatory system, and that type of cooperation has been a key feature of EU telecommunications in the recent past.

Harmonization has made more progress in telecommunications than in electricity, although the potentially competitive nature of all telecommunications markets and the need for flexibility due to rapidly changing technology make harmonization in telecoms less necessary than in electricity. In the latter industry, horizontal cooperation between member states (as in the development of the NordPool or other regional markets) has often replaced or preceded the slow progress towards the necessary physical interconnection and federal regulation of markets that have an optimal geographic scope beyond national borders.

The case for national and sub-national regulation in the EU is strongest when:

(i) the policy intervention is about a good or market that is geographically local in nature, with few or non-significant spillovers (e.g. local access), or when sound regulatory decisión making requires considerable knowledge of local conditions, (e.g. on policies towards areas not served by rural broadband);

(ii) regulatory controversies are so numerous or time consuming as to be beyond the resources at the EU Federal level.

(iii) member state financial participation would advance a costly federal objective. On this issue, the courts and the telecommunications Universal Service Joint Board in the US have recognized the advantages of a state-federal partnership in universal service.

(iv) state or regional/local enforcement of existing federal or state standards produces better results for retail or wholesale consumers. For instance, lower government levels are often the first point of contact for consumer complaints, and typically offer quicker and more effective responses to such complaints.

(v) there is a need to respond to new problems where a singlefederal policy would be premature. For example, early state actions regarding telephone number pooling, guided subsequent FCC policies in the US.

Decentralization and the creation of a common internal market are clearly compatible. The largest and most successful internal market in historical terms (the US) is substantially decentralized. Applying this perspective, the EU should focus its own scarce central resources and political capital in an increased effort towards market integration, especially in radio-electric spectrum.

Although compliance costs and the entrenchment of national incumbents are important arguments to take into account in reaching some effective level of harmonization, the subsidiarity principle of the Maastricht Treaty suggest that unless there is clear role of externalities and scale economies, regulation should be performed at the lowest levels. Further, these externalities andscale economies should not be taken as given for all time, but should be restricted to those that result from structural market conditions. Hence, the focus for EU policy in this area should be on removing all legal barriers that at the moment prevent the existence of markets with the optimal geographic scope.

The EU telecom policy framework is predictable and supports commitment. At the same time, it os base don clear procedures, minimizing the risk of capture. However, to the extent that it is implicitly base don national markets, it does not promote market integration enough.

3.2. Competition policy and merger policy of the European Commission (see Lowe, 2009). This policy is characterized by a clear demarcation of responsibilities, as opposed to the cooperative federalism of telecommunications policy. Mergers beyond a size threshold are analyzed by the European Commission and those below this threshold are analyzed by the national competition policy authorities.

The competition policy authority is the European Commission, a collegiate body, which draws from the technical work of the Directorate General of Competition Policy and the political leadership of a Competition Commissioner. The coordination with the rest of the Commission makes it possible to take into account the interactions between market power and other sources of market failure or with distributional concerns.

Competition Policy has made an important contribution to European market integration, and fares well in terms of democratic accountability, low risk of capture and commitment.

3.3. Infrastructure subsidies. In this case, the European Commission establishes criteria to subsidize projects, and money is allocated contingent on the national authorities contributing a fraction of the resources. Ginés de Rus and Socorro (2010) argue that the subsidy scheme is too biased in the direction of being cost-plus, and it does not provide incentives for cost reduction or for undertaking appropriate social cost benefit analysis.

According to Estache and Wren-Lewis (2012), although the potential exists for transnational regulation of insfrastructures to overcome some of the institutional limitations of national regulation, the new mechanisms must be well thought through to prevent the same mistakes to be repeated or even aggravated.

As a result, this institution fares badly in terms of democratic accountability and control of capture, although it facilitates commitment by allowing high investment levels (arguably too high).

3.3. The UEFA Champions League (based on Perdiguero and Trillas, 2014).

In this case, the agents (the clubs) participate in contests at the national level, and the best at the national level participate in a European wide contest (the UEFA European Champions League, or ECL) that is under a completely different supervision than the national contest. We observe that a typical symptom of corrupt principals (the home-field advantage) is less present in the European wide competition. However the same supervision is also applied to a secondary competition (the UEFA Cup or as it is has been recently renamed, the Europa League, or EL), and in this secondary competition, we observe on average even more home-field advantage than in the national competitions. To obtain these results, we use games played by the same teams in different competitions (for example, FC Barcelona against Real Madrid in the Spanish competitions and in the Champions League). This way, we aim at keeping fixed the quality of the teams, the size of the stadium, the managers, the shape of the players, etc: as much as possible, we would like to compare the same teams, in front of the same crowds, but in different competitions (for example, in the spring of 2011, FC Barcelona and real Madrid faced each other four times in a few weeks). Our data base includes all games played by teams of the same nationality in European competitions between 1997/98 and 2010/11 for the ECL, between 1971/72 and 2011/12 for the UEFA cup or EL, and he “same” games played in the national competitions.

The ECL games are played under harmonized conditions. The timing, game organization, publicity and merchandizing are centralized, and there is a common identity (same ceremony, same anthem) to all games. Clubs and the organizing body (UEFA) have a common concern for the rules: sanctions for bad crowd, player, manager or referee behavior are typically tough and usually enforced, as opposed to some national competitions. As the competition progresses, the games increase in quality and importance. Actually, teams from the same nationality can face each other only after the round of sixteen. But teams from countries with lower quality have also a chance to qualify by playing the preliminary rounds and the group stages. By giving in theory a chance to all European teams of playing the knock out stages of the champiojs league, the good institutional quality of this league may spill over to national competitions. Not going the full way to a closed European superleague internalizes in part the negative externality on lower uality teams of creating a big competition that focuses on big games between big teams. However, as pointed out by Milanovic (2004), the tendency has been for the best European teams to repeatedly face each other in the last stages; institutional reputation. Our hypothesis is that the better institutional quality of the Champions League reduces favouritism by referees in a hierarchical two principal (UEFA above referees), several agents (the players) model, in a way similar to the observation by Rickman and Witt (2008) that a change in the monitoring and professionalization of referees in the English Premier League produced a reduction in the home field advantage.

Evidence on same teams in different leagues:

Result 1) There is less home field advantage on average in the champions league compared to national leagues or the Europa League (or UEFA cup), see table 1.

Table 1: Home field advantage

Competition	Average	Standard deviation	Number Obs.
Total	0.5356	0.4998	239
Champions League	0.4412	0.5040	34
Europa League	0.6282	0.4864	78
National League	0.5091	0.5022	110
Supercopa	0.5	0.7071	2
Copa	0.4667	0.5164	15

Source: Perdiguero and Trillas (2014)

Result 2) The probability of the home team winning depends negatively and significantly on the game being a UCL game, controlling for match fixed effects and for other variables[1] that

[1] The variables "Home Field Advantage", "Year", "Position League home team" and "Position League away team" were built from the UEFA web page and http://www.footballdatabase.eu/. The variable "Athletics track" was built from data in the web page http://www.worldstadiums.com/. The variable "%

may affect the home-field advantage (see table 2, 3 and 4). In table 2, we introduce a dummy variable both for ECL games and for EL games and we observe that ECL games have a negative impact on the home field advantage, which is mildly significant in one of the four specifications (which vary on the quantity of control variables that are introduced in the regression).

Table 2: Determinants of the home-team winning

	(1)	(2)	(3)	(4)
Constant	1115.295	1097.943	2256.227*	3538.772**
	(793.645)	(795.900)	(1220.997)	(1683.84)
Year	-0.555	-0.5466	-1.124*	-1.761**
	(0.395)	(0.3959)	(0.607)	(0.838)
Champions Legue	-0.095	-0.098	-0.789	-1.459*
	(0.563)	(0.564)	(0.731)	(0.846)
Europa League	0.922**	0.924**	-1.509	-1.160
	(0.404)	(0.404)	(1.091)	(1.156)
Athletics track		-0.172	0.699	0.186
		(0.573)	(0.960)	(1.062)
% Public			3.408	2.091
			(2.643)	(2.858)
Position League home team				-0.348*
				(0.188)
Position League away team				-0.133
				(0.182)
Fixed effects knockout	YES	YES	YES	YES
No obs.	214	214	95	86
Chi Sqr	43.57	43.66	24.72	27.38
	(0.7909)	(0.8162)	(0.8173)	(0.6997)
Pseudo R2	0.1469	0.1472	0.1877	0.2296

Public" is the ratio of the number of spectators (obtained form the UEFA web page and from the web page http://www.footballdatabase.eu/) and the capacity of the stadium (obtained in the web page http://www.worldstadiums.com/).

Standard Error in brackets

Source: Perdiguero and Trillas (2014)

In table 3 we observe that when we drop from table 2 the dummy variable on the Europa League, again the ECL has a negative impact that is mildly significant in one of the specifications.

Table 3: Determinants of home team winning

	(1)	(2)	(3)	(4)
Constant	690.577	747.912	1860.619	4110.169*
	(1408.339)	(1419.024)	(1743.296)	(2245.231)
Year	-0.344	-0.372	-0.929	-2.044*
	(0.700)	(0.706)	(0.868)	(1.117)
Champions Legue	-0.186	-0.180	-0.955	-1.652*
	(0.615)	(0.615)	(0.765)	(0.929)
Athletics track		1.241	1.459	1.192
		(1.623)	(1.706)	(2.288)
% Public			6.512	0.501
			(4.999)	(5.529)
Position League home team				-0.506
				(0.314)
Position League away team				-0.414
				(0.394)
Fixed effects knockout	YES	YES	YES	YES
No obs.	69	69	53	48
Chi Sqr	12.49	13.11	14.07	15.65
	(0.7699)	(0.7851)	(0.6620)	(0.6168)
Pseudo R2	0.1315	0.1381	0.1928	0.2400

Standard Error in brackets

Source: Perdiguero and Trillas (2014)

In table 4 we observe that, by focusing on Europa league games as a dummy variable, when this competition has a significant effect on the home-field advantage, the sign of the effect os positive.

Table 4: Determinants of home team winning

	(1)	(2)	(3)	(4)
Constant	1312.549	1265.447	3723.792*	2814.017
	(962.903)	(967.434)	(1968.676)	(2669.244)
Year	-0.653	-0.629	-1.851*	-1.399
	(0.479)	(0.481)	(0.978)	(1.326)
Europa League	0.954**	0.958**	-1.502	-1.235
	(0.415)	(0.416)	(1.109)	(1.170)
Athletics track		-0.391	-0.073	0.021
		(0.621)	(1.226)	(1.480)
% Public			0.558	2.402
			(3.497)	(3.960)
Position League home team				-0.250
				(0.283)
Position League away team				-0.033
				(0.145)
Fixed effects knockout	YES	YES	YES	YES
No obs.	145	145	42	38
Chi Sqr	30.17	30.57	11.41	9.60
	(0.7005)	(0.7245)	(0.8347)	(0.9442)
Pseudo R2	0.1503	0.1523	0.1988	0.1883

Standard Error in brackets

In European soccer, there has been a concern for more efficiency (although it could be even higher with a superleague), but also keeping a concern with equity by giving opportunities to all teams and countries to qualify and by keeping national leagues. A potential unintended effect of this, that is bad for welfare, is the incentive for countries to practice state aid to help big teams in international competitions. Technological (Cable and satellite TV) and legal changes (Bosman ruling) in the 1990s increased the marginal benefits of a more efficient and integrated European competition. As a result, the ECL promotes accountability and reduces capture. The results in terms of European integration are ambivalent: although the ECL has a common European market (and it is one of the few common consumer experiences in Europe), the member states keep (potentially very costly, see Kleven et al., 2011) national instruments that they can use to promote the success of their "national champions" in European-wide competitions.

4. Lessons for other policy areas

The potential exists for using these institutional formats or modular combinations of them in new areas of European wide economic policy such as bank supervision, innovation policy, fiscal policy and tax harmonization in a more integrated European Union. I focus here preliminary on fiscal policy and financial regulation, and next some general comments are made.

Fiscal policy

Piketty (2013) makes the proposal of creating democratic federal institutions in the Euro zone that achieve better coordination of crisis and debt management in a democratic way. In particular, a budget chamber should be created by pooling national budget Parliamentary committees, and this new chamber should decide on debt levels and fiscal constraints that are now de facto decided by technocratic structures.

One of the functions of this budget chamber should be to establish a new common and progressive tax on capital, based on the exchange of financial information across borders. Similarly to competition policy, this instrument should be coordinated with others and should draw from the technical work of a body of experts and civil servants.

Financial/Banking regulation (see EEAG, 2012)

The financial crisis has caused a major rethink of financial and banking regulation, as a result of which new mechanisms are being sought to achieve financial stability, financial market integration and clear procedures for crisis management. In this case, a key issue is to distinguish between solvency and liquidity issues, for which commitment concerns are at the forefront. Institutions must be permanent (go beyond individuals' political life) and self-enforcing, and in this field it is key that they act with transparency and democratic accountability, given the importance that public opinion gives to aid to financial institutions, the avoidance of opacity and the conditions on aid. This regulation must be well coordinated with other policy areas, given than in the past insufficient consideration has been given to the interaction between banking competition and systemic risk. Broader powers and tools should be transferred to a resolution authority in a way that may draw from competition policy. The final objective should be to make the financial system more resistant and stable, to recover confidence and its reputation. The relationship between the European Central Bank, other European- or euro-area- wide institution, and national institutions could be similar to the relations of cooperative federalism between the European Commission and the national regulatory authorities in telecoms.

More generally, taking into account the existing trade offs between desirable criteria and the administrative costs of policy and regulation, the following insights that can be applied to a broad range of policies could be considered:

– Regulatory specialization: Taking into account the fixed costs of regulation some national regulators could, for instance, specialize in spectrum issues and others in electricity interconnections. Similarly, other authorities could delegate at least the analysis prior to decisions to these more specialized bodies.

– Temporary regulatory experimentation: Delegation to regional and local levels could, for example be very useful in developing next generation networks in broadband, where even the best experts often disagree on the optimal balance between facilities based and access based competition.

– Cooperative solutions (or clarification of its illegitimacy in some cases) of the ''other objectives'' that often pervade local or national decision making: Some degree of delegation within a central perspective could be helpful in resolving the sometimes major policy difficulties that arise in, for example, declining regions, security of supply in energy, attitudes to 'national champion companies', universal service definitions, etc.

– Local input in geographic differentiation or in solving collective action problems of the joint use of physical infrastructures or the provision of public godos in general: for example also in the deployment of next generation broadband networks.

5. Conclusions

Europe needs increasingly integrated institutions that encourage institutional and product innovation, and needs to empower those who facilitate integration to make institutional reform part of a political equilibrium. The UEFA Champions League in football suggests that reputational issues and saliency of the institution are key in constraining principals and agents to behaviours that are accountable and transparent. In football, the same referees, players and managers behave better in Champions League games than in national games, in a similar way that some politicians are better EU Commissioners than national cabinet ministers.

In a context of international markets that coexist with significant between and within countries inequality, shared prosperity can only be achieved through the development of institutions that at the same time promote regional integration, democratic accountability and commitment. Authors such as Spolaore (2013) and Alesina and Giavazzi (2006) are wrong in suggesting that European integration should not be applied to redistributive policies. There is nothing in these areas that prevents them from learning from existing institutions. Common fiscal policies and financial regulation that tackle distributive problems in a democratically accountable way are a prerequisite for better efficiency enhancing policies. A new democratic federalism must find a middle way between technocratic solutions and populism.

Future research must focus on the details of an institutional architecture that promotes the desired objectives (including distributive concerns) and that is self-enforcing and stable.

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