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# EU vs US

## Comparing the EU and US Federal Systems

### Two Similar Systems of Governance

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## ABSTRACT

Increasingly, the future of the European Union (EU) is called into question as Europeans debate whether it possesses the resources and support to successfully continue its path toward further integration. Its perceived institutional complexity has fostered feelings of disillusionment among citizens who lack a clear understanding of its structure, operations, or the benefits of living under a federation. These feelings can be addressed by clarifying its federal structure and mode of operations across key policy areas. It is particularly useful to compare its structure to that of the federation of the United States since they share many similarities.

Using secondary research, this report achieves four objectives: (1) it describes the key elements and benefits of a federation, (2) examines the ways in which the EU is already functioning as a federation, of states (3) clarifies the political structure of the EU through a comparative analysis with US federal structures across thirteen policy areas, and (4) acknowledges continued barriers to integration while offering solutions to tackle these challenges. Although EU Member States currently have more autonomy over some decision-making processes than US state governments, findings indicate that the overall federal structures are largely similar, and foster comparable levels of accountability and transparency.



## INTRODUCTION

### Addressing lack of understanding of the EU

With the upcoming 2014 European Parliament elections fast approaching, the future of the European Union (EU) is a recurring topic of debate. A frequent criticism directed at the EU by opponents of European integration is the notion that it cannot successfully exist as a federation because its political structure is not suitable for managing the competing interests of its growing body of 28 Member States. The real issue is not whether the EU can function under a federal model. It already successfully incorporates many elements of federalism into its political structure and shares many similarities to other federations, namely the United States (US). Rather, the issue lies in how to address the pervasive lack of knowledge and understanding about its structure of governance and decision-making processes.



### Clarification of the EU is vital for civic participation

Understanding the political structure of the European Union is crucial for building a sense of trust in its democratic processes. Civic participation increases when citizens understand both how their government works and how to ensure their voices are heard. A federal model of governance offers the 'checks and balances' needed to ensure accountability and transparency are present in all of the decision-making processes of its institutions. The EU has a history of promoting peace and stability throughout Europe and abroad, but securing its future and establishing further integration requires that citizens possess a clearer understanding of its structure and the benefits of living under a federation.

### Comparing the federal structures of the EU and the US

The aim of this report is to clarify the political structure of the EU through examining and comparing its federal structure with that of the US across thirteen different policy areas. To achieve this objective, this report will begin by: (1) defining the concept of a 'federation' and examining the benefits of living under this particular governance model. The second section will follow with (2) a comparative assessment of EU versus US federal structures across thirteen different policy areas to determine whether decisions are made at a state or federal level and to clarify the inner workings of their governance processes in the EU. The third section will (3) analyse how the EU can facilitate integration and examine why it should continue to strengthen its status as a federation compared to alternative models of governance. The final section will summarise key points from the previous sections.



# 1. The EU as a Federation

It is important to understand the EU as a unique governance hybrid in the international system that uses many components of a federal system with features similar to that of the US, because the US—while not without its faults—has developed and retained a successful federal model. Recognising and understanding the similarities between EU and US federal models of governance can serve to address public misconceptions that the EU would be unsustainable as a federation. Before exploring the ways in which the EU is already functioning as a federation, it is useful to define ‘federalism’ and examine some of its key features.

The defining feature of federalism as a political system is the separation of powers between the federal (central) government and state governments (Auclair, 2002, pg.5). The main purpose of this division is to ensure accountability and eliminate the concentration of power in any one individual or institution. This is accomplished through the inclusion of additional characteristics like a written constitution that clearly defines power-sharing and resource-sharing agreements between the federal and state governments (Auclair, 2002, pg.5). At the feder-

al level, the constitution specifically outlines the power-sharing agreement between the following three branches of government: Legislative branch (in charge of lawmaking), Executive branch (which carries out laws), and the Judicial branch (that evaluates laws) (Auclair, 2002, pg.5). Although a number of nations, such as Germany, Russia, and Mexico, have adopted a federal model of governance, the EU most closely resembles the structure of the US. Currently, the continental US is comprised of fifty self-governing states that share constitutionally mandated powers with the three branches of the federal government: Executive, Legislative, and Judicial (USA.gov, 2013c).

Similarly, the EU is already functioning as a federation in a number of ways. Power is shared between the main governing bodies of the EU and its 28 Member States. Power at the state level comes from individual states’ governments, while power at the federal level is concentrated in three core institutions. Specifically, legislative and executive power lies with the European Parliament, European Commission, and the Council of the European Union, with other bodies, like the European Council and Court of Justice of the European Union, contributing by providing guidance and transparency during decision-making processes (European Portal of Integration and Development, 2013.). The European Parliament can be

compared to the US House of Representatives, where the population of a member state determines the number of delegates it sends as representatives, and the Council of the European Union parallels the US Senate (Gold Mercury - Hoerner, 2014, pgs.20-21) Other similarities in their political structures across a number of policy areas will be examined in greater detail in Section II. For now, it is worth noting two key differences.

The first notable distinction is the EU's lack of a formal constitution (Moravcsik, 2006, pg.219). A constitution has the power to improve policy coordination, aid in the development of a unifying national identity, and clarify the federal structure of a government or institution to its citizens, thereby increasing its legitimacy. The Treaty on the Functioning of the European Union (originally the Treaty of Rome) is largely considered its de facto constitution but a previous attempt to draft an updated, unifying piece of legislation was met with rejections from several Member States (Moravcsik, 2006, pg. 220). Another notable difference is the political organisation of Member States. The political structure and national identities of the EU Member States varies greatly, while US states have relatively homogenous political structures and share an overall unified 'American' identity despite regional differences (Gold Mercury - Hoerner, 2014, pg.12). Nevertheless, the overall political structure of the EU is very similar to that of the US.

Additionally, there are many advantages to living within a federation. Federations support freedom of movement between member states, which increases opportunities for seeking education and employment. Federations also promote civic participation by providing citizens with access to multiple levels of government to address concerns. Other advantages include free trade between states, a common currency, and a more powerful military to protect against domestic and foreign threats. In the Spring 2013 Eurobarometer report, 56% of those surveyed believe that "...the free movement of people, goods, and services within the European Union is the EU's most positive result", an increase of 4% since August 2012 (European Commission, 2013c, pg.10). This indicates a growing recognition among EU citizens of the contributions of the European Union to their daily lives. However, when asked which value best represents the EU, only 32% of respondents stated 'democracy', causing it to fall to third place behind 'peace' and 'human rights' (European Commission, 2013c, pg.52). This is suggestive of a growing discontent with its perceived institutional complexity and lack of transparency. Nevertheless, this challenge will be addressed in the next section, which explores the governance structure of the EU by way of comparison with the US across a variety of policy areas and examines the ways that this alleged lack of transparency could potentially be addressed.



## 2. EU versus US Federal Structure

The objective of this section is to promote a better understanding of the EU's political structure and status as an emerging federation by comparing its decision-making processes with those of the US across a number of key policy areas. The goal is two-fold: to show that overall, EU structures are comparable with those of the US and to dispel the myth that the EU cannot continue to integrate and operate as a federation.



|                                     | EU   | US  |
|-------------------------------------|--|---|
| <b>AGRICULTURAL POLICY</b>          | <b>POWER: FEDERAL</b><br>Institutions: Common Agricultural Policy (CAP)  | <b>POWER: FEDERAL</b><br>Institutions: US Department of Agriculture   |
| <b>CULTURE &amp; TOURISM</b>        | <b>POWER: STATE</b><br>Institutions: State institutions vary across Member States  | <b>POWER: SHARED</b><br>Institutions: Department of State and Department of Commerce (federal) and equivalent state agencies                  |
| <b>DEFENCE POLICY</b>               | <b>POWER: STATE</b><br>Institutions: Ministry of Defence or equivalent   | <b>POWER: FEDERAL</b><br>Institutions: Department of Defense and Department of Homeland Security  |
| <b>EDUCATION POLICY</b>             | <b>POWER: STATE</b><br>Institutions: Ministry of Education or equivalent   | <b>POWER: SHARED</b><br>Institutions: US Department of Education (federal) and equivalent state agencies                                      |
| <b>ENERGY POLICY</b>                | <b>POWER: SHARED</b><br>Institutions: European Commission (federal level), state institutions vary across Member States                                      | <b>POWER: SHARED</b><br>Institutions: US Department of Energy (federal) and equivalent state agencies   |
| <b>ENVIRONMENTAL POLICY</b>         | <b>POWER: SHARED</b><br>Institutions: European Commission, European Parliament, and more (federal level), state institutions vary across Member States       | <b>POWER: FEDERAL</b><br>Institutions: Environmental Protection Agency  |
| <b>FISCAL POLICY</b>                | <b>POWER: STATE</b><br>Institutions: Independent fiscal institutions vary across Member States   | <b>POWER: SHARED</b><br>Institutions: President and Congress (federal) and state Department(s) of Revenue                                     |
| <b>FOREIGN POLICY</b>               | <b>POWER: STATE</b><br>Institutions: Ministry of Foreign Affairs or equivalent   | <b>POWER: FEDERAL</b><br>Institutions: US Department of State   |
| <b>HEALTH POLICY</b>                | <b>POWER: STATE</b><br>Institutions: Ministry of Health or equivalent  | <b>POWER: SHARED</b><br>Institutions: Department of Health and Human Services (federal) and equivalent state agencies                         |
| <b>MONETARY POLICY</b>              | <b>POWER: FEDERAL</b><br>Institutions: European Commission, European Parliament, and more  | <b>POWER: FEDERAL</b><br>Institutions: Federal Reserve  |
| <b>SOCIAL AND EMPLOYMENT POLICY</b> | <b>POWER: STATE</b><br>Institutions: Employment, Social Policy, Health, and Consumer Affairs Council (federal), state institutions vary across Member States | <b>POWER: SHARED</b><br>Institutions: Department of Labour, Social Security Administration, and more (federal), and equivalent state agencies |
| <b>TAXATION</b>                     | <b>POWER: SHARED</b><br>Institutions: State institutions vary across Member States   | <b>POWER: SHARED</b><br>Institutions: Department of the Treasury (federal) and state Department(s) of Revenue                                 |
| <b>TRADE POLICY</b>                 | <b>POWER: FEDERAL</b><br>Institutions: European Commission, European Parliament, and more  | <b>POWER: FEDERAL</b><br>Institutions: Department of Commerce   |



## AGRICULTURAL POLICY



### US: FEDERAL LEVEL

(US Department of Agriculture); cooperates with state agencies



### EU: FEDERAL LEVEL

(Common Agricultural Policy); cooperates with state agencies

**US:** In the United States, agricultural policy is determined at the federal level by the U.S. Department of Agriculture (USDA, 2013b). Officials work in cooperation with state agencies to address areas like nutrition, food safety, and animal and plant health inspections. For example, Meat and Poultry Inspection Programs (MPIs), which operate at the state level, cooperate heavily with the federal Food Safety and Inspection Service to comply with federal regulations ensuring that meat products are safe for consumption by the public (USDA, 2013a).



**EU:** Similarly, agricultural policy is also determined at the federal level in the EU (Europa.eu, 2013a). There exists a Common Agricultural Policy (CAP) in the EU with a two-fold goal of supporting rural development and providing assistance to farmers (Europa.eu, 2013a). Akin to the US Department of Agriculture's various sub-agencies, responsibility for agricultural policy is divided between multiple institutions, including the European Parliament, the Council of the European Union, the European Food Safety Authority, and the European Environment Agency (Europa.eu, 2013a). The collective goal of these institutions is to implement the objectives of the CAP and safeguard farmers, livestock, food supplies, and the environment. For more information on the Common Agricultural Policy, please see Gold Mercury's CAP Report (Borge Del Rey, 2014).



## CULTURE AND TOURISM



### US: SHARED LEVEL

(Department of State and Department of Commerce); cooperates with state agencies



### EU: STATE LEVEL

(Member States' agencies vary); cooperates with numerous federal institutions like the European Parliament, European Commission, and Committee of the Regions

**US:** In the United States, the power to determine cultural and tourism policies is shared between the federal and state governments. At the federal level, cultural heritage is promoted through the Department of State's Bureau of Educational and Cultural Affairs. This body is tasked with facilitating cross-cultural exchanges and fostering an understanding of American culture, most notably through the Fulbright Program, which offers merit-based grants to fund overseas study (Fulbright, 2012). Individual states have their own agencies for cultural affairs at both the national and local levels. With regard to tourism, a number of federal agencies contribute to the development of tourism, in particular the Office of Travel and Tourism Industries within the Department of Commerce, which is the US federal institution tasked with promoting economic growth, job creation, and trade (U.S. Department of Commerce, 2013). To support federal efforts at increasing tourism, individual states maintain their own agencies tasked with encouraging visitors from within the US and abroad.





## DEFENCE POLICY



### US: FEDERAL LEVEL

(Department of Defense and Department of Homeland Security); collaborates with state law enforcement agencies

**US:** Defence policy in the US is the domain of the federal government. Power and oversight are shared between the Department of Defense (DoD) and the Department of Homeland Security (DHS), with other entities participating in the decision-making process. The former is in charge of military forces and operations abroad (Defense Science Board, 2004, pg.5) while the latter is tasked with preventing domestic threats to American security (Defense Science Board, 2004, pg.7). An example of defence policy is the Transportation Security Administration's (TSA) procedures regarding traveler screening at airports. These procedures are subjected to frequent changes in response to complaints from passengers and government officials that the use of certain machinery, particularly full-body scanners, violates passengers' privacy (Nixon, 2013).



### EU: STATE LEVEL

(Ministry of Defence or equivalent); collaborates with federal institutions in the form of the Common Defence and Security Policy

**EU:** EU Member States are responsible for setting their own defence policies. They typically have their own Ministries of Defence that determine and monitor implementation of policies designed to safeguard states from domestic and foreign threats. The EU is increasingly taking steps to contribute to the overall security and defence of the whole of Europe. At the federal level, EU institutions have created a Common Security and Defence Policy (CSDP) that aims to create a unified approach to crisis management throughout Europe and abroad (Mix, 2013, pg.10). The CSDP does include elements of military and defence reform but over the years, its activities have primarily focused on conflict stabilisation, humanitarian missions, and improvements to civilian security law enforcement organisations (Mix, 2013, pg.10).





## EDUCATION POLICY



### US: SHARED LEVEL

(US Department of Education); cooperates with equivalent state agencies

**US:** Education policy in the US is the shared responsibility of the federal and state governments. The US Department of Education is a federal institution with a number of duties, including establishing policies regarding federal financial aid, enforcing laws that prohibit discrimination in programs receiving federal funding, monitoring the distribution of funds, and collecting data on schools (Department of Education, 2010). At the end of each fiscal year, performance plans and accountability reports are published and made available to the public to ensure accountability and appropriate use of federal funding. Individual states have their own Departments of Education that operate to monitor the quality of their public schools, address issues with low performance, and ensure compliance with federal funding requirements.



### EU: STATE LEVEL

(Ministry of Education or equivalent); cooperates with federal institutions like the European Commission, European Parliament, and the Council of the European Union

**EU:** In the EU, responsibility for education policy lies with individual Member States. Each state has its own equivalent to a Ministry of Education that determines education policy and provides funding to schools and financial aid to students. As a result of deeply rooted historical and cultural differences, Member States' education systems are often very different both in structure and in associated qualifications. Although power to set education policy lies at the state level, there is significant financial collaboration with EU institutions to fund educational programmes. For example, during the 2007-2013 period the EU funneled roughly €13 billion into educational programmes like the Erasmus study abroad programme, which has placed 2.5 million students in European universities since its creation in 1987 (Europa.eu, 2013d). Through cooperation and mutual oversight, the EU and Member States aim to ensure that all children receive a quality education.



## ENERGY POLICY



### US: SHARED LEVEL

(US Department of Energy); cooperates with state agencies



### EU: SHARED LEVEL

(European Commission; European Court of Justice); cooperates with state agencies

**US:** Energy policy is the joint responsibility of federal and state governments in both the United States and the EU. The US Department of Energy (DOE) is the federal entity tasked with monitoring and supporting energy production (USA.gov, 2013a). The Secretary and Deputy Secretary lead a complex network of sub-agencies and offices like the Office of Environmental Management, Office of Nuclear Energy, and Office of Energy Efficiency and Renewable Energy. In addition, the Federal Energy Regulatory Commission (FERC) is responsible for regulating “the interstate transmission of electricity, natural gas, and oil” (FERC, 2013). While the power to determine the distribution of resources rests solely with the Department of Energy, individual state agencies promote accountability through monitoring their energy use and ensuring compliance with federal safety standards.



**EU:** Similarly, Member States have their own agencies tasked with drafting and implementing energy policy. However, they are increasingly cooperating with EU federal institutions to decrease overall energy consumption in Europe by 2020. The overarching goal of the EU is to meet its ‘20-20-20’ targets and with regard to energy, this includes reducing greenhouse gas emissions by 20%, switching 20% of energy consumption to renewable resources, and increasing energy efficiency in the EU by 20% (Europa.eu, 2013f). Since EU energy laws are binding, the European Commission is tasked with monitoring Member States’ compliance with these laws and it has the power to refer any state to the European Court of Justice if they fail to comply (Europa.eu, 2013b). Together, Member States and EU bodies like the European Commission and the European Parliament’s Committee on Industry, Research, and Energy are working hard to meet these goals by 2020.



## ENVIRONMENTAL POLICY



### US: FEDERAL LEVEL

(Environmental Protection Agency); collaborates with state agencies



### EU: SHARED LEVEL

Cooperation between Member States' individual agencies and federal institutions like the European Commission, European Parliament, and more

**US:** Environmental policy falls under the jurisdiction of the federal government in the United States. Specifically, the Environmental Protection Agency is the federal entity in charge of developing and implementing policies aimed at protecting the environment (Environmental Protection Agency, 2013a). The President appoints an Administrator to head this agency, which is divided into further sub-agencies like the Office of Air and Radiation and the Office of Chemical Safety and Pollution Prevention. Although the Environmental Protection Agency has sole jurisdiction over environmental policy, it regularly cooperates with state-level agencies to address environmental challenges like pollution, conservation, and protection of natural resources. An example of legislation produced by the EPA is the Safe Drinking Water Act, which was drafted to ensure the safety and quality of public drinking water supplies (Environmental Protection Agency, 2013b).

**EU:** In contrast, setting environmental policy is the joint responsibility of EU federal institutions and Member States. The latter have their own agencies tasked with protecting the environment but they cooperate significantly with federal-level agencies to tackle issues like climate change, deforestation, and pollution. Article 174 of the Treaty Establishing the European Community outlines objectives for the protection and sustainability of the environment across the whole of Europe (Council of the European Union, 2008, pg.173). As with energy policy, the European Commission can take Member States to court for failing to comply with binding environmental protection agreements (European Commission, 2013b). By collaborating with Member States, federal agencies have greater access to resources to address environmental challenges and meet their stated objectives in Article 174.





## FISCAL POLICY



### US: SHARED LEVEL

(Congress and the President); collaborates with individual states' Department(s) of Revenue to collect the taxes needed to fund federal programs



### EU: STATE LEVEL

(Member States' fiscal institutions); collaborates with federal institutions like the European Commission and European Parliament

**US:** *Fiscal policy* is not to be confused with *monetary policy*. While monetary policy refers to the responsibilities of central banks to bring about price stability and economic growth, fiscal policy is concerned with the tax and spending habits of the federal government (Federal Reserve, 2013). In the US, fiscal policy is the joint responsibility of the federal and state governments. At the federal level, the Legislative branch (creates laws) and Executive branch (carries out laws) of the government are responsible for setting fiscal policy (Federal Reserve, 2013). The President collaborates with the Senate and the House of Representatives to review taxes and pass a spending plan. Most recently, the US government experienced a 17-day partial shutdown over the inability of Congress and the President to agree on a budget. States participate in setting fiscal policy through their individual Department(s) of Revenue, which are tasked with collecting state taxes needed to fund federal programs.



**EU:** In contrast, in the EU fiscal policy is determined at the state level. Independent fiscal institutions in Member States determine state fiscal policies but the economic crisis in Europe highlighted the need for stronger across-the-board economic governance (European Commission, 2012). As a result, federal-level EU institutions like the European Commission and European Parliament are increasingly influencing fiscal policy through collaboration with state level agencies. For example, an Excessive Deficit Procedure was adopted to have Member States with “debt in excess of 60% of GDP...reduce their debt in line with a numerical benchmark” to prevent a high demand for bailouts in the event of another economic crisis. (European Commission, 2013a). The Court of Auditors, an external investigative and auditing agency, plays a key role in promoting transparency and accountability by auditing any agency receiving or handling EU aid and ensuring that taxpayer money is not misused (Citizens Information, 2013).





## FOREIGN POLICY



**US: FEDERAL LEVEL**  
(US Department of State)

**US:** Foreign policy is determined at the federal level in the United States. The US Department of State, led by the President's chief foreign affairs advisor known as the Secretary of State, is responsible for setting foreign policy and is the American equivalent of a Ministry of Foreign Affairs in other countries (Constitutional Rights Foundation, 2013). An example of its legislation is the Arms Trade Treaty, a multilateral treaty designed to regulate the flow of weapons worldwide (Department of State, 2013). Other areas of foreign policy include climate change, democracy and human rights, food security, and more.



**EU: STATE LEVEL**  
(Ministry of Foreign Affairs); collaborates with the Foreign Affairs Council, which is a federal sub-body within the Council of the European Union

**EU:** Conversely, within the EU foreign policy is determined at the state level. Member States have what is typically called a Ministry of Foreign Affairs that sets the foreign policy objectives for that state (CFAS, 2009). However, institutions and committees at the federal level increasingly influence Member States' foreign policy-making processes and maintain a firm stance that agreeing on collective foreign policies is the most effective approach to addressing global issues (Europa.eu, 2013h). The Foreign Affairs Council, a body within the Council of the European Union and chaired by High Representative Catherine Ashton, aims to make the EU's foreign policy more cohesive and her position is supported by the External Action Service (EEAS), the EU's equivalent to US consulates (Europa.eu, 2013h). Member States still maintain autonomy over their foreign policy but are becoming increasingly cooperative as federal institutions strive to facilitate a more unified approach to foreign policy challenges. Cohesion is desired because Member States have a more powerful voice when acting together as part of the EU's main voice than they do when acting alone.



## HEALTH POLICY



### US: SHARED LEVEL

(Department of Health and Human Services); collaborates with state agencies

**US:** Responsibility for health policy is shared between the federal and state governments in the US. The Department of Health and Human Services is the federal agency tasked with setting health policy, providing insurance like Medicaid and Medicare to vulnerable groups, and implementing public healthcare programs (U.S. Department of Health and Human Services, 2013). The Centers for Disease Control and Prevention (CDC) is a sub-agency within the Department of Health and Human Services that is tasked with preventing the spread of disease, especially infectious diseases and food-borne pathogens, and detecting emerging health threats (CDC, 2013). Individual states rely on the CDC to investigate disease outbreaks within their borders, but they have their own versions of the Department of Health and Human Services to provide similar insurance programs and healthcare for low-income groups. A recent example of health legislation at the federal level is the Affordable Care Act, which is aimed at reducing the cost of insurance for individuals and expanding coverage to people with pre-existing conditions (Health and Human Services, 2013).



### EU: STATE LEVEL

(typically a Ministry of Health); collaborates with federal institutions and outside bodies like the World Health Organisation

**EU:** In contrast, health policy is decided at the state level within the EU. Member States typically have a Ministry of Health led by a Minister that is responsible for setting healthcare policy and providing health services to the population. With regard to healthcare, the freedom of movement afforded to citizens of EU Member States presents a challenge because an increase in immigration to one or more Member States may strain their resources, thus lowering the quality of the care they can provide. This is why it is important for Member States to cooperate on healthcare policy whenever possible. At the federal level, the role of the EU is two-fold: (1) to foster cooperation with Member States to address common healthcare challenges and (2) to encourage collaboration with outside partners like the World Health Organisation (Europa.eu, 2013i).



## MONETARY POLICY



**US: FEDERAL LEVEL**  
(Federal Reserve); collaborates with state agencies



**EU: FEDERAL LEVEL**  
(European Central Bank); collaborates with state agencies

**US:** Monetary policy in both the US and the EU is determined at the federal level. The central banking system of the United States, known as the Federal Reserve, sets monetary policy, strives to maintain a stable financial system, and works to reduce risk in financial markets (Federal Reserve, 2005, pg.1). Like a federation, the Federal Reserve is comprised of a central agency called the Board of Governors and 12 regional federal banks (Federal Reserve, 2005, pg.3). Examples of monetary policies produced by the Federal Reserve include legislation aimed at controlling interest rates and inflation.



**EU:** Within the EU and specifically the Eurozone, the European Central Bank (ECB) determines monetary policy and is specifically tasked with safeguarding the value of the Euro by ensuring price stability (Scheller, 2006, pg.12). This can also be accomplished through attracting investment, which boosts economic growth. The main decision-making bodies of the ECB are the Governing Council, which drafts monetary policy, and the Executive Board, which implements it (European Central Bank, 2008, pg.12). Since Member States collectively feel the impact of financial crises, coordinating state economic policies and placing monetary policy under the jurisdiction of federal institutions facilitates cooperation between states.



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## SOCIAL AND EMPLOYMENT POLICY



### US: SHARED LEVEL

(Department of Labor, Social Security Administration, etc); collaborates with state agencies



### EU: SHARED LEVEL

(Employment, Social Policy, Health, and Consumer Affairs Council); collaborates with state agencies

**US:** US federal and state governments share responsibility for setting social and employment policy. Examples of social programs administered at the federal level include Social Security, Medicare, and the Supplemental Nutrition Assistance Program (SNAP). Individual states also offer their own versions of these programs. For example, the State of California offers MediCal and CalFresh, the latter being the state's equivalent to the federal SNAP program. Additionally, most states have their own versions of the US Department of Labor, which is the federal entity responsible for setting employment policy, safeguarding employee rights, setting the minimum wage, and more (USA.gov, 2013b). By sharing responsibility, a greater number of people are able to access crucial services and social welfare programs.

**EU:** Similarly, social and employment policy in the EU is a shared responsibility at the state and federal levels. At the federal level, EU institutions make and implement policies in areas like rights to work or social security (Europa.eu, 2013e). They also work to coordinate national policies through bodies like the Employment, Social Policy, Health, and Consumer Affairs Council (EPSCO), which is comprised of ministers from the Member States who meet to develop strategies for combatting issues like unemployment and social exclusion (Europa.eu, 2013e). Although Member States have jurisdiction when addressing social welfare and employment issues within their borders, at the federal level the EU aims to facilitate more collaboration between states by encouraging a synchronisation of their national policies.





## TAXATION POLICY



### US: SHARED LEVEL

(Department of the Treasury); collaborates with the Department(s) of Revenue in each state

**US:** US federal and state governments share responsibility when it comes to taxation. The tax system in the US is complex and citizens are expected to pay federal and state taxes on items like property, sales, imports, and income. The Department of the Treasury is the main federal body responsible for collecting taxes and it orchestrates this process through its agency known as the Internal Revenue Service (IRS) (U.S. Department of the Treasury, 2011). States have their own Departments of Revenue to monitor and support the process of tax collection. Taxes are collected from citizens and turned over to the federal government, which then distributes tax revenues to various agencies, departments, and state governments to provide funding for public services.



### EU: STATE LEVEL

(Member States' agencies); collaborates with the European Commission

**EU:** Conversely, Member States in the EU are solely responsible for collecting taxes and setting tax rates (Europa.eu, 2013j). The European Commission's tax policy strategy reiterated its stance that "there is no need for across the board harmonisation of Member States' tax systems" but suggested developing tax reforms aimed at removing obstacles to cross-border economic activity (Europa.eu, 2013g). As part of its 'Europe 2020 Strategy', the Commission released a plan titled "Removing cross-border tax obstacles for EU citizens" that outlined solutions to potential tax issues like discrimination and double taxation (Europa.eu, 2013g). Double taxation occurs when a declared asset is taxed twice by two different jurisdictions (Lavoie, 1981, pg.224). Although further integration may require greater coordination of Member States' tax systems, for now jurisdiction over taxation remains a state-level power.





## TRADE POLICY



### US: FEDERAL LEVEL

(Department of Commerce); collaborates with state agencies



### EU: FEDERAL LEVEL

Significant collaboration between federal agencies, including the European Commission, European Parliament, and the Committee of the Regions

**US:** Trade policy is determined at the federal level in both the US and the European Union. In the United States, the Department of Commerce is the federal entity responsible for facilitating trade, economic growth, and setting trade policy (U.S. Department of Commerce, 2013). It maintains offices in each state that ensure compliance with federal trade regulations. An example of an important piece of legislation associated with US trade policy is the National Export Initiative, a plan developed by the Obama Administration that aims to double exports by 2014 to facilitate economic growth in the US (The White House, 2010).



**EU:** Similarly, trade policy is determined at the federal level in the EU. Institutions like the European Commission, European Parliament, and the Committee of the Regions support the Common Commercial Policy of the EU. This policy, an essential pillar of the EU, is “... based on uniform principles, particularly with regard to changes in tariff rates, the conclusion of tariff and trade agreements relating to trade in goods and services, and the commercial aspects of intellectual property, foreign direct investment...export policy [and more]” (Official Journal of the European Union, 2010). At the federal level, it is the common goal of these institutions to ensure Member States’ compliance with trade regulations and remove obstacles to free trade.



Not surprisingly, Member States in the EU currently retain more autonomy in decision-making processes across a number of policy areas than do their US counterparts. **In spite of this, the overall federal structure of the EU and the US is very similar.** The next section is dedicated to briefly assessing how to promote further integration in the EU and offers a comparison of obstacles faced by the EU and the US in sustaining a federation.



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## 3. Barriers and Solutions to Continued Integration

The selection of the European Union as the recipient of the 2012 Nobel Peace prize is testament to its role as a positive force for change in the global community.

However, if the leadership of the EU hopes to continue promoting peace and stability and strengthening its status as a federation, it will need to address the myriad of barriers to further integration. These include resolving the Eurozone crisis, strengthening political institutions, and improving communication between citizens and leaders. It is important for the EU to strengthen its status as a federation because when compared to alternative models of governance, federalism offers the best system of 'checks and balances' needed to establish democratic accountability. For example, a confederation is an alternative governance model that weakens the powers of the federal government while placing more control with the state (Gold Mercury - Hoerner, 2014, pg.17). Currently, EU Member States have more autonomy in their decision-making processes than federal institutions across a number of policy areas, so in that sense they share a key similarity with a confederation. Public dissatisfaction



with the democracy of the EU is likely due to its confederal elements, which make it less democratic by forgoing a 'checks and balances' system in favour of placing more power at the state level. Shared powers promote accountability, as is shown by the European Commission's ability to report Member States to the European Court of Justice if they fail to comply with federal energy laws.

Perhaps one of the greatest challenges facing the EU today with regard to integration is the lack of a common European identity to encourage cooperation and supersede attachment to national identity (Cameron, 2010, pg.4). The United States has faced a somewhat similar challenge during its evolution as a federation. Although the political structure of US states is relatively homogenous when compared to Member States of the EU, there are significant regional differences in culture, development, religion, and political affiliation. Further, historical periods like the Civil War era and the Civil Rights Movement sharply divided the country. Yet as a whole, the nation recovered and there is a unified 'American' identity that supersedes loyalties to a particular region or state. The same can certainly be achieved in the EU, but how?

One compelling solution lies in the development of a constitution, which is regarded as an essential "...instrument of nation-building" by scholars who argue, "...citizens accept institutions as legitimate if they can be justified by some kind of social contract" (Thiel, 2005, pg.2). The US Constitution has unified the country by clarifying its structure and developing an American identity through promoting shared values of justice, liberty, and freedom. Right now, the division of powers between the EU and its Member States is outlined in a variety of treaties whose frequent amendments leave many EU citizens feeling confused. Anti-EU pressure groups take advantage of this climate of confusion to gain support for their agendas. The creation of a single, unified constitution akin to that of the United States that clearly defines both the division of powers and the organisational structure of the government would counter this growing Euro-skepticism by providing clarity to citizens and acting as the first step toward building a common European identity.



## 4. Conclusion

Reflected in this policy report is the understanding that despite some differences in state and federal jurisdiction over various policy areas, EU federal structures are comparable to those of the United States. Further, cooperation between EU institutions and Member States on issues of economic and political governance is growing steadily. EU institutions are increasingly exerting influence in areas that are the jurisdiction of individual states but they are doing this with the two-fold goal of providing support to Member States and building a collective European identity founded on ideals of cooperation and trust. The latter is a prerequisite to further integration and can be facilitated through the creation of a unifying constitution that lays out a clearer framework for European governance. Gold Mercury International's BRAND EU project is also contributing to the development of a collective European identity by defining a common vision for the future of the EU and encouraging citizen involvement to make that vision a reality. The path ahead toward further integration will not be easy, but the alternative—the disintegration of the EU and the existence of a world without its stabilising influence—is a path we cannot afford to take.



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“The EU urgently needs a shared understanding of how to realise its ambitious agenda. It needs to identify the measures required to adapt to the global era, and the costs and implications of standing still. In short, it needs to communicate a common vision of how Europe can secure its future. The choice we face is therefore clear: build on the strengths of the EU and use its collective weight to become an assertive and relevant player in the world, or cultivate fragmentation and contemplate the possibility of absolute decline in a world where the rules are defined by those who matter.

From the independent Reflection Group Report “Project Europe 2030” presented to the European Council on May 8th 2010.



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