

VOTING VS. MOVING: Exit and Voice Mechanisms in the EU Federalism

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INTRODUCTION

European economic crisis has put a strain to the European Union governance model, which has been for a long time characterized by a multi-layered decision-making process, affected more by expert-technocratic knowledge than by democratic participation.¹ This paper analyzes two forms of feedback European citizens have given to a crisis that affected asymmetrically different member states, undermining the ability for the central level to coordinate the local levels. The first response is political: European member states, as well as EU parliamentary election, have experienced in these recent years the rise of “populist” parties and a strong antagonistic reaction to an increased number of referendums in EU member states. The other feedback is migration: intra-EU migration, while being one of the four pillars of European integration, has always been a relatively small phenomenon. Internal immigration has however increased about 38% from pre-crisis levels, with 11,772.1 thousands of European citizens living and working in a member state different from the one where they were born in 2016, against 7,952.3 in 2007.² Those two reactions can be easily modelled under the Hirschman dichotomy of Exit and Voice, representing “market and non-market forces, that is, economic and political mechanisms.”³ Just as a consumer unsatisfied with a product can either voice her discontent with the producing firm or stop buying the product, facing the

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1. GIANDOMENICO MAJONE, *DILEMMAS OF EUROPEAN INTEGRATION: THE AMBIGUITIES AND PITFALLS OF INTEGRATION BY STEALTH* 67 (2005); CLAUDIO M. RADAELLI, *TECHNOCRACY IN THE EUROPEAN UNION* 43 (1999).

2. *Population by Sex, Age, Citizenship and Labour Status*, EUROSTAT, http://ec.europa.eu/eurostat/en/web/products-datasets/-/LFSA_PGANWS (last updated Aug. 9, 2017) (to access this data, follow the link and use the following options in the drop-down menus. County: EU28 countries except reporting country; Ages: 15–64; Sex: Total; Activity and Employment Status: Population).

3. ALBERT O. HIRSCHMAN, *EXIT, VOICE, AND LOYALTY: RESPONSES TO DECLINE IN FIRMS, ORGANIZATIONS, AND STATES* 19 (1970).

complex set of institutions and political processes and outputs in nation-states, citizens can politically express their disagreement and influence the policy choice through political participation, while Exit translates into leaving one's home jurisdiction for a jurisdiction whose set of institutions and policies is closer to your set of preferences.⁴ One important layer to be added is that those two mechanisms work with different sets of instruments, and require two different kinds of knowledge: so the final decision of the citizen is affected not only by her level of dissatisfaction, but also by the relative cost-structure of Exit and Voice as well as by the knowledge requirements underlying each option.⁵ Hall empirically analyzes the convergence in levels of Economic Freedom, showing that while countries with low levels of economic freedom improve their outcome with an average rate of 0.7%, democratic institutions contribute in a statistically less significant way to convergence than "exitability," a variable that measures how easy it is for citizens to "vote with their feet."⁶ This paper investigates why these two mechanisms have a different impact on the quality of institutions, trying to detail the processes behind voters'/migrants' choices.

The EU case provides a useful observatory to assess how those mechanisms hold in modern, complex democracies in which collective decisions over policy and norms are overwhelming and complicated, thus requiring a rather demanding stock of information to be processed and made. Faced with complex, technical decisions, voters are often unable to articulate a preference that is consistent with their general goals, which here we assume to be to "live long and prosper."⁷

The way EU citizens use Exit and Voice allows also for an assessment of the quasi-federal model of EU governance, in terms of which mechanisms underlying arguments in favor of federal arrangements can still be working under the pressure of complex modern democracies. Several classifications of arguments supporting federal orders over a unitary state have been made, but in order to simplify such an impressive amount of literature, I will also reconcile those arguments in the Exit/Voice dichotomy. By putting these layers together (citizens' behavior—mechanisms—knowledge—federalism) I hope to provide a clearer view of what is working and what is not in the European way to federalism.

4. *Id.*

5. *See id.* at 43.

6. Joshua C. Hall, *Institutional Convergence: Exit or Voice?*, 40 J. ECON. & FIN. 829, 837–38 (2016).

7. *Star Trek: The Original Series* (Desilu Productions 1966).

I. THEORETICAL FRAMEWORK

Our research question can be framed in an institutionalist setting. The whole effort of social sciences through centuries, from Plato's *Republic* and Adam Smith's *Inquiry* on the causes of social welfare to contemporary economics, sociology, and political science can be summarized as a collective—and often uncoordinated—enterprise to discover what institutions, i.e. “humanly devised constraints that structure political, economic and social interaction,” can foster prosperity.⁸ Therefore, references to literature can only be partial: Acemoglu & Robinson explain how economic growth is caused by inclusive institutions, which “require secure property rights and economic opportunities not just for the elite but for a broad cross section of society,” and nations fail to accomplish growth and prosperity when “extractive economic institutions do not create the incentives needed for people to save, invest, and innovate.”⁹ “Extractive political institutions support these economic institutions by cementing the power of those who benefit from the extraction.”¹⁰ Similarly, North et al. explain how open access orders, institutional arrangements in which citizens have untampered access to economic resources, are characterized by increased growth and development.¹¹

In order to operationalize the quality of institutions, we will use Gwartney, Lawson, and Hall's *Economic Freedom of the World 2012 Annual Report* (EFW).¹² The EFW index measures the consistency of a nation's policies and institutions with economic freedom on a broad range of indicators, covering five areas: 1) size of government: expenditures, taxes, and enterprises; 2) legal structure and security of property rights; 3) access to sound money; 4) freedom to trade internationally; and 5) regulation of credit, labor, and business.¹³

In this framework, we are now assuming that a federal political order, in which final authority is divided between member units and common institutions, can be instrumental to attain better institutions, as previously defined in terms of limited government power and greater economic freedom.

8. Douglass C. North, *Institutions*, J. ECON. PERSP., Winter 1991, at 97, 97.

9. DARON ACEMOGLU & JAMES ROBINSON, WHY NATIONS FAIL: THE ORIGINS OF POWER, PROSPERITY, AND POVERTY 75 (2012).

10. *Id.* at 372.

11. See DOUGLASS C. NORTH ET AL., VIOLENCE AND SOCIAL ORDERS: A CONCEPTUAL FRAMEWORK FOR INTERPRETING RECORDED HUMAN HISTORY 248 (2009).

12. JAMES GWARTNEY ET AL., ECONOMIC FREEDOM OF THE WORLD 2012 ANNUAL REPORT 2–7 (2012), <https://www.fraserinstitute.org/sites/default/files/economic-freedom-of-the-world-2012-rev.pdf>.

13. *Id.* at 2–3.

This broad definition of federal orders allows us to include the hybrid form of the European Union in considerations about federalism, the theory which advocates for such a division of authority.¹⁴

While arguments supporting federalism have been advanced by a variety of philosophers, political scientists, and economists over centuries, I will classify them according to the Voice/Exit dichotomy in order to enucleate the underlying mechanisms.¹⁵ Voice arguments rely on the idea that granting some power to smaller scale community, governments can better reflect local preferences, increase local participation in public debates, and thus increase accountability of local politicians.¹⁶ By creating several levels of political decisions, federal arrangements can also help control prejudiced or uninformed majorities at the local level, thus limiting their impact. So Voice arguments actually individuate two sub-mechanisms: bottom-up, with the local level controlling the central, and top-down, with the higher level controlling local level of governance.¹⁷ In these arguments, political instruments are used to provide levels of decision making with feedback. Voice instruments for articulating discontent, “can be graduated, all the way from faint grumbling to violent protest,” we will take into account politically institutionalized forms to express feedback, and the way a multilayered model will increase those forms.¹⁸

Exit arguments can be summarized in arguments for jurisdiction competition: smaller jurisdictions in a nested order make it easier for dissatisfied citizens to “vote with their feet,” or move to another jurisdiction which better reflects their preferences.¹⁹ In federal orders, the cost of expressing dissatisfaction by migrating is lower than in a set of independent unitary states: this is confirmed by the European Union quasi-federal arrangement, which provides (albeit imperfectly) to all EU citizens the right to live and work in any member state.²⁰

14. DANIEL J. ELAZAR, EXPLORING FEDERALISM 6–7 (1987); Ronald L. Watts, *Federalism, Federal Political Systems, and Federations*, 1 ANN. REV. POL. SCI. 117, 121–22 (1988).

15. Andres Føllesdal, *Federalism*, STAN. ENCYCLOPEDIA PHIL., <https://plato.stanford.edu/archives/sum2016/entries/federalism/> (last updated Mar. 4, 2014).

16. See JOHN STUART MILL, CONSIDERATIONS ON REPRESENTATIVE GOVERNMENT 268–69 (London, Parker, Son & Bourn, W. Strand 1861); 1 CHARLES DE SECONDAT, BARRON DE MONTESQUIEU, THE SPIRIT OF LAWS 131 (Thomas Nugent trans., J. V. Prichard rev. ed. 1914).

17. See DAVID HUME, *Of the Rise of Arts and Sciences*, in ESSAYS: MORAL, POLITICAL, AND LITERARY 111, 120 (Eugene F. Miller ed., Liberty Fund Inc. rev. ed. 2010) (1777).

18. HIRSCHMAN, *supra* note 3, at 16.

19. See Charles M. Tiebout, *A Pure Theory of Local Expenditure*, 64 J. POL. ECON. 416, 418 (1956).

20. GEOFFREY DE Q. WALKER, TEN ADVANTAGES OF A FEDERAL CONSTITUTION AND HOW TO MAKE THE MOST OF THEM 10 (2001), <http://www.cis.org.au/app/uploads/2015/07/pm49.pdf?>

An assessment of how these two mechanisms are currently holding up in the EU governance will shed a light on the way federal arrangements can help communities to select better institutions, more limited government, and economic freedom in spite of what Hume effectively sums up as “intrigue, prejudice or passion” against the public interest.²¹

While the migration-mechanism requires no further clarification than those concerning data and measurements, as discussed below, Voice mechanism requires some further operationalization.²² Delimiting in our framework sound institutions as such consistently with economic/social science literature provides us with a compass to assess the electoral behaviors of both the dimension of political supply (parties) and demand (voters). For instance, one of the interesting trends in contemporary Europe is the rising success of “populistic parties,” but the very definition of populism is debated in literature, whether it constitutes an ideology of its own or can be characterized by specific issues.²³

If we define “populistic” vote as a discrepancy between factual or expert knowledge on policy issues, we can for our purpose analyze the discrepancy between the two in voting behavior. Following Caplan, I will use two of the four systematic biases he finds in voting behavior: “antimarket bias, a tendency to underestimate the economic benefits of the market mechanism” and the “antiforeign bias, a tendency to underestimate the economic benefits of interaction with foreigners.”²⁴ Of course, other biases can be found in voters’ behavior, and other characteristics of populist parties, but confining our study to these two families helps us operationalize a large amount of information about the way Europeans voice their dissatisfaction.

21. DAVID HUME, *Idea of a Perfect Commonwealth*, in *ESSAYS: MORAL, POLITICAL, AND LITERARY*, *supra* note 17, at 512, 528; *see, e.g.*, ILYA SOMIN, *DEMOCRACY AND POLITICAL IGNORANCE: WHY SMALLER GOVERNMENT IS SMARTER* 121 (2013).

22. *See, e.g.*, Michael R. Bashshur & Burak Oc, *When Voice Matters: A Multilevel Review of the Impact of Voice in Organizations*, 41 *J. MGMT.* 1530, 1532 (2015); Joost Pauwelyn, *The Transformation of World Trade*, 104 *MICH. L. REV.* 1, 5 (2005).

23. *See* CAS MUDDÉ, *POPULIST RADICAL RIGHT PARTIES IN EUROPE* 13–15, 201 (2007); Christa Deiwiks, *Populism*, *LIVING REVIEWS DEMOCRACY*, July 2009, at 1, 1–2, <https://www.lrd.ethz.ch/index.php/lrd/article/view/lrd-2009-3/11>.

24. BRYAN CAPLAN, *THE MYTH OF THE RATIONAL VOTER: WHY DEMOCRACIES CHOOSE BAD POLICIES* 30, 36 (2007).

To sum up:

	Voice	Exit
Arguments for federalism	Bottom-up Top-down	Competing jurisdictions
Instruments	Voting	Migration
EU mechanisms	Bottom-up: EU parliament election, national level politics Top-down: technocratic approach	Intra-EU freedom of movement

II. VOICE: POLITICAL DISSENT IN EU

Evaluating citizens and political preferences and behaviors against a theoretical framework in which efficient institutions can be designed as those able to foster peaceful cooperation and growth as defined by scientific literature, and measuring their quality in terms of economic freedom, allows us also to focus on a peculiar aspect of the European federalism, i.e. its reliance on expert's knowledge and its basic commitment to guarantee the free movement of goods, capital, services, and people.

The European Union has been built as a multi-layered governance model that seeks to guarantee the free movement of goods, capital, services, and people: in other words, at the core of the EU is an avoidance of the antimarket and antforeign bias, at least inside the single market.²⁵ This goal has been pursued by centralizing decisions in these matters to a central authority, to solve the tension among member states to reduce those four freedoms. Centralization, in game-theoretical terms, has been pursued to overcome a prisoner dilemma situation in which national interest is perceived as in contrast to European interest. The EU has been acting for years as an external constraint to national policy-makers, pushing privatizations, budget accountability, freedom of movement, and structural reforms.²⁶ Part of the reason why the EU institutions have been able to foster these objectives was the so-called democratic deficit: more reliance on experts' knowledge, who might disagree on the regulatory instruments, but do share a higher confidence in the general desirability of economic freedom than the average

25. See Gary Marks, Liesbet Hooghe & Kermit Blank, *European Integration from the 1980s: State-Centric v. Multi-level Governance*, 34 J. COMMON MKT. STUD. 341, 346–47 (1996).

26. See generally EUR. COMM'N, A DEEPER AND FAIRER SINGLE MARKET (2015), <https://ec.europa.eu/docsroom/documents/13446/attachments/1/translations/en/renditions/native>.

voter.²⁷ While the EU has been all but consistent and effective in pursuing economic freedom and sound institutions, still much of the dissatisfaction of member states' electorates can be explained as a form of revolt against those principles.²⁸

The EU multilayered level of governance envisage two main instruments to receive feedback from EU citizens²⁹: directly through the election of the European parliament, whose powers have been increased in the last two decades in order to reduce the EU democratic deficit,³⁰ since the EU governance model was built on the transfer of legislative powers from national governments to the Council of Ministers and the European Commission.³¹ The second way of voicing feedback to the EU institutions is thus mediated by the national representative systems of member states.³²

To be noted, both kind of processes have been affected by a progressive disaffection of voters towards political participation: for EU parliament, despite the expansion of effective political powers, voter turnout dropped from 56.7% in 1994 to 42.5% in 2014.³³ Participation in national elections declined too in the same timeframe, but less significantly (from 76.2% to 68% EU28 average).³⁴ Political scientists usually interpret the lack of participation as a signal of dysfunctionality of democratic institutions and lack of legitimacy.³⁵

First, we look at direct feedback mechanisms of EU Parliament elections. Based on OpenEurope.org.uk calculations on 2009/2014 parliament election,

27. See Marcus Horeth, *No Way Out for the Beast? The Unsolved Legitimacy Problem of European Governance*, 6 J. EUR. PUB. POL'Y 249, 259–60 (1999).

28. Catherine E. De Vries & Erica E. Edwards, *Taking Europe to Its Extremes: Extremist Parties and Public Euroscepticism*, 15 PARTY POL. 5, 9, 22 (2009).

29. Treaty of Lisbon Amending the Treaty on European Union and the Treaty Establishing the European Community, Dec. 13, 2007, 2007 O.J. (C 306) 1 [hereinafter Treaty of Lisbon].

30. See *Treaties and the European Parliament*, EUR. PARLIAMENT, <http://www.europarl.europa.eu/aboutparliament/en/20150201PVL00022/The-EP-and-the-treaties> (last visited Sept. 29, 2017).

31. Treaty of Lisbon art. 8A, *supra* note 29; see also KRISTIN ARCHICK, CONG. RESEARCH SERV., RS21372, *THE EUROPEAN UNION: QUESTIONS AND ANSWERS 2* (2017) (describing the institutions that govern the EU).

32. Treaty of Lisbon art. 8C, *supra* note 29, (discussing ways in which national parliaments actively participate in the functioning of the European Union).

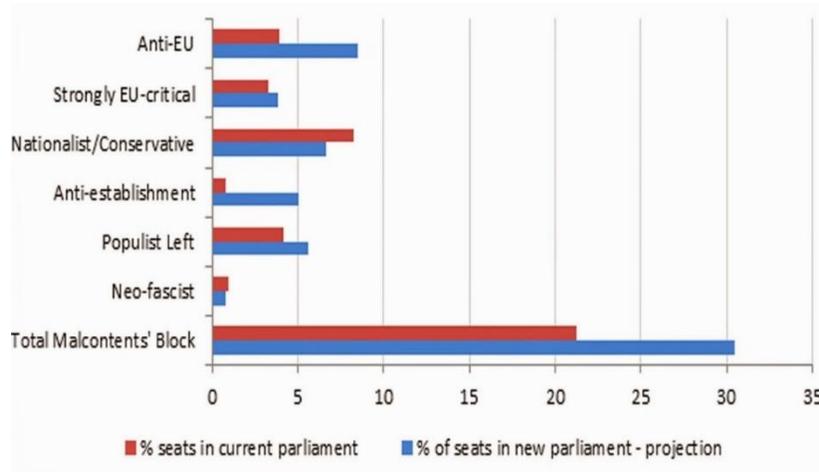
33. *Voter Turnout in National and EU Parliamentary Elections*, EUROSTAT, <http://ec.europa.eu/eurostat/tgm/refreshTableAction.do?tab=table&plugin=1&pcode=tsdgo310&language=en> (last updated Aug. 9, 2017) (follow “Time” and select 1994–2014; then select “EU elections” from the “Breakdown for sustainable development” tab).

34. *Id.* (to find this data, follow “Time” and select 1994–2014; then select “National elections” from the “Breakdown for sustainable development” tab).

35. See PETER MAIR, *RULING THE VOID: THE FOLLOWING OF WESTERN DEMOCRACY 16* (2013).

the share of anti-EU or anti-establishment seats rise from 21.4% to 30.5%.³⁶ On the other hand, “[t]he share of MEPs dedicated to free market policies drops, from 32% to 28.1%.”³⁷

New “populist” parties entered the EU Parliament and since then gained prominence in European member states debates, building the so-called malcontent block, which ranges from left populist to neo-fascist parties.



Source: OpenEurope.org.uk calculations on Europe Parliament elections.³⁸

For intermediate feedback through national politics, we look at voters’ behavior during member states referendums in a longer timeframe, since the creation of the European community (which preceded the European Union) in 1957. In parliamentary elections, both at the national and EU level, voters are usually asked to decide on a bundle of policies. But looking at single-issue, yes-no questions such as those asked by referendums allows us to build a database which accounts for participation and orientation toward the European Union, market, and immigration. We built a database of 240 referendums held in EU member states since their entrance into the European Union using official data released by member states’ national offices. Two sets of trends can be identified.

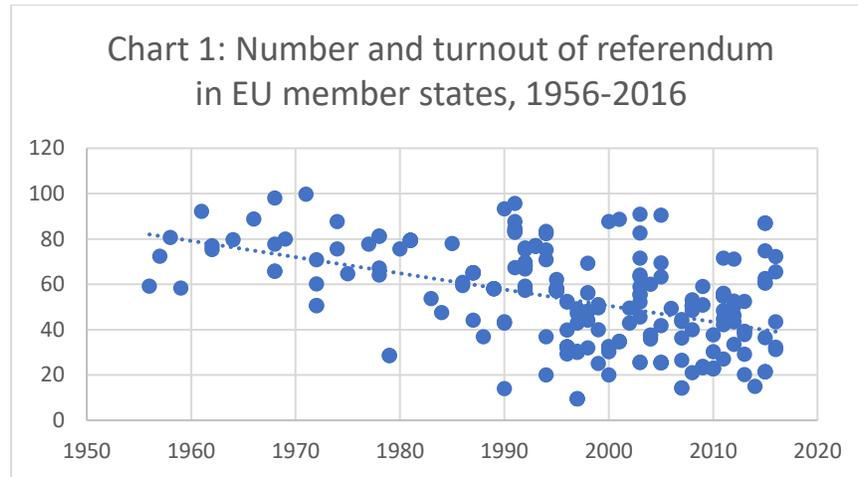
First, an increasing number of referendums have been held in EU member states, with decreasing participation. Chart 1 depicts the increased frequency and reduced turnout for referendums held in twenty-eight EU member states

36. See *Anti-EU and Protest Parties Across Europe on Course to Win Almost a Third of All Seats in New European Parliament*, OPEN EUR., (May 26, 2014), <http://archive.openeurope.org.uk/Article/Page/en/LIVE?id=20114&page=FlashAnalysis>.

37. *Id.*

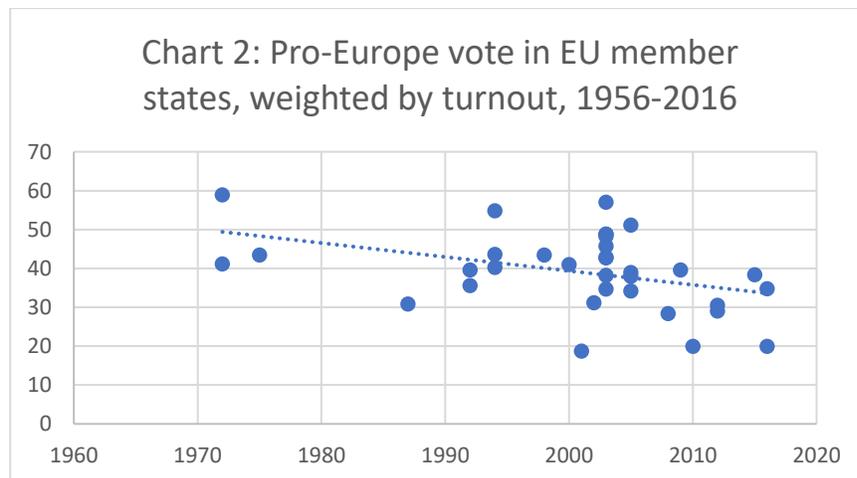
38. *Id.*

since the Treaty of Rome, which set up the European Economic Community (EEC), original core of the EU. Chart 1 shows how in the EU zone the use of direct democracy instruments at lower levels increased over time, while participation declined.



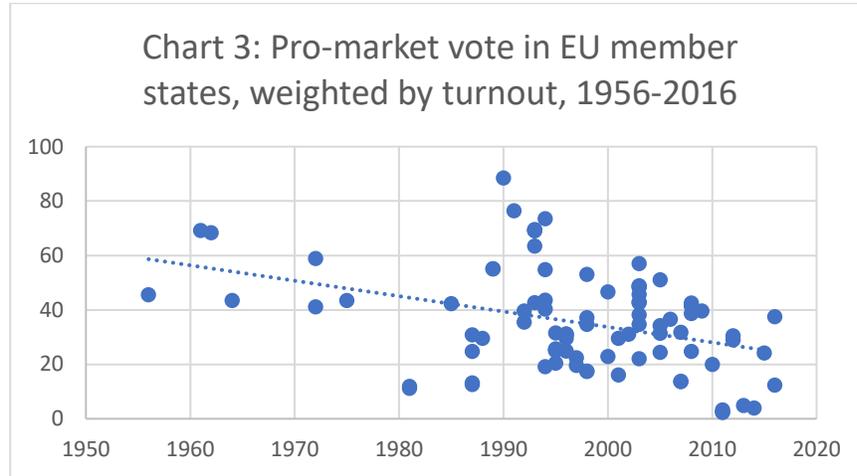
Source: National offices, our calculation

Charts 2 to 4 assess the orientation of voters in these referendums, weighted by participation, under three main themes: issues concerning stronger or weaker desire to proceed with European integration, issues concerning market design (e.g. internal market unification, privatizations, budget accountability), and issues concerning immigration. Chart 2 depicts EU voters' commitment to the EU integration project.



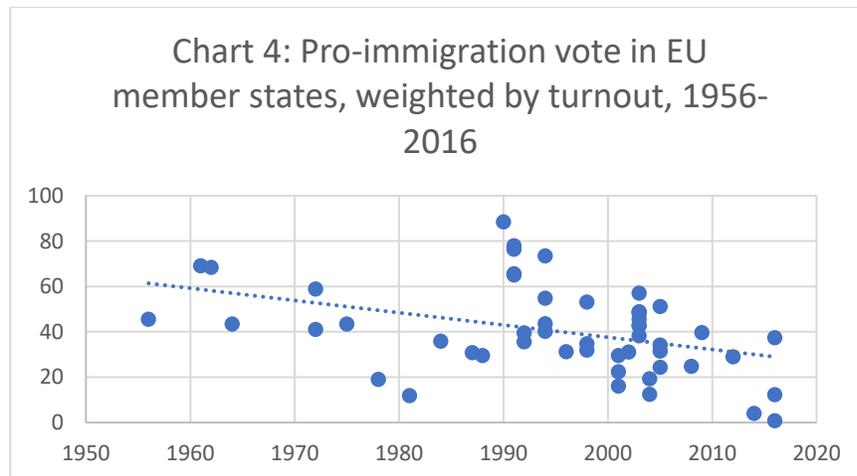
Source: National offices, our calculation

By describing voters' orientation toward free-market policies, Chart 3 shows the emergence of the "antimarket bias":



Source: National offices, our calculation

Chart 4 shows the emergence of the "antiforeign bias" measured through weighted voters' orientation toward immigration, showing a decline in support.



Source: National offices, our calculation

If we look at the voice mechanism in the European Union federal hybrid, it is clear how the bottom-up voice mechanism is pressuring for lower quality of institutions. On the other hand, the top-down mechanism, that at the central

level, is becoming less and less legitimized at the local level, jeopardizing its ability to control the local pressure.

III. EXIT: MIGRATION IN EU

On the other hand, if we look at the way Europeans use their exit mechanism we are shown a different set of preferences. Migration inside EU is an interesting case-study for the Tiebout model of geographical competition: European countries are more differentiated, in terms of language, culture, and socio-economic indicators than other federal orders, e.g. the United States, for which most of the literature on internal migration is based. In Hirschman terms, exit has a higher cost here than in more homogeneous federal arrangements.³⁹ But the principle of free movement of workers lays at the core of the European project since its foundation, therefore the EU is committed to remove legislative barriers to internal migration, so that “regulatory” cost of exit is lowered. Analyzing intra-EU migration allows also to be aware of another distinction in migration literature, i.e. that among voluntary and non-voluntary migration: European countries are quite homogeneous in terms of political stability, personal safety, and economic development, so we can reasonably assume that EU citizens migrate in order to satisfy largely non-critical life-choice ambitions, such as better working prospects or improved quality of life.⁴⁰

In Bitetti & Darova intra-EU migration behavior has been analyzed with reference to economic freedom.⁴¹ In order to measure intra-EU movements, we have integrated a database of dyadic flows among the twenty-eight EU member states in 2013 from the OECD *International Migration Database* and the United Nation *International Migration Flows to and from Selected Countries*.⁴² Migration flows have been analyzed against a differential

39. See HIRSCHMAN, *supra* note 3, at 117.

40. See AARON SEGAL ET AL., *AN ATLAS OF INTERNATIONAL MIGRATION* 20 (2d ed. 1993) (explaining that global voluntary migrations from 1945 to 1980 were “characterized by the rapid movement of labour in response to perceived economic opportunities”); *see also id.* at 25 (listing countries with voluntary intra-EU migration in 1990).

41. Rosamaria Bitetti & Ornella Darova, *Economic Freedom as a Magnet for Intra-EU Migration*, in *21ST CENTURY MIGRATIONS: FLUXES, POLICIES & POLITICS* 43 (Silvia Cavasola & Raffaele De Mucci eds., 2016), https://www.luissuniversitypress.it/sites/luissuniversitypress.it/files/free_download/2017/01/21st_century_migrations_01.pdf.

42. *International Migration Database*, OECD, <https://stats.oecd.org/Index.aspx?DataSetCode=MIG> (last visited Sept. 29, 2017); *International Migration Flows to and from Selected Countries: The 2015 Revision*, UNITED NATIONS,

database: since in our model European citizens are expected to make their decision to move based on a comparison of institutional, economic, and socio-geographical indicators between their native country and destination country, our database gathers variances between origin and destination country in 2012 for this set of indicators:

- Economic freedom, measured by Fraser Economic freedom of the world indicators;⁴³
- GDP in purchasing power parity (World bank indicators);
- Unemployment over total population (Eurostat);
- Social expenditure in percentage of GDP (Eurostat);
- Borders and Languages, two dummies variable for shared borders and official languages, in order to assess for variety.

We run an OLS regression on the following model:

$$MigrantsFlow = \alpha EFW + \beta Distance + \gamma ECONOMY + \varepsilon_i$$

Economic freedom is our main regressor, and we control cultural and geographic distance as well as traditional economic indicators. For the first, we built a vector made of two dummies that consider geographical distance (this corresponds to the value 1 if the destination country and the origin country share a border) and language distance (this corresponds to the value 1 if the destination country has, between its official languages, the one spoken in the origin country).

Literature on migration highlights the importance of increased economic opportunities and the so-called welfare magnet, assuming that migrants will migrate where there is more economic growth, labor market opportunities, and/or a more generous welfare state.⁴⁴ We take into account these effects by controlling for GDP in purchasing power parity, national social expenditure in percentage of GDP, and unemployment over the total population.

<http://www.un.org/en/development/desa/population/migration/data/empirical2/migrationflows.shtml> (last visited Sept. 29, 2017).

43. *Approach*, FRASER INST., <https://www.fraserinstitute.org/economic-freedom/approach> (last visited Sept. 29, 2017).

44. George J. Borjas, *Immigration and Welfare Magnets*, 17 J. LAB. ECON. 607, 634–35 (1999).

This is the output we get when we run the OLS regression:

Percentage of European Immigrants	Coefficient	Std. Error	P> t
EFW	0.0130518	0.0065961	0.048
Borders	0.0117798	0.0075521	0.119
Language	0.0384129	0.013397	0.004
GDP-PPP	2.11e-14	2.25e-15	0.000
Social-expenditure	0.0008218	0.0003409	0.016
Unemployment	-.0006893	0.0005868	0.241
Cons	0.0164172	0.0027583	0.000

Linguistic and geographical distances have an impact on decision to move, meaning that in Europe there are still significant exit costs. As expected, GDP is a positive and significant coefficient of GDP, while the unemployment coefficient is negative (although not very significant) and social expenditure has a positive coefficient.

Our main variable of interest, economic freedom, has a positive and significant coefficient: one point of difference between the EFW score of the destination country and the EFW score of the origin country corresponds to an increase of 0.013 in the percentage of European immigrants in the destination country. To compare with the popular welfare magnet theory, which is well documented in literature and probably overemphasized in public debate concerning immigration, a percentage point of national social expenditure means adding just 0.0008 to the immigration variable.⁴⁵ Considering that the variance range between the two variables, EFW and Social spending in EU countries, is very different, 1% improvement in the freedom of the world index will have the same impact of a 15.98% increase in social expenditure. Economic freedom, then, seems to be very attractive to mobile EU citizens.

So if we consider institutional preferences expressed by European citizens when moving, we can see that EU migrants move to countries with a smaller government, fiscal responsibility, low regulation and more freedom to trade globally. When moving, they do not experience antimarket and antiforeign bias. Whether this will be enough to make the Exit mechanism effective for driving EU federal order toward better institutions is outside the scope of this paper, but Clark et al. find small but positive increases in institutional quality as a result of immigration.⁴⁶ For our purposes, we can observe how citizens expressing their preference through the Exit mechanism are selecting a

45. J.R. Clark et al., *Does Immigration Impact Institutions?*, 163 PUB. CHOICE 321, 333 (2015).

46. *Id.*

different set of institutions than those preferred by EU citizens while using the voice mechanism.

IV. DIFFERENT KINDS OF KNOWLEDGE AND MEANING FOR FEDERAL MECHANISMS

People who vote seem to opt for less economic freedom, but people who move prefer countries with more economic freedom. While in both cases they are expressing a choice, citizens who vote in referenda and citizens who vote with their feet are making their decisions in two completely different settings: the political sphere and the market sphere.

Extensive research on voting behavior has demonstrated the lack of consistent preferences and of factually accurate information in the electorate.⁴⁷ Voting requires explicit knowledge, and an unrealistic amount of information to select the appropriate policy to reach a goal, and provides very little incentive to do so.⁴⁸

Migrating instead is a difficult, life-changing decision, in which political beliefs are not called to action.⁴⁹ The decision to migrate does not necessarily follow a rational choice, nor a perfect information model of choice: the migrant might well not be perfectly informed about distances in a set of indicators between home and destination country, but she can still appreciate their effect through the price system, which Hayek describes as “a kind of machinery for registering change.”⁵⁰ While migrants might know nothing of GDP or Economic Freedom differentials between their country and the one they’re moving to, they are well aware of the increased opportunities for cooperation and thus potential welfare improvement. Thus, by choosing to reside in a country with more opportunities, the migrant also demonstrates a preference for better institutions in term of economic freedom,⁵¹ a preference that she might not necessarily express politically.

Considerations concerning the role of federalism to attain better institutions need to understand that there are at least two different ways this improvement can be attained. One is through a market mechanism, namely Exit, which is still limited by regulatory cultural costs, but in the EU federal order is pushing in the right direction. The Voice mechanism, on the other

47. See CAPLAN, *supra* note 24, at 8; SOMIN, *supra* note 21, at 192–94.

48. JASON BRENNAN, *AGAINST DEMOCRACY* 28–30 (2016).

49. Russell King, *Towards a New Map of European Migration*, 8 INT’L J. POPULATION GEOGRAPHY 89, 102 (2002).

50. Friedrich A. Hayek, *The Use of Knowledge in Society*, 35 AM. ECON. REV. 519, 527 (1945).

51. King, *supra* note 49, at 95.

hand, seems to be suffering from all the limitations of modern representative democracy, by requiring an unrealistic burden of knowledge to voters to pressure and control their political communities for better policies. In Europe this mechanism seems to face a deep crisis as a result of an extended economic crisis, which undermined the legitimacy of expertise-based, central institutions. Federalism advocacy always put an important emphasis on the role of lower levels of power to control central power, but this assertion is based on the assumption that local communities are better informed and thus provide a consistent demand for better institutions. The EU case showed us that this is not necessarily the case, requiring us to look at how to improve (and constrain) the top-down direction of the voice mechanism as a way to constrain local populist pressures. Exit mechanism, however, provides us reasons to be more optimistic, since EU mobile citizens are choosing countries with better institutions.