



# Is Europe an Optimal Political Area?

by

Alberto Alesina, Guido Tabellini & Francesco Trebbi

Discussion by: Markus K. Brunnermeier

Princeton University

# || Main insights of the paper

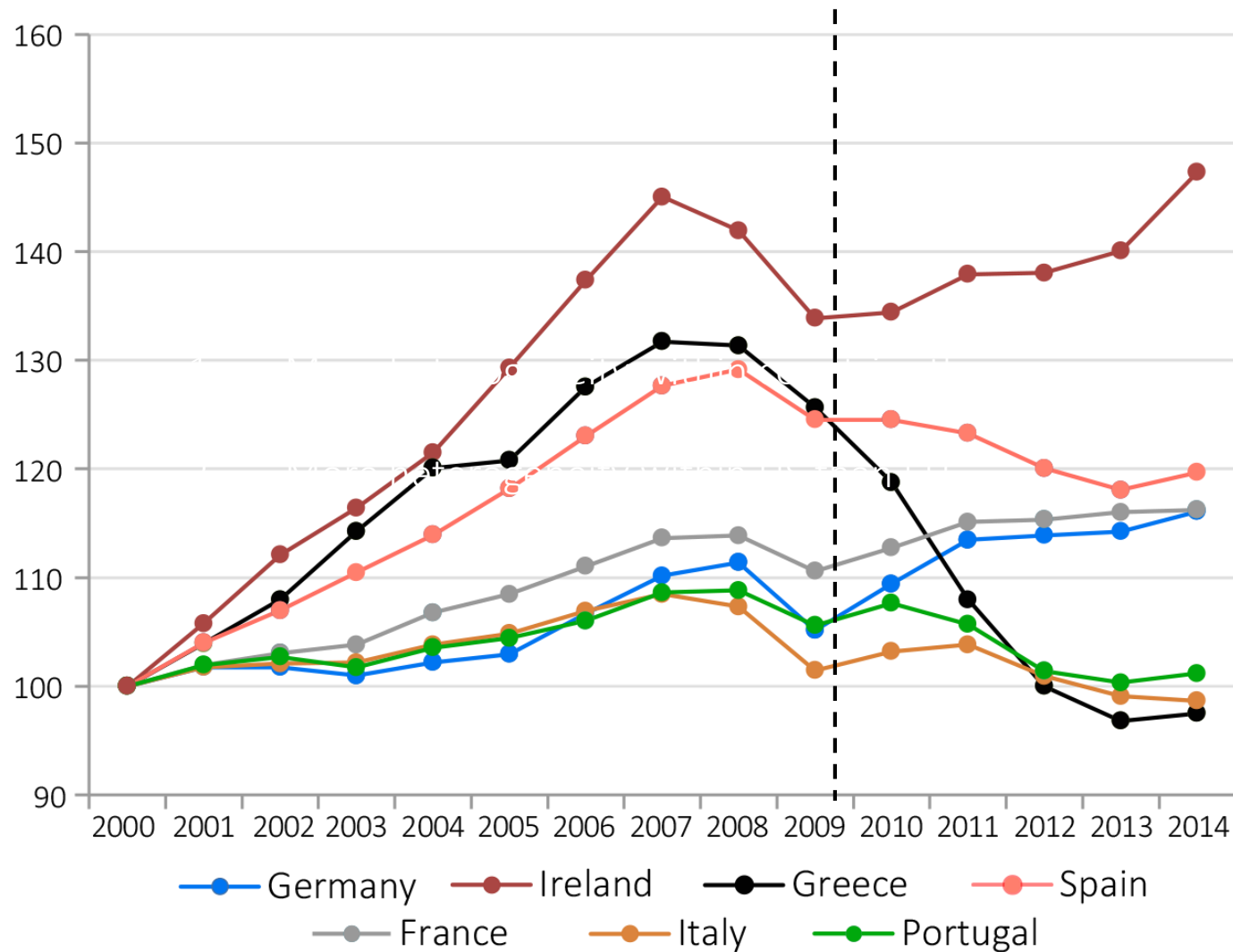
## 1. Economic convergence

yes

- Especially in early catch up phase
- Trend vs. cycle

1980-2009

# || GDP accumulated since Euro



Source: EuroStat

# || Main insights of the paper

## 1. Economic convergence

- Especially in early catch up phase
- Trend vs. cycle
- Inequality (pooled across countries)

yes

1980-2009

*within vs. between country*  
Deaton-point

# || Main insights of the paper

## 1. Economic convergence

yes

- Especially in early catch up phase
- Trend vs. cycle
- Inequality (pooled across countries)

1980-2009

*within vs. between country*  
Deaton-point

## 2. Cultural convergence

no

- Despite cultural shifts – more secular, less traditional, more tolerant
- Inequality has not impact

# ||| Main insights of the paper

## 1. Economic convergence

yes

- Especially in early catch up phase
- Trend vs. cycle
- Inequality (pooled across countries)

1980-2009

*within vs. between country*  
Deaton-point

## 2. Cultural convergence

no

- Despite cultural shifts – more secular, less traditional, more tolerant
- Inequality has not impact

## 3. Institutional convergence

- Harmonization of policy, PISA scores, but not in govt.-quality
- Specialization: North (South) to (non-)tradable goods production

# ||| Main insights of the paper

## 1. Economic convergence

yes

- Especially in early catch up phase
- Trend vs. cycle
- Inequality (pooled across countries)

1980-2009

*within vs. between country*  
Deaton-point

## 2. Cultural convergence

no

- Despite cultural shifts – more secular, less traditional, more tolerant
- Inequality has not impact

## 3. Institutional convergence

- Harmonization of policy, PISA scores, but not in govt.-quality
- Specialization: North (South) to (non-)tradable goods production

## 4. More heterogeneity within countries than across

## 5. More heterogeneity within US than EU

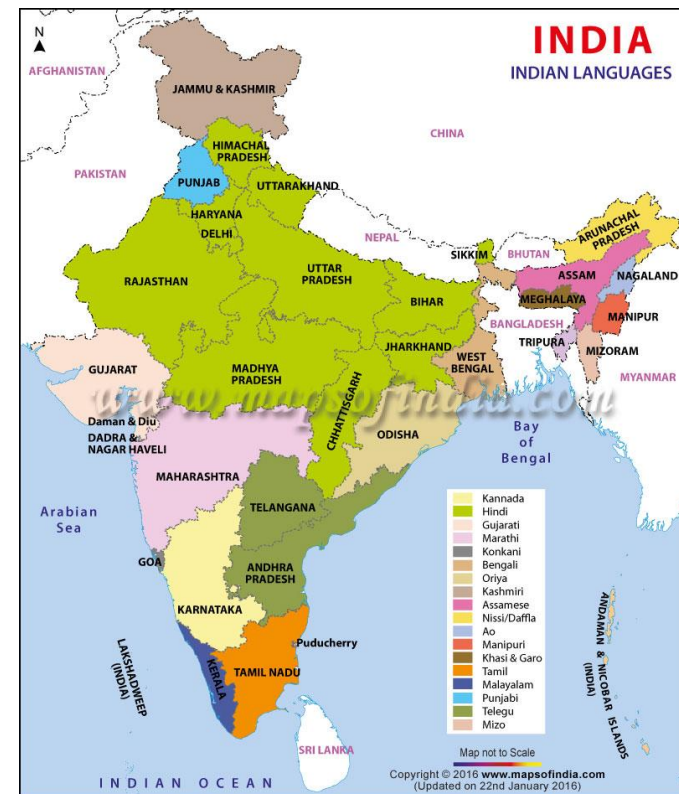
# What is a(n optimal) political union?

## ■ Trade-off

- Economies of scale & scope in public good provision, externalities
- Less conflict resolution due cultural heterogeneity

## ■ Is India a political union?

- More than 2000 ethnic groups
- Every major religion
- 4 families of languages
  - Indo-European, Dravidian, Austroasiatic, Sino-Tibetan
- Some states are run by communists





# Conclusions (standard vs. radical)

- Possible Interpretation of main findings:
  - Heterogeneity within is larger within than across EU countries
    - Different tastes: Pizza vs. frogs
  - Heterogeneity in US
- 1. “more” political union is desirable/possible.
  - Benefits of European public good provision grow over time
- 2. “Common Culture” is not really needed
- Main critique: “common culture” is too broad
  - Pizza vs. frog
- What convergence/homogeneity is really needed?
  - Avoid misunderstanding in “economic philosophies”

# Not “a” political union

- Does one need (convergence to) **homogeneity**  
**in all** areas or  
**in certain areas** only

Divorce law vs. bankruptcy law

- Culture definition in paper includes
  - Orthogonalized: Socio-economic: age, education, occupation
  - Not relevant: Religiosity, homosexuality, gender equality, divorce law
  - Relevant: Role of state, trust, bankruptcy law

# Not “a” political union

- Does one need (convergence to) **homogeneity**  
**in all** areas or  
**in certain areas** only

Divorce law vs. bankruptcy law

- Culture definition in paper includes
  - Orthogonalized: Socio-economic: age, education, occupation
  - Not relevant: Religiosity, homosexuality, gender equality, divorce law
  - Relevant: Role of state, trust, bankruptcy law
- **Subsidiarity principle**
  - Economies of scale vs. ease to resolve conflicts
  - Certain aspects are linked (e.g. MoPo & exchange rate)

# Not “a” political union

- Does one need (convergence to) **homogeneity** in all areas or in certain areas only

Divorce law vs. bankruptcy law

- Culture definition in paper includes
  - Orthogonalized: Socio-economic: age, education, occupation
  - Not relevant: Religiosity, homosexuality, gender equality, divorce law
  - Relevant: Role of state, trust, bankruptcy law
- **Subsidiarity principle**
  - Economies of scale vs. ease to resolve conflicts
  - Certain aspects are linked (e.g. MoPo & exchange rate)
- Alignment in **values/preferences** vs. **ways** to achieve it **economic philosophy/ideas**
  - even “Interests are seen through the lens of ideas”

# || Rhine-Divide in Economic Philosophies

“French”



1. Discretion  
Straitjacket commitment

“German”



Rules  
Safety/escape valves

2. Solidarity

Liability

3. Liquidity

Solvency

4. Keynesian Stimulus

Austerity/Reform



switched sides?

Are differences caste in stone?

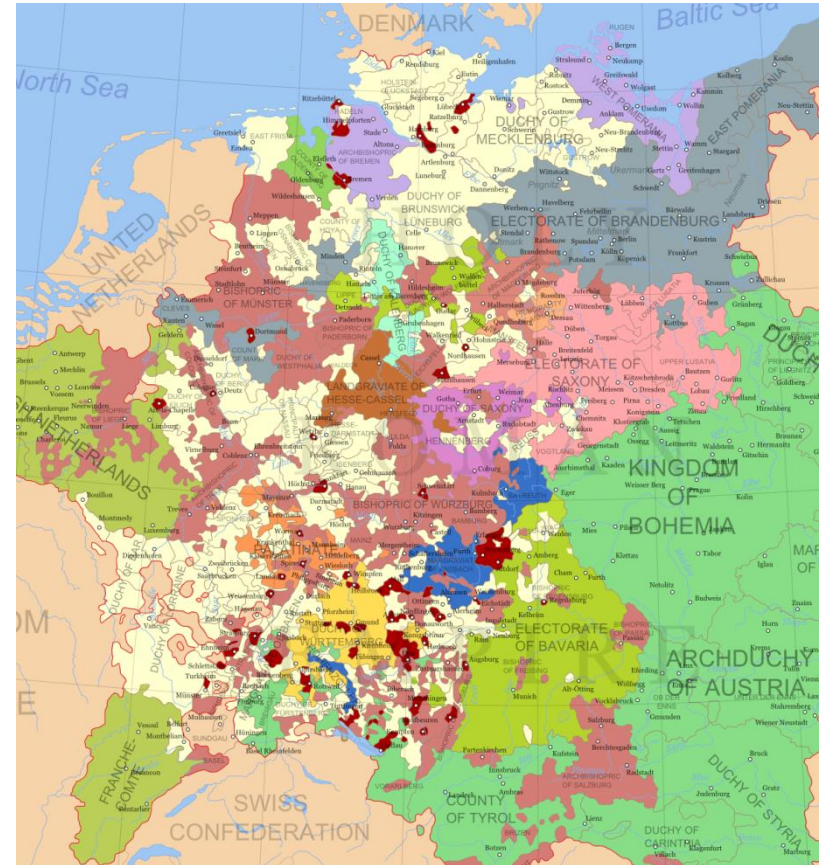
# Is difference caste in stone? ... cultural?

## ■ “French” Absolutism/Centralism



- King Louis XIV, XV, XVI
  - 1643-1715, 1715-1774, 1774-1792 A.D.

## ■ “German” Federalism



- Holy Roman Empire

# || ... or fickle?

“France”

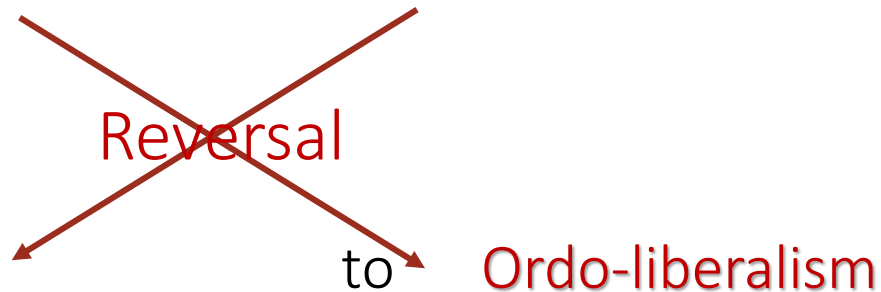
“Germany”

- Early 18<sup>th</sup> century  
Dirigiste approach

- 18/19<sup>th</sup> century  
from **laissez-faire**

- After WW II  
to **planisme**

from **cameralism**/state tradition



- Consistent with author's finding: culture is fluid/shifting

# ||| Solutions

- Aim for all-encompassing political union  
or  
**Empower subsidiarity** principle by finding proposals that  
“de-link” various dimensions
  - Example:
    - ESBies (SBBS)
      - safe asset like a Eurobond
      - no joint liability

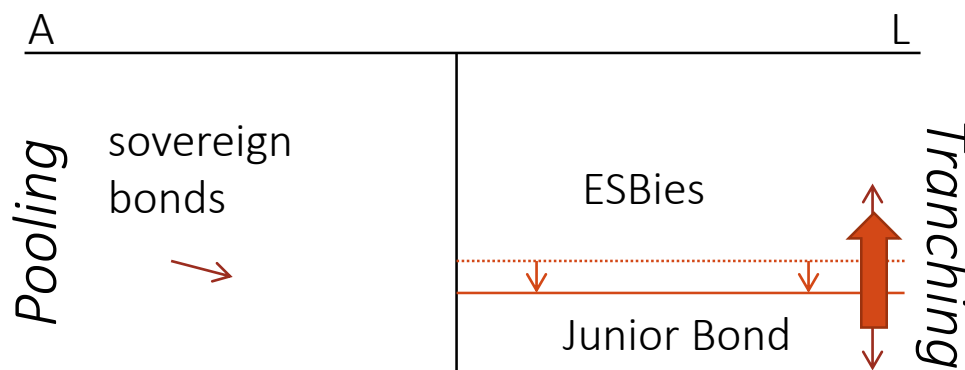


# Solutions

- Aim for all-encompassing political union  
or  
**Empower subsidiarity** principle by finding proposals that  
“de-link” various dimensions
  - Example:
    - ESBies (SBBS)

safe asset like a Eurobond

no joint liability



# III The Role of Media & Institutions

## ■ Media

- Misunderstanding & lack of common debate
  - Population is fed by national news
  - FT, VoxEU, Project Syndicates are common media outlets (in “outside” language/ India analogy)
- New technology (social media)
  - Helps to overcome: language hurdles, lack of common media
  - Increases challenge: lack of common focal point

## ■ Institutions

- Elected by national electorate
  - Blame Europe for bad outcomes, take credit for good outcomes
- Intergovernmental vs. supranational decision making process

# Is Heterogeneity bad?

- What's the optimal level of heterogeneity?
  - Economic force: larger is better
  - Cultural force: smaller is better
- Diversity and Stability
  - Diversity increases
    - Resilience
    - Cooperation
    - Risk sharing
- Diversity without misunderstanding
  - More debate -> better solutions
  - More regional experimentation
- Diversity with misunderstanding
  - Blame game --> unproductive disagreement

# Homogeneity, Convergence, Vision

- What is really needed (if at all)?
  - Homogeneity
  - Convergence to homogeneity

# Homogeneity, Convergence, Vision

- What is really needed (if at all)?
  - Homogeneity
  - Convergence to homogeneity
  - Common vision “I have a dream”
    - In certain areas
    - Leads to an identification with “European idea”
  - Common achievement
    - Historically: winning a war/independence

# Conclusion

- Do we need convergence to political union in all dimensions?
  - Pizza vs. frogs is ok!
- If not, what dimensions are needed?
  - Subsidiarity Principle
  - Empowered Subsidiarity Principle  
by “de-linking” seemingly connected policy areas
- Is Cultural Diversity/Heterogeneity (non-convergence) bad?
  - More resilience, more gains from trade
- Diversity vs. Misunderstanding
  - Role of Media
    - New technology: overcome language barriers, but loss of focal points