Is Europe an Optimal Political Area?

by

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Main insights of the paper

1. Economic convergence  yes
   • Especially in early catch up phase
   • Trend vs. cycle

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
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Source: EuroStat
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\textit{Deaton-point}
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1980-2009
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What is an 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

- 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

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Divorce law vs. bankruptcy law
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- Subsidiarity principle
  - Economies of scale vs. ease to resolve conflicts
  - Certain aspects are linked (e.g. MoPo & exchange rate)
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- 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
2. Solidarity
3. Liquidity
4. Keynesian Stimulus

“German”

Rules
Safety/escape valves

Liability
Solvency
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”

- Early 18\textsuperscript{th} century
  - Dirigiste approach

“Germany”

- 18/19\textsuperscript{th} century
  - from \textit{laissez-faire}
  - from \textit{cameralism}/state tradition

- After WW II
  - to \textit{planisme}
  - to \textit{Ordo-liberalism}

\textit{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

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Diagram:

- Pooling sovereign bonds
- Tranching
- ESBies
- Junior Bond
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
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- Common vision
  - 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