Is Europe an optimal political area?

Alberto Alesina
Guido Tabellini
Francesco Trebbi

Introduction

EU integration is struggling / reversing direction. Why?

- Economic integration as prelude to political integration. What went wrong?

- Was EU project too ambitious? Or inadequate institutions?

Optimal political area: tradeoff between public good provision vs heterogeneity of preferences

- Has economic integration made the tradeoff more / less favorable?

- Are Europeans just too different from each other?
  Focus mainly on cultural heterogeneity

Outline

1. Economic convergence?

2. Cultural convergence?

3. Institutional convergence?

4. How different are Europeans in their cultural traits? Compared to:
   – Heterogeneity within countries
   – Heterogeneity between US states

5. Implications

Sample + Economic Convergence

EU 15 + Norway, 1980-2008

- Successful economic integration (trade, finance, labor)

- Economic convergence (mainly in 1980-1999) & increased synchronization of regional growth (post 1999)

- No increase in overall income inequality within Europe

Summary of main findings

1. Economic convergence? Yes

2. Cultural convergence?

3. Institutional convergence?

4. How different are Europeans in their cultural traits?
   Compared to:
   - Heterogeneity within countries
   - Heterogeneity between US states

2. Cultural traits

20 questions from EVS on 5 dimensions :

- *Religiosity:* importance of religion, euthanasia, suicide
- *Gender Equality*
- *Sexual Morality:* abortion, homosexuality, divorce
- *Role of State:* redistribution and individual responsibility, private property, political ideology
- *Values + civic capital:* trust, qualities in children (obedience, hard work, unselfishness), self-determination

Sample and method of analysis

250 individuals x 16 countries x 4 waves (1980-2008) - Some countries missing in some waves

$Y(i)$ = vector of cultural traits of individual i

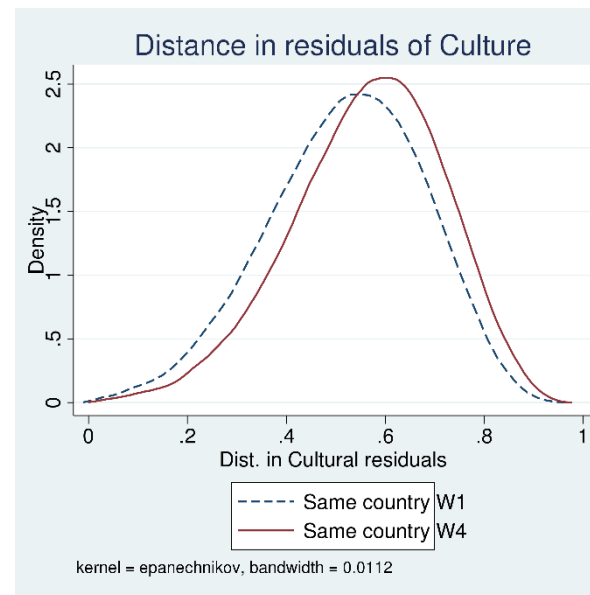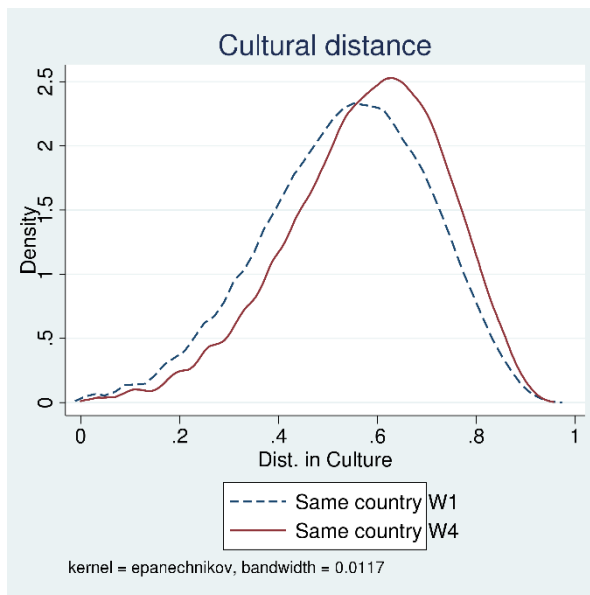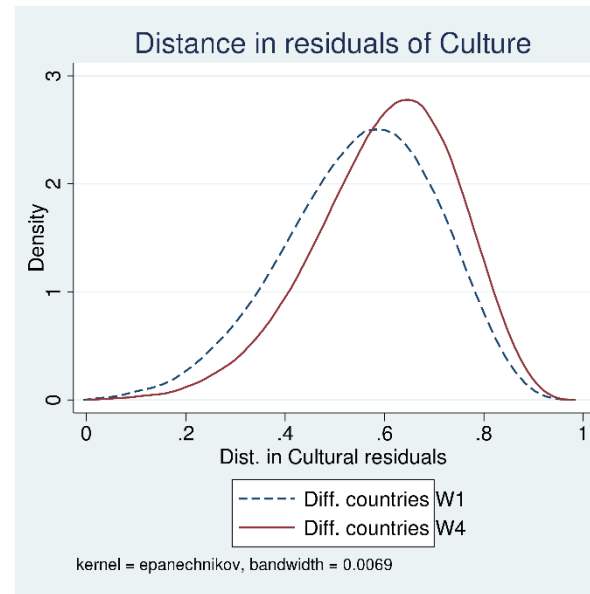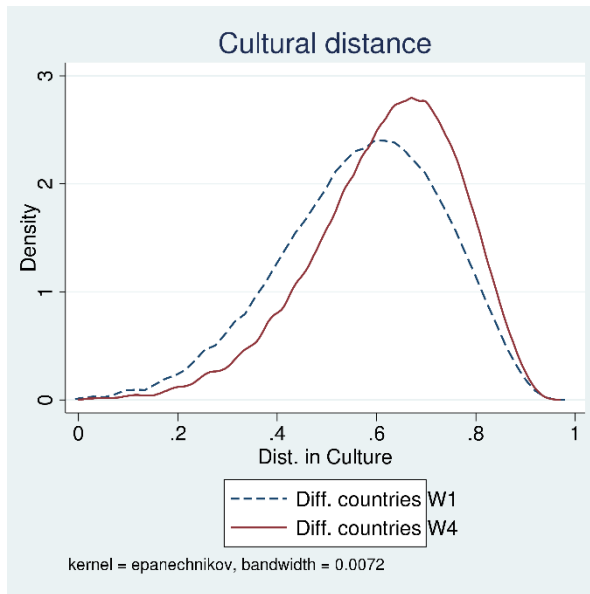Cultural distance between i, j based on Gaussian Kernel:

$d(i,j)= 1 - \exp[- \theta \| Y(i) - Y(j) \|] = 1 - \exp[- \theta [\Sigma_y(y(i)- y(j))^2]^{1/2}]$

  θ controls rate at which distance increases, calibrated on dimensionality of Y

Distance in Unconditional and Conditional culture

  Conditional = distance of *residuals* of $Y(i)$ on socio-economic covariates $X(i)$, estimated from: $Y(i)= a + bX(i) + u(i)$

Distribution of cultural distance

8

Specific cultural traits

Extract first principal component from each subset of 5 dimensions

Increased dispersion in almost all cultural dimensions

All EU countries have become more "modern"

But they did so at different speeds => some divergence between Northern vs Southern Europe

Summary of main findings

1. Economic convergence? YES

2. Cultural convergence? NO, divergence

3. Institutional convergence?

4. How different are Europeans in their cultural traits?
    Compared to:

   – Heterogeneity within countries

   – Heterogeneity between US states

3. Institutional Features

1. *Quality of government and governance indicators*

   Survey based measures. Source: WB, ICRG, others

2. *Quality of legal institutions*

   Source: Kuncic (2014), who uses data from WB, ICRG, Heritage Foundation, Fraser Institute, Freedom House
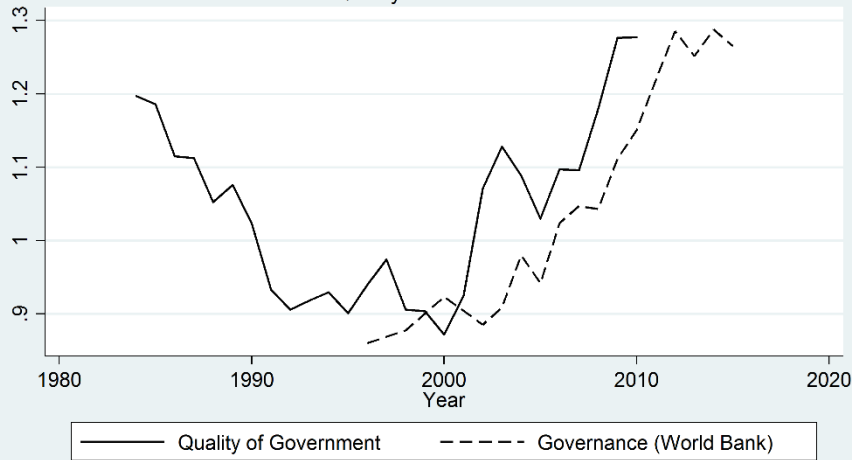
3. *Regulatory Environment*

   Source: OECD data on product mkt regulation

4. *Education*

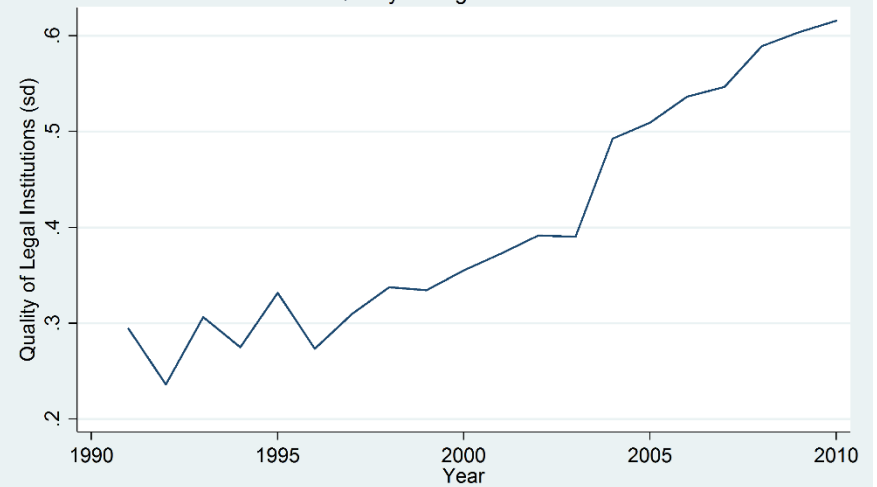   Pisa scores (math, reading, science)

Sigma convergence

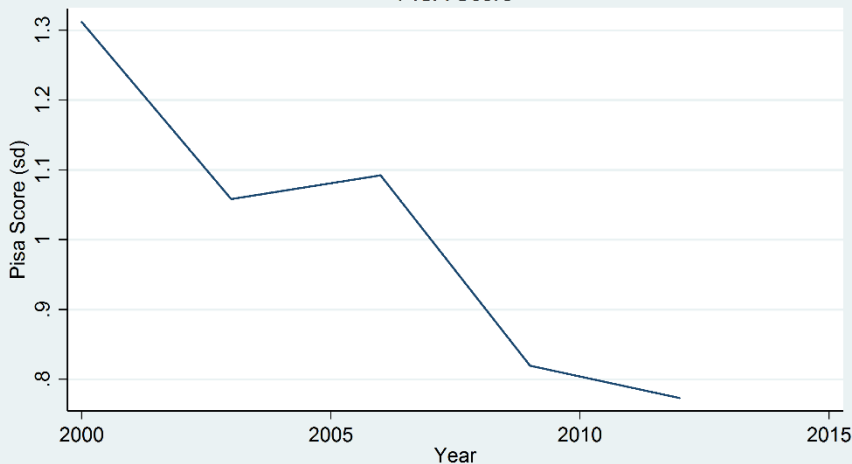Sigma Convergence between countries
Quality of Government

Note: standard deviation plotted over time. Germany and Luxembourg omitted

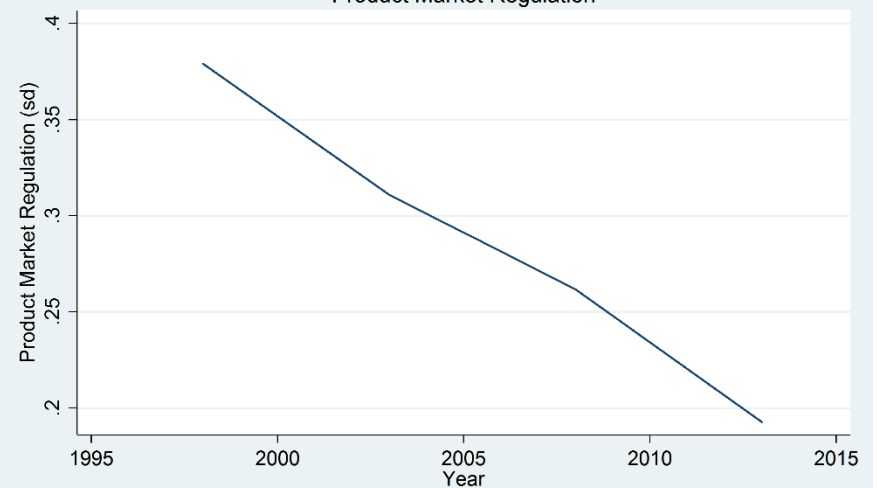Sigma Convergence between countries
Quality of Legal Institutions

Sigma Convergence between countries
PISA Score

Note: All countries included. Data for UK is missing in 2003

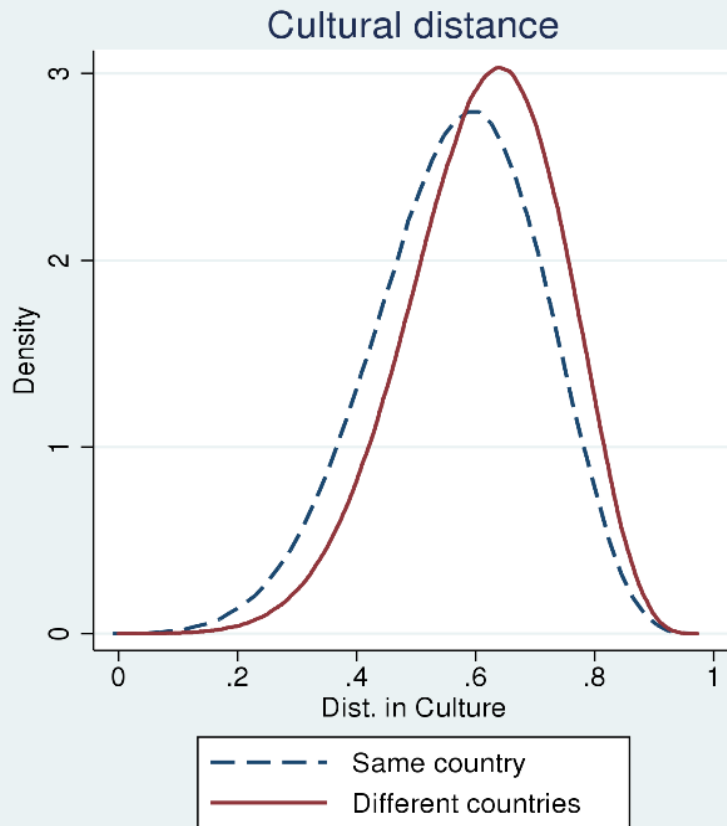Sigma Convergence between countries
Product Market Regulation
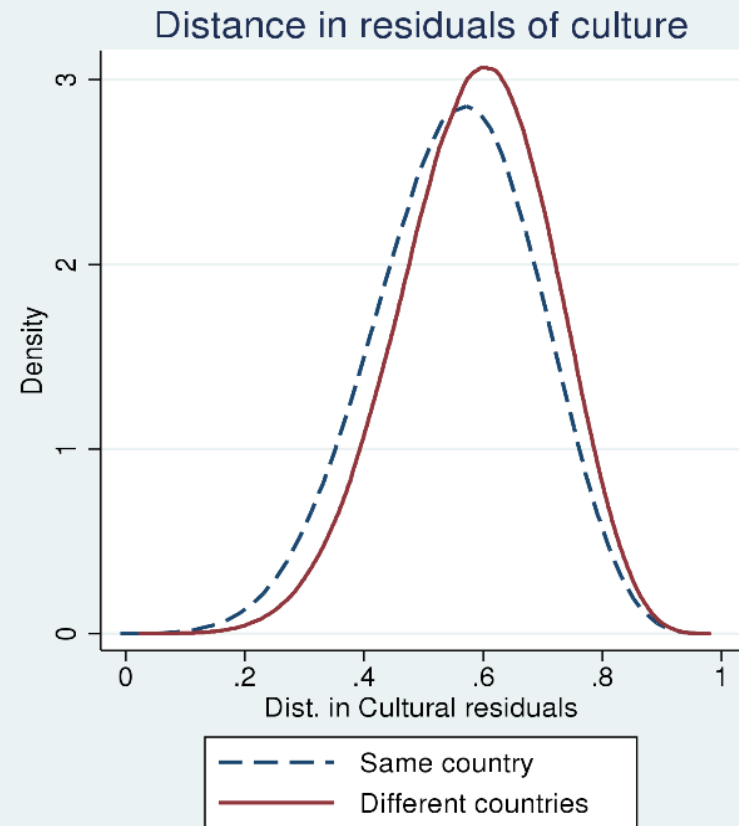
Summary of main findings

1. Economic convergence? YES

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4. How different are Europeans in their cultural traits?
   Compared to:

   – Heterogeneity within countries
   – Heterogeneity between US states

4. How much heterogeneity?

Culture: Within vs Between Country

Could it be measurement error?

Variance *within* countries 10 times larger than variance *between* countries

For this to be all measurement error, it should be that:

Var (measurement error) > 9 * observed variance between countries

> Implausible

Summary of main findings

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    Compared to:

    –   Heterogeneity within countries Not Much

    –   Heterogeneity between US states
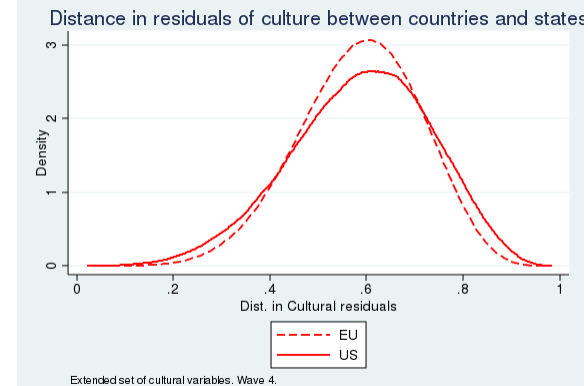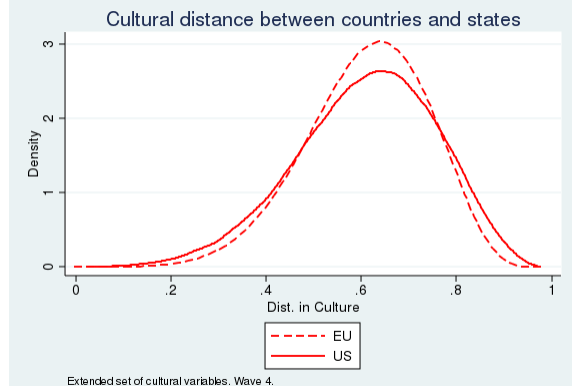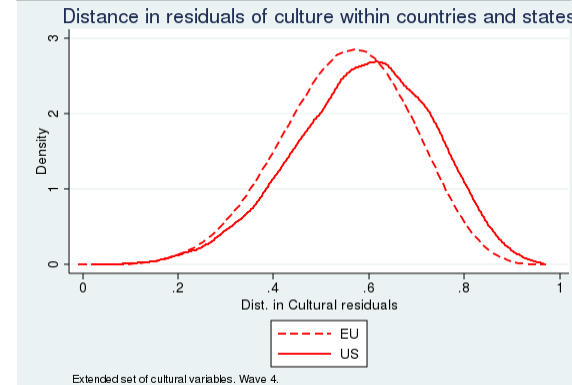
5. US vs Europe

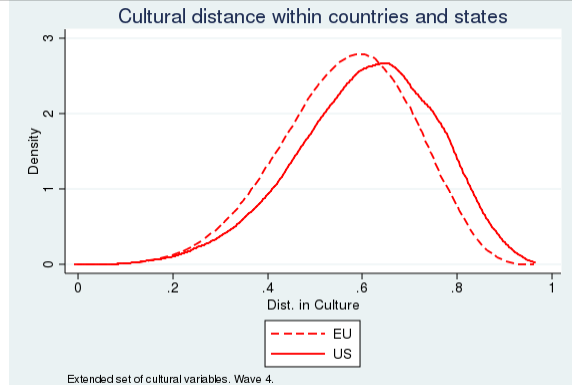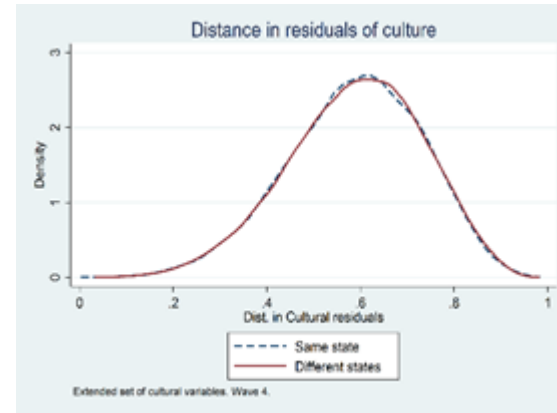*GSS* data over similar period

Subset of 15 (almost) identical questions, on same 5 broad issues

9 large states with at least 60 respondents

California, Florida, Illinois, Michigan, New York, North Carolina, Ohio, Pennsylvania, Texas

Similar results with 5 macro-regions

How much heterogeneity in the US?
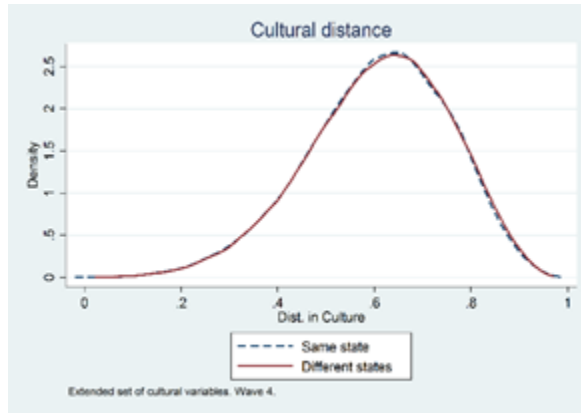
Summary of main findings

1. Economic convergence? YES

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   – Heterogeneity between US states   About the same

Discussion

Europe is at a cross road (cf. Juncker's White Paper)

Key tradeoff in political integration:

Economies of scale & scope in public goods Vs heterogeneity of prefs and national identities

Europeans seem aware of increased benefit of global public goods:

In favor of more EU-level decision making (Eurobarometer 2016):

- Fighting terrorism (80%)
- Promoting peace and democracy (80%)
- Environment (77%)
- Immigration (71%)
- Energy (69%)

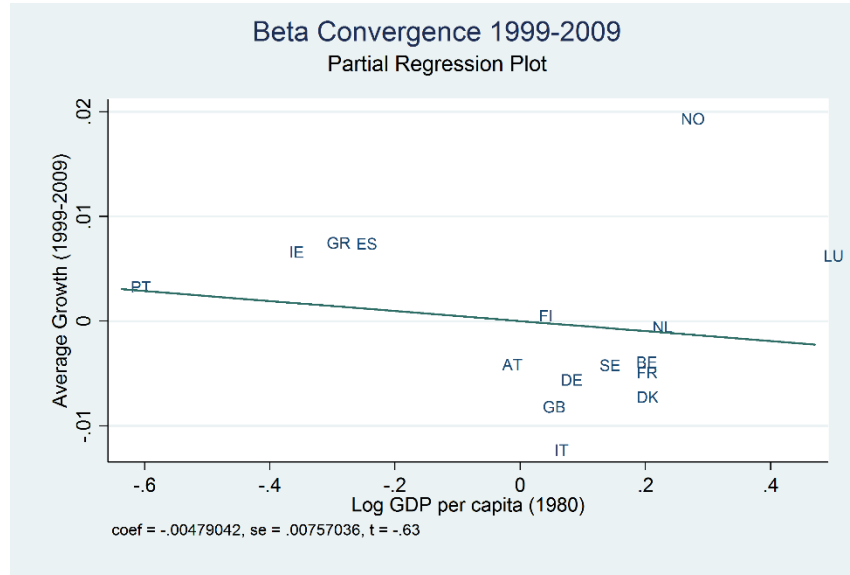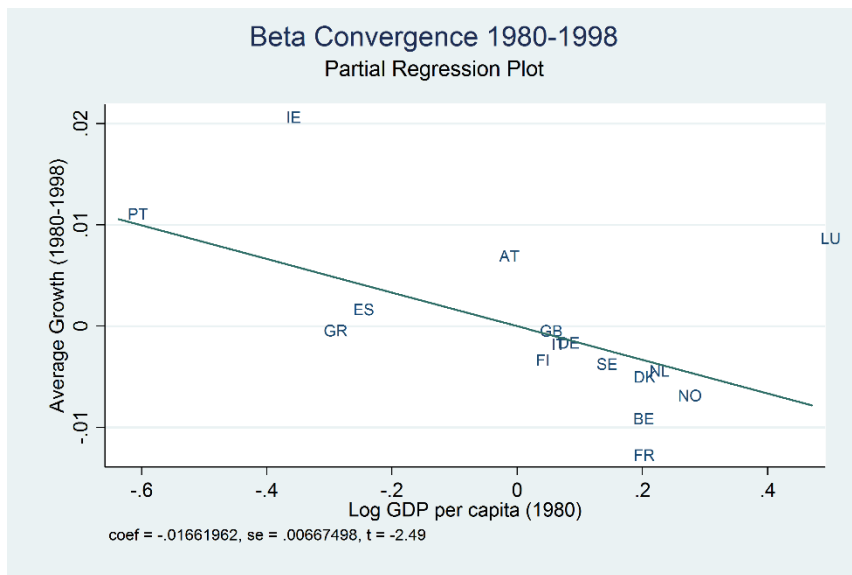Heterogeneity of deeply held cultural traits not a stumbling block.

What is it?   *Strong national identities ?*

THANK YOU !

Implications

- Education
  - Expand student exchange beyond universities
  - Common European curriculum on EU institutions and history

- Inter-governmental bargaining breeds nationalism
  - Domestic political delegation => politicians have to bring home a "good deal" and blame the EU

1.a Economic convergence

Sigma Convergence between countries (1980-2009)
Relative Standard Deviation in GDP per capita

Beta Convergence 1980-1998
Partial Regression Plot

coef = -.01661962, se = .00667498, t = -2.49

Beta Convergence 1999-2009
Partial Regression Plot

coef = -.00479042, se = .00757036, t = -.63
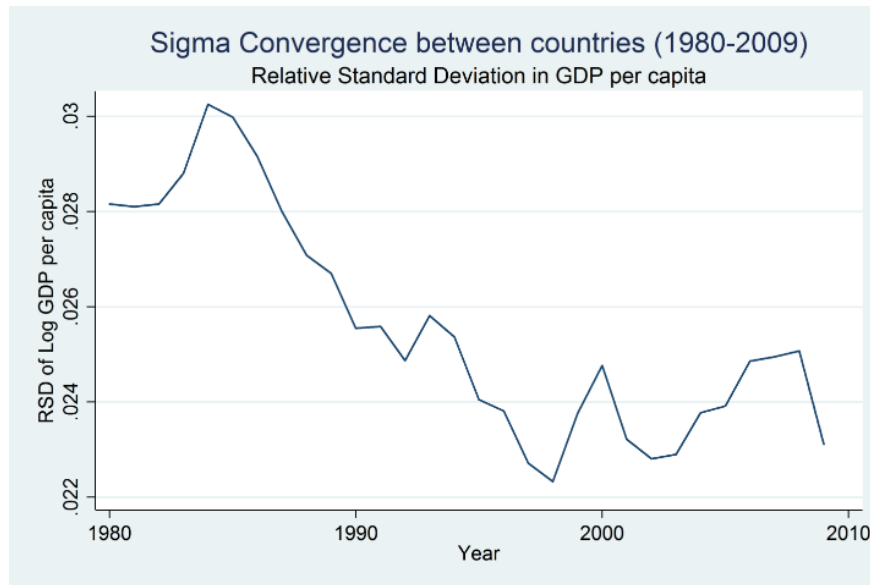
1.c Output co−movement

Compare *Regional* yearly output growth before / after 2000

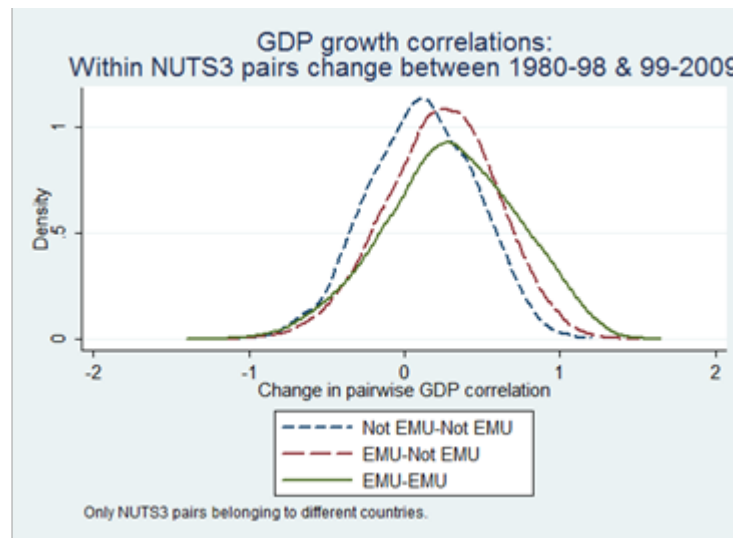- Growth became more correlated for regions belonging to different countries

    Not just Single Currency (also between ins and outs of EMU)

- Cluster analysis: fewer clusters of regions co-moving together

    i.e. more synchronization across countries

1.c Output co−movement

Estimate correlation coefficients of yearly output growth between *all pairs* of EU regions (NUTS 3)

How did correlations change over time?
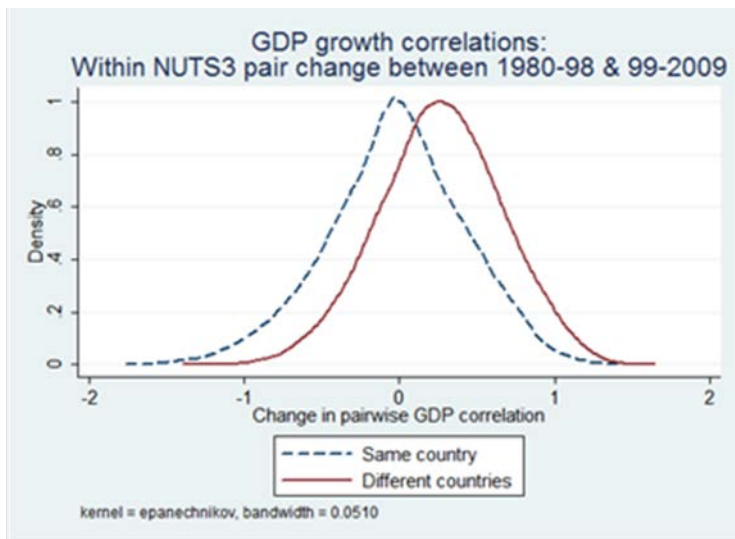
Cluster analysis: fewer clusters of regions co-moving together

1.b Overall income inequality

Gini Coefficient
EU (1985 - 2010)

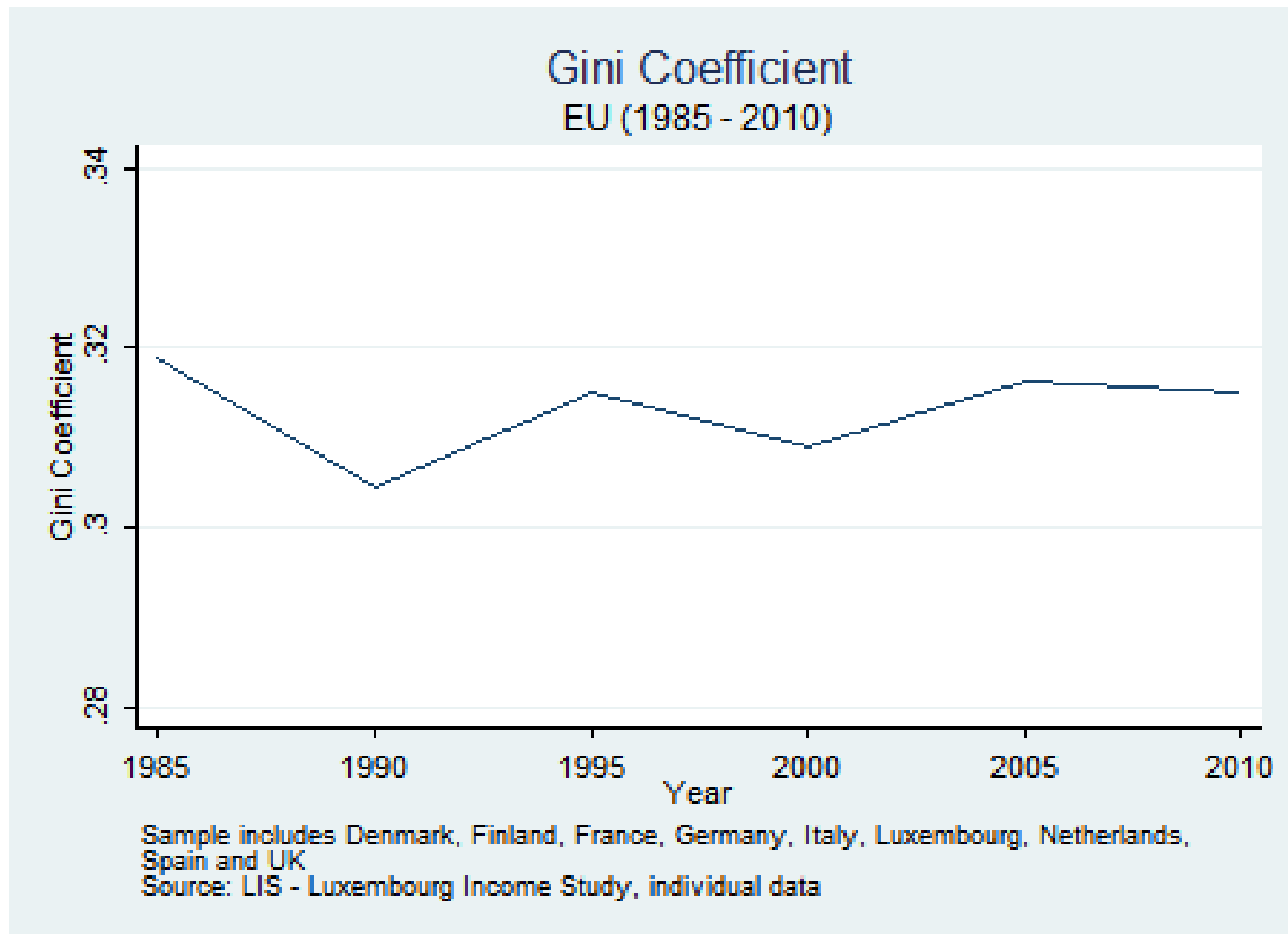Sample includes Denmark, Finland, France, Germany, Italy, Luxembourg, Netherlands, Spain and UK
Source: LIS - Luxembourg Income Study, individual data

Table 3.2 - Avg. change between wave 4 and wave 1 in cultural distance

	Between Countries			Within Country	
	Unconditional	Conditional		Unconditional	Conditional
BE	0.06***	0.06***		0.08***	0.07***
	(0.00028)	(0.00027)		(0.0012)	(0.0012)
DE	0.05***	0.05***		0.02***	0.03***
	(0.00028)	(0.00027)		(0.0013)	(0.0013)
DK	0.01***	0.02***		-0.05***	-0.03***
	(0.00027)	(0.00026)		(0.0013)	(0.0012)
ES	0.05***	0.05***		0.05***	0.04***
	(0.00028)	(0.00027)		(0.0013)	(0.0012)
FR	0.05***	0.06***		0.06***	0.06***
	(0.00027)	(0.00026)		(0.0012)	(0.0012)
IE	0.06***	0.06***		0.10***	0.09***
	(0.00036)	(0.00034)		(0.002)	(0.002)
IT	0.08***	0.08***		0.08***	0.08***
	(0.00029)	(0.00028)		(0.0014)	(0.0013)
NL	0.03***	0.04***		0.02***	0.02***
	(0.00028)	(0.00027)		(0.0013)	(0.0013)
NO	0.04***	0.04***		0.02***	0.02***
	(0.00028)	(0.00027)		(0.0013)	(0.0013)
SE	0.05***	0.05***		0.02***	0.03***
	(0.00028)	(0.00027)		(0.0013)	(0.0012)
GB	0.06***	0.06***		0.07***	0.07***
	(0.00027)	(0.00026)		(0.0012)	(0.0012)
All Countries	0.05***	0.05***		0.04***	0.04***
	(0.00012)	(0.00012)		(0.0004)	(0.00039)
Mean distance (wave 1)	0.57	0.55		0.53	0.52

Specific cultural traits
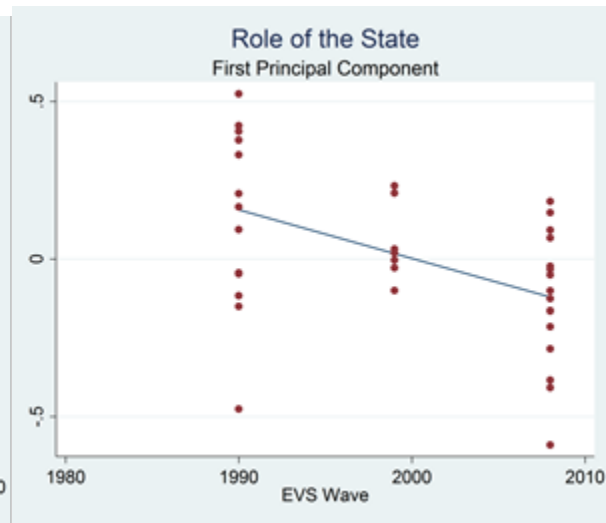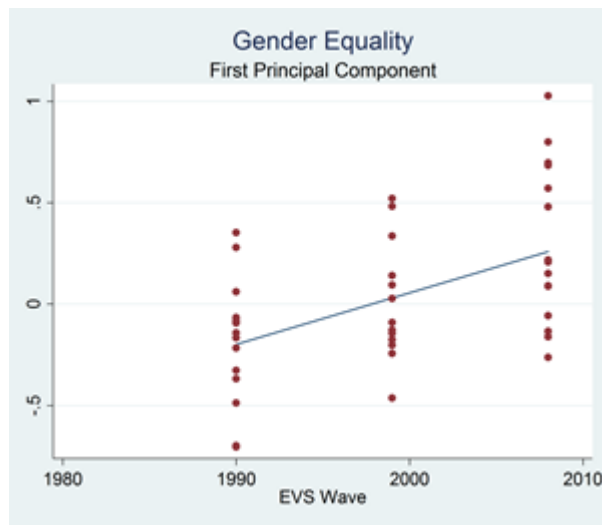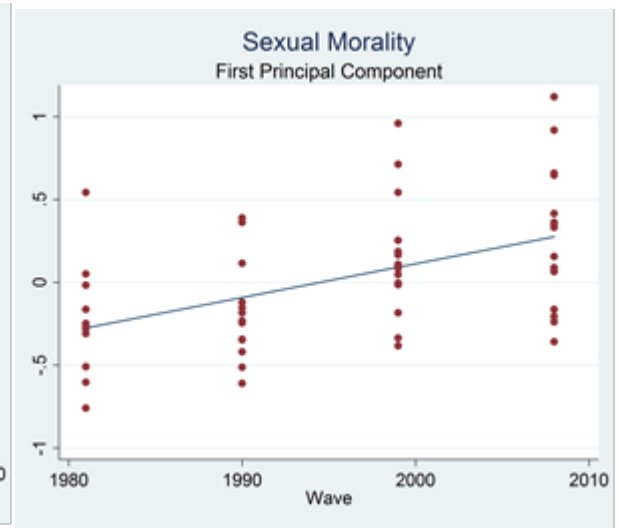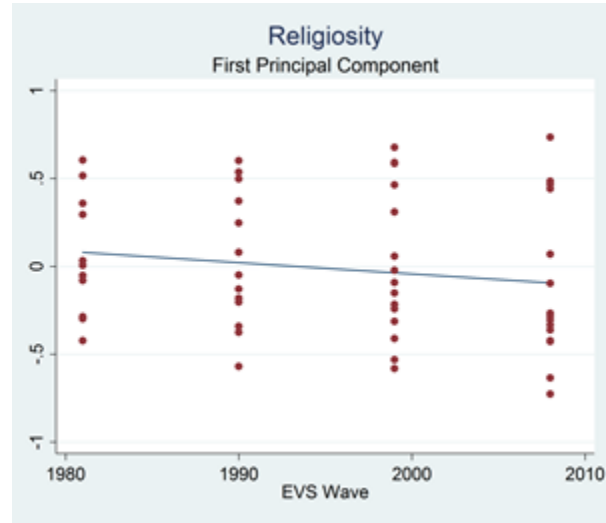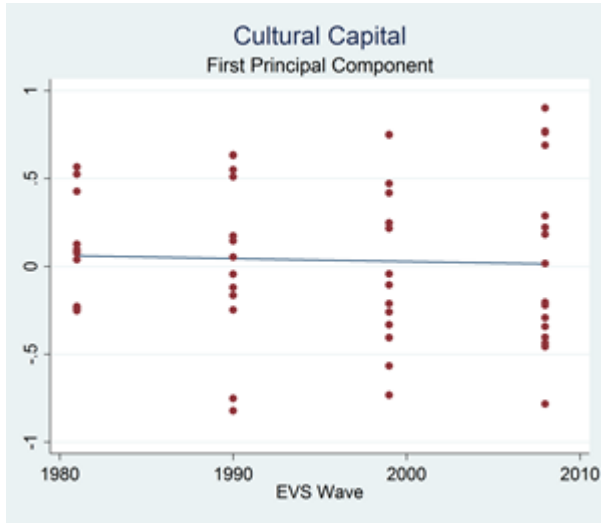
Specific cultural traits

All EU countries have become more "modern"

But they did so at different speeds => some divergence between Northern vs Southern Europe

Gender Equality

First Principal Component - Average by Country

Note: EVS. Working female, Pre-school mom, Career female. EU mean in dash.
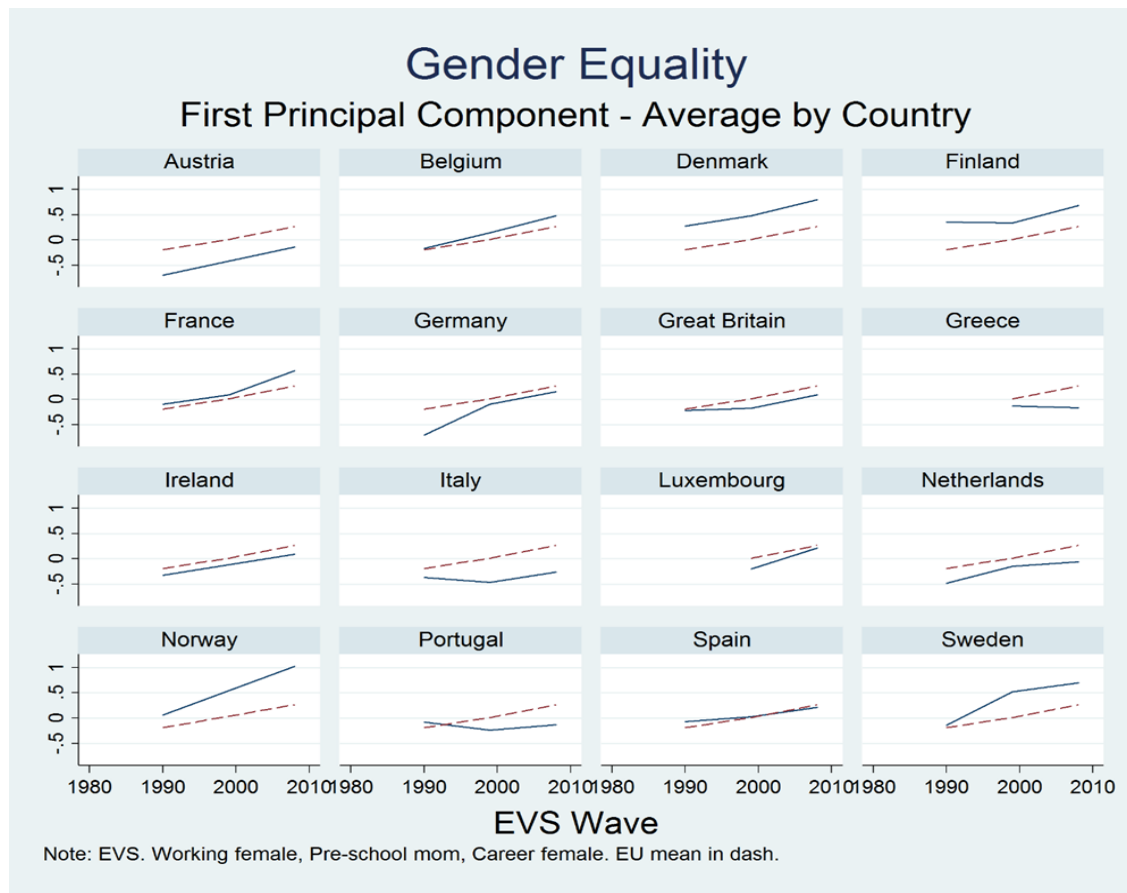
Turkey looks different
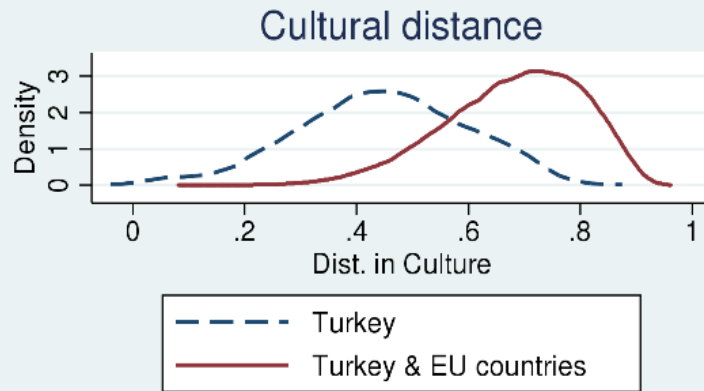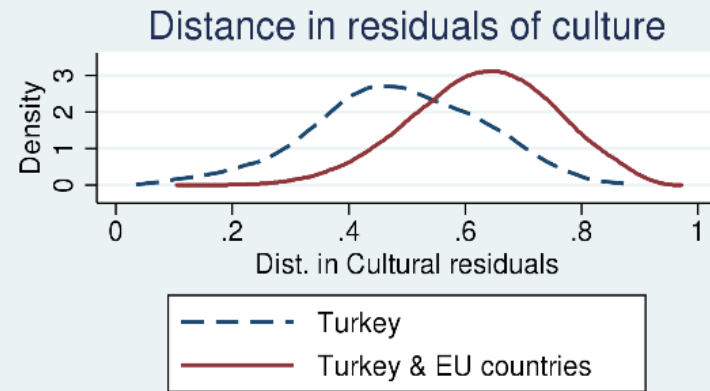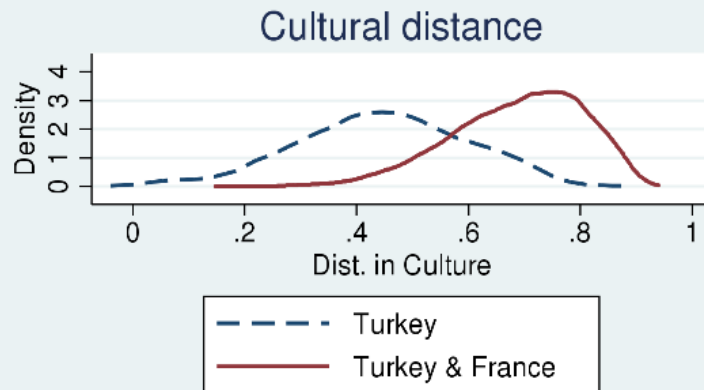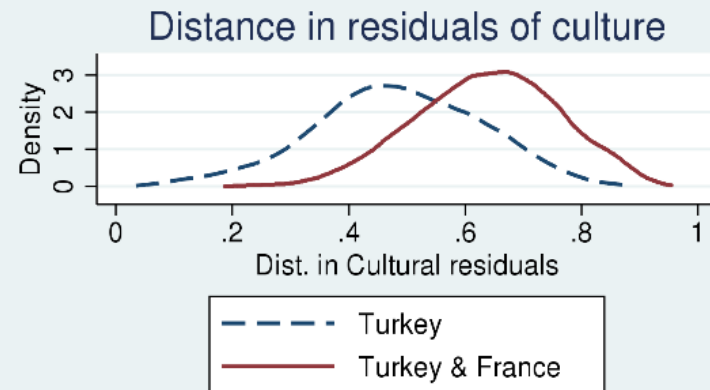
What explains cultural distance between individuals?

- Socio-Economic Distance

- Geographic Distance

But mostly unexplained
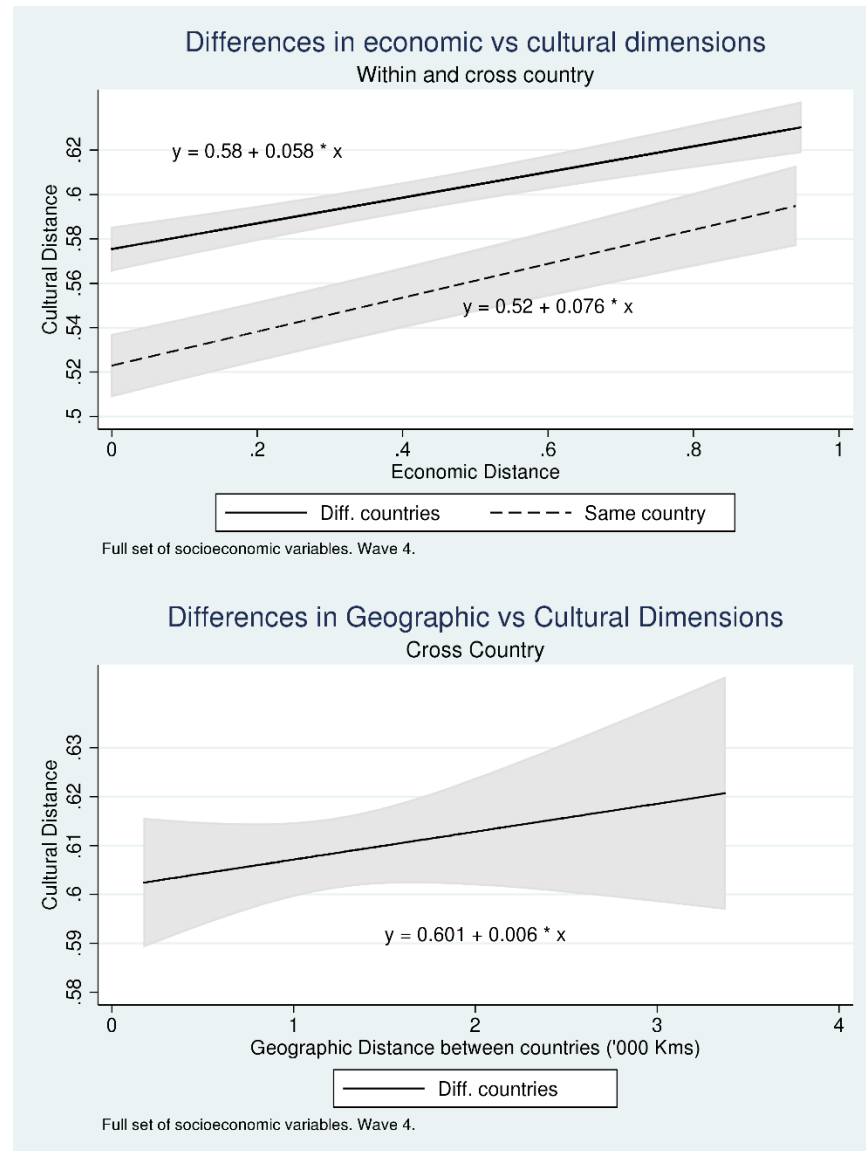
Table 5.2 – Fear of EU and nationalism

	(1)	(2)	(3)	(4)
	Fear of EU			
Cultural Distance	0.1031***	0.0900***	0.0804***	0.0652**
	(0.029)	(0.028)	(0.028)	(0.028)
Controls		X	X	X
Fixed Effects			Country	Region
Observations	6,555	6,555	6,555	6,550
R-squared	0.002	0.080	0.142	0.201

Average Bilateral distance between individuals of identical socioeconomic level.

	AT	BE	DE	DK	ES	FI	FR	GB	GR	IE	IT	LU	NL	NO	PT	SE	All EU
AT	0.56																0.59
BE	0.59	0.55															0.57
DE	0.58	0.60	0.57														0.59
DK	0.62	0.57	0.63	0.50													0.57
ES	0.58	0.57	0.58	0.57	0.52												0.57
FI	0.58	0.56	0.59	0.57	0.56	0.55											0.56
FR	0.60	0.55	0.60	0.58	0.57	0.57	0.55										0.57
GB	0.59	0.58	0.59	0.59	0.59	0.59	0.58	0.56									0.58
GR	0.57	0.60	0.60	0.62	0.59	0.57	0.60	0.59	0.52								0.59
IE	0.62	0.62	0.61	0.61	0.63	0.58	0.60	0.60	0.58	0.60							0.61
IT	0.59	0.59	0.60	0.62	0.64	0.58	0.60	0.57	0.56	0.60	0.52						0.60
LU	0.61	0.58	0.62	0.59	0.58	0.58	0.56	0.58	0.60	0.62	0.60	0.58					0.59
NL	0.59	0.57	0.59	0.53	0.56	0.54	0.57	0.56	0.61	0.60	0.60	0.58	0.52				0.56
NO	0.59	0.55	0.59	0.54	0.54	0.53	0.55	0.58	0.59	0.60	0.61	0.58	0.53	0.50			0.55
PT	0.57	0.57	0.57	0.60	0.57	0.55	0.55	0.54	0.53	0.56	0.54	0.57	0.57	0.57	0.50		0.56
SE	0.59	0.56	0.59	0.54	0.56	0.55	0.57	0.58	0.61	0.61	0.63	0.58	0.52	0.52	0.57	0.50	0.55

Where is the cultural core of Europe?

- Define the *cultural centroid* of Europe as the vector mean $\underline{Y}$

$$\underline{Y} = argmin_Z \left[\parallel Z - Y(i) \parallel \right]^2$$

- Compute distance of each individual from the cultural centroid, and take regional average
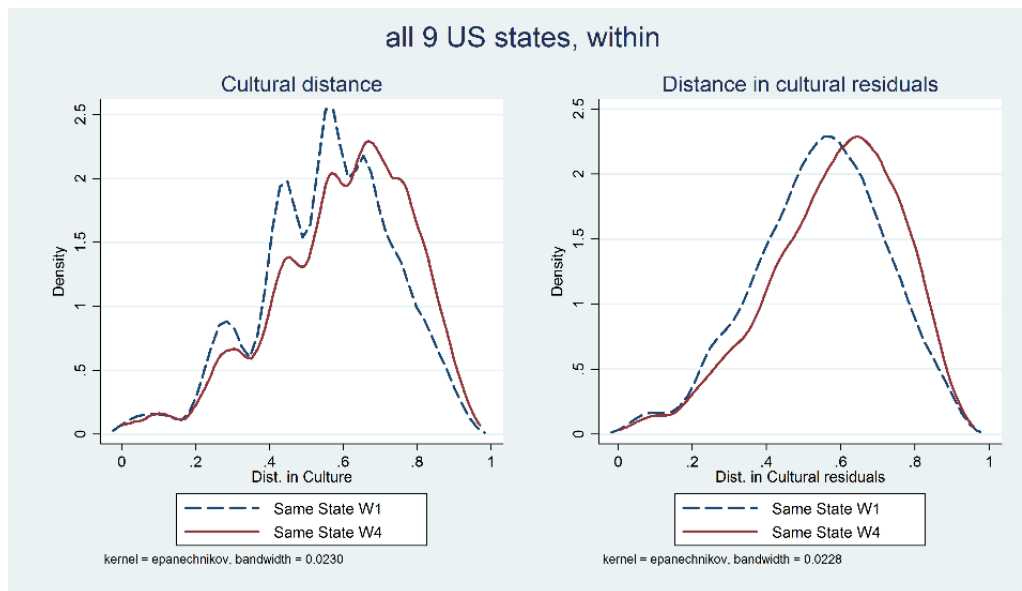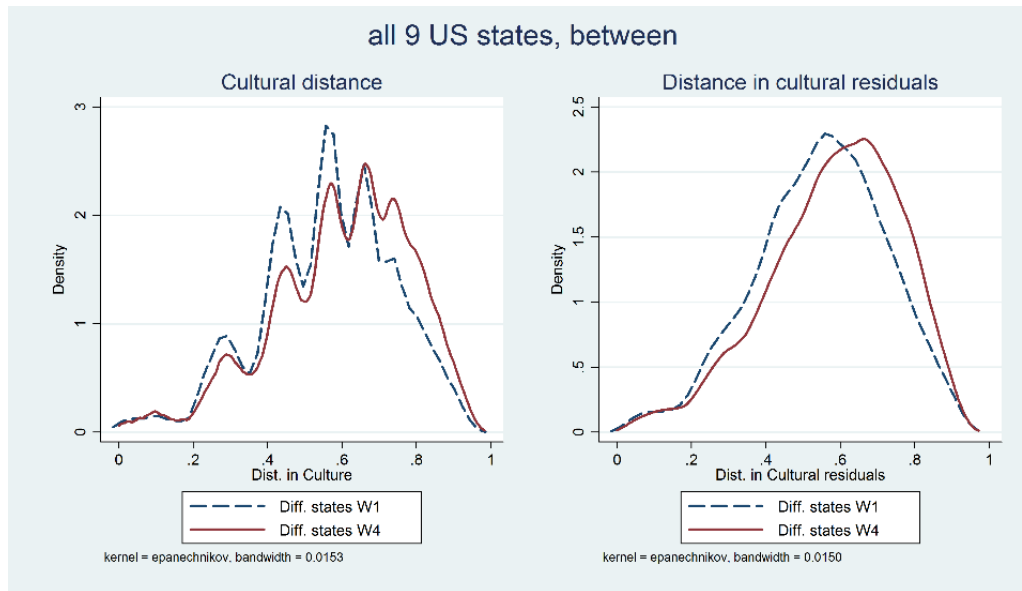
$\Rightarrow$ Average distance of each region from cultural center of Europe
   (Unconditional)

Cultural Distance from Centroid
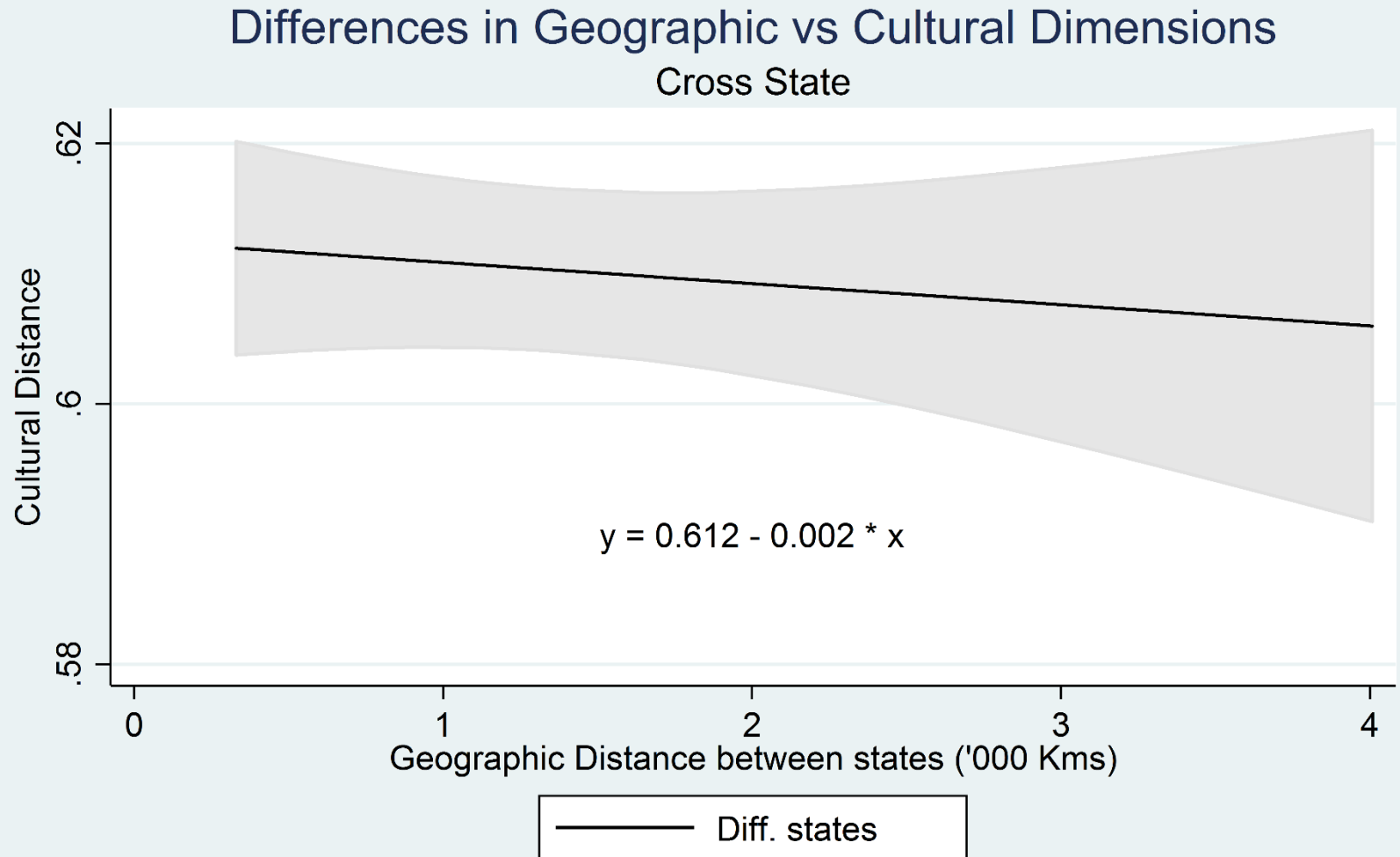

Cultural Distance From EU Centroid

Legend

Cultural distance

	0,43 – 0,56
	0,57 – 0,62
	0,63 – 0,67
	0,68 – 0,75
	No Data
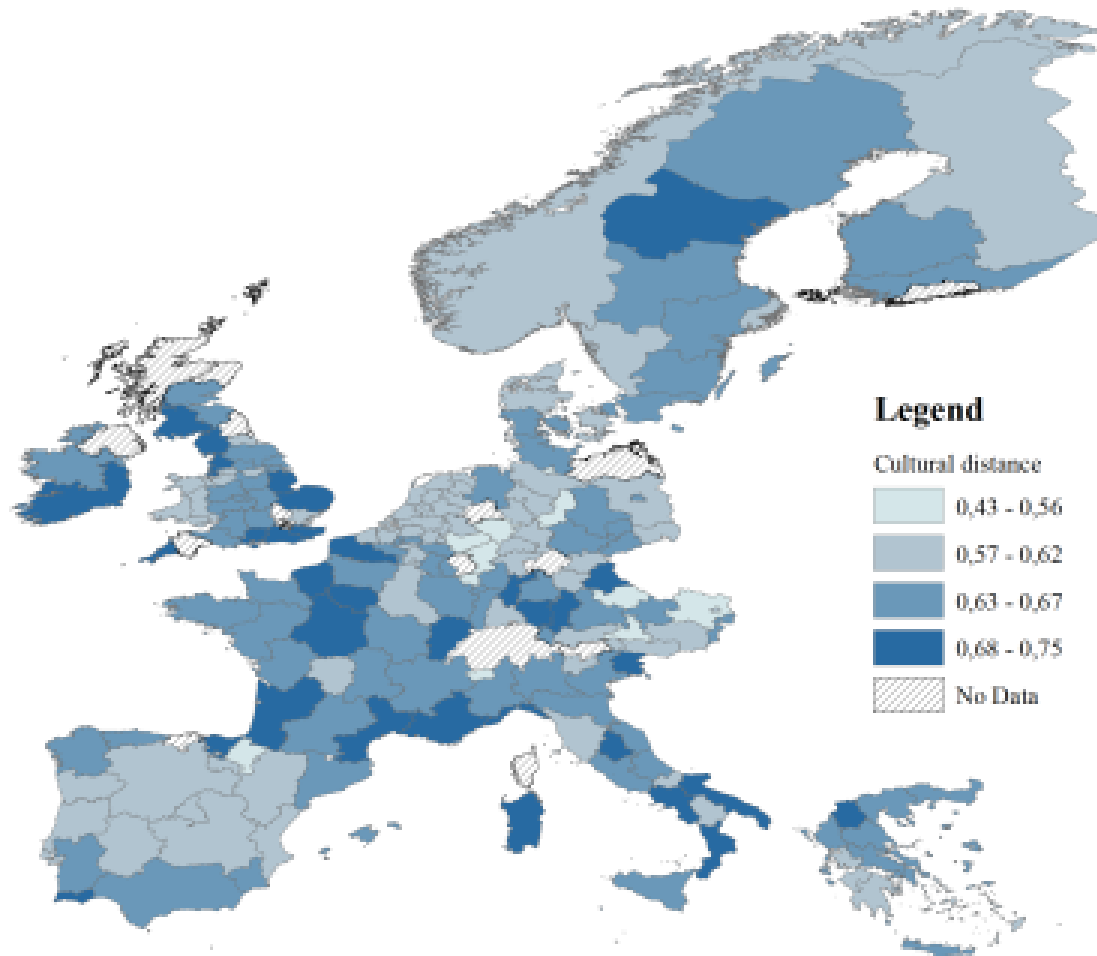
Cultural convergence in the US?

Cultural and Geographic Distance

Nationalism

Table A.6 – Country Pride

Country	Wave 1	Wave 2	Wave 3	Wave 4
AT	-	0.53	0.54	0.48
BE	0.29	0.31	0.24	0.29
DE	0.21	0.23	0.22	0.20
DK	0.30	0.42	0.48	0.49
ES	0.51	0.46	0.44	0.57
FI	-	0.38	0.55	0.56
FR	0.31	0.35	0.40	0.37
GB	0.52	0.53	0.49	0.54
GR	-	-	0.55	0.67
IE	0.68	0.77	0.74	0.77
IT	0.40	0.40	0.39	0.46
LU	-	-	0.48	0.52
NL	0.18	0.23	0.20	0.28
NO	0.43	0.45	-	0.60
PT	-	0.42	0.78	0.65
SE	0.30	0.41	0.41	0.45
Mean	**0.37**	**0.42**	**0.46**	**0.49**