

Is Europe an optimal political area?

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Is European political integration really feasible?



What is an Optimal Political Area?

Maximizes over tradeoff between:

- Economies of scale and scope over public good provision

VS

- Heterogeneity of preferences

Cf. Alesina and Spolaore (2005)

Economies of Scale in Public Goods

Awareness of increased benefits 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 Preferences

- Are Europeans just too different from each other?
 - Focus mainly on cultural heterogeneity
 - Do they trust each other enough ?
- Has economic integration made the tradeoff more / less favorable?

Outline

1. How different are Europeans in their cultural traits?
Compared to:
 - Heterogeneity within countries
 - Heterogeneity between US states
2. Has there been Cultural Convergence?
3. Has there been Institutional Convergence?
4. Discussion

Sample

EU 15 + Norway, 1980-2008

Before financial crisis

Central /Eastern Europe not included

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:

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

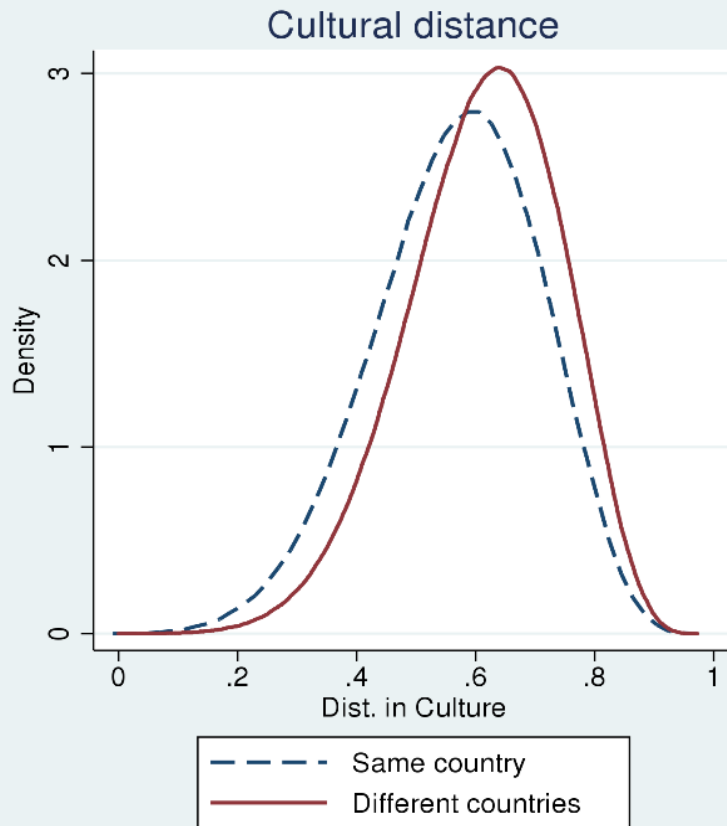
θ controls rate at which distance increases, calibrated on dimensionality of Y

Distance in Unconditional and Conditional culture

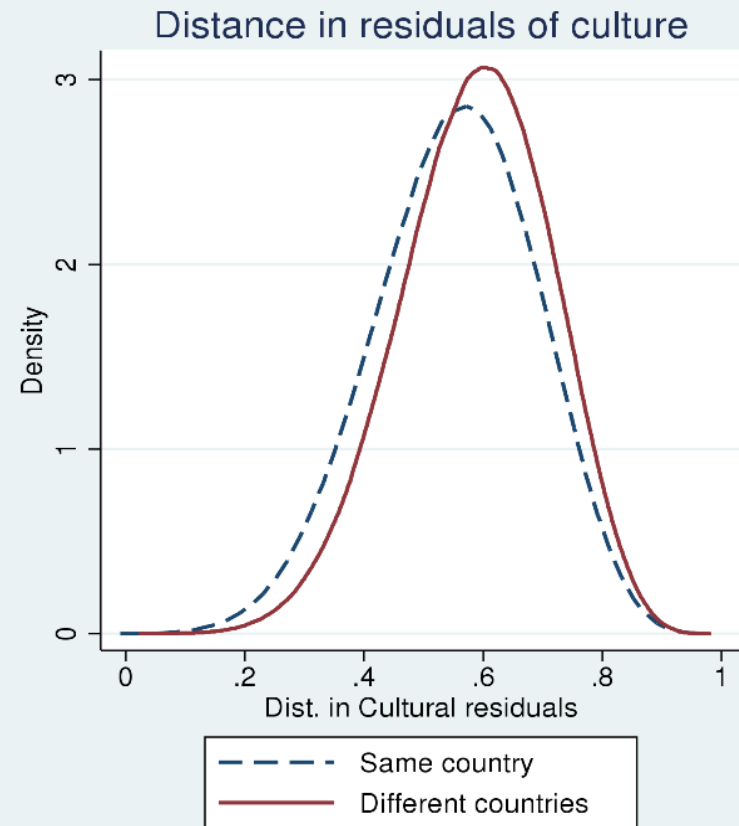
Conditional = distance of *residuals* of $Y(i)$ on socio-economic covariates $X(i)$, estimated from: $Y(i) = a + bX(i) + u(i)$

1. How much heterogeneity?

Culture: Within vs Between Country



Full set of cultural variables. Wave 4.



Full set of cultural variables. Wave 4.

Could it be measurement error?

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

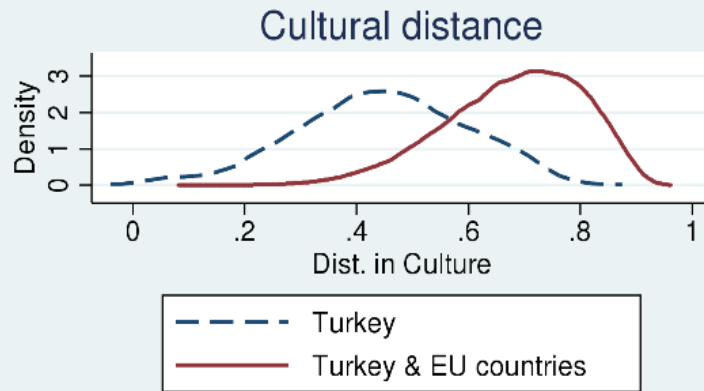
For this to be all measurement error, it should be that:

$\text{Var}(\text{measurement error}) > 9 * \text{observed variance between countries}$

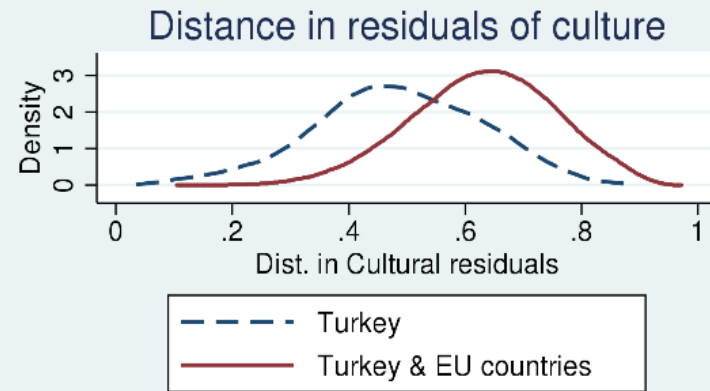
Implausible

Turkey looks different

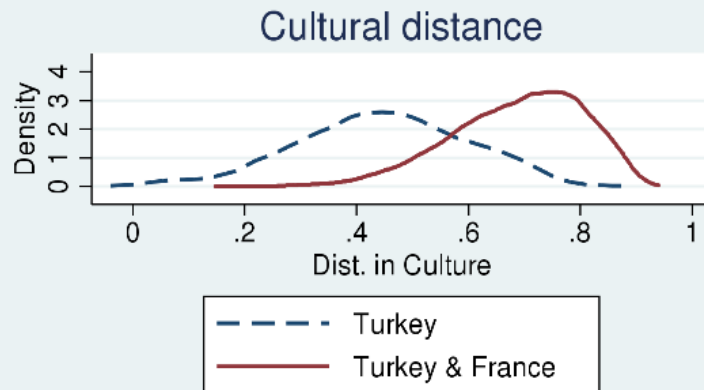
Turkey and Europe



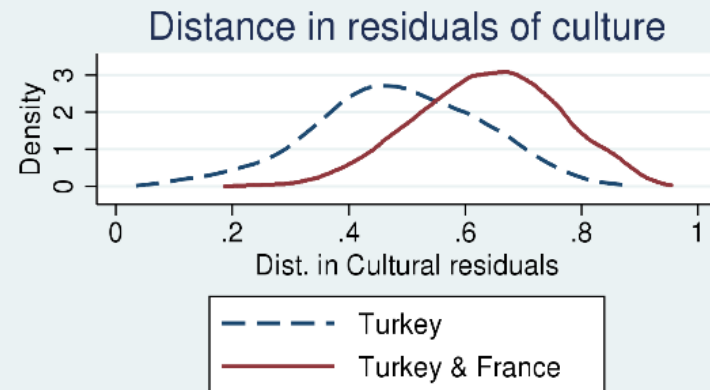
Full set of cultural variables. Wave 4.



Full set of cultural variables. Wave 4.



Full set of cultural variables. Wave 4.



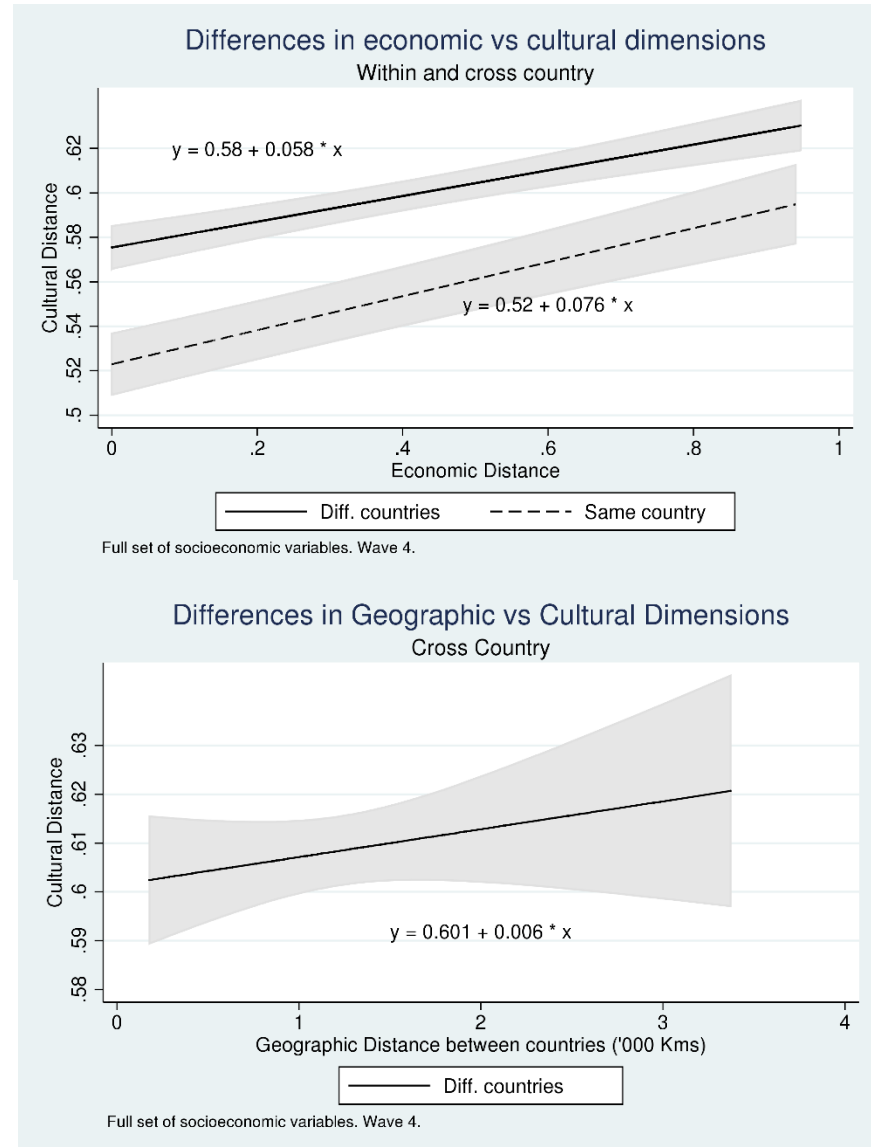
Full set of cultural variables. Wave 4.

What explains cultural distance between individuals?

- Socio-Economic Distance

- Geographic Distance

But mostly unexplained



Where is the cultural core of Europe?

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

$$\underline{Y} = \underset{Z}{\operatorname{argmin}} [\| Z - Y(i) \|^2]$$

- Compute distance of each individual from the cultural centroid, and take regional average

⇒ Average distance of each region from cultural center of Europe
(Unconditional)

Cultural Distance from EU Centroid

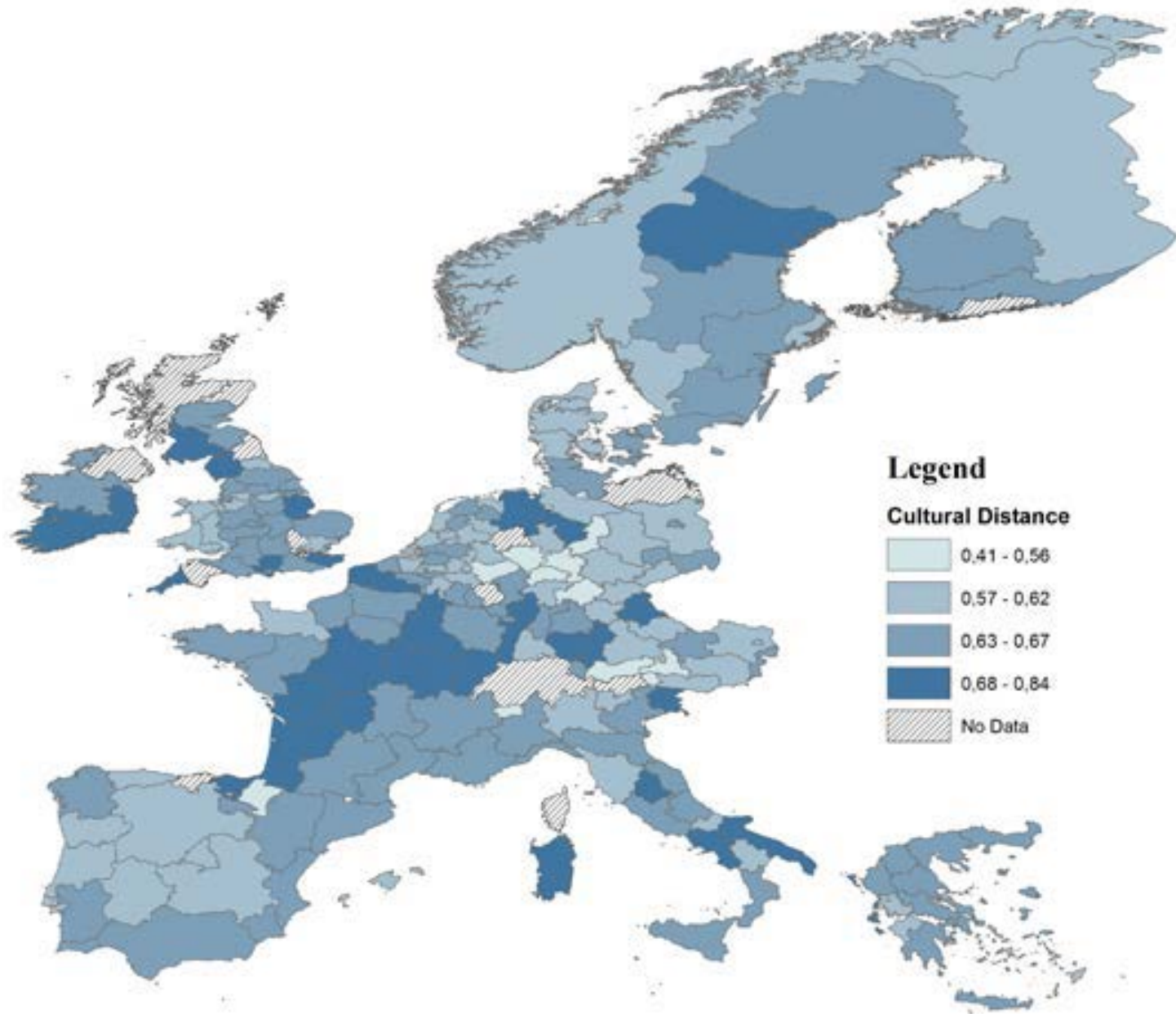


Table 4.2 – Fear of EU and Cultural Distance

	(1)	(2)	(3)	(4)
	Fear of EU			
Cultural Distance	0.0992** (0.039)	0.0844** (0.036)	0.0794** (0.035)	0.0711** (0.034)
Controls		X	X	X
Fixed Effects			Country	Region
Observations	6,810	6,810	6,810	6,810
R-squared	0.002	0.096	0.156	0.209

Note: standard errors clustered at the region level

Summary of main findings

1. How different are Europeans in their cultural traits?

Compared to:

- Heterogeneity within countries **Not Much**
- Heterogeneity between US states

2. Cultural Convergence?

3. Institutional Convergence?

US vs Europe

GSS data over similar period

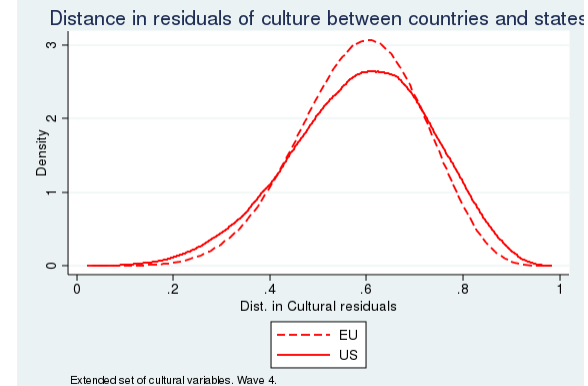
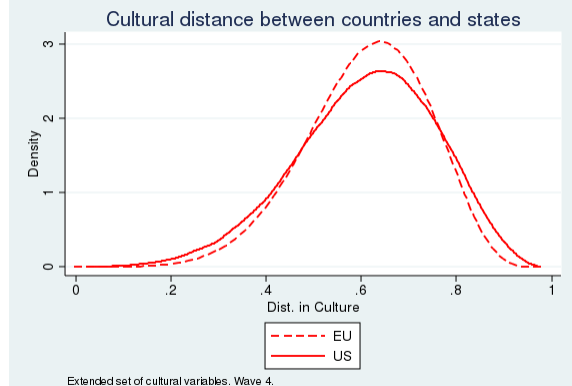
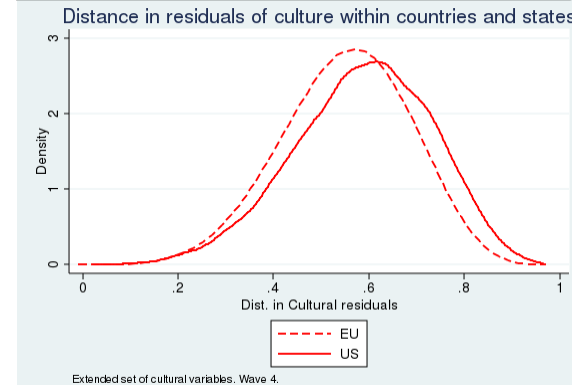
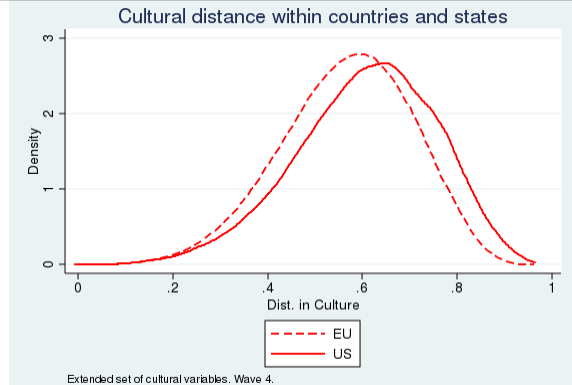
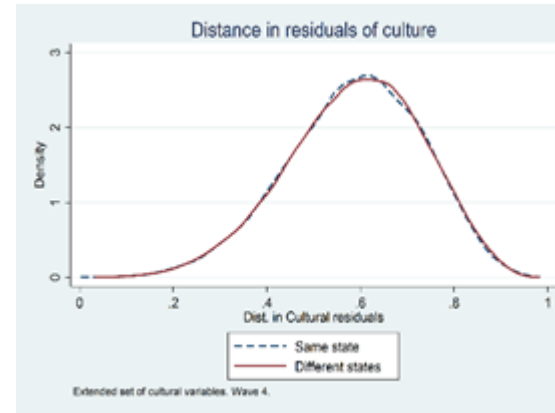
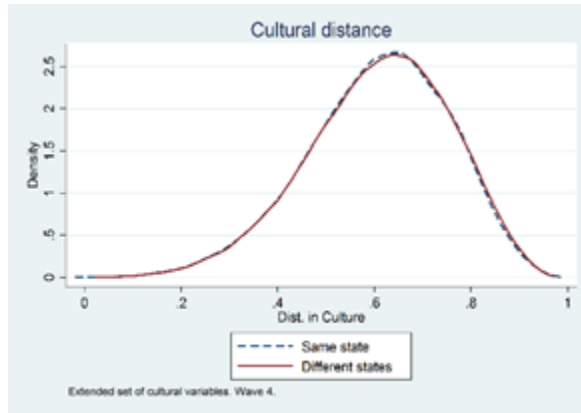
Subset of 15 (almost) identical questions, on same 5 broad issues

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. How different are Europeans in their cultural traits?

Compared to:

- Heterogeneity within countries **Not Much**
- Heterogeneity between US states **About the same**

2. Cultural Convergence?

3. Institutional Convergence?

2. Cultural convergence?

Did economic integration and convergence
=> cultural convergence ?

Economic Convergence

Successful economic integration

- Single Mkt and Trade integration
- Increased labor mobility
- Financial integration
- Single Currency
- Some economic convergence (particularly before 2000)
- Increased co-movements of output
- No increase in overall income inequality

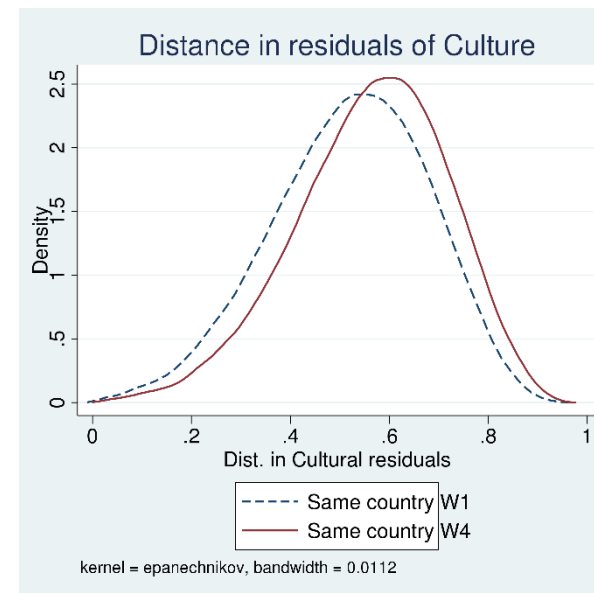
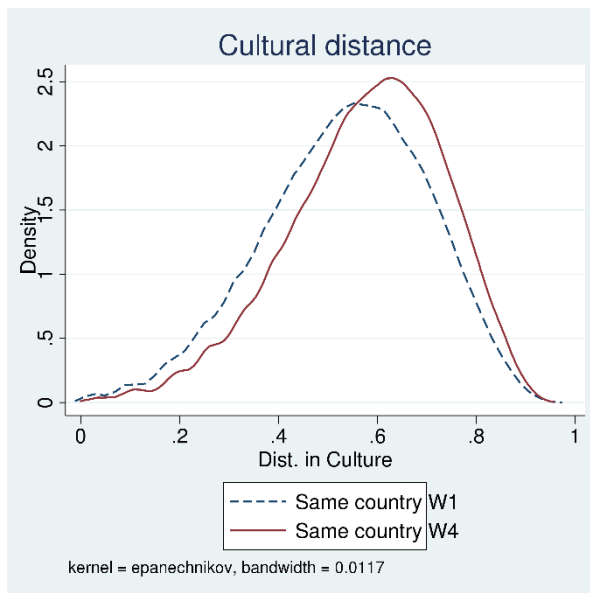
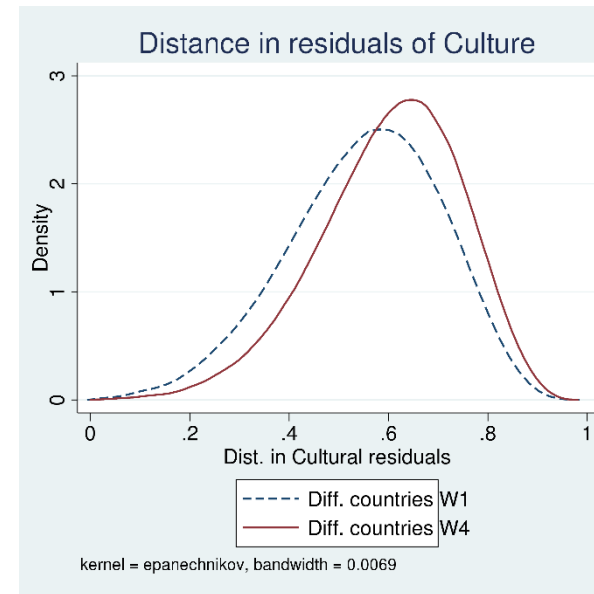
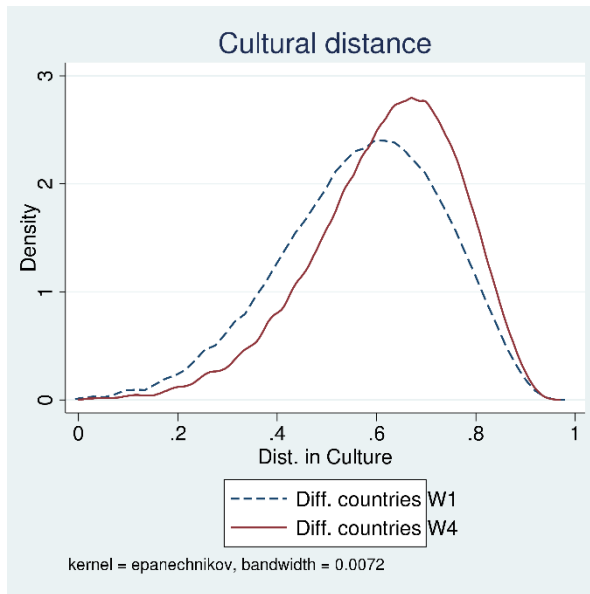
2. Cultural convergence?

Did economic integration and convergence => cultural convergence ?

Prior:

- *Yes*, due to more frequent interactions, increased similarity, shared policy challenges, shared media exposure
- *No*, as trade integration and common currency may have led to opposite structural changes

Distribution of cultural distance



Specific cultural traits

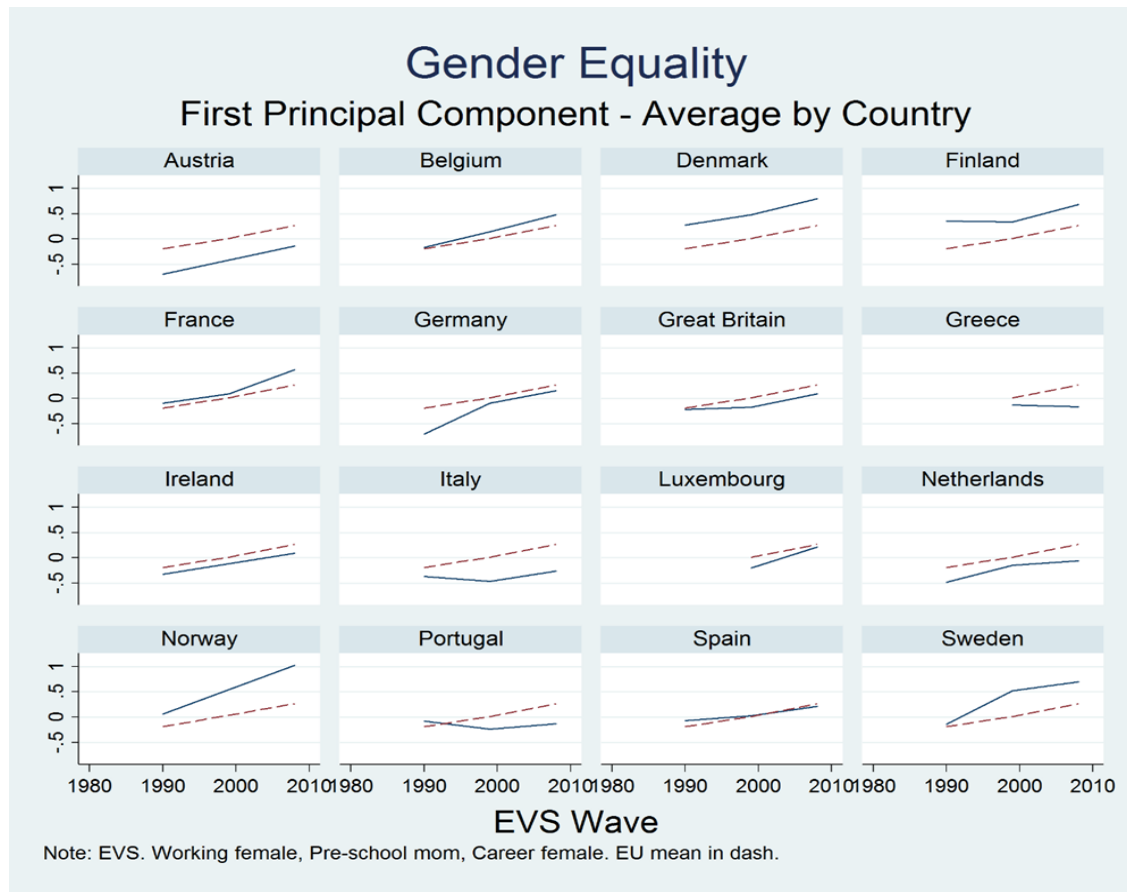
Extract first principal component from each subset of 5 dimensions

Increased dispersion in almost all cultural dimensions

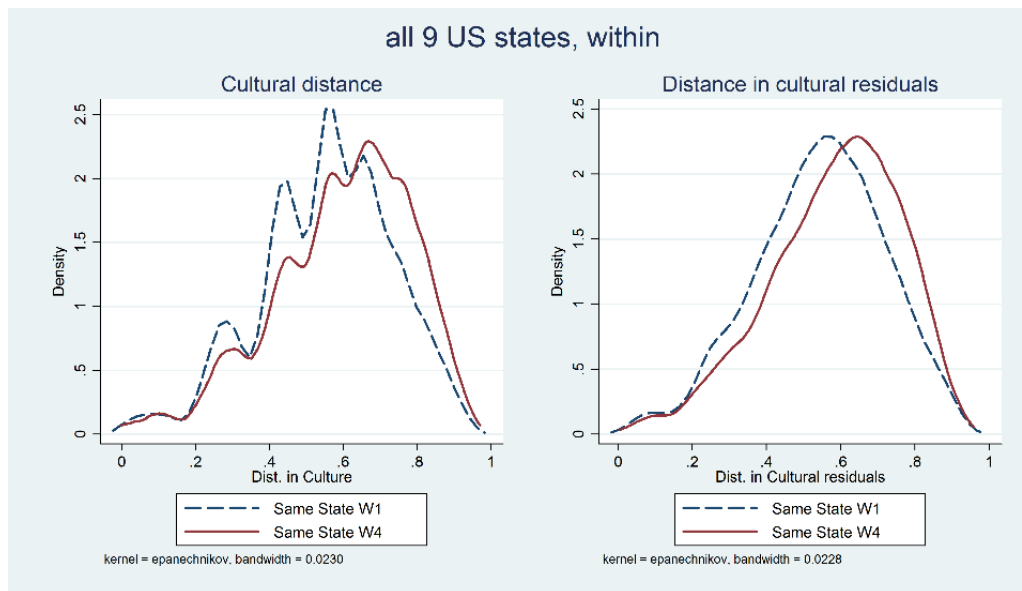
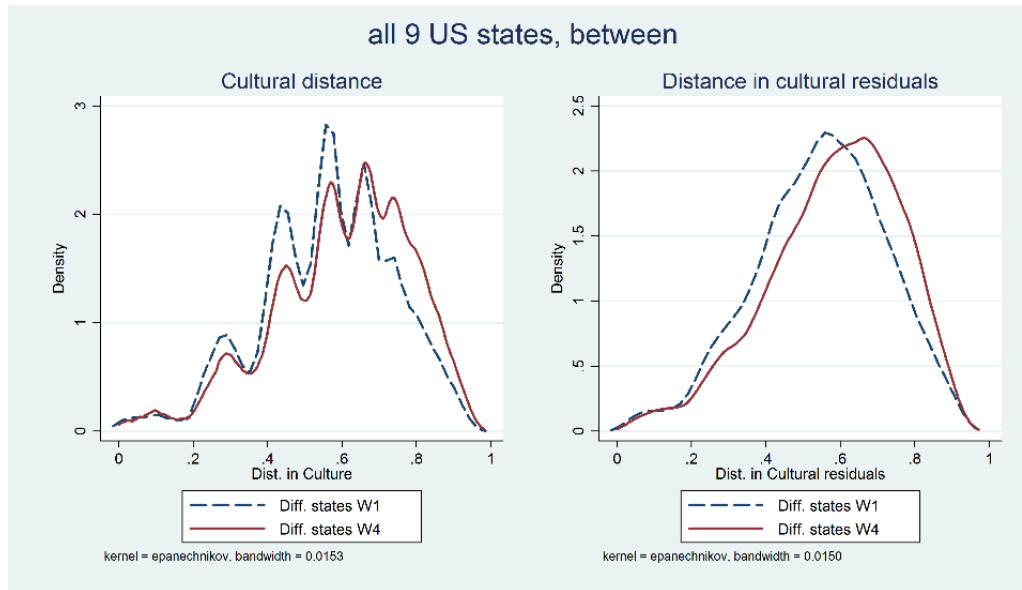
Specific cultural traits

All EU countries have become more “modern”

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



Cultural convergence in the US?



Summary of main findings

1. How different are Europeans in their cultural traits?

Compared to:

- Heterogeneity within countries **Not Much**
- Heterogeneity between US states **About the same**

2. Cultural Convergence? **No, divergence**

3. Institutional Convergence?

3. Institutional convergence?

Did economic integration and convergence => institutional convergence ?

Important also because of fear of “implementation gaps” in common policies

Prior:

- *Yes*, due to deliberate efforts at harmonization, through directives and benchmarking (Lisbon Process)
- *No*, as trade integration and common currency may have led to opposite structural changes

2. 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*

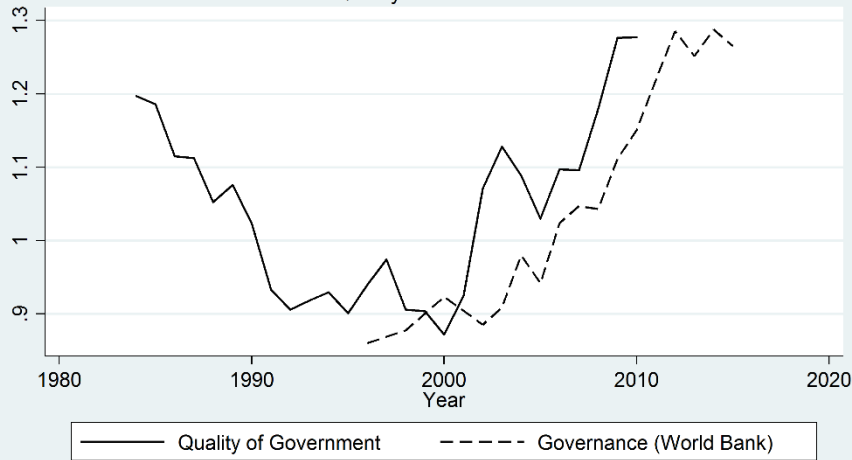
Source: OECD data on product mkt regulation

4. *Education*

Pisa scores (math, reading, science)

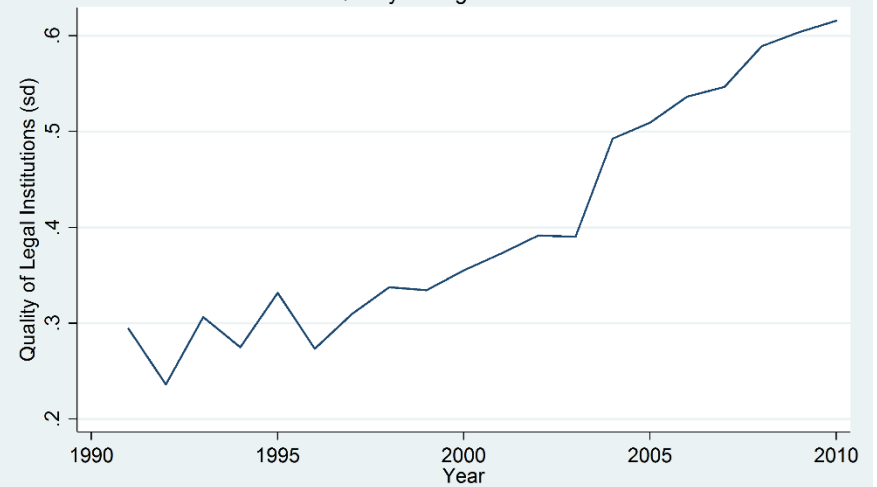
Sigma convergence

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

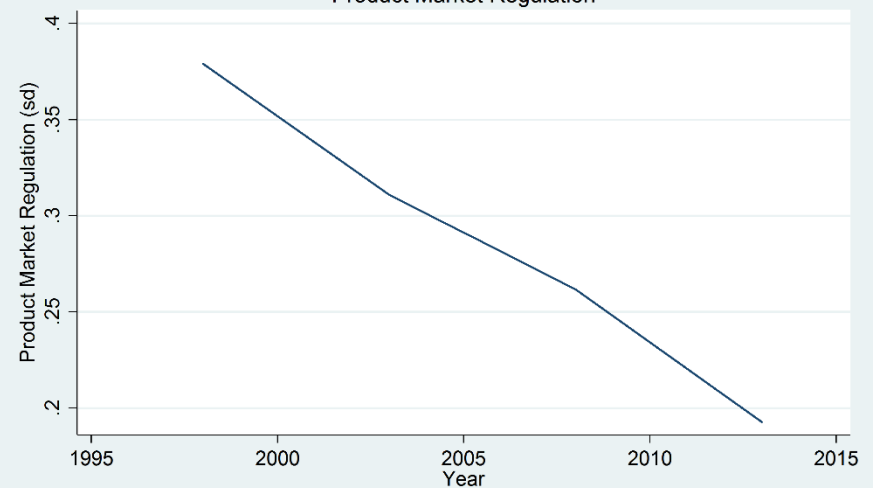


Sigma Convergence between countries
PISA Score

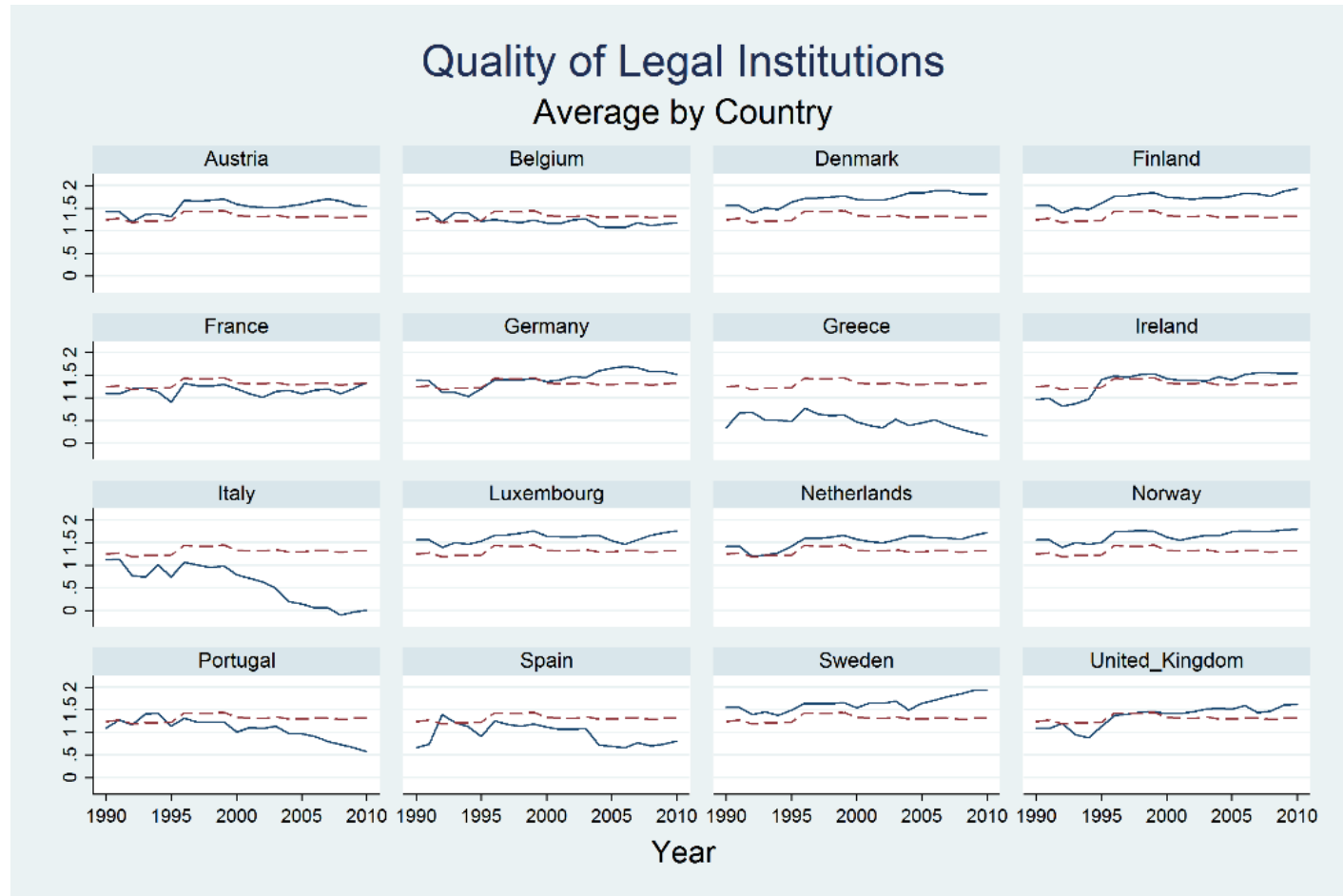


Note: All countries included. Data for UK is missing in 2003

Sigma Convergence between countries
Product Market Regulation



North vs South Divergence



Summary of main findings

1. How different are Europeans in their cultural traits?
Compared to:
 - Heterogeneity within countries Not Much
 - Heterogeneity between US states About the same

2. Cultural Convergence? No, divergence

3. Institutional Convergence? No, some divergence

Discussion

Key tradeoff in political integration:

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

Heterogeneity of deeply held cultural traits not a stumbling block, despite lack of cultural and institutional convergence

What is it? *Strong national identities*

Rising 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

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
- Multi-speed Europe?
 - How different are countries in Central and Eastern Europe?

THANK YOU !

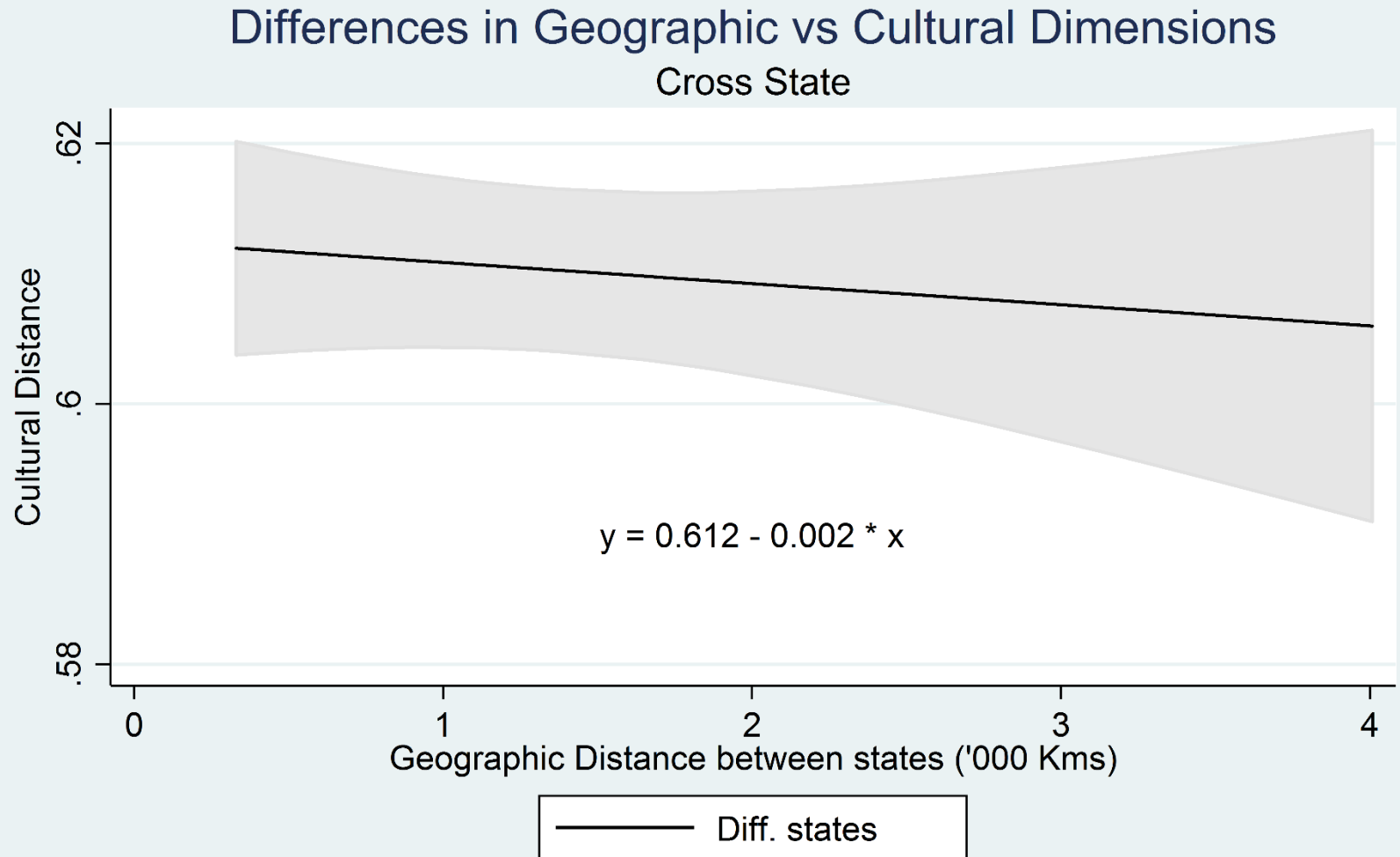
Average Bilateral distance between individuals of identical socioeconomic level.

	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

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

Cultural and Geographic Distance



Full set of socioeconomic variables. Wave 4.