

After Brexit: “Europe à la carte”?



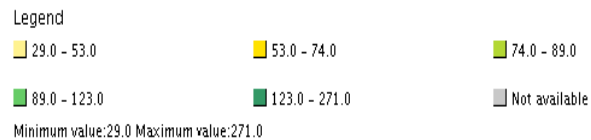
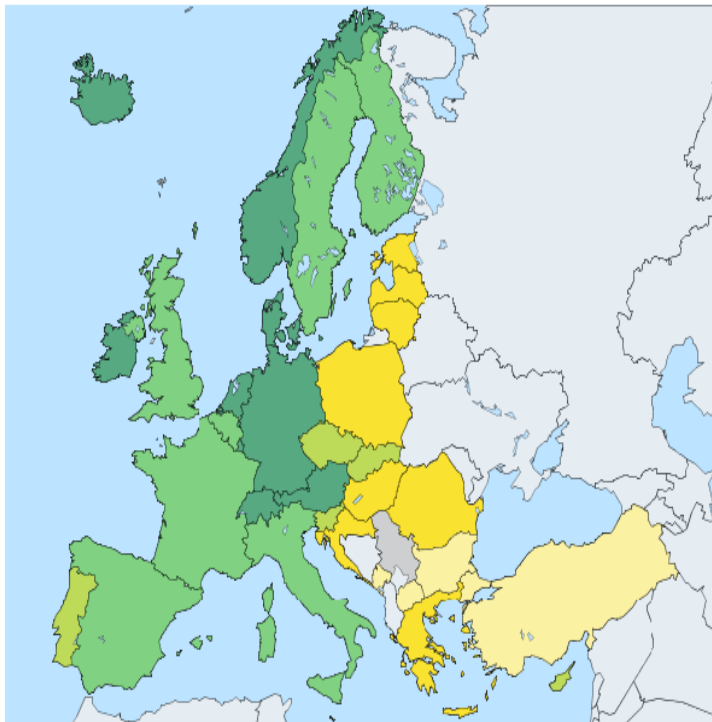
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The argument in 2 minutes

1. Increased heterogeneity amongst EU 28/27 (and € 19)
 - Enlargement and Euro-Crisis
2. Increased decision-making costs and preference costs (Buchanan/Tullock 1962)
3. Larger clubs and / or deeper integration become more costly (Buchanan 1965, Alesina et al 2005)
4. Flexible enlargement and deepening become more reasonable
5. There are different models
6. EU as a club of clubs with reformed acquis would make economic sense (Brandt/Wohlgemuth 2007);
7. Status quo with more „enhanced cooperation“ is politically more likely (Merkel/Hollande/Cameron 2010ff).

Heterogeneity I: GDP /capita (PPS)

GDP per capita in PPS
Index (EU28 = 100) - 2015



EU28 = 100
€19 = 106
LU = 271
BG = 46

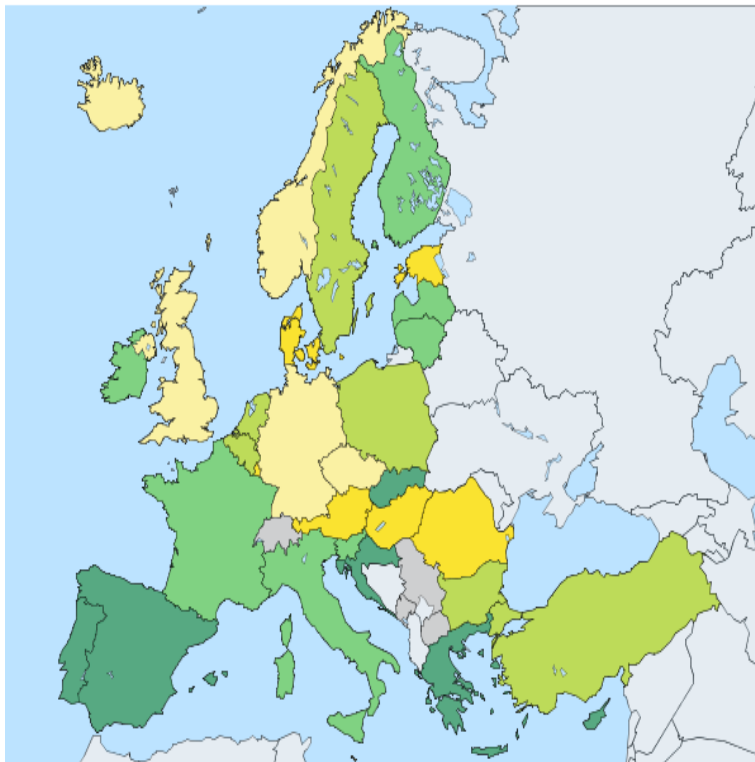
Eurostat 2016

Heterogeneity II: Unemployment (ILO)

Total unemployment rate

% - 2015

Percentage of total population



Legend

3.1 - 3.7

3.7 - 4.3

4.3 - 5.5

5.5 - 6.7

6.7 - 14.8

Not available

Minimum value:3.1 Maximum value:14.8

EU28 = 6.0
€19 = 6.9
DE = 3.2
GR = 14.8

Eurostat 2016

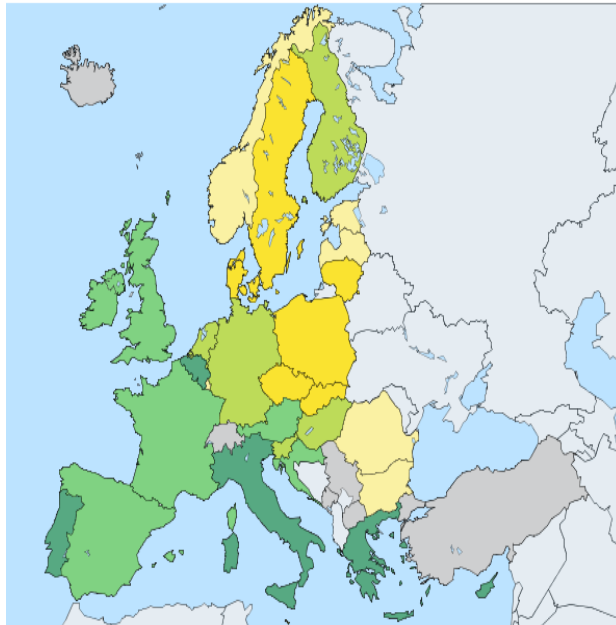
Heterogeneity III:

Public Debt / GDP

General government gross debt

% of GDP and million EUR - 2015

Percentage of gross domestic product (GDP) Percentage of gross domestic product (GDP)



EU28 = 85.2

€19 = 90.8

EE = 9.7

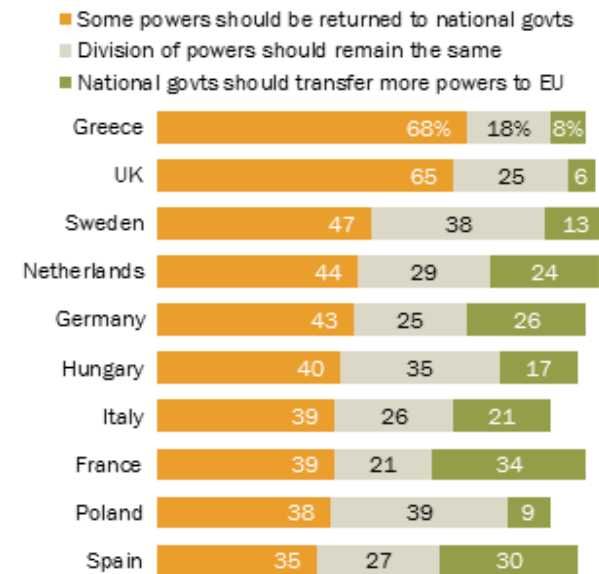
GR = 177.0

Heterogeneity IV:

Political preferences

Disagreement on 'ever closer' union

Which statement best describes your views about the future of the European Union?



Note: Don't know responses not shown.

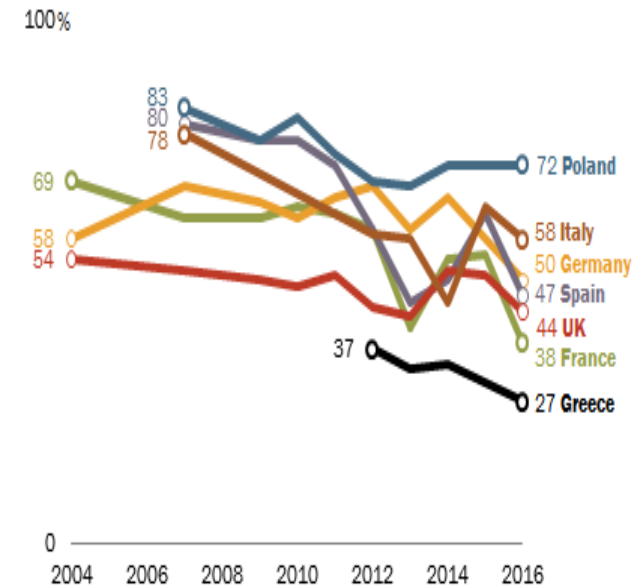
Source: Spring 2016 Global Attitudes Survey, Q49.

"Euroskepticism Beyond Brexit"

PEW RESEARCH CENTER

After short-lived rebound, views of the EU are on the decline again in key European countries

Favorable view of EU



Source: Spring 2016 Global Attitudes Survey.

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The typical Brussels reaction

- Heterogeneity as threat to European „identity“ and „absorption capacity“
- Homogenize! (Structural-, Regionalfunds)
- Harmonize! („social model“, labour laws. taxes)
- More QMV!

Another (evolutionary economics) perspective

- Diversity as potential („European miracle“, Jones, Mokyr ...)
 - Stronger comparative advantages of trade and competition (also „institutional competition“).
 - Stronger disadvantages of uniform regulation in many cases
- Rather (re-) decentralize!
- Less QMV
- More options for flexible integration

Deeper and larger Union: economies and diseconomies

Benefits (chances):

- Economies of scale (production and use of club-goods)
- Better internalization of border-crossing externalities

Costs (risks):

- Higher „costs of heterogeneity of preferences“ (Alesina et al)
- Higher decision making costs (Buchanan / Tullock)

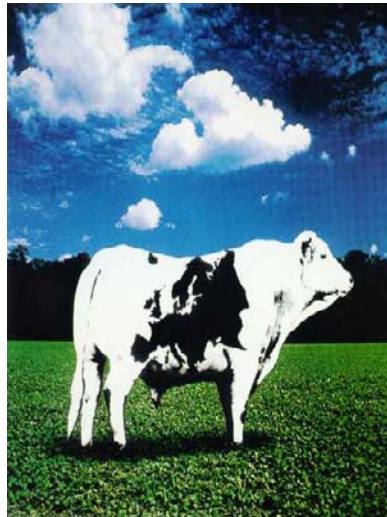
Single market club I (free trade zone)

- „good“: free trade dividend.
 - Mutual recognition of basic freedoms.
 - Gains from trade and specialisation on larger market (Smith), dynamic efficiency through enhanced competition ...
- Optimal club-size of free trade „club“ = ∞
 - (with every new member benefits for all increase)
 - EU is „too small“



„CAP“ - Club

- Economically „efficient“ club-size:
 - 0 (no „good“)
 - 1 (given distributive preferences in a country that is ready to bear the costs by itself).



„Euro“ - Club

- Good: common currency.
- Benefit: lower transaction costs, stronger competition (without competitive devaluation).
- Problem: Elimination of two price signals / adjustments: exchange-rates and (central bank) interest rates.
- prerequisites: similar competitiveness, similar debt-proneness, similar reaction to shocks, or:
 - Very flexible prices (wages) or mobile labour
 - No „moral hazard“ (bail-out)
 - Credible debt-breaks
 - Willingness for large transfers

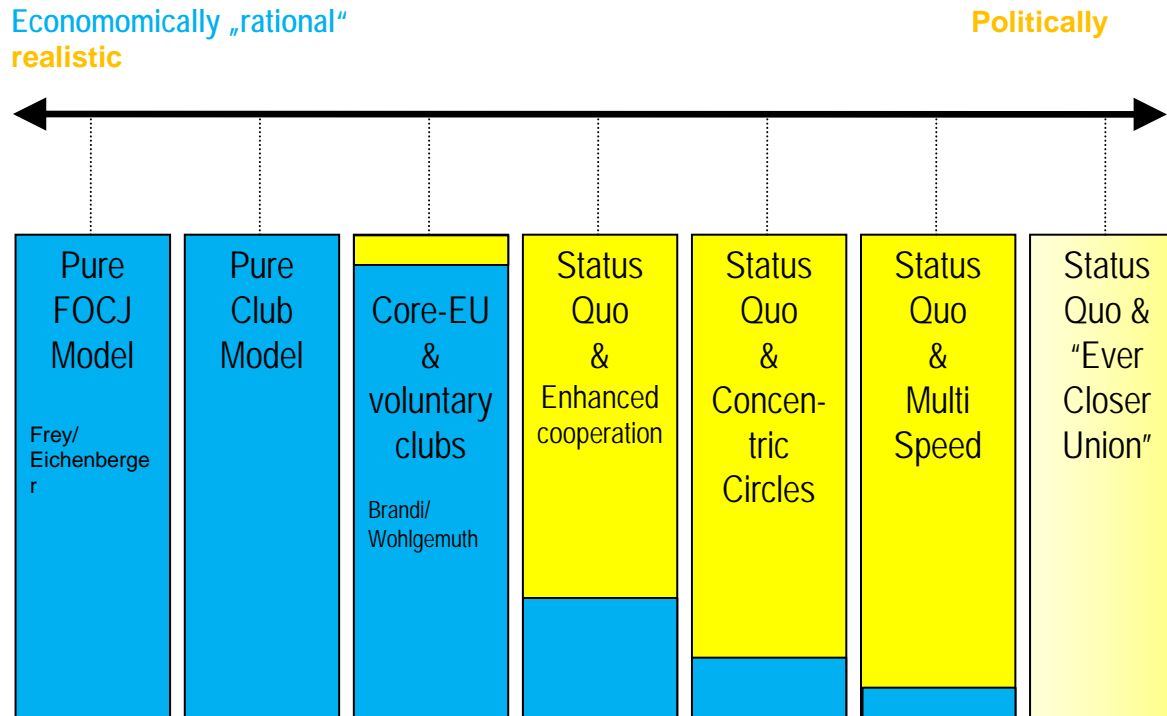


Club-theoretical insight

- „one size fits **not** all“
- EU is often too large and deep ...
 - e.g. CAP, EMU
- ... and often too small and shallow
 - e.g. free trade, migration, environment, foreign policy
- Deepening and widening should be **differentiated** according to policy areas



Alternative strategies of „flexible integration“



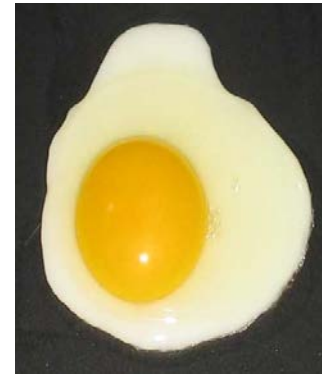
Two-speed Europe

- Brandt 1974 (Merkel/Sarkozy 2010ff)
- Status Quo (acquis) is given
- **More** Integration is goal
- No permanent differences!
- **Temporarily** delayed implementation for some (e.g. ECU)
 - One size fits all, ever closer Union ... sooner or later
 - „faits accomplis“, „agenda setting“ of the pinoneers?
 - „raising rivals‘ costs“?



Europe of concentric circles

- Schäuble/Lamers 1994, Fischer/Delors/Chirac 2000, Chirac/Schröder 2003, (Merkel/Sarkozy 2010ff)
- Status Quo (acquis) given
- „Core“ & Periphery
- **territorially** defined
- Permanent differences possible
 - Two-class club instead of differentiated flexibility



„Enhanced cooperation“

- Amsterdam Treaty (1997), AEUV, Art. 326 ff.
- Status quo (acquis) given
- Seldom used (FTT, patents, divorce)
- Strong conditions:
 - „last resort“, „at least 1/3 MS“, „social cohesion“.
 - Commission has initiative, Council and EP agree.

Core-acquis and EU as Club of Clubs

- Revision of acquis to a „core“ of common interests
- For the rest: devoluton & opening for voluntary enhanced cooperation
- => differantiated intensities of integration in differentiated policy areas for different MS
- Functional, not geographical differentiation (≠ concentric circles)
- Commission / EP as „guardian of the core“ and initator of (sub-) clubs ...

The common core and optional deepening

- With EU-wide public goods,
- EU-wide need for internalization,
- High economies of scale and
- Low D and E:
- **Core-acquis** for all (s.a. “Continental partnership”):
 - Universalizable rules of just (government) behaviour:
 - Ban of protection and domestic legal privileges
 - 3-4 basic freedoms as individual rights
 - Common anti-trust policies
 - Common diplomatic initiatives
 - Cooperation in migration policies
- The rest: **functionally differentiated** integration-clubs of the „willing and capable“.

Advantages (I): Sinking „interdependence-costs“

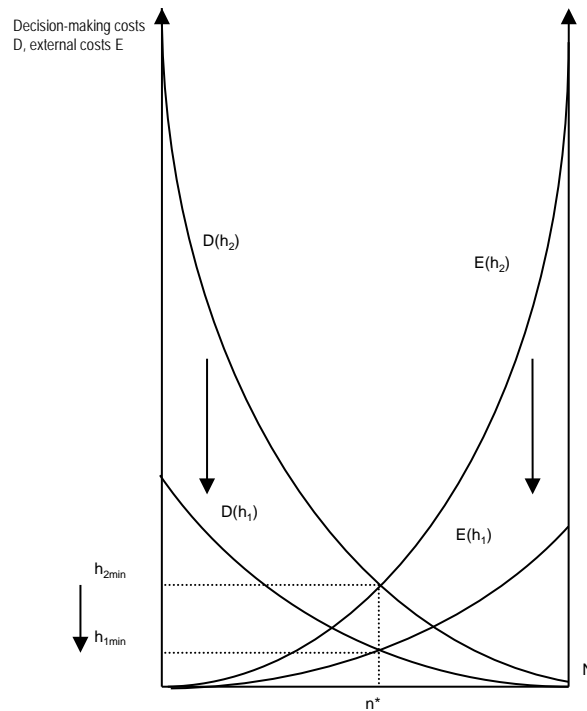


Fig.5 Interdependence costs for two different degrees of heterogeneity ($h_2 > h_1$) at a given decision-making rule n^* and for collective choices made on *one* level of collective action, the harmonized EU-level.

Fig. 5

The
less heterogeneous the
population ($h_1 < h_2$),
the lower are decision-making
and external costs (for a given
decision-rule, here
corresponding to n^*).

Advantages (II): **flexible** (dis-integration) + Enlargement + Deepening + Refinement

- More flexible **Deepening** without log-rolling.
- More flexible **Enlargement** without straining the „absorption capacities“ of EU and new members (Turkey, UK ...)
- More flexible **Exit** options
- Stronger incentives and easier ways to react to changes in citizens' **Preferences**.
- **Club-Competition** via „exit/entry“ of members
 - As procedure to curb political power (Eucken, Böhm)
 - As discovery procedure (Hayek, Wohlgemuth)

Problems / Challenges / Risiks

- Can old acquis be reduced?
- Can legal path-dependencies be rolled back?
 - Package-deals hard to unbundle
 - Legal systems very interrelated
 - Legal continuity / certainty has value
- Can „closed-shop clubs“ be tolerated or avoided?
- (even more) chaos in Brussels?

Europe à la carte?



Lord Dahrendorf, Jean Monnet Lecture 1979:

I have often been struck by the prevailing view in Community circles that the worst that can happen is any movement towards what is called a *Europe à la carte*. This is not only somewhat odd for someone who likes to make his own choices, but also illustrates that strange puritanism, not to say masochism which underlies much of Community action: Europe has to hurt in order to be good ... The European interest (it is said) is either general or it does not exist ...

I believe that ... such a view is not only wrong, but in fact an obstacle to further European integration.

Europe à la carte?



Europe à la carte ... must become the rule rather than the exception, if European union is not to get stuck in a mixture of incomprehensible technicalities, systematic cheating on the part of some, demands for exceptions which destroy overly complex systems, and a sense of frustration and misery all around.