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EUROPEAN UNIFICATION BASED ON FLEXIBILITY AND DIVERSITY

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I. Propositions

This paper advances two propositions:

Proposition 1: „The European unification has been wrongly constructed as it is built on nation states".

Proposition 2. „The future of Europe lies in flexible, dynamic political units caring for diversity".

These propositions are radical in the sense of being unorthodox and a taboo theme in the public discourse. It has been explicitly stated „there is no alternative to the European Union" (Chancellor Merkel[1]). At the same time it is obvious that the EU is in a deep crisis.
Alternatives do, however, exist. Ideas for the European unification process suggesting more flexible procedures such as "Europe à la carte", "Integration at different speed", or "North and South EU" have been advanced. While the ideas appear may radical compared to the present discourse about Europe the flexible dynamic units here proposed can be introduced gradually, without destructing the existing national states.

I wish to emphasize that I do not in any way want to criticize the founders of the European unification process, persons such as Monnet, Schuman, Adenauer, Einaudi or Spaak. But they were "children" of their time – as we all are. They experienced the terror in the Second World War and wanted to lay the foundations of peace among European nations – and that meant reconstructing the national states in a democratic and non-aggressive way. Even Churchill, in his talk at the University of Zurich, suggested a "United States of Europe" – of course without the United Kingdom!
I have great admiration for the post-war founders of Europe; indeed I share their fundamental conviction that there should be a European unification process – but in a totally different way from what happens today. We live in the 21st century, and since the first efforts to bring Europe together much has changed, not least the fundamental change due to the digitalization of much of our lives.

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[1] See Bloss 2008, p. 10 citing Angela Merkel: „Ich möchte, dass diese EU erfolgreich ist. Es gibt keine Alternative".

Section II shortly discusses the successes and shortcomings of the existing unification process by the European Union composed of nation states in terms of six goals. The following section presents an alternative in the form of flexible, dynamic units caring for diversity. It is argued that this approach has many striking advantages. Section IV applies the concept of flexible political entities to the goals envisaged in the European unification process. Section V concludes.

II. Successes and Failures of the Present European Unification Process.

I consider three broad areas: political, economic and technological.

A. Political goals

1. Peace

Peace has rightly been the most important goal of the European Unification process after the havoc of the two World Wars in the 20th century. We have had 70 years of peace between European nations; this is a great achievement.

Nevertheless, the European Union EU (which in the following also stands for the previous names such as EEC) has not been totally successful with regard to peace if internal strife is also considered. One would think that under the umbrella of the EU it would be much easier to solve the internal conflicts in Northern Ireland, Spain (the Basque Country and Catalonia), Corsica and Scotland. Indeed, the EU has not been helpful.
The EU was also not very successful in reducing the military conflicts immediately outside their borders, in the Balkan.
There is also a causality issue. It may well be that the EU has fostered the friendship among the European nations, most importantly between France and Germany. But it cannot be excluded that the causality runs in the opposite direction: because France and Germany became close allies, the foundation and development of the EU was possible. Probably, there was a mutual causality but that means that the EU cannot legitimately claim to be the only force securing peace in Europe.

2. Power

One of the purposes of the European unification is for Europe to be able to act in concert, and therefore to have greater weight in international politics. This sounds convincing at first sight. However, it is not clear whether the *total* impact is smaller if France, Spain, Italy, Germany, or the United Kingdom each acted independently. The issue is open, and one would like to see a serious empirical study on this question. It would have to analyse in which areas of politics joint action was indeed necessary and successful, and in what other areas independent action would *overall* have brought about better results. This issue is most difficult to study as there is no counterfactual.

3. Democracy

The European unification process has always been under the flag of democracy. However, the EU itself is faced with an obvious *democracy deficit*

which need not be further discussed (see e.g. Atlantic 2014). Rarely would anybody claim that the EU is a shining example of democracy designed for the 21st century.

4. European identity

Today, in many parts of society people perceive that there is a joint European identity. This applies fully to culture, sports, or the media. But exactly these areas are not connected with the EU as an institution but exist independently. This becomes obvious when considering Norway or Switzerland. They are fully integrated in these areas but are not members of the EU.
Within the EU, a grave concern is indeed that there is a rather weak identification with the EU institutions and with the other member states. European identification even seems to have fallen, at least judging form the declining participation rates at European elections (Atlantic 2014).

B. Economic goals

5. Free trade

Here we have the great success of the EU. It can well be argued that the free movement of goods, services, labour and capital would not have been achieved without the EU.
But major problems exist. There is now wide consensus that the Euro has been introduced too early, and that has been extended to quickly to too many countries. It has created a dangerous North-South divide within the Union, and has opened new, even bitter, conflicts between some members, in particular between Greece and Germany. Most such conflicts can be "solved" by ever increasing monetary transfers (a policy pursued by the European Central Bank in the interest of the EU member states) but it is questionable whether such a policy can succeed in the medium and long run. There are conflicting views in this regard but it is fair to state that there are great dangers lurking in the future.

C. Technological goals

6. Leading the technological advance

EU politicians and public officials have officially stated that the EU has to belong to the front of technology. Accordingly, the EU has launched massive monetary programmes; in the case of ICT involving one billion Euros, in the case of the Brain Project 79 billion Euros (EU Horizon 2020). These are huge projects initiated and governed by the EU.

From a Hayekian perspective such programmes coming from above are ill advised and a typical example of bureaucrats claiming to know what will be the future (Hayek 1979). The history of innovation virtually knows hundreds of examples that future development has been forecasted wrongly. Who would have predicted fifty years ago that most persons in Europe use their own laptop? Who would have predicted thirty years ago that we communicate largely by digital media (cell phones, e-mail)? These

technological advances have been developed due to decentralised efforts, such as start-ups in the garages of Silicon Valley. Serendipity, i.e. the unplanned advent of innovations, plays a large role in true innovation (in contrast to just pushing further already known innovations). If one follows this line of thought, there is only one possibility to push innovation: establish diversity so that every inventor and researcher has a chance to develop his or her idea. In almost all cases this will result in failure, but in a few cases a successful innovation will take place and push forward the technological frontier.

III. Flexibility, Dynamism and Diversity

I wish to argue that the manifold problems indicated in the three areas (politics, economy, technology) *cannot be solved by a central state* such as the "United States of Europe". To try, for instance, to become more democratic or to advance technology, should not be attempted from above. But I also want to argue that the problems *can neither be solved by independently acting national states*.

We need to consider a totally *new concept* of how political units are to be organized. They must fulfil three crucial criteria:

1. The political must be *flexible.* They must be able to adjust to new issues, problems and conflicts constantly emerging. Their size can be small or large, or anything in between, but their organizations should follow democratic principles. This means in particular, that they should emerge from below, and not be imposed from above.

2. The political units must be *dynamic,* allowing both entry and exit.

3. The organization of the political units must cater for *diversity* in order to allow social and technological progress. New ideas must be able to emerge, and to be experimented with, due to a multiplicity of political entities; none must have monopoly power to force the other units to follow its interests. To introduce two well-suited German words: The political units must correspond to "*Vielfalt*" rather than be reduced to "*Einfalt*". The latter word, *Einfalt,* not only means that there is only one dimension. Rather, being reduced to one dimension is identical to being stupid ("einfältig") – and rightly so.

In order to be able to put these flexible, dynamic political units into reality, new ground rules – or a new constitution for the unification process of Europe – need to be established[2]. They must totally reverse the procedure existing today. Instead of trying to solve existing issues, problems and conflicts within the borders of the existing national states, one must first focus on the issues,

[2] See Blankart 2000, Eusepi 2000, Brennan and Eusepi 2005.

problems and conflict, *and then choose the appropriate size of the political entities.* Once this has been said it seems obvious. How can one expect that the national states whose borders have been formed by historical chance events are able to solve the many issues that today increasingly straddle national borders?

The concept of flexible and dynamic political entities committed to diversity has been developed in the specific form of FOCJ (Frey and Eichenberger 1996a, 1996b, 1999, Frey 1997, see also Casella and Frey 1992), standing for

F = *Functional*, i.e. focusing on problems and conflicts. They may apply to a great variety of issues and they may extend voting power to anybody affected by a particular issue, including foreigners;
O = *Overlapping*, an aspect directly following from the fact that issue orientated entities necessarily overlap. This means that unlike national states various political entities may act on the same level.
C = *Competitive* in two regards[3]: (a) Several units may offer the same or similar public services. The individual consumers or political communes may freely decide which suits them best by having the most adequate combination of public service and corresponding taxes; (b) The decisions by the politicians and public officials running the FOCJ is subject to democratic control by voters.
J = *Jurisdictions*, meaning that the entities may raise taxes for the public services they provide. The total tax bill of individuals is composed of the various specific taxes corresponding to the diverse public services rendered.

The concept of FOCJ is not claimed to provide an ideal solution for all the problems arising but it promises to be a better institution than the national states acting independently or in the confines of the European Union.

The most often raised objections to FOCJ are three:

(1) The citizens are *overburdened* by the multitude of political entities to which they belong.
There is, however, no empirical evidence that individuals would be unable to judge what happens in more than one political entity. This is particularly true as each one focuses on one issue and therefore it is not difficult for the citizens to decide whether that particular service is well done or not.
(2) The inhabitants lose their sense of *identity* as the national states are no longer the only political unit with which to associate.
In the modern world individuals have many different identities at the same time: not only to their country, region, or city, but also to their profession, language, ethnicity, culture or sports club (many people strongly identify with Barcelona, Chelsea, Juventus, and even the Football Club of Basel). It should also be remembered that national states may

[3] See e.g. Schneider 1992, Fuest 1995, Friedrich 2002, Feld, Schaltegger and Schnellenbach 2008.

perform a role in the concept of FOCJ – but only if they efficiently fulfil a public service within their territory (it is not easy to see which ones these are because the borders of all national states have been shaped by historical chance events).

(3) FOCJ are *impossible.*

This is, of course, an argument always raised against any new idea by the prospective losers or conservative thinkers. However, political units resembling FOCJ have existed and have been viable over extended periods of time. Examples existed in antiquity, in the Middle Ages (the Hanse), and exist today (Swiss political, inhabitants, school and church districts; special districts in the US).

A more important argument against FOCJ is that they are "impossible" in the sense that the politicians and public officials in national states and the European Union oppose FOCJ because they would lose power. This concern is correct – but this is exactly one of the reasons why FOCJ should be introduced in order to give power back to the citizens.

The advantages and disadvantages of FOCJ shall not be further explored here[4]. Rather, an attempt is made to apply the concept to the issues forming the goals of the European Union listed in Section II of this article.

IV. FOCJ Applied

I suggest that the six major goals of European unification can, to some extent and to a different degree, be achieved by FOCJ. Here, for reasons of space, the applications cannot be extensively discussed; hints are provided, only. The purpose is to show that FOCJ are a practical institutional innovation to overcome some of the major shortcomings of the EU.

1. Peace

FOCJ allow flexible solutions for the independence movements presently occurring. Thus, Scotland could become sovereign in some dimensions (e.g. purely political and cultural) but stay a member of the United Kingdom in other respects (e.g. economically). The same applies to Catalonia and the Basque country with respect to Spain, and Corsica with respect to France. Somewhat surprisingly, the EU Institutions have not been helpful in this regard. The former President of the Commission, Barroso, explicitly stated that an independent Scotland would no longer be part of the EU, and would have great difficulties to enter, if at all.

FOCJ would also easily allow countries, regions and communes wishing to have closer relations with other countries to partially integrate.

2. Power

FOCJ can take any size; they need not be small but can be large, according to the requirements. Thus, defence can extend to NATO and beyond if deemed

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[4] This has already been done in, for instance, Frey 1997, Frey and Eichenberger 1999. A forerunner is Tullock 1969. See also the critical analyses by Vanberg 2000, De Spindler 2002, and Kyriacou 2006.

necessary. Other supranational policies, such as some environmental issues, can be undertaken in appropriate entities. Therefore, FOCJ do not prevent activities at the global level.

3. Democracy

FOCJ are based on political power coming from below, the individuals. The governors of FOCJ are to be elected, parliaments can be formed, or – preferably – popular initiatives and referenda can be instituted[5]. An example may be the Lake of Constance. It is bordered by three nations, two German Bundesländer, one Austrian Land, and at least three Swiss Cantons. A FOCUS (to introduce the singular of FOCJ) could cater for tourist and/or water affairs, raising its own taxes to fulfil the corresponding tasks.

4. Identity

As discussed above, today it is normal to have many different identities. Thus, a person living near the Lake of Constance can well feel to be a member of this region, and at the same time to be German, Austrian or Swiss, or to identify with his or her profession.

5. Free trade

Following economic theory, a free trade zone should extend to as many areas as possible. Ideally it should extent over the whole globe. A free trade FOCUS could cover many more territories than the present EU does, for it could, for instance, integrate Turkey or North Africa without involving political issues.

6. Technological progress

FOCJ allow alternatives to the massive research programmes presently undertaken in the EU directed from above. They take the fundamental idea seriously that it is a pretence to claim that one can foresee the future. As the future is, and remains, uncertain the only possibility is to *support diversity* by furthering the free flow of ideas (see Pentland 2014) and to extend credit opportunities to a wide range of would-be inventors.

V. Rethinking Europe

The European Unification is a noble aim but should not be achieved by an ever more centralized, bureaucratic institution subject to a major democracy deficit, and being subject to, and even creating, major conflicts in Europe.
I argue that flexible and dynamic entities able to overcome national borders and nationalistic feelings are appropriate for a Europe of the 21st century. A great advantage is that they can arise *gradually* though there will be much resistance by entrenched politicians and bureaucrats both at the national and the European level. The first step must be to constitutionally allow the respective political entities including their taxing power. Over time the FOCJ (or other flexible political units) will take over those activities national states and the EU do not

[5] See e.g. Feld and Savioz 1997, Feld and Kirchgässner 2001, Eichenberger and Frey 2002, Feld, Schaltegger and Schnellenbach 2008.

fulfil well. The national states as well as the EU will wither and make room for a web of flexible and dynamic political units based on democratic rule and furthering diversity.

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