CHANGING THE DEBATE ON EUROPE

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On The Future of European Integration: Idea, Economics, and Political Economy

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On The Idea of Europe [1]

Europe is a small land mass, densely populated, with a relative abundance of coasts and great number of rivers, with hardly any deserted or inhospitable areas. For Montesquieu, strong nations neighbouring each other in a temperate climate were part of Europe´s strength. The happiest image is that of Europe as a walkable continent, with few physical barriers and tremendous variety, as suggested by George Steiner. His is a synthesis of Europe in the form of praise for density, another name for diversity.[2]

The idea of Europe has rarely appealed to unity. Rather, it is the diversity of a large number of very different jurisdictions, and their geographical proximity, that is often evoked. In the past, many have thought of Europe as "more" precisely because it was "more diverse". Diversity was often seen not as a liability but the core fact that allowed for change and progress. Integration, economic or political, is accompanied by certain unifying myths. In the case of Europe, we should not take these seriously unless they intelligently accommodate diversity. The "unity in diversity" motto is but a starting point, which urgently needs new incarnations. The ideas of Europeanism, federalism, and even "post-material" politics appeal, albeit in different ways, to new possibilities for political, cultural, and social cohesion.

When considering the size of political units, one may refer to population, land area, or other relevant resources. Considering size alludes naturally to its natural equivalent, scale. Scale reduces the fixed cost of providing common policies, especially if preferences and interests are sufficiently homogeneous to cement the common decision. Larger polities can also deal better with side-effects, such as so-called externalities: activities whose nature and intensity are decided by one party but directly affects other, "silent", parties. But a larger size of jurisdictions is associated with, all else equal, more diverse populations, preferences, and realities. A sensible starting point is to view Europe, in relation to other continental political spaces such as the United States, as more likely to "suffer" from diversity. Consequently, European integration needs to summon with special urgency the benefits of scale in common policies and common provision.

The process of European integration has dealt with the issue of market size appropriately. Facilitating international economic integration was an important first step: a larger market is an almost perfect substitute for reliance on national markets. Not surprisingly, economic interests were easily aligned behind the common market objective.[3] This stance will be more difficult to replicate when, and if, more "political" markets such as defence, public procurement, and some semblance of a common fiscal policy come to the fore.

European integration has so far dealt poorly with defence and public procurement issues. It has timidly undertaken transfers from richer to poorer regions, and provided almost no internal insurance against short-term economic fluctuations. The progressive and inevitable retreat of the United States from the defence of Europe will force Europe to think deeper about its first motivation for establishing a common economic market: attaining a long-lasting peace in Europe. In the future, that objective will have to be sought without the protective shadow of American forces and, we have known for at least two decades, the potential menace of an authoritarian and closed power in the East.

Can European citizens identify with a policy-intensive European Union in the same way that they identify, at a basic, and probably "irrational" level, with older, but equally abstract, national communities? Can Europeans build their enthusiasm for a peaceful and "eternal" Europe as, in the past, they committed their lives and souls for young and fledgling nationalities? Can these two loves be compatible and, better yet, complementary? Nationalism rose in tandem with the rise of the state in industrial societies, while the idea of

[1] Please Do Not Quote Without Permission.
Paper presented at the Dahrendorf Symposium on the Future of Europe, Berlin, 8 and 9 November, 2011. I have benefited from comments or conversations with Marina Coelho, Mark Hallerberg, Felipe Larrain, Jaime Luque, Miguel Maduro, and Massimo Morelli. Some of the materials discussed in this paper have been previously developed analytically in co-authored academic papers co-authored. This paper was written while the author was a visiting Professor at the Robert Schumann Center for Advanced Studies at the European University Institute, in Florence, under the auspices of the Global Governance Program, to whose hospitality the author is indebted.

[2] See Steiner (2004).

[3] Even though, as highlighted in Ruta (2007), market regulation may still be immensely vulnerable to parochial national interests.

Europe strives to come to fruition in a service society. The benefits of standardized public education that created notions of national identity were evident to both industrialists and nationalists. The means to create and pass on a similar European narrative to a wide mass of individuals is open to question. But, evidently, Europe has to go beyond what Ralf Dahrendorf called "the nitty-gritty of prosperity" to appeal to current and future Europeans.[4]

In this essay we try to address these important issues with a simple and, we hope, relevant methodology. In Section 2 we discuss some of the economics of European integration. How, in broad terms, has economic integration progressed? What have been the determinants of their relative success? In Section 3 we discuss the relatively slower development of the "political pillar" of European integration. How can we assess the limitations to political integration? What economic and political fundamentals may facilitate its future development? In both Sections 2 and 3 we take a comparative perspective and present Europe in light of the experience of other economic spaces. In Section 4 we hazard a risky step and present a few general guidelines that we think are necessary to further the project of European integration.

On The Economics of European Integration

Economic integration stems from the idea of a common base of policies associated with enforcing competition and facilitating mobility of people and resources. Integration naturally opens the way to a set of new partnerships on other relevant policies.[5] As markets integrate, the international political, regulatory, and legal institutions necessary to enforce market openness and competitiveness become more important. In other words, the need for public goods provided at a "higher level" becomes evident. This is to say that, market integration and institutional integration are complementary.[6] The European "founding fathers" seem to have understood this argument at a profound, intuitive level.

Competition policy was the right candidate for a first attempt at a centralized "policy": it implements a level playing field that increases the size of the market and facilitates the pursuit of efficient resource allocation. Protectionist interests, theretofore organized at the national level, met powerful countervailing interests that emerged as the creation of a common market became an explicit part of the European agenda. The common market became a very natural – and worthwhile – default that was hard to counter.

One needs to distinguish from policies decided at a central level – or "location" – from a homogeneous policy. Centralization may be an efficient way to recognize the differences and devise general policies, as well as the way to apply them differently while maintaining a coherent whole. Alternatively, certain policies that imply a great degree of uniformity need to be complemented by policies that accommodate the differences. Such may be the case of monetary policy, as highlighted in the current crisis.

Arguably, one of the functions of monetary policy is stabilizing shocks over time, namely by decreasing the amplitude of economic slumps. It is a policy that works well over time but is in general not fine enough to be effective across space. And, as we ought to know by now, economic fluctuations hit different jurisdictions differently. If these economic fluctuations are relatively synchronous or resources sufficiently mobile, monetary policy is an appropriate instrument, and the area to which it is applied is a so-called "optimal currency area".[7]

Thus, synchronous economic shocks of similar magnitude are the candidate disease to be treated by monetary policy. In Europe such synchronicity is not in place. However, it can arise endogenously, so that Europe becomes more of an optimum currency area after it becomes a *de facto* imperfect currency area. Countries start to trade more enthusiastically, and more transactions and relationships are integrated so that economic cycles become less "identitarian". When monetary policy is an imperfect instrument, there are calls for bringing forth a common fiscal policy. But, by nature, fiscal policy is much more intensive in institutional arrangements for common decision

[4] See Dahrendorf (1979).
[5] See Dewatripont et al. (1996) for a further development of the argument.
[6] See Casella and Feinstein (1990).
[7] See Mundell (1961), and Kenen (1969).

making. As we will discuss below, amongst other hard facts, fiscal policy draws the attention of citizens in a way that it demands a higher degree of democratic policy-making.

The regulation of money creation is, essentially, a non-democratic economic policy. That is not necessarily bad. Like the judicial branch of politics, it is felt that in monetary policy making the gains of specialization are more important than the open election of policymakers. This is exactly the contrary to what happens with the legislative and the executive in their fiscal decisions. One interesting outcome of the current crisis is that it reveals the shortcomings of monetary policy on its own. At the European level, and given the diversity of the economies and their fluctuations, monetary policy has demonstrated the need for more democratization, in the sense of more explicit and transparent ways of making fiscal policy decisions. Historically, taxation is an important vehicle tool for democratization. In fact, monetary unification has been followed, not preceded, by the adoption of joint fiscal policies.[8]

When resources are not sufficiently fluid across jurisdictions and monetary policy is unified, fiscal measures can be seen as a palliative to address temporary fluctuations in income between jurisdictions. A difficulty emerges with medium and long-term shocks, because then one needs to talk of redistribution, whose objective is to decrease income differences between individuals – and, implicitly, between countries. This is no longer simple risk sharing or insurance, which seeks to reduce temporary income losses by pooling income together. If the levels of per capita income are relatively different and political cohesion is not there, policy-makers may be particularly timid regarding the use of fiscal policy to combat temporary income fluctuations. This brings us back to the need for a strong common market as a necessary element to support monetary policy.

An Example: The Criteria for a Currency Union

The rationale for the creation of a common currency area has solid conceptual foundations and has been the subject of important developments at the theoretical and empirical level. A key idea is that relinquishing the currency as a policy instrument is appropriate only when the economic jurisdictions adopting the common currency have a sufficient degree of real economic integration.[9] Economic integration between jurisdictions can be measured by indicators such as the intensity of trade relations, the degree of co-movement of real income per capita, the mobility of labor across jurisdictions, price flexibility, the similarity of economic structures, etc. A greater intensity of transactions, price flexibility, and co-movements in output decrease the “coordination” cost of adopting a common currency and the concomitant decrease in transaction costs. There are issues of credibility and specific political costs of setting up the institutions for a common currency that should also be considered, which we will not address here.

Larraìn and Tavares (2003) conducted a simple comparative study of several optimal currency area criteria for the European Union and other economic areas, namely North America, South America, Central America, and East Asia.[10] The exercise was conducted for three decades, from the 1970s to the 1990s, and the data were transformed so that the more integrated the economies, the closer to the centre are the indicators.[11] The message that emerges is quite clear. Figures 1 and 2 represent the four indicators of economic integration considered for the 1990s. We find that European countries show more integration in two dimensions, real exchange rate volatility, and asymmetry of output shocks, and are close to East Asia as far as bilateral trade integration and to Central America as far as trade dissimilarity.

In Figure 2 we conduct the same comparison between countries in a given economic area and the United States. Countries in the European Union also appear as relatively well integrated with the United States, except

[8] See Bordo et al. (2011) for a discussion of the requirements for a fiscal union, as highlighted by different historical experiences, see Obstfeld (1998), who argues that the European Union has “taken a gamble in placing monetary unification so far ahead of political unification”.

[9] See Mundell (1961).

[10] For the list of countries included see Larraìn and Tavares (2003).

[11] The scale is constructed so that the region that is least integrated in the 1990s, South America, defines the extremes.

pertaining to trade. US trade weighs relatively more in the case of Asia and the Americas. However, notice that with the exception of Europe, all regions show lower bilateral exchange rate volatility with the US than with their regional partners. Europe is, by far, the region with the lowest within-region output shock asymmetry, and the only – with East Asia– for which it is lower than with the US. As to the depth of bilateral trade integration, East Asia and then Europe are the most integrated regions, but Europe is the only region with average within-region trade intensity levels that are higher than average trade intensity with the US. In sum, as some might have expected, Europe stands out as a deeply integrated region, and European countries are more closely integrated within themselves than with the United States. The only region that has been approaching these high levels of integration is East Asia. However, it is safe to argue that the political fundamentals for a common currency are absent. By managing their currencies in relation to the US dollar, the American currency has been a *de facto pseudo* common currency in East Asia. In sum, a currency union in Europe was a natural choice given the high degree of intra-regional integration.

Figure 3 shows how the high degree of integration amongst European countries has evolved since the 1970s.[12] All indicators suggest that the degree of European economic integration has increased. These indicators of regional integration, including bilateral trade intensity and the asymmetry of output shocks, are endogenous.[13] In other words, once a common currency area or monetary union is established, integration tends to evolve in the way that best accommodates the monetary union: trade intensifies, fluctuations in output become more synchronous, and through the elimination of the nominal volatility associated with currency fluctuations, real exchange rate volatility can decrease.

From Economics to Politics

Economic integration may be generally preferable from an economic point of view if we consider how it allows for freer trade over larger areas, economies of scale in production, factor mobility, and the avoidance of duplication costs in the provision of public goods.[14] But as dramatically highlighted by the recent crisis in Europe, integration needs to satisfy political as well as economic preconditions.[15]

There are different political issues that need to be considered when analyzing the feasibility of economic integration. The first is the balance between size and heterogeneity.[16] As the size of the jurisdiction increases, so does the level of heterogeneity in preferences, which tends to hinder decision-making and make consensus around common policies a more difficult proposition. An optimal size of jurisdictions arises, which may be different for different policy areas, from defence to education and culture. In general, the optimal size of jurisdictions declines with trade liberalization. As the access to wider markets is credibly guaranteed, it pays for jurisdictions to draw closer to individuals in order to satisfy specific individual preferences through a smaller size. This force may be behind some secessionist impulses in European regions which gained momentum as European integration advanced.

A second factor is the absolute size of the countries considering accession to the economic union. Economic interactions within countries are generally denser and less costly than between countries. Country size and absolute income thus become important, as they define the size of the relatively un-hindered domestic market. The benefits of a large size can be summarized as: decreasing per capita costs of public goods; lower vulnerability to foreign aggression; larger domestic market and less dependence on free trade with the outside; "insurance" between regions; positive externalities between regions; and implementation of redistributive schemes from richer to poorer individuals. Independently of country size, crossing national borders imposes a cost. Small countries and large countries thus

[12] In this graph we use the 1970s as reference, and assign it the value 1 for each indicator. We then plot the indicators for the other decades relative to the 1970s.
[13] See Frankel and Rose (1998).

[14] See Alesina (2003), Bolton and Roland (1997), Fernandez and Portes (1998), and Ruta (2005).
[15] Here we will consider political conditions in terms of individual voters. For an example of an analysis of how firms themselves favour or not integration, see Weber and Hallerberg (2001).
[16] Alesina and Spolaore (1997) highlight the tradeoff between economies of scale and heterogeneity in preferences, which leads to an optimal size of jurisdictions.

benefit differently from accession to a larger economic space. While small countries may relinquish policy flexibility in favour of credibility and access to larger markets, large countries benefit from increasing political clout in the world arena, while their industries can exploit further economies of scale.[17]

The third aspect of a political nature that affects the likelihood of integration is the coincidence (or not) of cross-country differences in population size and in income per capita. Entering a union with a small rich country is politically very different from entering a union with a large and poor country. Below we discuss in greater detail how relative size and relative income per capita may affect the emergence and survivability of regional economic agreements. The importance of heterogeneity in relative incomes and population sizes was evident to the founding fathers in the United States. Bilateral differences in population size and in income per capita, together with other country economic characteristics, affect the emergence and survivability of integration agreements.

In Table 1 we present summary statistics computed by Coelho and Tavares (2011) for the world sample of neighbouring countries in 2005. The authors divide country pairs according to whether they share a free trade agreement, a currency union, or a monetary union.

Table 1: Neighbouring Country Pairs and Economic Agreements

Variable \ Mean	FTA =0	FTA =1	CU =0	CU =1	MU =0	MU =1	All
△Income	0,625	**0,486**	0,603	**0,403**	0,580	**0,300**	0,544
△Size	1,207	**1,016**	1,135	**1,001**	1,123	**0,909**	1,096
△Size * △Income	0,766	**0,521**	0,701	**0,435**	0,665	**0,333**	0,623
Ln GDPpc (average)	8,198	**8,690**	8,257	**9,034**	8,460	**8,658**	8,485
ln GDPpc (pair) vs ROW	0,966	**1,024**	0,973	**1,065**	0,997	**1,020**	1,000
Distance	1,313	**0,915**	1,245	**0,685**	1,148	**0,618**	1,081
Remoteness	0,771	**0,632**	0,735	**0,581**	0,721	**0,476**	0,690

Note:
0 - pairs of countries not simultaneous members and **1** - pairs of countries simultaneous members
Results from a test:
Green Values - FTA\CU\MU =1 < FTA\CU\MU=0 ; **Red** Values - FTA\CU\MU=1 > FTA\CU\MU= 0

Source: Coelho and Tavares (2011).

Neighbouring countries sharing *any* of these three types of economic agreements tend to be more similar in both population size and income per capita than other countries in the sample. Countries sharing agreements also tend to be richer relative to the rest of the world, closer to each other, and less remote relative to the world economy.[18]

Figures 4 and 5 use the same data to display bilateral income and population differences for several important economic areas and pairs of countries. The size of each circle and the coordinates of the centre, represent three indicators: relative country size and relative income per capita, and the correlation of income growth across time. The closer the circle is to the centre of the figure, the less diverse the countries are in terms of size and income per capita. The larger the circle, the higher is the correlation between income fluctuations. Large circles close to the centre suggest good potential for integration. Figure 4 suggests that the European Union´s potential for integration is probably greater than that of other regions. In Figure 5 we analyse a number of benchmark neighbouring country pairs, selected on the basis of Spolaore and Wacziarg (2005), who suggest country pairs that would greatly benefit from economic integration in terms of economic growth. We observe that, among these country pairs, those that seem to satisfy the political preconditions for smoother integration are members of the European Union: France and Germany, France and Spain, and even Spain and Portugal, present higher correlations of income growth, and are relatively similar in terms of size and income per capita.

In Figure 6 we provide a visual representation of the evolution of the total population and the average income per capita of countries in the European Union.[19] One can assess how each enlargement changed the "political coordinates" of the union.[20] Enlargements that decrease average income per capita suggest that poorer countries are

[17] See Alesina and Tavares (2003), and Milanovic (1996).

[18] See Coelho and Tavares (2011) for definitions.

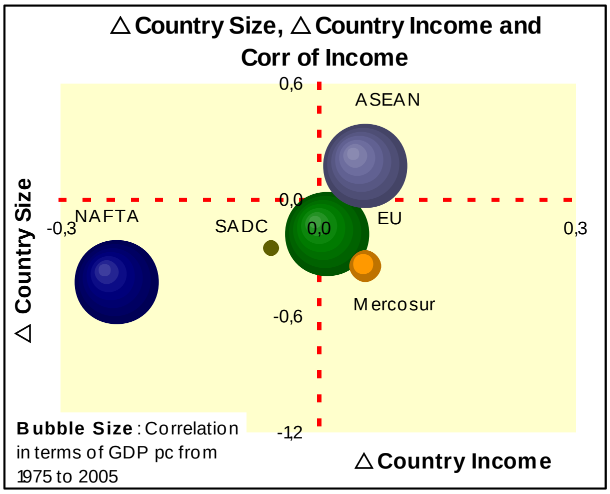
[19] And, for the relevant dates, the European Economic Community.

[20] The graph takes into account population and income growth so that, even in dates where no enlargement was undertaken, the line evolves.

becoming part of the union, while large jumps in population suggest that those same countries are relatively populous. The graph clearly shows how the two latest enlargements were politically demanding, as they involved poorer countries that, taken as a whole, represented a larger fraction of the European Union´s total population. Figure 7 represents, for each of the European Union´s enlargements, the population and income per capita ratios of countries already in the Union relative to accession countries. The 2004 and 2007 enlargements stand out by being closer to the bottom right corner, which is the most problematic as it indicates taking in a relatively large population with relatively low income per capita. Interestingly, note that Russia, and especially Turkey, are even further to the corner, suggesting that their possible accession to the European Union would be, in this respect alone, more problematic.

Figure 4: Country Size, Country Income, and Correlation of Income

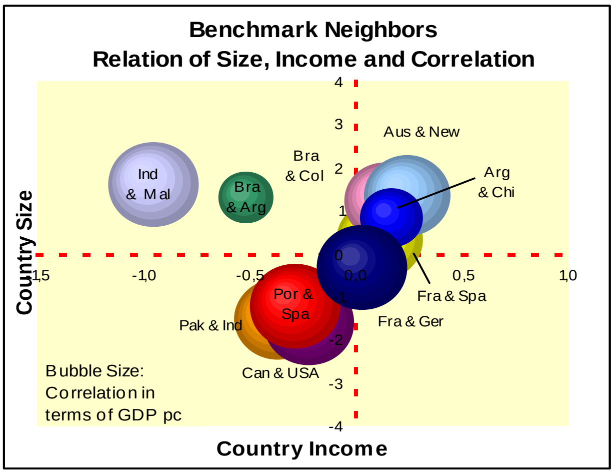
Regional Groupings



Source: Coelho and Tavares (2011).

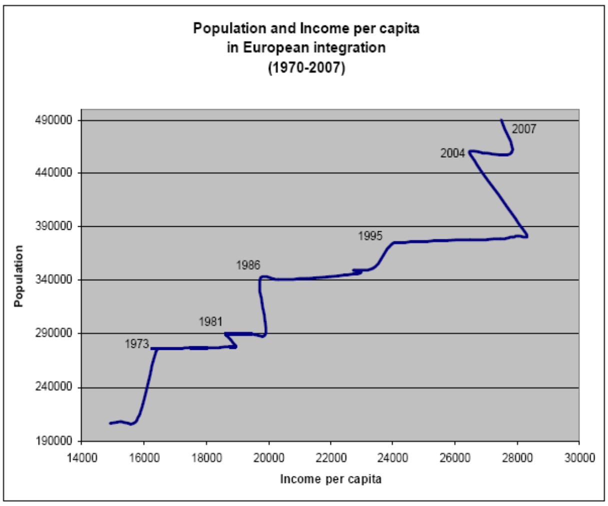
Figure 5: Country Size, Country Income, and Correlation of Income

Benchmark Countries



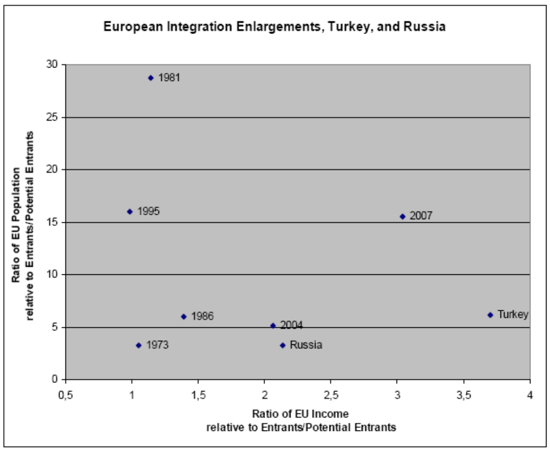
Source: Source: Coelho and Tavares (2011).

Figure 6: Population and Income per capita in the European Union



Source: Source: Coelho and Tavares (2011).

Figure 7: Population and Income per capita in EU Enlargements



Source: Source: Coelho and Tavares (2011).

An Example: Economic and Political Risk

The European Union is probably the longest lived set of deep institutional economic agreements between independent and heterogeneous countries that exists. Until the recent crisis it was also seen as the most successful. The current crisis exposed countries to large shocks of a medium to long-term nature, and brought to the fore the importance of a missing next step: a common fiscal policy. However, different countries seem to favour different policy options: whilst some are inclined toward the adoption of a common fiscal policy that will involve transfers to ailing countries, many countries favour the status-quo, while still others ponder abandoning the currency union altogether and reverting to autarky. A growing consensus amongst observers is that there are only two possible outcomes for the *eurozone*: break-up or greater fiscal integration.

The current crisis exposed how the fulfilment of the optimum currency area criteria is far from perfect. Area-wide tax transfer schemes, accompanied by deeper fiscal controls, are now seen as prerequisites for a working monetary union. Countries can insure through borrowing, but that option is limited at current debt levels, leaving little room to counter permanent or persistent income shocks. The policy realm of the European Union has shied away from fiscal measures to counter income shocks. This is partly due to the level of political coherence required to summon political support for inter-country transfers. There is a difference between economic risk, which can be mitigated by pooling income and resources across countries, and political risk, associated with the fact that, after an agreement to pool resources is in place, some countries – for instance, the most populous – may wish to change the policy terms to their advantage.[21] It is different whether the most populous countries are relatively rich or relatively poor; the latter, unlike the former, will be tempted to "expropriate" their fiscal partners. In sum, the binomial relative size and relative income are extremely important in the discussion of political risk. European Union membership has been successively extended to smaller countries. In some cases, to small and rich countries, this has facilitated enlargement. But, as highlighted above, the last few enlargements seem to share a different nature.

Recently, Luque et al. (2011) worked out the analytical conditions under which a country sharing a common currency may attain a consensus in favour of adding a fiscal union to monetary union. The discussion on fiscal federalism can be expanded in two useful dimensions. First, one must allow for countries – or jurisdictions – which are heterogeneous in terms of both size and income per capita. In addition to its general political relevance, relative size and relative income are central when considering the adoption of a common fiscal policy.

The pioneering work of Gordon (1983) presented a now classic argument highlighting the insurance benefits of a common fiscal policy. The ensuing literature concentrated on the possible negative co-movement of output across jurisdictions, as it creates incentives to share resources through a common fiscal policy. Acquiring access to a more stable tax base became the lynchpin of the theoretical discussion on fiscal unions. The asymmetrical movement of output across jurisdictions has been labeled "economic risk", and a common fiscal policy is a way to provide insurance. However, the reduction in the volatility of the tax base, the result of a decrease in economic risk, might be associated with higher volatility of the policy itself, if some countries have enough decision power to change the policy terms. The latter is called "political risk" and it

[21] As highlighted in Alesina and Perotti (1998).

discourages the establishment of a common fiscal policy. The mechanism is simple: faced with non-synchronous fluctuations in output over time, countries or regions decrease economic risk by sharing budgetary decisions and stabilizing the tax base; however, the non-synchronous shocks may lead the larger country, which holds decision power, to respond to a negative shock by imposing a higher tax rate on the union. In sum, in fiscal unions with heterogeneous jurisdictions, as economic risk decreases, political risk may increase concomitantly. Higher political risk reduces the set of parameters, for given economic risk, for which a fiscal union is feasible and acceptable to all members. As an example, when economic shocks are perfectly negatively correlated, so that countries can extract the most benefit from economic insurance, political risk may increase in such a way that the fiscal union would no longer be desirable to some member states.

Luque et al. (2011) examine how the allocation of voting power across jurisdictions interacts with heterogeneity in population size and in income per capita to support a unanimous adhesion to a fiscal union, since a public good such as a common currency provides benefits to all member states. There are allocations of voting rights that enlarge the set of parameters for which fiscal unions are formed, all else equal. In other words, in addition to the issues of economic risk and, more recently, political risk, the sustainability of a fiscal union depends crucially on the political weights and the institutional arrangement in the union. The correlation of income shocks interacts with relative population size and relative income per capita, as well as with decision rights to characterize the set of feasible fiscal unions.

This type of institutional bargain is clearly alluded to in the Federalist Papers, when the United States was in its constitutional phase. James Madison highlights the importance of finding appropriate political weights for small and large states, which are neither equal weights nor simple proportional weights. In 1788 Madison marveled that "(...) the convention should have been forced into some deviations from that artificial structure and regular symmetry which an abstract view of the subject might lead an ingenious theorist to bestow on a Constitution planned in his closet or in his imagination. The real wonder is that so many difficulties should have been surmounted, and surmounted with an unanimity almost as unprecedented as it must have been unexpected." In sum, adjusting decision weights and finding the right compromise between equal weights among states or nations or weights proportional to population and income.

The Future European Polity: Voting, Paying, Living, and Dying

Europe may have to decide on the right mix of a federating European identity and a loose confederation of national and regional identities. Probably both are part of a future working European polity. The people of Europe and the peoples of Europe are both inescapable actors of a viable European project. The emphasis has to be on institutions: democratic, transparent, and yes, effective. One should strive to avoid Ralf Dahrendorf´s early diagnostic that the "European Union has been a remarkable political success, but an equally remarkable institutional failure".[22]

Political risk as a deterrent to mingle and co-decide with different people takes a towering meaning once we add up all the numerous psychological and political layers on which deep uncertainty, fear, and nationalism are based. Outside the realm of the "imagined community" several types of rational and irrational fears emerge.[23] A citizenship based on participation and solidarity is probably a pre-condition to face risk and provide institutional insurance that can be valued by all Europeans. The non-national bases of this solidarity need to be nurtured – created? – so that major economic fluctuations and security threats can be dealt with appropriately, without furthering conflict. One cannot but think that the type of solidarity in hard economic times that is found within nation states needs to be somehow reproduced at the European level.

One might risk putting forward a few elements that will almost inevitably be part of a working European polity.

These are:

- An element of a common defence policy, closely associated with maintaining peace in Europe and

[22] See Dahrendorf (1979).
[23] See Anderson (2006) on imagined communities, and Maduro (2010) on the balance between passion and reason in the construction of Europe.

assisting in the pacification of its outer borders;

- A common fiscal policy that provides insurance against negative and short-term economic fluctuations and transparent regulation of national governments´ finances;
- Acquisition of a deeper meaning for voting at the European level, for instance by introducing a direct election for a President with significant, though limited powers.

Defence is a typical candidate for centralized policy. The provision of defence benefits from scale economies, and excluding an additional beneficiary is neither practical nor rational. However, the history of European integration shows that this is an area where countries are reluctant to transfer sovereignty. This may be due to differing national preferences as well as to the difficulty of coordinating defence policy in the presence of free riding. The Yugoslav crisis, the most serious conflict in Europe since 1945, dramatically illustrates both difficulties.

The monetary union project seems special in the sense that in the realm of monetary policy individuals are willing to delegate to the "technicians", accepting that efficiency may not require more democracy. The same occurs with courts and, generally, on legal matters, where competence takes primacy over democracy. Fiscal policy is a whole different matter. When it comes to directly and explicitly paying, people tend to demand a voice and competence, and technical knowledge is not an acceptable "excuse" for lack of democracy. In addition to economic insurance against crises, a possible way forward is for Europeans to volunteer to pay "European taxes" in exchange for the acquisition of specific rights, in areas such as health and education. The current crisis has the merit of revealing how a necessary complement to a feasible monetary union is more democracy, an inevitable element of a fiscal policy.

The fact that the idea of Europe has historically percolated down from intellectuals and the political class to citizens at large has brought with it a somewhat conservative nature. This is particularly visible in the suspicion toward the voting mechanisms of mass democracy and the scepticism as to the possibilities of "translating" the European ideal to Europeans. A direct vote for a European president with important but limited powers is probably the easiest route to increasing the involvement of Europeans with European institutions. A president elected on the revolutionary principle of "one European, one vote" would give a face to the European project, arguably overburdened with bureaucratic metaphors. The vote for president could be implemented in tandem with the vote for the European parliament, adding European substance to the European election, now seen in many countries as an opportunity to judge the incumbent with "no consequences attached". As Padoa-Schioppa has ably put it "[l]inking the President to an election is the missing piece in the European puzzle."[24]

Functionally, there are additional elements that would support the deepening of the European Union. One is the careful choice of policy areas where joint decision-making makes sense and shy away from areas where policy works well at the national or even regional level, according to the subsidiarity principle. Of course, efficiency reasons for centralization have to be weighed against the preferences of Europeans.[25] This type of clarification is lacking lagging. However, the possibility of implementing competing overlapping jurisdictions needs to be further explored. Though ferociously resisted by national leaders and the territorial tradition of the nation states, the citizens' choice of which jurisdiction(s) to take recourse to is a promising principle. An illustrative example: providing European-wide insurance against the most dramatic health conditions, together with the right to choose the place of treatment, against the levying of a small annual tax might be both financially sustainable and immensely popular with Europeans.

A related matter is that of the secularly complex issue of the "borders of Europe". The shifting geographical and cultural borders of Europe, strongly advise a gradual rather than radical appropriation of the term "Europe". Asia Minor is part of one "Europe", while all of the southern Mediterranean is part of another "Europe", both relevant. The western part of the Russian hinterland can rightly claim to a "Europeaness", and the rest of Russia is excluded only for practical reasons

[24] See Padoa-Schiopa (2008). The author calls European elections "little more than a virtual exercise in national politics", In other words, a kind of national politics by proxy.
[25] As Magalhães (2011) has shown, these preferences vary across policy areas, but also across countries and across time.

having to do with pure gigantism. The idea of several "Europes", with different intensities of integration, is unavoidable. A core with the same currency, a common fiscal policy, and common key institutions, surrounded by countries with a customs union agreement, and still others with generous free trade agreements is a possible polymorphous form for Europe. This is a sensible way to integrate the Asian and African borders of Europe into a prosperity and peace that will benefit the continent and the world.

In sum, I argue there are three necessary elements for building a polity: voting, paying, and dying. The first is sharing a common history, which usually means sharing episodes of violence, pain, suffering, and, yes, achievement. Europe is in the odd position of sharing a dense common history where, unfortunately, citizens of different countries have found themselves on opposite sides of the suffering. The strange exception is probably the Holocaust, and to a lesser extent the colonial experiences, which have emerged slowly as common and deeply shared concerns for the accumulated guilt of Europeans. Extending the realm of common defence and, especially, peacekeeping within Europe and on its margins, is probably the best way to start building a positive common history. That is the dying part of building a polity.

Nations have also been brought together by the pooling of resources through taxation. The Americans cried "no taxation without representation", but there is no meaningful representative democracy without taxation, either. Citizens and voters pay attention when they are taxed. A European tax that replaces government approved transfers of funds could do wonders for getting Europeans interested in Europe. This is the paying part.

Finally, voting: The European project needs anchor figures chosen directly by Europeans. A presidential figure elected through the rule "one European, one vote" is a good start. A figure to love and to hate, that could engage Europeans with the legitimacy of the vote and (why not?) have an important say in the dying and the paying issues that can promote a new citizenship and a new polity.

In the past, Europe has been an ideological source of projects of ambiguous human applicability, as well as a conveniently bellicose terrain for apocalyptic experiments. Our hope is that in the future Europe will be less of both. The development of a political and economic union in Europe, however hesitant, is a starting point to assure that ideological fantasies, of a national or an intellectual origin, do not translate in the future into actual conflicts. We are still, evidently, in the process of making Europe, but may be well advised to start making Europeans at the same time.

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