UNIVERSITY OF FLORENCE, MASTER OF SCIENCE IN ECONOMICS AND DEVELOPMENT OPENING LECTURES 2019/2020

ECONOMIC GEOGRAPHY OF SOVEREIGNIST EUROPE

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Florence, 14 November 2019

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Sovereignty, such a lonely word

- "There exists perhaps no conception the meaning of which is more **controversial** than that of sovereignty. It is an indisputable fact that this conception, from the moment when it was introduced into political science until the present day, has **never** had a **meaning** which was **universally agreed upon**„

- Lassa Oppenheim ("father of modern international law",1858 - 1919),

Sovereignty, such a lonely word (cont.)

- **Sovereignty is the full right and power of a governing body over itself, without any interference from outside sources or bodies**

- In political theory, sovereignty is a substantive term designating **supreme authority** over some polity

- Sovereignty is the expression of the **sum of government powers** (legislative, executive and giudiciary)

- Together with **territory and people**, sovereignity is a founding element of a State

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Sovereignty, such a lonely word (cont.)

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- Sovereignty is the expression of the **sum of government powers** (legislative, executive and giudiciary)
- Together with **territory and people**, sovereignity is a founding element of a State
- **BUT what are the foundations of sovereignty?**

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A short history of sovereignty

Philip IV (1268-1314) vs. Jean-Jacques Rousseau (1712-1778)

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A short history of sovereignty (cont.)

- Before the Enlightenment the concept of sovereignty rested on the **mystic foundations** of royalty

- During the Enlightenment Jean-Jacques Rousseau rejected monarchical rule in favor of the other type of authority within a sovereign state, **public sovereignty**

- Public sovereignty is the belief that ultimate authority is vested in the people themselves, expressed in the idea of the **general will** (aka "the will of the people")

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A short history of sovereignty (cont.)

- Public sovereignty means that in a polity the **power is elected** and supported by its members, and the authority has a central goal of the **good of the people** in mind

- The idea of public sovereignty has often been the basis for **modern democratic theory**

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A short history of sovereignty (cont.)

- Rousseau's second volume of "**Du Contrat Social**" (1762) deals with sovereignty and its rights

- Sovereignty, or the general will, is:

  - **Inalienable**, for the will cannot be transmitted

  - **Indivisible**, since it is essentially general

  - **Infallible and always right**, determined and limited in its power by the common interest

  - **Enacted through laws**

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A short history of sovereignty (cont.)

- Law is the **decision** of the general will in regard to some object of common interest

- Though the general will is always right and desires only good, its **judgment** is not always enlightened, and consequently does not always see wherein the common good lies

- Hence the necessity of the **legislator**, which has, of himself, no authority but is only a guide who drafts and proposes laws

- The people alone (that is, the sovereign or general will) has **authority** to make and impose them

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"Limited sovereignty"

- Before the Enlightenment one might have defined sovereignty as: "**Nobody is the king's peer within the kingdom's borders, nobody is above the king outside the kingdom's borders**"

- But how do we deal with decisions that have impacts outside the territory of the Sovereign (be it the King or the People)?

- This is an avoidable question in the age of globalization

- The answer is through wars and diplomacy that are usually conducted by "elites" on behalf of their own Sovereigns

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- **The standard answer is through wars and diplomacy, and these are usually conducted by "elites" on behalf of their own Sovereign** (be it the King or the People)

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"Limited sovereignty" (cont.)

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- **In the case of the EU the answer is also through European elections, recently portrayed by some media and politicians as pitting the "elites" against the "people"**

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"Votes without frontiers"

- The latest European Parliament elections have been the **most European** yet (The Economist, 27 April 2019)

- Events over the 2014 to 2019 parliamentary term have emphasized Europe's **interdependence** and the role of pan-European politics:

  - Migration crisis

  - Terrorist attacks

  - Brexit, US new protectionism, and the rise of China

  - Pro- and anti-migration demonstrations, anti-establishment protests and environmentalist gatherings

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"Votes without frontiers" (cont.)

- Threats and crises have increased the EU's salience, making the notion of "**a Europe that protects**" more appealing

- This "europeanisation" of the public debate is most advanced among **nationalists and populists**. However:

  - Brexit has refocused Eurosceptic energies **away from quitting** towards changing the EU from within

  - Support for **membership** has risen across the EU

  - Growing **counter-mobilization** of pro-European voters who "no longer take the EU for granted" (ECFR)

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People vs. the elites

- In the UK the Brexit vote has been interpreted as a vote of the "**have nots**" against the "**haves**" triggered by populist rethoric and strategy

- Those who disproportionately voted Leave are those who feel trapped by an economic and social system controlled by "**amoral elites**" (in London and Brussels) that:

  - Apply the rules of **fair play** only among themselves

  - Raise entry barriers to outsiders ("broken **social elevator**")

  - Dodge taxation thanks to privileged access to "**tax havens**"

  - Appropriate all the **benefits** of globalization and technological change

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The economic geography of discontent

- Econometric analysis reveals that the Brexit vote was indeed a vote **against globalization** (measured as a "**China Shock**": imports from non-European low wage countries)

- A protest vote by those who feel their regions have experienced only the **costs of the current wave** of globalization:

  - Foreign competition, factory closures, persistent unemployment, stagnating purchasing power, deteriorating infrastructures and public services, rising social exclusion, brain drain, dwindling local tradition and identity, growing uncertainty about the future

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The economic geography of discontent (cont.)

Derelict factory, SNIA Varedo, Italy

The economic geography of discontent (cont.)

Derelict high street, Stoke-on-Trent, UK

The economic geography of discontent (cont.)

- Let c index countries, r regions, j industries, and t years
- Then the "**China Shock**" is defined as

$$\text{Import Shock}_{crt} = \sum_{j} \frac{L_{rj(\text{pre-sample})}}{L_{r(\text{pre-sample})}} * \frac{\Delta\text{IMPChina}_{cjt}}{L_{cj(\text{pre-sample})}}$$

Autor, Dorn and Hanson (2013)

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The economic geography of discontent (cont.)

UK Map of the "China shock" – Nuts 3 (Colantone and Stanig, 2018a)
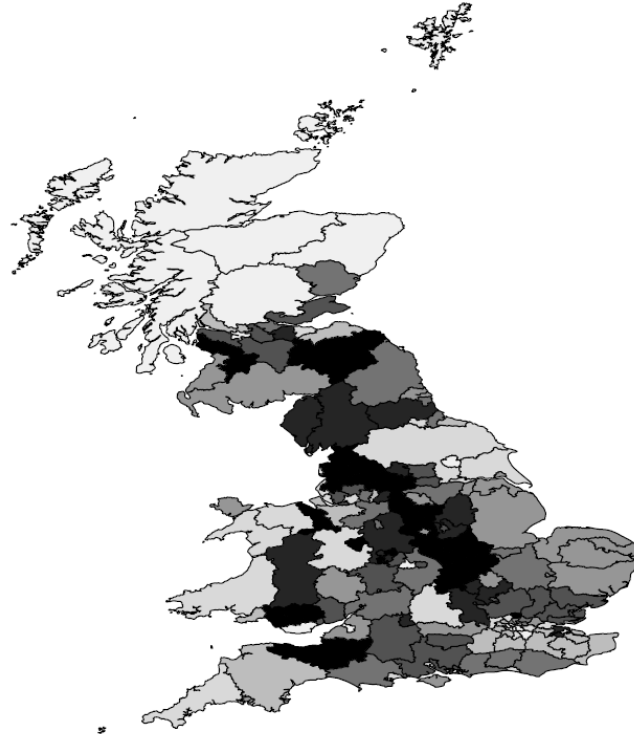
The economic geography of discontent (cont.)

- The **unequal distribution** of the costs and benefits of globalization also explains the rise of the "radical right" in continental Europe

- The areas hit harder by the "China shock" are those where electoral support grew more for the **protectionist right** and fell more for the liberal left

- Support for the liberal right and the protectionist left were largely unaffected

- As the "**reactive redistribution**" of the costs and benefits of globalization have not worked, people ask for "**preventive protection**"

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The economic geography of discontent (cont.)

EU Map of the "China shock" – Nuts 3 (Colantone and Stanig, 2018b)
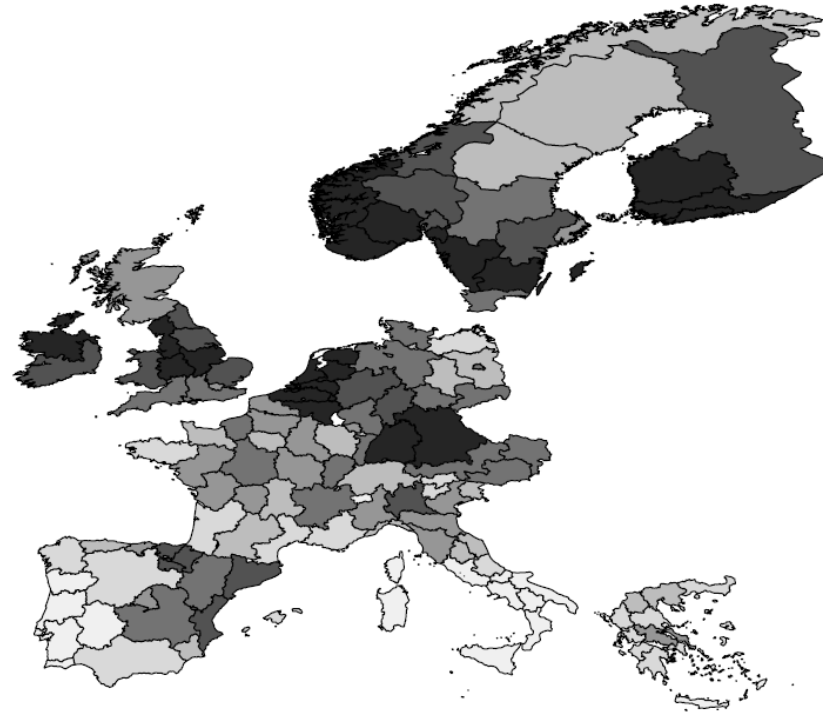
From the China shock to the East wind
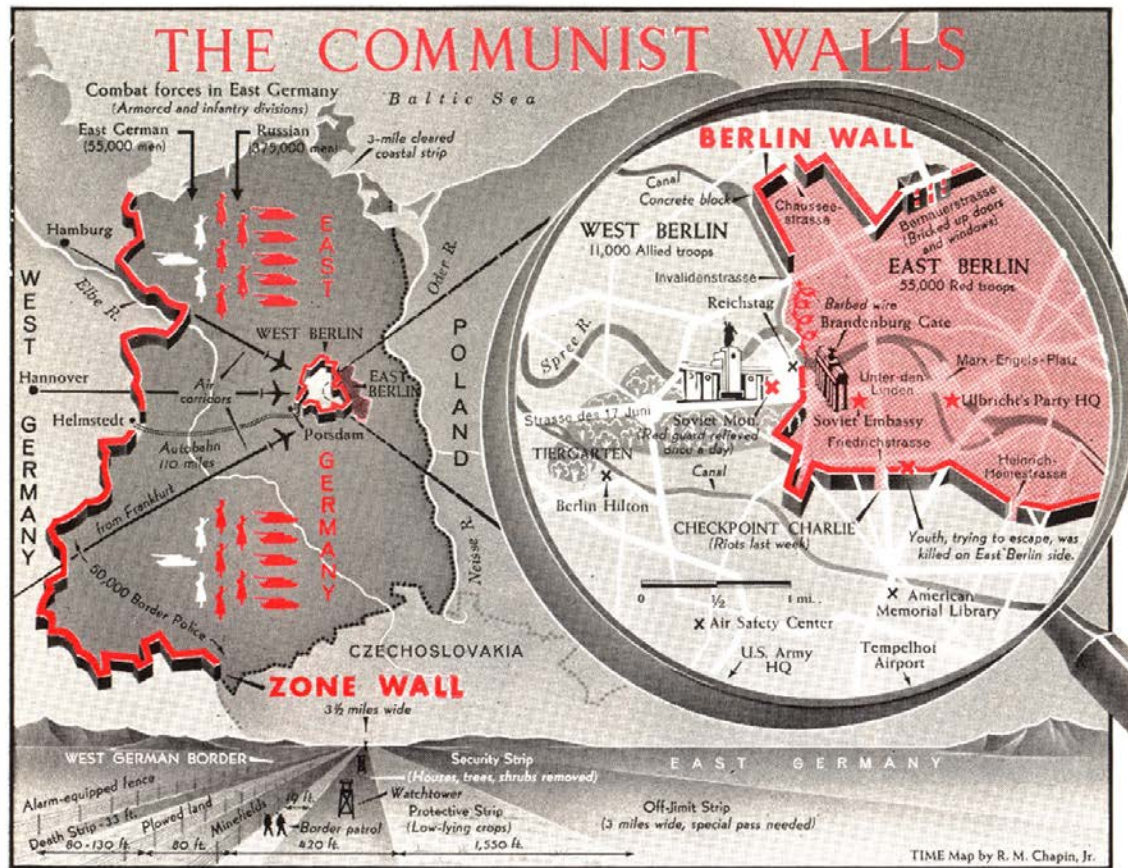
13 August 1961

From the China shock to the East wind

- Regions voting more for radical right are not only those hit by the "China shock" but also those on which the **enlargement** of the EU had stronger impact

- From 2004 to 2007, the EU added **12 Eastern countries** to its 15 members

- The "**East wind**" started blowing from the new to the old members with growing **imports from European low wage countries**

- The regional effects of the "East wind" (enlargement) on electoral outcomes is **similar** to, and sometimes stronger than those of the "China shock" (globalization)

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Great Convergence and Great Divergence

- In the last decades Western countries have been affected by **two secular trends**

- **Globally**, due to offshoring and technology transfer, manufacturing and GDP shares have shifted from G7 to a few developing countries (first of all China): this is the "**Great convergence**" (Baldwin, 2016)

- **Locally**, due to skill-biased technological change and skilled-biased globalization, the economic geography of G7 countries has become more polarized between outward-looking dynamic growth centers and inward-looking stagnating backwaters: this is the "**Great divergence**" (Moretti, 2012)

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The Great Convergence
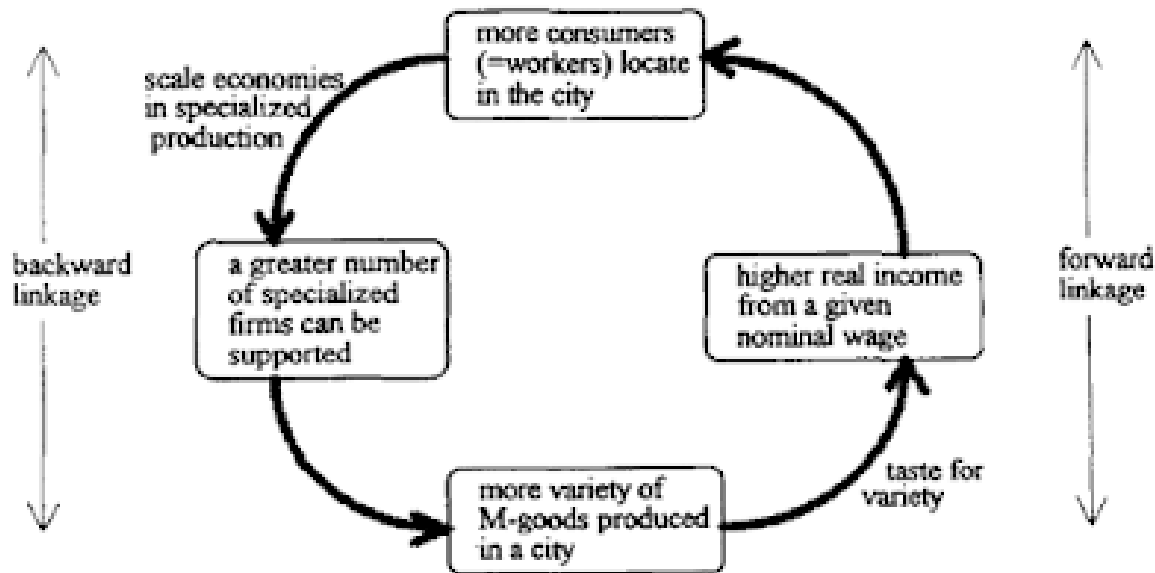

Baldwin (2016)
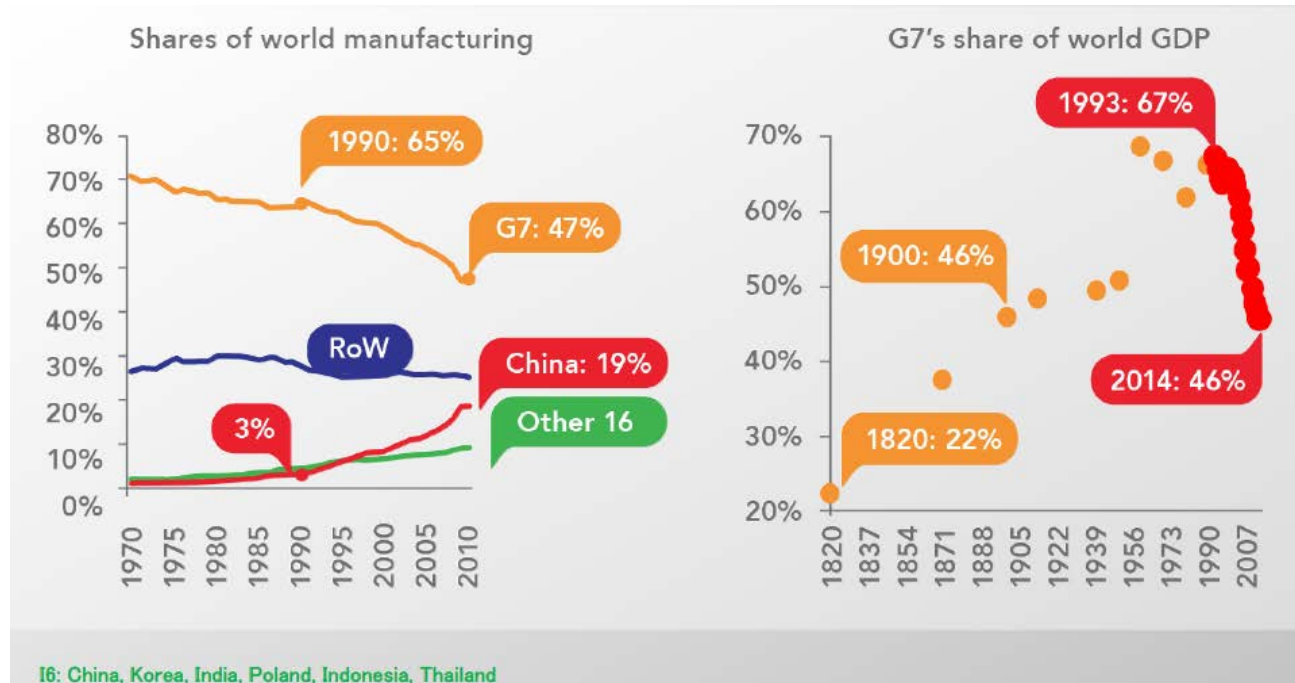
The Great Divergence: Europe

esa.int
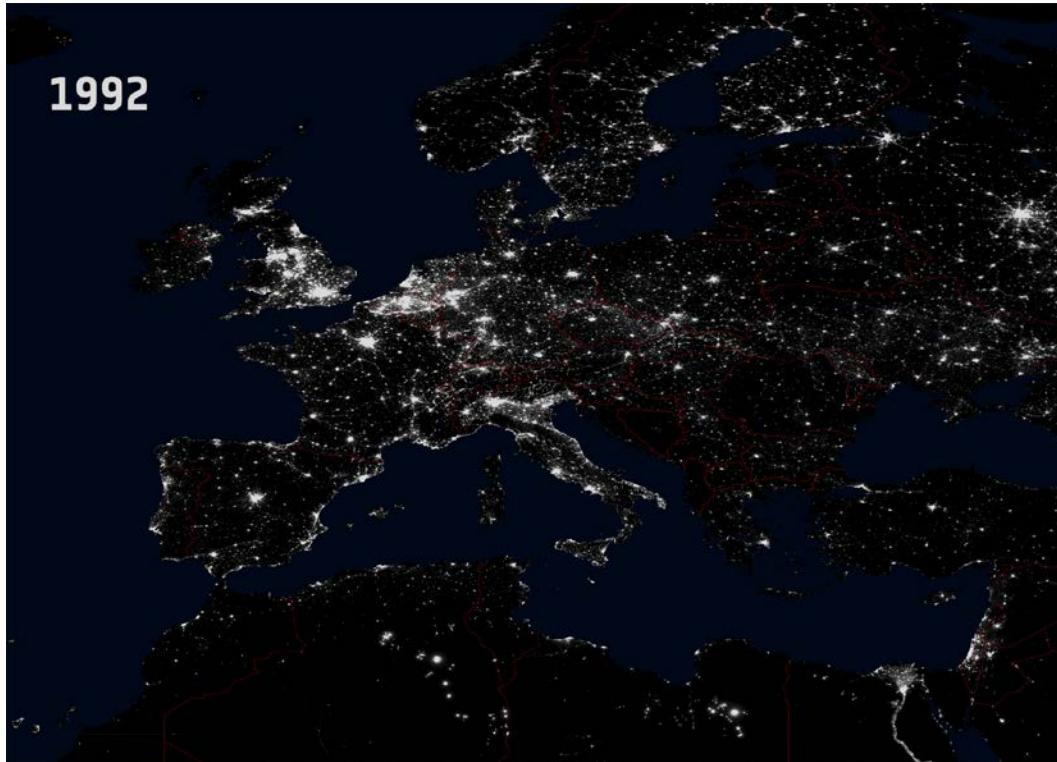
The Triumph of the New Economic Geography

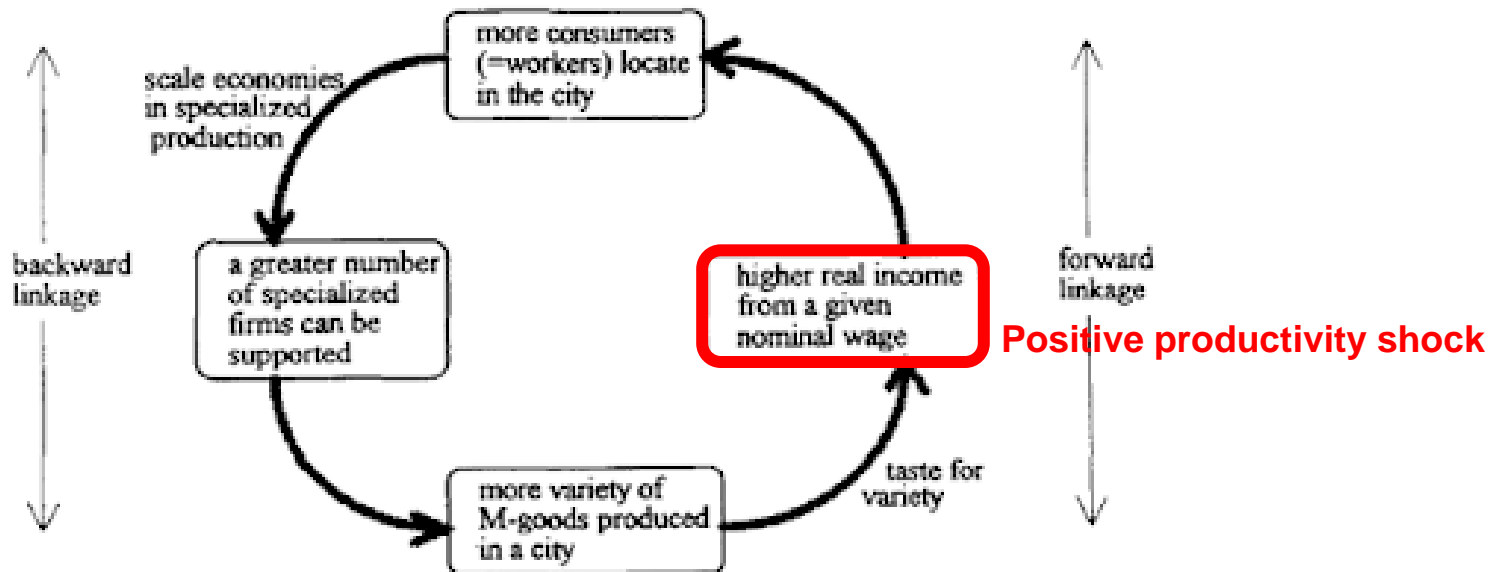M. Fujita, P. Krugman / Reg. Sci. Urban Econ. 25 (1995) 505–528

Circular causality in spatial agglomeration of firms and workers.

blogageco.blogspot.com

The Triumph of the New Economic Geography (cont.)

M. Fujita, P. Krugman / Reg. Sci. Urban Econ. 25 (1995) 505–528

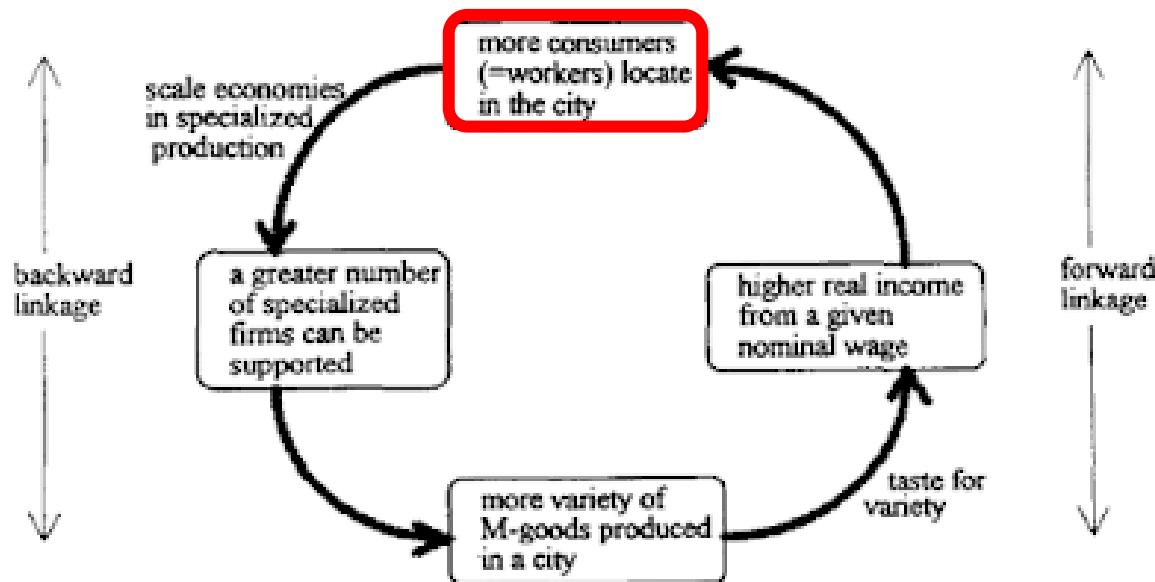Circular causality in spatial agglomeration of firms and workers.

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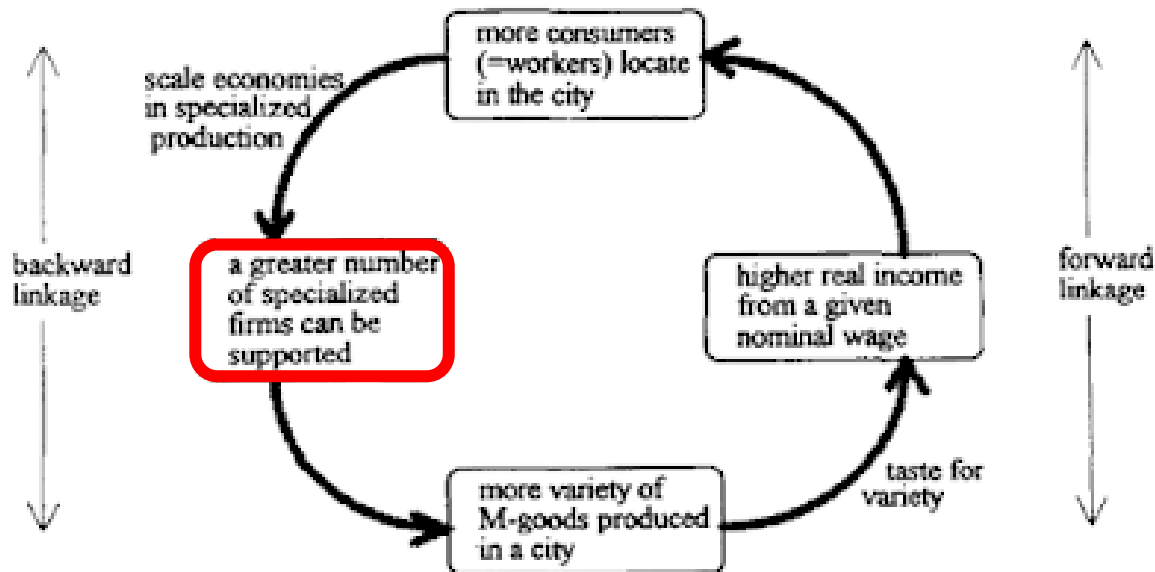Circular causality in spatial agglomeration of firms and workers.

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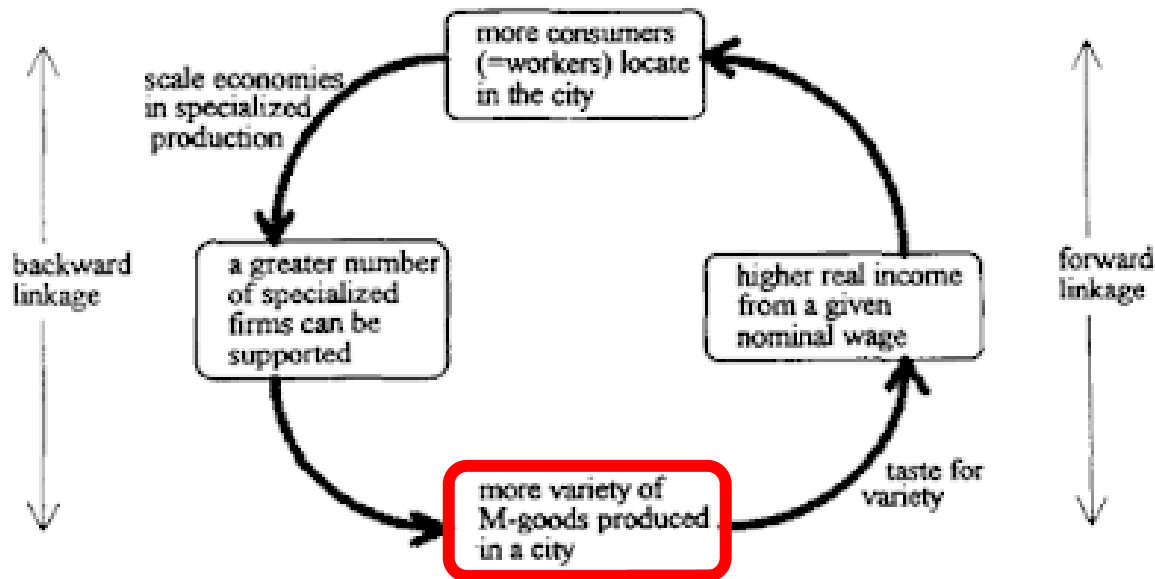Circular causality in spatial agglomeration of firms and workers.

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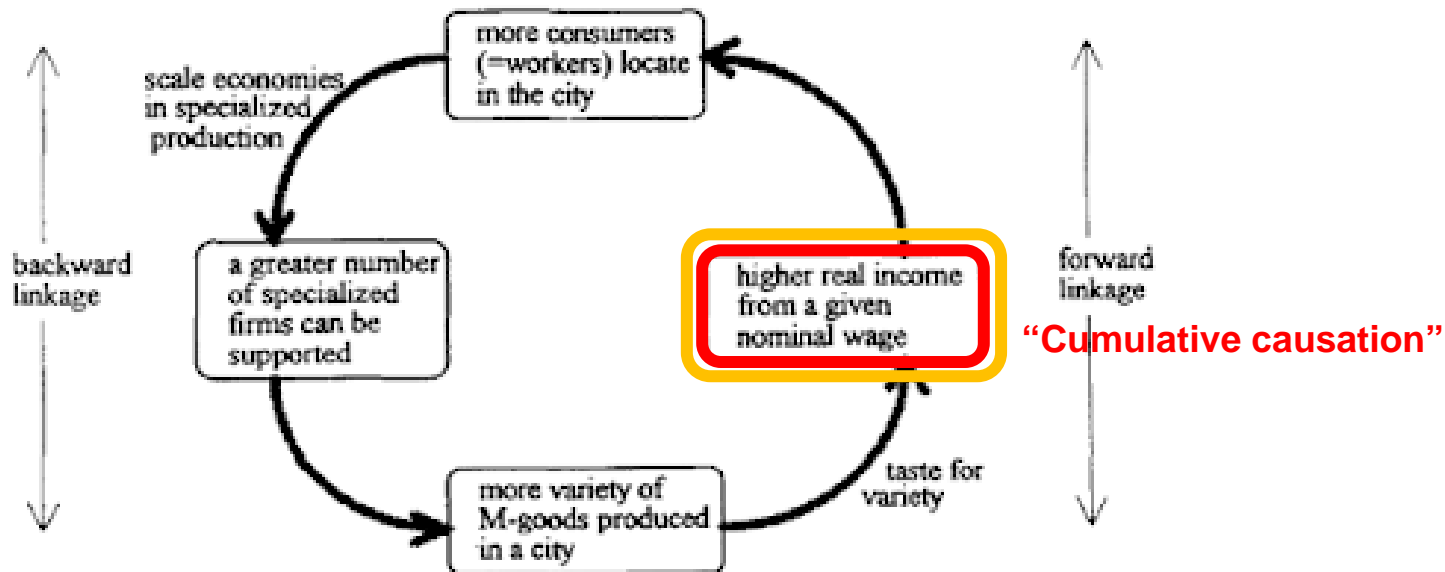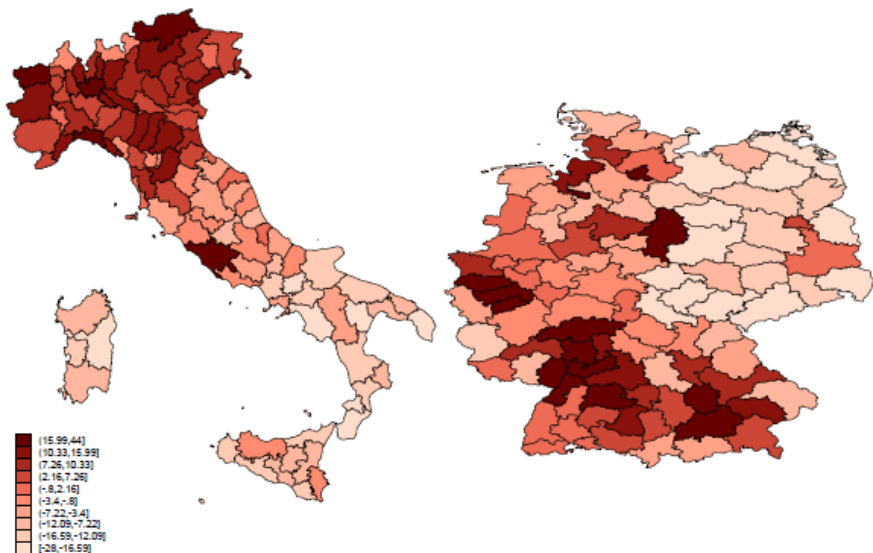Circular causality in spatial agglomeration of firms and workers.

"Cumulative causation"
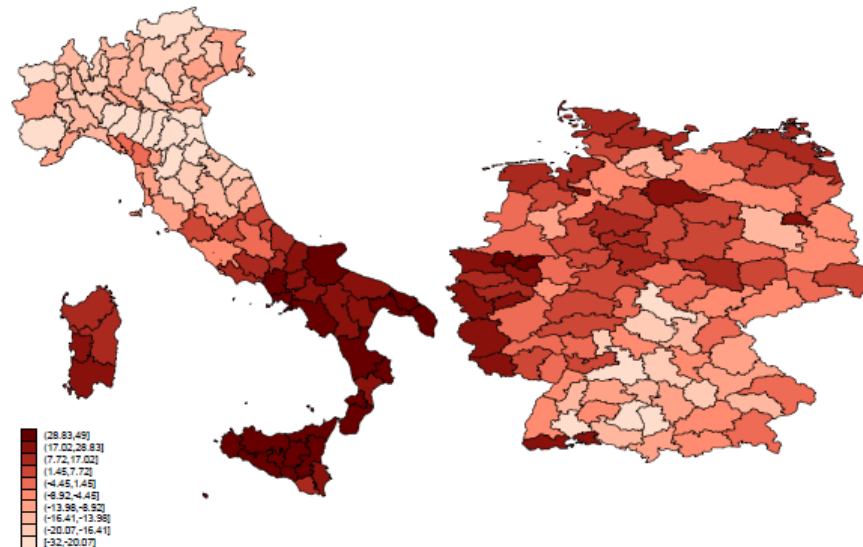
blogageco.blogspot.com

The Triumph of the New Economic Geography (cont.)

Mean value added per worker

Non-employment rate

Non-employment is high where labor productivity is low (Boeri et al, 2018)

Sovereignty and Sovereignism

- "**Sovereignism**" is defined as the defence of national sovereignty against the transfer of political power to **supranational entities such as the European Union**

- The supporters of sovereignism think that such transfer of sovereignty threatens **national identity** or **dilutes democracy** by increasing the distance between citizens and their elected representatives

- While this is open to debate, any constructive discussion about sovereignty and sovereignism in Europe has first to dispel **four misconceptions** about the European Union

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European Union: four misconceptions

1. All important decisions for the EU are **made in Brussels** with no direct involvement of national government

2. The decisions made in Brussels have **no democratic foundation** as they are made by unelected bureaucrats

3. There exist **no properly "European" decisions** that should necessarily made in Brussels

4. The **EU is a "luxury good"** that European citizens cannot afford as the benefits of rewinding European integration are much larger than its costs

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1-2: A self-driving bureaucracy?

- To the decisions made at EU level European **citizens partecipate twice**

- First, they elect their representatives in the **European parliament**

- Second, they elect their representatives in the **national parliaments**, which express the national governments themselves represented in the European Council and the Council of the European Union

- The **Councils** call the shots in Brussels

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3: No land for European decision making?

- The fundamental purpose of the EU is to allow national governments to provide their citizens with "**european public goods**"

- These are non-rival, non-excludable goods of continental reach that national governments would be unable to provide in adequate quantity and quality without **coordination**

- **Examples** of important "european public goods" are easily understood

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3: No land for European decision making? (cont.)

- Peace
- Freedom, security and justice
- Sustainable development, full employment, social progress
- Environmental protection
- Scientific and technological progress
- Economic, social and territorial cohesion
- Respect of cultural and linguistic diversity
- Solidarity, social inclusion, no discrimination

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4: The cost of non-Europe

- In the debate between "sovereignists" and "europeists", nobody really thinks of stopping all commercial relations among countries

- What "**sovereignists**" have in mind is an "**EU light**":

  - Countries linked by **mutual free trade** agreements

  - But free to individually sign own agreements with the rest of the world (**no "customs union"**)

  - Fully enjoying their **economic "sovereignty"** by controlling the flows of goods, services, capitals and people as well as their budgets

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4: The cost of non-Europe (cont.)

- We had that before, it was called the "**European Economic Community**"

- What would then be the impact of reverting to the EEC?

- **Per capita GDP would fall** substantially (Mayer, Vicard and Zignago, 2018):

  - By **6.6%** on average across member **countries**

  - By **4.4%** on average across their **citizens**

  - The gap is due to the fact that **small Eastern countries** would lose much more than big Western countries

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Revamping the EU: what money can't buy

- Maybe the EU is suffering from **too much economics**, just like the US (Sandel, 2012, on the moral limits of markets)

- "We live in a time when **almost everything can be bought and sold**. Over the past three decades, markets - and market values - have come to govern our lives as never before. We did **not** arrive at this condition through any **deliberate choice**. It is almost as if it came upon us."

- "As a result, without quite realizing it - without ever deciding to do so - we drifted **from having a market economy to being a market society**."

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Revamping the EU: what money can't buy (cont.)

- "The difference is this:

  - **A market economy is a tool** - a valuable and effective tool - for organizing productive activity.

  - **A market society is a way of life** in which market values seep into every aspect of human endeavor. It's a place where social relations are made over in the image of the market."

- In much of the public debate and media coverage the **project of European integration** seems indeed to have drifted from instrumentally developing a market economy to projecting the **image of a market society**: deficits, surpluses, spreads, market indices, etc.

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Revamping the EU: what money can't buy (cont.)

The EU is not only money …
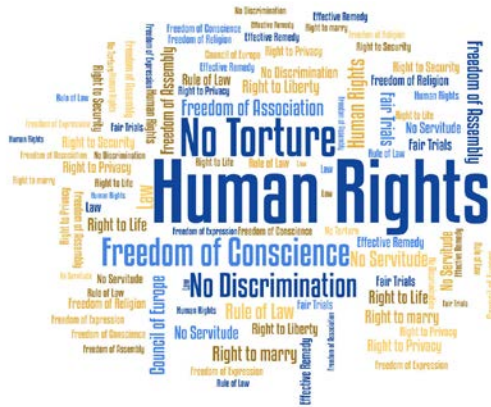
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Revamping the EU: what money can't buy (cont.)

... but also values!

Revamping the EU: what money can't buy (cont.)

More than the **sovereignty of individual European nations**, what seems to be at stake today is the **sovereignty of common European values**

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THANK YOU FOR YOUR ATTENTION

Florence, 14 November 2019

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