European Union Expansion: A Constitutional Perspective

Dennis C. Mueller*
University of Vienna

Abstract:

The entrance of new members into the European Union has profound economic and political effects on both the entering countries and existing members of the Union. This paper examines the issues that are raised by the entry of new members into the EU from a constitutional perspective. It starts from the premise that the purpose of the EU, as for any governmental unit, should be to advance the interests of its citizens. Given this purpose, it then discusses the question of whether the EU might be better organized as a federation or a confederation. The answer to this question is shown to depend on the nature of the public goods that the state will provide and the distribution of citizens’ preferences across the member countries. After a discussion of the different kinds of preference heterogeneity that are relevant for the question of EU enlargement, the paper examines the possible benefits and costs from enlargement, and how further enlargement might optimally proceed.

The original intent of Jean Monnet and the other founders of the European Union was to join economically Germany, France and enough other European countries sufficiently closely to make certain that they would never go to war against one another again. Thus, the motivation behind the founding of the European Union was to provide a form of public good for all of Europe. In describing the European Union's raison d’être today, we would expand the list of collective goods that can be provided more efficiently at the European level, and would explicitly include the gains to all Europeans from free trade. The European Union's raison d'etre is to help Europeans achieve the possible gains from a more efficient allocation of goods and services.

To achieve the collective benefits from providing public goods to all Europeans, one

* This paper builds on an earlier paper of mine (Mueller, 2002).
must determine the types and amounts of public goods Europeans want, and then supply them.

There are essentially two types of institutional structures for accomplishing these tasks: a federalist or a confederalist structure. Which of these two structures is best suited to these tasks depends upon the characteristics of the distribution of citizen preferences across Europe for public goods, and thus, of course, also on the characteristics of the public goods themselves.

The European Union's institutional structure has both federalist and confederalist attributes. This mixture creates certain problems in achieving the goal of optimally providing public goods within the EU, and in deciding whether or not to admit new members and upon what terms. These issues are the subject of this paper.

We begin by reviewing the criteria for establishing a federalist state or a confederation (Sections I and II). In so doing we shall employ the metaphor of viewing the state as a club, and thus make reference to the theory of clubs. Section III discusses the optimal design of federations and confederations, while Section IV takes up the benefits and costs of admitting new members. Given the important role heterogeneity plays in the analysis, Sections V and VI are devoted to a description of the kinds of heterogeneity of preferences that are relevant, and the costs of these heterogeneities. Section VII extends the analysis to the EU, while the final section returns to the issue of EU expansion, and the possible forms future expansion might take.

I. States as Clubs: Federalism

A. The Need for Clubs

Imagine people distributed in varying densities across a given land mass living in anarchy. They produce that which they need to survive supplemented by that which they can obtain through exchange. There exist certain goods -- roads, fire protection -- that no single
person or family can supply optimally. Thus, incentives exist for groups of individuals to agree to provide these goods collectively. In the tradition of contractarianism and the new constitutional political economy we can imagine various groups of individuals reaching separate agreements to provide different public goods. Let us call each union of a group of people to provide one or more public goods a *club*.

The characteristics of a public good -- joint supply and nonexclusion from benefits -- often give a *geographic* dimension to any club formed to provide a particular good or service. The fire station benefits only those within a certain radius that covers the distance that its trucks can reach in a reasonable amount of time, the dam protects only those who live lower down along the river. This property of public goods leads us to expect that many clubs that are formed to provide public goods have a geographic dimension to them. The natural self-interest of individuals should thus lead them to create and join many clubs of different geographic dimensions to provide the many possible public goods that could make them better off.

The essence of a *club* is that it is a *voluntary* association of individuals to achieve some mutually beneficial goal. As such, the formation of clubs to provide public goods is much in the spirit of Knut Wicksell's (1896) *voluntary exchange* approach to government, and of Frey and Eichenberger's FOCJs (1999). Consistent with these approaches, one might simply define a state as a club formed to provide one or more public goods. Given the many sorts of public goods that individuals might wish to consume and the different geographic dimensions of their benefits, one might well expect that a given individual would be a citizen of several club/states, some of which would provide public services to individuals in a small geographic area, others to larger numbers of individuals spread across much larger areas. Although there is nothing that we have said so far that would imply that a series of voluntarily joined clubs would take on the hierarchical structure of a federalist state, these clubs would resemble the optimal federalist
state, as described in the economics literature of federalism, in that governmental functions would be associated with different levels of government in accordance with the geographic spillovers from the various public goods, and the relationship between the benefits from membership in a club and the size of the club.

B. Optimal Club Size

The public good benefits from club membership may be of two, fundamentally different types: (1) benefits that grow without bound as club size expands, or (2) benefits that eventually decline as club size expands, and may even turn negative on the margin beyond some size. Under the first heading we can place the benefits from free trade to members of a customs union, or the net benefits to a club member from providing a public good when there is no crowding. In the latter case, if the benefits to a member do not fall as the club size increases, his net benefits from membership will increase as the club size grows and the fixed costs of providing the public good are spread over more and more dues/tax payers.\(^3\)

For many sorts of public goods, like transportation, environmental and recreation systems, adding consumers leads to congestion costs beyond some certain size club. When such crowding occurs, an optimal club size exists at which the benefits to existing members from spreading the costs of providing the public good over one more member just equal the additional congestion costs that this new member brings with her.\(^4\)

C. The Costs of Heterogeneity under Federalism

Although all citizens can in principle benefit from the provision of a pure public good, all do not necessarily have the same preferences for the public good. Institutions must be established to aggregate the diverse preferences of the citizens in a given polity to determine the
optimal quantities and characteristics of the public goods offered by that polity. In all European
countries except for Great Britain these institutions take the form of a proportional
representation electoral system to elect members of parliament, and a simple majority rule
within the parliament to aggregate the preferences represented there. This method of
aggregating preferences imposes certain costs on some or even all citizens, when citizen
preferences differ from one another.

To see what is involved, assume that a polity provides a single public good, say roads,
and its citizens must decide the amount, \( x \), to be spent on roads. The population can be divided
into five groups, each of which favors a different expenditure on roads. Let \( x_1 \) be the
expenditure favored by group 1, \( x_2 \) the expenditure favored by group 2, and so on. Assume that
\( x_1 < x_2 < x_3 < x_4 < x_5 \). An election is held and the parties representing groups 2 and 3 win
together enough seats to form the government and decide the amount of \( x \) for the community.
It is reasonable to assume that the expenditure on roads that this coalition chooses, \( x^* \) falls
between \( x_2 \) and \( x_3 \), i.e., \( x_2 \leq x^* \leq x_3 \). Under this assumption, \( x^* \) must differ from the most
preferred quantity of \( x \) of one of the groups, and most likely differs from the quantities most
preferred by both groups. Thus, the need to form a coalition to be able to decide the quantity of
the public good imposes costs on each group in comparison to what it would experience, if it
could decide the quantity of the public good alone.\(^5\)

Similar losses also exist for members of the other three groups obviously, and these
losses are likely to be even greater than those experienced by the groups whose representatives
were able to form the government. Thus, the necessity of all members of a community having
to consume the same quantity of any public good it provides imposes some loss of utility on
virtually all members, as opposed to what would occur if all members had the same tastes. Two
consequences follow: First, we can now identify a second possible cost to the existing members
of a community from expanding its membership. Even when no crowding takes place, the existing members may be made worse off from the admittance of new members, if the new members have different preferences from old members, and the increased heterogeneity of the community shifts the chosen quantity of the public goods supplied away from those favored by the old members. Second, there may exist gains for all individuals from free migration across communities, if this migration can result in communities with more homogeneous preferences for public goods. A possible advantage of having a federalist governmental structure with numerous communities within the federation providing similar bundles of public goods is that it would allow citizens the opportunity to improve the levels of utility that they obtain from publicly provided goods and services by resorting themselves into communities of more homogeneous preferences.

II. Confederations as Clubs

My *American Heritage Dictionary* defines a *confederation* as a group of states united for a common purpose. One might well also define a *club* as a group of individuals united for a common purpose. A confederation is thus a kind of club of nations, and we expect it to share the following two properties of clubs: (1) Membership is voluntary. (2) Members voluntarily join because they expect to be made better off. The "common purpose" that brings them together involves their obtaining mutual benefits. The benefits from membership in the club or confederation are a form of a public good to club members.

When the members of a club are autonomous states, the issue arises of whether it is the interests of the citizens of these states that are being advanced by the confederation, or the interests of the members of the governments that represent these citizens. The simplest case to consider, and the one which is most compatible with the confederate form of government being
the optimal way to advance the interests of the individual citizens within it, is to assume that every person within a given state has identical preferences for the public goods that the confederation provides, and that the representatives of the governments of each member state faithfully represent the preferences of their citizens.

Under these assumptions, a club of states has all of the properties of a club of individuals. Namely, optimal club size is infinite in the absence of crowding or preference heterogeneity across club members, optimal club size is likely to be finite when either of these two phenomena are present.

When every person within a given state has identical preferences for the public goods that the confederation provides, an obvious and simple way to represent these preferences is to have each of the constituent state governments send representatives to an assembly, and for these state delegations to have seats or voting rights in this assembly proportionate to their populations. Such a system of representation would produce an assembly of representatives for the confederation that would resemble that which one would expect to arise under a system of proportional representation in which the citizens of the confederation elected representatives to the assembly directly.

The situation can be quite different, however, if the preferences of the citizens within each state are heterogeneous. Assume, for example, that the population of each state can be divided into five groups as in the previous section, with the five groups in each of the states having the same five most preferred quantities of the public good \( x, x_1 < x_2 < x_3 < x_4 < x_5 \). Assume further that there are ten states in the confederation. In five of these parties representing the groups favoring \( x_1 \) and \( x_2 \) form governments with narrow majorities, in the other five states parties favoring \( x_3 \) and \( x_4 \) form governments with substantial majorities. If the populations of the five states favoring \( x_1 \) and \( x_2 \) give them a slight majority in the
confederation's assembly, and this assembly uses the simply majority rule, then the quantity of
the public good chosen using the confederate form of representation will lie between \( x_1 \) and \( x_2 \),
where a quantity between \( x_3 \) and \( x_4 \) would have been chosen using the simply majority rule
under a system of proportional representation in which citizens across the confederation elect
their representatives directly.

With heterogeneous preferences within states, the outcomes from a confederate form of
representation can differ from those under proportional representation when citizens elect
representatives directly, even if the unanimity rule is used in the confederate assembly. In the
above example, individuals who favor the quantity \( x_5 \) are not represented in any of the ten
governments, and thus their preferences would presumably receive no weight in any
compromise over \( x \) that representatives of the ten governments were able to reach under the
unanimity rule. These considerations imply that a confederate form of government is the
optimal way to represent citizen preferences only when these preferences are homogeneous
within each member state and heterogeneous across them.

III. The Optimal Design of the State

Much of the public choice literature that deals with constitutions, and essentially all of
the recent constitutional political economy literature, assumes that constitutions are written by
the citizens of a country and are unanimously agreed to by these citizens. Although these
assumptions are highly unrealistic as descriptions of the way actual constitutions of nation
states are written, they do accurately describe how confederations come into being. Since the
potential members of a new confederation are themselves nation states, it is possible for each of
them to remain in the current "state of anarchy" should they not find the conditions for joining
the confederation to their advantage. Unanimity is not merely a hypothetical ideal when it
comes to the formation of a confederation, it is a practical necessity. Although all countries that meet to discuss forming a confederation may not choose to join it, the agreement among those which do join must be unanimous. The contract all joiners sign must be seen as a Pareto move by all signers. Both the contractarian perspective on the initial constitution and the assumption of unanimous agreement among all signers is fully justified, when a new polity is created through the joining of previously autonomous states.

Although when states form a new polity the process of state formation is that of a confederation, the new state need not take on that form. The existing states might form a federal superstate with the former autonomous states being sub-states in the superstate. Our previous discussion suggests that this federalist structure is optimal, when citizen preferences for the public goods provided by the superstate are heterogeneous within the separate countries which form it. The formation of the United States of America might be viewed as an example of such a process. Alternatively, if citizen preferences for the public goods provided by the superstate are homogeneous within each member country and heterogeneous across them, then a confederation will be optimal. Since the European Union was founded as a confederation of states, and has effectively functioned as a confederation throughout its history, one must assume that citizen preferences for the public goods provided by the EU are homogeneous within each member country, if the EU is organized optimally for revealing its citizens preferences.

Once the superstate has been created, it must decide on a voting rule to be used to make the various collective decisions, which will advance the interests of its citizens. If a federal structure has been chosen, these collective decisions will presumably be made by a parliament in which citizen preferences are represented through parties, which have competed for votes across the superstate. If a confederation has been chosen, the collective decisions will be made in an assembly filled with representatives from the elected governments in each member
country. In either case, the assembly making collective decisions must operate with some voting rule. Following Buchanan and Tullock (1962, pp. 63-91) the selection of the optimal voting rule has been analyzed in the public choice literature as depending on decision-making costs and the external costs of collective decisions.\textsuperscript{10} These costs are depicted in Figure 1. The majority required to make a decision, $m$, runs from zero to one along the horizontal axis, with $m = 1.0$ being the unanimity rule, $m = 0.5$, the simple majority rule, and so on. The time taken to reach the required majority increases with the size of this majority, with the usual assumption being that these decision-making costs, $D$, increase at an increasing rate as $m$ rises. Under the unanimity rule, each member of the committee can effectively veto any proposal that would make her worse off, and there are no external costs from collective decisions. As the majority required to pass an issue falls, the likelihood of a member being made worse off increases, and thus so too do the external costs of collective decisions, $E$. Here also the usual assumption has been that $E$ increases at an increasing rate as $m$ declines. The optimal majority, $m^*$, is found at the point where the sum of these two curves is at a minimum.

It is reasonable to assume that $m^*$ will differ for different types of collective decisions and for different communities. In particular, the more heterogeneous the members of the assembly are, the longer it is likely to take them to reach a collective decision. Thus, the $D$-curve is likely to pivot to the left as heterogeneity increases. This change alone would imply lower optimal majorities for more heterogeneous committees. It is also likely, however, that $E$ pivots to the right as heterogeneity increases, as the danger of a collective decision being made that lies far from a member’s most preferred outcome increases. Thus, the net effect on the choice of a voting rule from an increase in heterogeneity cannot be predicted without knowing by how much each curve shifts. What can be said unequivocally, however, is that the combined costs associated with collective decision making are greater, the greater the heterogeneity of the
community.

Figure 1
Choosing the Optimal Majority

![Graph showing the optimal majority choice](image-url)
IV. The Benefits and Costs of EU Expansion

A. Benefits

If $x$ is a pure public good, then additional citizens can enjoy the benefits of consuming $x$ without imposing any costs on the rest of the community. If these additional citizens bear some of the costs of suppling $x$, then existing members of the community benefit from allowing new members in. An example of such an $x$ might be a satellite, whose signals can be selectively beamed to particular people. The costs per person of launching and maintaining such a satellite fall as the size of the community paying for the satellite increases.

When one thinks of the EU, there are very few public goods that it provides that have these characteristics. Indeed, most of the EU’s budget goes into agricultural subsidies and other redistribution programs, which certainly do not resemble pure public goods. Many might regard the euro as a kind of EU public good, but it is not “supplied” to all members, and there is no technical reason why one would have to join the European Union to join the European Monetary Union (EMU). If Canada wanted to adopt the euro and existing members of the EMU agreed, it would be entirely feasible to replace the Canadian dollar with the euro without having to admit Canada into the EU. Similar arguments apply with respect to the benefits from participation in the Shengen agreement.

As noted at the start of this essay, a primary objective in forming the EU was to prevent future wars in Europe – and the achievement of this goal has been its most successful accomplishment. To the extent that new members into the EU refrain from starting or joining into wars with other member countries, because of their EU membership, all existing and new members benefit. Spreading and preserving peace and democracy is arguably the greatest benefit from EU expansion.
Another set of benefits from EU membership come through the harmonization of various rules and regulations that make doing business in different European countries easier. Here again, however, one might argue that many of these benefits might be obtained without having to become a full member.

B. Costs

1. Congestion

Austria has more trucks transiting it than any country in the EU, and this truck traffic is predicted to increase with the addition of ten new member countries to its north and east (Die Presse, 2004). Congestion in the skies and on the beaches of Europe may also increase with expansion. Many have also been concerned with the possibility of congestion in the job market. Too many workers from the poorer new member countries seeking jobs in the rich countries. Although this possibility cannot be dismissed out of hand, in the long run the migration of workers to the richer countries should increase both the supply of workers and the demand for them, if the richer EU countries liberalize their legal environments to make the creation of firms and jobs easier.

The draft constitution of the EU creates a new animal called the “European Union citizen.” All the full implications of this article are unclear, one possible consequence might be that EU citizens will not only have the right to migrate to richer countries in search of employment, but – as EU citizens – would have the right to claim access to a rich country’s generous welfare system soon after taking up residency. Should the courts interpret EU citizenship in this way, it could be the death of the welfare state in Europe as it exists today (Sinn, 2004).
2. Heterogeneity

If $x$ was a public good supplied to the 15 member countries of April 30, 2004, and the range of their preferences over $x$ was from $x_1$ to $x_5$, then a reasonable outcome of collective decision making in the EU would have been a choice of $x$ of, say, $x_3$. If the preferred quantities of $x$ of the new member countries are, say, $x_6$, $x_7$, and $x_8$, then the addition of the ten new countries may shift the chosen quantity of $x$ in the EU away from those favored by the original member countries imposing costs upon them.

3. Effects on the basket of public goods provided

As discussed at the beginning of this paper, most public goods have a geographic dimension to them, unlike the satellite example given above. As the boundaries of the EU expand, the number of public goods that can be optimally supplied to all member countries is likely to decline. Ironically expansion of the EU should probably carry with it a *contraction* of the work of Brussels, at least in so far as it is involved in providing public goods. There has been much discussion in recent years of an “inner” and an “outer core” of member countries, of EU countries moving at two speeds, and so on, with the connotations surrounding these terms usually interpreted negatively at least among the slow-moving, outer core countries. The geographic dimensions of public goods suggests, however, that a subdivision of their provision in the EU might well be optimal. Instead of the EU being thought of as only a single club of 25 or more countries, it might well be optimal to divide the EU into several smaller clubs – a British Isles-Scandinavian club, a Mediterranean club, a central European club, and so on – for the provision of some public goods with spillovers across individual country borders.
4. The optimal voting rule

The ten new members to the EU range from tiny islands in the Mediterranean with tourism as their main industries, to tiny countries in the Baltic sea with diverse economies, to giant Poland with its huge agricultural sector. The new entrants differ from 15 previous members most conspicuously in their relative incomes. The average new member income per capita is less than half of that of the existing members.

This increase in heterogeneity in the EU can be expected to shift upward both the $E$ and $D$ curves in Figure 1 raising the total costs of collective decision making in the EU. As noted above, the effects of the shifts in these two curves on the size of the optimal majority for passing an issue is ambiguous. This ambiguity stands in sharp contrast to the seeming consensus among the drafters of the new constitution that the expansion necessitated a reduction in the size of the effective majority to pass issues in the Council. The reason for this contrast can be seen in the fact that the rise in decision-making costs falls entirely on members of the Council, for it is they who will have to spend more time searching for proposals that will achieve the required majority. This increase in decision-making costs need not concern EU citizens, for they are not directly engaged in reaching collective decisions. On the other hand, the rise in the external costs of collective decision making falls largely on EU citizens. In particular, citizens in the 15 pre-May-2004 member countries can expect to bear the costs of future collective decisions in the EU falling further from their most preferred outcomes. This difference in who bears the costs of expansion helps to explain why citizens in the 15 pre-May-2004 member countries seem to be less enthusiastic about the expansion than their representatives in the Council and Commission in Brussels.
V. The Nature of Heterogeneous Preferences

Preference heterogeneity plays a very important role in our analysis of the optimal structure for the EU, federation or confederation, of the optimal voting rule, and of the costs and benefits from expansion. Given its importance, it is appropriate that we pause here to consider the nature of the kinds of preference heterogeneity that can raise the costs of membership in a community. The list of heterogeneities that follows is not meant to be exhaustive, and no importance should be given to the order of presentation.

A. Tastes

In the example involving the choice of $x$ individuals are assumed to have different preferences with respect to the optimal quantity of a pure public good. An example of such a good might be a maximum speed limit on limited-access highways impose across all EU members. Some people are highly risk averse and favor low speed limits, others are more concerned with the costs of traveling at low speeds. If these preferences are relatively homogeneous with countries and heterogeneous across them, then setting a common speed limit across all countries will impose costs on some of the member countries.

B. Income

Poor people buy smaller quantities of some private goods, like meals in restaurants and holidays on the beach, and lower qualities of other private goods. The addition of poorer countries to the EU can be expected to shift the provision of EU-wide public goods towards lower provision of quantity and quality.
C. Ideology

A communist wishes to see the state own all means of production and little or no scope for the market. An economic liberal favors strong property rights and market institutions. Ideological differences over economic institutions have been prominent in Europe over the last century and have imposed huge costs on its citizens. The most conspicuous of these are certainly the costs on those trapped in communist countries after World War II. The “stop-go” economic policies followed by successive Conservative and Labour governments in Britain during the 1960s imposed costs of a lesser sort on its citizens. The Red Brigades and other left-wing terrorist groups caused much fear and suffering and a not insignificant number of deaths during the 1970s.

D. Race

It might not be possible to tell whether a man is an economic liberal by simply looking at him, but it is easy to tell whether his skin color is black or white. Race is the most conspicuous of all heterogeneities that divide people, and continues to be a common cause of friction in racially mixed societies. For complex sociological or perhaps genetic reasons, many white people do not wish to work or live alongside black people, and discriminate against them in their social and economic interactions. This discrimination tends to drive the races apart both physically and economically with blacks and whites clustering together in largely segregated communities, and blacks occupying the lower ranks of income distribution. Although the United States is the most prominent country that has been troubled by racial problems, it is not alone. I can think of no country in the world with a non-negligible black minority in which blacks have achieved economic equality with whites in the sense of having equal per capita incomes, and equal probabilities of occupying the top managerial and other positions of status
E. Religion

If one lists the “trouble spots” of the world over the last decade – Israel, Iraq, Afghanistan, Kosovo, India, Bosnia, Northern Ireland – one immediately recognizes that religious differences have been a factor in all of these countries, and in most have been the primary if not the sole cause of conflict. One also immediately recognizes that the religious clashes have also not always been between Islam and Christianity, or even have always involved Islam. In India Moslems and Hindus have engaged in violent confrontations, and in Northern Ireland it is Catholics and Protestants that persist in killing one another. All of the major religions of the world seem capable of fueling sufficient hatred against other religions to generate physical violence when members of different religions live near one another.12

F. Culture

The typical European family today often chooses to have no children, or at most one or two. It places great store in educating its children, ideally up through the university. The typical Romani family has six, eight or more children who usually receive little formal education. Although there are some racial differences between Romani and other Europeans, the most conspicuous gulf between them is in their living styles, or what we might call cultures. The Romani are ostracized and discriminated against by other Europeans, because of the dramatic differences in their cultures. The fact that these differences are reinforced and enhanced by this ostracism and discrimination does not make them any less important as a source of conflict. The violence that has characterized relationships between the Basques and other Spaniards might also be attributed to cultural differences.
G. Language

When seen on the street it would be difficult to tell the difference between a Flemish
Belgian and a Walloon, only when they begin to speak in their mother tongues does the
difference between them stand out. This difference has been a continuous cause of friction
within the country over the past decades. Although these frictions have not escalated to the
kinds of violence seen in Spain between Basques and other Spaniards, or in Northern Ireland,
it has imposed costs on the community. Language differences contribute to the gap separating
Basques from other Spaniards, Catalans from other Spaniards, and Corsicans from other French.
Language differences are a frequent cause of conflict between groups, which otherwise seem
quite homogeneous.

H. Sexual Orientation

Differences in sexual orientation across people have become a more important source of
friction in recent years, as homosexuals have become less inhibited in showing signs of
affection for one another in public. Here we have an example of one form of heterogeneity that
can lead to conflicts because of another form of heterogeneity. The animosity that some people
feel and show toward homosexuals arises in part at least, because they believe that God has
forbidden homosexual relationships. When race, religion and culture all combine to reinforce
the differences between groups, the costs of heterogeneity can become quite large.

VI. The Nature of the Costs of Heterogeneity

If individuals have single-peaked, concave utility functions defined over a single-
dimensional issue, $x$, then the utility loss to an individual from the choice of an $x$, which differs
from her ideal point increases more than proportionally with the distance between the chosen $x$
and her ideal point. Thus, if the continual expansion of the EU leads to continually greater
degrees of heterogeneity across the EU in citizen preferences (tastes) for EU-wide public goods,
expansion is likely to erode the perceived benefits from the EU of citizens in member countries,
unless these costs are offset by other benefits from expansion.

Some of the other forms of heterogeneity listed in the previous section can also impose
real costs on citizens. Signs in a community with two language groups might have to be printed
in two languages. Parliamentary debates, court proceedings and other public events might
requires translators. Television stations might have to broadcast in two languages, or one might
need more stations than would otherwise be the case. Religious differences might also impose
real costs on members of the community. If the minority religion succeeds in getting its
religious holidays declared as national holidays along with the religious holidays of the majority
religion, the number of public holidays in the country may exceed the number, which all
citizens deem optimal.

Many of the costs of heterogeneity are not real costs as in the above examples, but
psychological costs. A white person does not resent living next to a black person, because the
black favors a different speed limit than the white, but merely resents seeing and knowing that
a black person is her neighbor. The presence of the black person gives rise to a psychological
externality. The sight of two men holding hands or kissing in public gives rise to a negative,
psychological externality for the person who believes homosexual relationships to be a sin.
Indeed, the mere thought that two people are having a homosexual relationship in private may
give rise to a psychological externality.

The common way to eliminate a negative externality is to prohibit the action that causes
it. If secondary smoke from cigarettes causes an externality, smoking is banned in public
places. Bans against homosexuals committing certain sexual acts in public – or even in private
have been come, and still exist in many places today; blacks have been banned from certain places frequented by whites; and most recently in France Moslem women have been banned from wearing head scarves in public buildings. Such bans impose obvious costs on the minority whose activity has been circumscribed. Should the ban not be imposed, the costs fall on the majority experiencing a psychological externality. When such externalities exist for two groups living together in a community, one group must suffer losses for the benefit of the other group, whatever the community decides with respect to the action. The only way that the imposition of costs on one group can be avoided is by separating the two groups by a great enough distance so that the externality disappears.

VII. The Costs of Heterogeneity in the European Union

Article 21 of the Charter of Rights which is to be included in the new EU constitution, if it is adopted, begins with the sentence, “Any discrimination based on any ground such as ... [17 criteria] ... shall be prohibited.” Among the 17 criteria for discrimination, which are prohibited, are all of the usual subjects – race, sex, religion – as then some. Article 21 thus annunciates the liberal ideal of racial, sexual, religious, etc. equality shared by liberals in Europe and around the globe. If an article in a constitution could eliminate racial prejudice, then racial inequality in the United States would have vanished long ago. If people perceive psychological externalities from some of the differences among people enumerated in Article 21, then there will be costs from having and increasing heterogeneities within the European Union.

Fifty years ago, France was a relatively homogeneous French-speaking country with a largely white, Catholic population. Today France has the largest Moslem population in Europe, and its major cities are surrounded by black ghettos with high unemployment rates, particularly
among young males, and high crime rates, a situation resembling what once existed, and to some extent still exists in the United States today, except that there the ghettos tend to span the center of the major cities.

The bombings of March 11th, 2004 in Spain are a vivid reminder of the potential costs of heterogeneity. They were not set off by deranged Spanish citizens, or even by those alienated from the government like the Basques. They were set off by people from a culture and of a religion quite different from that of most Spaniards. The costs of heterogeneity can be quite high.

VIII. European Union Expansion: With or Without Immigration?

As already noted, the primary benefits from the European Union have come through the elimination of wars between its members. The preservation of peace and democracy in the exiting member countries, and their spread to new members are the most likely benefits from expansion, along with the economic benefits of an ever expanding common market. All of these gains can be realized without requiring that the citizens of one member country be free to immigrate to and take up residence in another member country.

Free migration and rights to employment in all member countries have been a feature of the European Union from early on. To date migration among the member countries has been rather modest, and this feature of the EU has not been a cause of much concern. The differences in income between the new members and the existing 15 are sufficiently great, however, that the right to free migration may prove to be unpopular in some of the richer countries, if it gets exercised by too many people. With this in mind some existing member countries, like Austria and Germany, chose to restrict the immigration rights of the new members for an initial period.
Income aside, the 10 new member countries do not differ greatly from the existing 15 as of April 30th, 2004. All have white, European populations. All have Christian heritages. One can be fairly optimistic that the integration of these 10 countries will not impose great heterogeneity costs on the previous members, even if migration from the new members proves to be greater than has been the case following past expansions.

As one looks further east, however, the potential dangers from further expansion and liberal migration appear to loom larger. In particular, many Europeans on both the right and the left of the political spectrum have great reservations about allowing Turkey into the EU. Although political correctness often forces politicians to be circumspect about the origin of their fears if Turkey were to join, its large and rapidly growing Moslem population must be an important component of the explanation.

The benefits to the European Union from admitting Turkey could be great, however. Indeed, the whole world would benefit if peace and democracy could be spread to the Middle East, and no country in this region is a better candidate for helping to achieve this goal than Turkey. If Turkey were allowed into the EU without its having the rights to free migration that have characterized EU membership until May 1st, 2004, the existing EU members would receive all of the benefits from Turkey’s entry without many if any of the potential costs. Turkey too could expect to be a large net beneficiary.

With these considerations in mind, I see essentially three possible scenarios for the EU’s future development.

1. Role up the red carpet. Call a halt to EU expansion, perhaps after admitting Bulgaria and Rumania. Except for transition periods, rights to migration continue to exist and are exceed to rights to citizenship in other member countries after relatively short periods of residency. Europe becomes an island of peace and prosperity surrounded by some occasionally
quarrelsome and unpleasant neighbors.

2. Extend the red carpet, continue to allow free migration, and hope that all European Union citizens become as enlightened and tolerant as the people who drafted the Charter and the constitution. Should this hope prove in vain, this scenario risks the eventual undoing of the EU experiment as some countries begin to perceive the costs of membership, as enumerated above, to exceed the benefits.

3. Continual expansion to include countries, which meet the criteria of being liberal democracies with well-functioning market economies, but allow each member country to define its own criteria for residency, employment and citizenship. The EU continues to expand as a confederation with each member country able to control the inward flow of people from both within and outside of the EU. Here it should be noted that freedom to travel within the EU could be assured to all EU citizens without granting them rights of residencies. Considerable migration could still be expected, but each country could control both the amount and the identities of the migrants to ensure that the benefits from migration exceeded the costs.

Option 3 would allow the EU to gradually expand across all of Europe and into the Middle East, eventually absorbing perhaps Israel, Russia and its former satellites, if they could eventually meet the criteria for entry. Admittedly, this is a big if, and one would expect that some countries would have to be bypassed because they failed to meet the entry criteria, while countries to their east were admitted. The pressure to reform on a non-democratic country surrounded by a sea of democratic ones would, presumably, be very great, and one hope that eastward expansion would eventually result in the inclusion of all countries along the way.

Option 3 resembles the dream of Woodrow Wilson and others for the League of Nations, and of others who have dreamed of a “world government.” To some it may appear Utopian, but I would argue that it is less Utopian than thinking the option 2 could be followed without
great risks. The admission of 10 new member countries into the EU, and the possible adoption of a new constitution is the appropriate time to consider where the EU is and where it ought to be going. Option 3 promises far greater benefits to both existing and new member countries than either of the other two options, with potentially lower costs than the second option. It is worthy of careful consideration.
Endnotes

1. Exceptions exist, of course. One category would be that of “cultural clubs,” like religions. It may be possible to join a religious club and receive the benefits from membership regardless of where one lives. See, Mueller (1996a, Ch. 20).

2. Schmidt-Tenz and Schmidtchen (2002) emphasize the likelihood of different sized protective states being optimal for different laws.

3. If $B$ is the benefit to each member of a customs union from free trade, and $n$ is the number of members of the union, then it is reasonable to assume that $B$ initially grows rapidly as membership expands, but eventually its growth, although still positive tapers off as the bulk of the gains from free trade have been realized. This relationship can be captured by positing an exponential relationship between $B$ and $n$.

$$B = \alpha + \beta \ln n \tag{1}$$

A similar relationship between $B$ and $n$ arises for a pure public good, when there is no crowding. If $\alpha$ is the utility a club member experiences from consuming the pure public good, and $\beta$ is the public good's total costs, then the benefits an individual obtains from club membership, net of his share of the public goods costs are

$$B = \alpha - \frac{\beta}{n} \tag{2}$$

Both equations (1) and (2) imply an optimal club size of infinity.

4. Congestion costs can be introduced into equation (2) by adding a term as given in equation (3).

$$B = \alpha - \frac{\beta}{n} - \gamma n^2 \tag{3}$$

Equation (3) implies an optimal size for club membership, $n^* = (\beta/2\gamma)^{1/3}$.

5. Let the members of group $i$ have identical preferences for spending on roads, $U_i = K_i - b_i (x_i - x^*)^2$, where $x_i$ is the amount each member of this group wishes to see spent on roads, and $b_i$ is an intensity weight specific to group $i$. If $x_i = x^*$, a member of the group experiences a utility level $K_i$. The loss $L$ to a member from having to consume $x^*$ rather than $x_i$ increases linearly with its intensity weight, and exponentially with the distance between $x_i - x^*$, $L = -b_i (x_i - x^*)^2$.

6. See Tiebout (1956); Inman and Rubinfeld (1997); and Mueller (2003, Ch. 9). The latter two references also discuss the kinds of externalities from migration that negate the potential benefits from “voting with the feet.”

7. Indeed the European Community was often referred to in its early years as the Club of Rome.

8. This is of course the approach pioneered by Buchanan and Tullock (1962).

9. It is, of course, possible that countries that choose not, or are not allowed to join are adversely affected by the formation of a confederation. Thus, the emphasis in the text.

10. See, also, Mueller (2003, pp. 74-8).

11. In the past when I have made this observation, some people have occasionally pointed to Brazil as a counterexample of successful racial integration. A fairly recent article in the Economist (2003)
indicates that this is not so, however. Blacks in Brazil are demanding the same sort of quotas in hiring and university admissions to achieve racial equality that blacks in the US have long demanded.

12. Buddhism has not figured in the violence experienced by the seven countries listed in the text, but recent violent clashes between a Moslem minority in the south of Thailand and the Buddhist majority in this country suggest that it too can be a source of religious conflict.


14. It resembles most closely the scenario described by Peter Bernholz (1985), who also saw the European Community of that time as the building block for a much larger peaceful union of states.
References


