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Università degli Studi di Siena  
DIPARTIMENTO DI ECONOMIA POLITICA

UGO PAGANO

Cultural Diversity, European Integration and the Welfare State

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**Abstract** - According to the “Neoclassical” approach, stemming from the Tiebout model, the main advantage of federalism lies in the possibility that individuals with similar tastes, including those related to risk-aversion and the provision of public goods, can cluster in the same jurisdictions. The starting point of this paper is a criticism of this approach. While the main advantage of federalism is related to the possibility of clustering heterogeneous individuals, the assumption of costless movement from one State to the other implicitly implies that individuals are homogeneous in some of other important characteristics. For instance, individuals, facing low mobility costs must have very minor cultural and linguistic differences. This hypothesis may approximate the U. S. situation but clashes with the case of European Union. Since Cultural-linguistic standardisation and the social protection can be regarded as two alternative insurance devices (one increasing the probability of alternative employment and the second providing some assistance in case of dismissal from the present employment) a culturally diverse Europe must necessarily rely more on the Welfare State than the United States. The comparison with the U. S. clarifies the paradoxical problem of European integration. On the one hand, social protection is more necessary when cultural-linguistic differences make it expensive to cultural standardisation as a substitute for it. On the other hand, social insurance among different regions is more unlikely to be accepted when these cultural differences prevail. We argue that a possible way out of this dilemma is a system of mutual insurance among the European national welfare systems.

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**Ugo Pagano**, Dipartimento di Economia Politica, Università degli Studi di Siena

## **1. Introduction**

According to the “American-Neoclassical” approach, stemming from the Tiebout (1956) model, the main advantage of federalism lies in the fact that individuals with similar tastes, including those related to risk-aversion and the provision of public goods, can cluster in the same jurisdictions. According to this view, federalism can favour the maximum differentiation of the characteristics of the individuals clustering in the different states. The starting point of this paper is a criticism of this approach. While the main advantage of federalism is related to the possibility of clustering heterogeneous individuals, the assumption of costless movement from one state to another implicitly implies that individuals are homogeneous in some other important characteristics. For instance, the hypothesis that individuals face low mobility costs involves that they have very minor cultural and linguistic differences. This is not the case in Europe, where cultural-linguistic differentiation is high and federalism is often associated to the protection of the cultural specificity of certain regions.

Cultural-linguistic standardisation and the social protection given by national welfare states can be regarded as two alternative insurance devices: the first increases the probability of alternative employment while the second provides some assistance in case of dismissal from the present employment<sup>1</sup>. A Europe that lacks the horizontal cultural standardisation of the U.S. must necessarily rely more on the welfare state than a country like the United States that is characterised by a very large market with low mobility costs. One would expect that in Europe the welfare state should act as a substitute for low horizontal cultural homogenization – an expectation that is consistent with the more relevant role of European states in social protection.

The comparison with the U. S. clarifies the paradoxical problem of European integration. On the one hand, social protection is more necessary when cultural-linguistic differences make it expensive to cultural standardisation as a substitute for it. On the other hand, social insurance is more unlikely to be accepted when these cultural differences prevail. While a full-blown European system of Social Insurance is likely to be unfeasible, the process of economic integration makes it more difficult for the increasingly specialized national economies to insure one sector against the other and to continue to provide the type of social insurance that was traditionally supplied by National welfare states. We argue that a possible way out is a system of mutual insurance among the European national welfare systems.

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<sup>1</sup> A formal model examining the roles of social protection and cultural standardisation as alternative insurance devices is developed in D’Antoni and Pagano (2002) where it is also argued that Europe, taken as a whole, is likely to be very far from the optimal mix between these two policies. Bowles and Pagano (2003) develop this framework to analyse the contrasting interests of “cosmopolitans” and “provincials”. Arachi and D’Antoni (2003) argue that, if the risks of the workers who have made human capital specific investments in particular sectors are taken into account, the case for social insurance can get stronger as capital markets integration takes place, despite the increase in the distortionary effect.

The paper is structured as follows:

In section 2 we contrast the “Neo-Classical-American” view of federalism with the one that we believe to be closer to the needs of a culturally diverse Europe.

In section 3 we show how economic integration and market mobility at national level were greatly favoured by “institutional complements,” such as the existence of an undisputed dominant high culture and the loyalty to a single political unity. Similar features characterised the United States of America but cannot be taken for granted in contemporary Europe taken as a whole.

The focus of section 4 is on the two instruments through which national governments insured their citizens against the risks of the mobile market society: social protection and cultural-linguistic standardisation. We consider the difficult puzzle that the relations of complementarity and substitution between these two insurance devices create for Europe and how, in this respect, the European case is polar to that of United States that, unlike Europe, is characterised by high horizontal cultural homogeneity among states (and, because of many decades of immigration, by lower vertical homogeneity).

In the fifth section, we consider a possible model of “mild European federalism”, which combines some degree of cultural integration with some defence of cultural diversity and some protection against “forced” economic mobility.

Finally, in section 6, we argue that European political institutions must support national welfare states. Their capacity to provide social insurance would otherwise be eroded by the productive specialization that is entailed by the process of European economic integration and, more generally, by globalization.

## **2. The limits to the competitive view of federalism**

In the neo-classical tradition stemming from the Tiebout (1956) model, federalism is claimed to be an effective way through which citizens can get arrangements for taxes and public goods provisions that are as close as possible to their preferences. If the welfare state is considered an insurance mechanism against the various hazards of life including health, skills redundancy and market fluctuations, federalism could solve the problems that arise from the existence of differences between tastes for state intervention and for redistribution that individuals, with different wealth and different risk aversion, are very likely to have. A federal state offers different jurisdictions among which the agents can choose. Thus, individuals with similar tastes for the “degree” of intervention of the welfare state can cluster in the same jurisdiction. According to this view, some contrasts, which characterize modern democracies, can be overcome by a market mechanism for the demand and supply of state arrangements. This view of federalism relies on the neoclassical model and, in particular, on the Tiebout model for the supply of public goods according to which people can vote with their feet. It can lead to the extreme conclusion that the different states should show little respect for their own minorities because both the majority of the community and the minority may gain if each one of them is organized in different jurisdictions according to its own community values<sup>2</sup>.

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<sup>2</sup> This view originates from Tiebout's (1956) paper on local public goods. Some of the extreme logical consequences of this theory can be found in Alesina and Spalaore (1997). For a complete survey see Innam and Rubinfeld (1997). A clear and concise analysis of this problem can be found also in Part II of Cooter (2000).

Market mobility guarantees the individuals against the hazards of their production activities in two ways. In the first place, individuals can find other employments if their skills become redundant where they are. In the second place, the market for jurisdictions may offer more redistributive arrangements for the most risk-averse individuals. In general, mobility and competition in both the private and public sectors can guarantee better arrangements for all the individuals.

Such a mix of neo-classical model and of some aspects of the American federalist experience can, however, be a very dangerous guide for the institutional design of the European Union. The Tiebout (1956) model relies on the idea that the costs of mobility are zero - a theoretical abstraction that can, perhaps, provide some insights for the American society where mobility costs are relatively low but it is at odds with the European situation, where linguistic differences and other types of community ties make mobility very costly. In Europe federalism is often advocated by communities as a way of protecting sunk investments, such as their language and their ethnic investments, against the threats of an increasingly mobile society. It is rarely seen as a means for opening opportunities for people to move towards jurisdictions that are closer to their tastes.

The shortcomings of the neoclassical view of federalism for the European case are also related to some more general limitations of this model. While federalism is considered a way of enhancing diversity in the population (by clustering people according to their characteristics), this view relies on low mobility costs that can only hold if individuals are homogeneous in other relevant respects. For instance, if individuals are homogeneous in their linguistic characteristics, their mobility is enhanced and they could easily cluster according to the welfare provision offered by the different states. In general, the homogeneity in one dimension can favour the heterogeneous clustering in other dimensions: if the individuals are homogeneous in terms of their preference for welfare provisions, their mobility among jurisdictions is enhanced in other dimensions and they can more easily cluster according to their linguistic and ethnic characteristics. State competition is rather limited; in many cases, it is possible in some spheres only because some monopoly- possibly a cultural-linguistic monopoly- has been established in some other spheres.

### ***3. Cultural-linguistic standardisation and individual mobility: a multiplicity of institutional equilibria***

The neoclassical model can be criticized for a failure to understand the complementarities<sup>3</sup> existing between heterogeneity in some domains and homogeneity in some other dimensions. However, this criticism can be deepened by arguing that the traditional view fails to see the market as an institution that has required a long process of linguistic, legal and customary standardisation and has, in turn, induced a further enhancement of this process. A fair degree of cultural-linguistic standardisation is wrongly taken for granted while it is a crucial institutional precondition for the working of both “political” and economic markets. Indeed, the

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<sup>3</sup> On the concept of institutional complementarity see Milgrom and Roberts (1990) and Aoki (2001). Even if they do not use the term “institutional complementarity”, according to Aoki’s generous acknowledgement (2001, p. 396) Pagano (1993) and Pagano and Rowthorn (1994) are also “two of the earliest analytical contributions to institutional complementarity”.

national state has greatly helped to homogenize the individuals in important cultural-linguistic dimensions and create the conditions for a mobile market society.

Contrary to the neoclassical story the development of markets has not been associated only with increasing diversity but mostly with a great demand for standardisation. Indeed, it has often come together with a growing intolerance for linguistic and cultural diversity.

Pre-market agrarian societies were very often characterised by both horizontal and vertical diversity. The dialect spoken in one village could well differ from the dialect spoken in the next village while in the same village the serf, the priest and the lord would all speak different languages. However, while linguistic diversity was itself a product of geographically and socially immobile economic relations, it enhanced their immobility, stabilising the roles that were very often peacefully transmitted from fathers to sons and from mothers to daughters: the way of speaking was enough to understand the particular slot of society where each individual should fit. Linguistic diversity and social/geographical immobility were complementary and self-reinforcing elements of a very stable institutional equilibrium. One should not be surprised at the fact that these institutions have characterised such a disproportionate share of the “civilised” history of human kind. One should rather wonder how it was possible for such a stable equilibrium to eventually break down and for societies, characterised by linguistic and cultural homogeneity and by social and geographical mobility to finally emerge.

Indeed, the change was only possible if and when a state (a potential national state) had spread a high culture (characterised by a written language) among the large majority of the population. Once a critical mass was reached, a different self-reinforcing process took off: increasing linguistic homogeneity favoured higher levels of social and geographical mobility and, conversely, higher levels of social and geographical mobility stimulated a growing process of linguistic homogenization.

As Gellner<sup>4</sup> suggested, the ideal initial conditions for this process were given by situations where, as an unintended outcome of the power struggles among the political entities of agrarian societies, a single state ruled on a territory in which, despite the existence of many local dialects, there was a shared view of the dominant high culture. This was the case of England and France that were the first countries where a National state could foster the institutions of a national culture and of a national market (see case A in table 1).

Germany and Italy shared with France and England the existence of a dominant high culture and language but lacked a state that could invest in their popularization and start the virtuous self-reinforcing process between cultural-linguistic homogenization and increasing market mobility. Thus, in these two countries there was strong pressure to achieve national unity that, indeed, gave them the possibility to follow the development process of the early industrializers (see case B in table 1).

However, the model could not be easily replicated in other parts of Europe. A symmetric case arose when more than one high culture existed within a well defined political unity that could command some loyalty from other elements; here the state could try to foster bilingualism and mutual cultural recognition as means of enhancing a virtuous circle between cultural standardisation and economic mobility but the process was far from easy (see case C in table 1). This type of process somehow

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<sup>4</sup> See Gellner (1983, 1998, and 1999). For an account of the important contributions of Ernest Gellner to Political Economy, see Pagano (2003).

succeeded in Switzerland and Belgium, whereas it failed in the larger scale case of the Austro-Hungarian Empire.

Even more difficult was the case of areas that had neither a clearly defined dominant language and culture nor a political unity that could command a high degree of loyalty on the population living there. In these cases the raw material was rather unfit for the coming of the modern world of cultural standardisation and required often some rather brutal measures that in some most unfortunate cases took the form of ethnic cleansing (see case D in table 1). According to Gellner, in these cases, "violence and brutality seem to have been inscribed into the nature of the situation. The horror was not optional, it was predestined." (Gellner 1998 p. 54). Imposed ethnic separation (as the between Greek and Turkish or Pakistani and Indian communities) or ethnic cleansing (most recently in the former Yugoslavia) were the most evident expression of this last case.

**Table 1**

|                                      | Loyalty<br>to a political unity  | No loyalty<br>to a political unity   |
|--------------------------------------|--|--|
| Cultural-Linguistic<br>Homogeneity   | (A) Early national states<br>(England, France)                                     | (B) Struggle for national<br>unity (Italy, Germany)                            |
| Cultural-Linguistic<br>Heterogeneity | (C) Multilingual and<br>multicultural national<br>states (Switzerland,<br>Belgium) | (D) Ethnic conflict and<br>ethnic cleansing<br>(Yugoslavia, Turkey,<br>Greece) |

While the transition from agrarian to industrial market mobile societies is, in general, associated with a move from an institutional equilibrium characterised by linguistic-cultural differentiation and social-economic immobility to one characterised by linguistic-cultural standardisation and social-economic mobility, this move cannot be taken for granted by economic analysis and even less by policy makers. In different areas of the world the move has been more radical than in others: in Europe linguistic-cultural standardisation and social-economic mobility are far more limited than in the United States. The role of market and political competition, as well as the role of social protection, can therefore be very different in these two institutional settings.

#### ***4. Social protection and cultural-linguistic standardisation: institutional complements and alternative insurance devices***

Ever since Adam Smith the advantages of a market economy have been associated with those related to the learning-by-doing-advantages entailed by the

division of labour. Market economies allow individuals to get from others most of the goods they need through exchange and allow the specialization of economic activities. However, Coase (1937) and Marx well before him have convincingly argued that, even in modern industrial societies, specialized activities are co-ordinated by means other than market exchange.

Indeed, pre-industrial agrarian societies often have a complex division of labour and a high degree of specialization. The social immobility and the static nature of these societies can favour a high degree of specialization. By contrast, the high economic and social mobility that characterises market societies may inhibit specialization and job-specific learning by doing – a consequence that would be at odds with the traditional Smithian wisdom according to which the degree of specialization is only limited by the extent of the market. The rise of nationalism and, in particular, cultural and linguistic standardisation can however greatly decrease the hazards of specialization in a mobile society by making each skill less specific and more easily employable in other occupations. In this sense, cultural and linguistic standardisation can act as a substitute for forms of social protection that redistribute income to the individuals made redundant by the fluctuations and structural changes that characterise the dynamic market economy. Both this kind of redistribution and cultural-linguistic standardisation can act as insurance devices against the hazards of market economies and make market mobility compatible with the drive towards specialization and its related Smithian productivity advantages. The more costly the cultural-linguistic standardisation process, the more convenient its (partial) substitution by forms of social solidarity.

In other respects, cultural standardisation and social protection can be seen as two fundamental complementary institutions that favoured the emergence of a market economy. Nationalism favoured the dominance of a standardised high culture over a certain area and, at the same time, claimed that all the people sharing the same ethnic identity were "brothers" linked together by a special sense of solidarity. Nationalists pushed for both cultural standardisation and social protection and, moreover, the two objectives were, in many respects, mutually reinforcing. Cultural standardisation reinforced the sense of solidarity and made it easier to agree to forms of social protection. In turn, social protection favoured the feeling of belonging to the same "imagined community" and favoured the conditions under which local dialects and traditions could be abandoned for the national languages and the traditions defining the national identity. By contrast the social solidarity required by redistribution policies may suffer when there is no cultural-linguistic standardisation and, vice versa, the latter may be rather difficult when there is no shared feeling of solidarity among different ethnic groups.

The relations of complementarity and substitution between social solidarity and cultural-linguistic standardisation create a difficult puzzle in situations in which both factors are lacking.

On the one hand a low level of cultural-linguistic standardisation make redistributive policies more important because the liquidity of the skills of the losers is low. On the other hand, the same low-level of cultural-linguistic homogeneity may inhibit social solidarity and make it difficult to implement redistributive policies. Thus, redistributive policies are relatively more needed when they are more difficult. In order to understand better the nature of this difficulty, one should recall that, in the case of traditional national states, social solidarity had both a vertical and a horizontal dimension (solidarity among the individuals of the same region and among regions) that were associated to the overcoming of sharp vertical cultural divides among social



classes and to the elimination of pronounced horizontal cultural differences among the territories of the national state (case 1 of Table 2).

The United States departed from the traditional national states (case 1 of Table 2). The horizontal homogeneity of the population of the different states (linguistic and also cultural) has gone together with a vertical cultural differentiation of the population due to ethnic division associated with its immigration history. Horizontal cultural homogeneity and vertical cultural differentiation have here been associated with a solidarity among different state that has gone rather disjoint from a strong feeling of solidarity within states. In these conditions, (horizontal) cultural standardisation has not been complemented by social protection and has only acted as a substitute insurance device.

Europe, taken as a whole, offers a case symmetric to the United States (case 3 of Table 2). European nations are culturally very heterogeneous but, until recently, European Nations have not had the vertical ethnic differentiation that has characterised the United States<sup>5</sup>. It is not surprising that social solidarity and social protection has been much more pronounced as an insurance device within each state but that Europe, taken as a whole, has very little redistribution among its states. Both horizontal cultural homogeneity and reciprocal protection among states are very weak and, in a way polar to that of the U. S., the social protection offered by each national state is an important substitute for the lack of cultural horizontal homogenization.

The worst future scenario for Europe (case 4 of Table 2) may be that, while horizontal cultural homogeneity and solidarity among its nations stay weak, immigration destroys, in a way similar to the American model, both vertical cultural homogeneity and the social solidarity existing within each state.

**Table 2**

|  | Vertical cultural<br>Homogenization   | Vertical cultural<br>Differentiation   |
|--|---|--|
| Horizontal Cultural<br>Homogenization  | (1) Social and Regional<br>Solidarity<br>( <i>Classic National states</i> ) | (2) Regional Solidarity<br>without Social Solidarity<br>( <i>United States</i> ) |
| Horizontal Cultural<br>Differentiation | (3) Social Solidarity without<br>Regional Solidarity<br>( <i>Europe</i> )   | (4) No Social and No<br>Regional Solidarity?<br>( <i>The future Europe?</i> )    |

The mild model of European federalism, which we consider in the following section, is meant to be one possible way to give Europe a future different from the (4) scenario.

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<sup>5</sup> Cultural class differences have often been more pronounced in Europe than the U.S. and, for this reason, despite ethnic differences, vertical mobility has been higher in the U.S. than in Europe. However, despite individual cases of amazing vertical mobility, the vertical hierarchy of the different group has not very much changes and seems, on average, to put severe constrains on the opportunities available to the members of each group.

## **5. A possible model of “mild European federalism”**

Economic theories of federalism based on a mix of the American experience and neoclassical theory provide a poor guide to the understanding of the nature of the European “mild” federalist project. While these theories consider the optimal clustering that could be obtained through the free mobility of individuals, the European project aims at a reduction of the costs of mobility and deals with all the issues related to the existence of costly mobility in situations of cultural and linguistic diversity. Federalism is a way of combining sunk linguistic and cultural investment with a common space that can be obtained by making most individuals bilingual and trilingual and/or accepting some common lingua franca: thus, in this respect, federalism is, at the same time, a way of encouraging individuals towards some limited mobility and a way of defending them against a too strong “forced” mobility that could destroy the specific cultural and linguistic identity of a particular place. Federalism is also both a way of creating some mild European identity<sup>6</sup> and preserving the identity of particular nations and regions. In some ways it can be regarded as an attempt to reproduce at European level case (c) of our table 1<sup>7</sup>.

European federalism can hardly be a sort of extension of the benefits of competition to the political market. It cannot take for granted the mobility of the individuals and must seek the creation of some minimum cultural-linguistic standardisation by the way of projects such as the Erasmus exchanges for University students or the Bologna process introducing equivalent degrees in European Universities. At the same time, it must protect individuals against the excesses of mobility by some redistribution in favour of the most disadvantaged regions. Europe faces the paradox that we have just considered at the end of the last section: in absence of cultural and linguistic homogenization, costly mobility implies that redistribution is the most useful when it may be the least acceptable. Thus, in the European case, the most important issues become how to foster a self-reinforcing dynamics between some moderate cultural-linguistic standardisation and some moderate mobility without upsetting regional and national identities and how to bring about some redistribution in favour of the poorest areas (that limits the need for mobility) without upsetting the slow process of creating a European solidarity. Since redistribution and cultural-linguistic standardisation are both complements and substitutes, this process requires smooth and balanced progresses in both directions. By contrast, abrupt movements only towards cultural-linguistic standardisation or only towards European-level redistribution are undesirable and, sometimes, dangerous.

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<sup>6</sup> To use Anderson's (1991) insightful expression Europe should become a "new imagined community" giving “symbolic utility” to individuals (Pagano 1995). The fact that this collective imagination is engineered by a long and somehow artificial process would not be a historical novelty but would rather make the “creation” of Europe very similar to the process of formation of many national identities (Hobsbawm 1992 and Hobsbawm and Ranger 1983).

<sup>7</sup> This is also the case that encompasses Belgium. It is therefore not surprising that, in a very stimulating paper, Van Parijs (2003) gives a qualified positive answer to the question; “Must Europe be Belgian?”.

An excessive move towards cultural and linguistic standardisation can be undesirable if it is not complemented by a sense of European solidarity. Otherwise, the feelings of insecurity of the groups that are disadvantaged by the move may generate anti-European and pro-national feelings. Indeed, instead of an excessive push in this direction, redistribution policies may be preferred as a “better substitute” for cultural and linguistic standardisation in order to cope with the market uncertainties arising from specialization.

An excessive move towards redistribution policies, which is not complemented by some cultural and linguistic standardisation, may also easily backfire. The “complementary” pre-existence of a shared culture and of a shared identity may be necessary for a widespread acceptance of solidaristic policies. An excessive emphasis on these policies is also undesirable because cultural standardisation could also have acted as a “better substitute”. Indeed, beyond a certain level, some form of cultural and linguistic standardisation could better achieve the same insurance results.

While, within certain limits, American federalism can take for granted conditions of horizontal cultural and linguistic standardisation required by the mobility of the individuals and the competition among states, European federalism must, step by step, try to create some of these conditions. Only if these processes are successful in some dimensions, will some degree of state competition be helpful. In any case, a linguistically divided Europe will have to rely more on the protection of jobs and, in general, of welfare of the individuals in their own nations and regions. If Europe cannot provide a substantial redistribution among regions and within regions, it must at least make redistribution possible within each single national state. Knowing that there is a better employer and a better welfare protection in another region will not help much in a culturally divided Europe. Increased political and market mobility must be complemented and, sometimes, substituted, more than in the American case, by locally based redistribution policies.

## ***6. Coping with globalization: a “European Insurance Scheme” among National welfare states***

While the National state originated a self-reinforcing process between cultural standardisation and economic development, it opened a Pandora Box whose cultural and economic winds could hardly be contained forever within the boundaries of National states. Some National states (Britain with its Commonwealth and the United States with its federal system, with its frontier and with its melting pot of different ethnic groups) developed a sense of “global mission” and started doing to other languages and traditions what the national state had done within its boundaries.<sup>8</sup> The

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<sup>8</sup>According to Hardt and Negri (2000), the importance of the role of the United States in the process of globalization has been enhanced by its differences from traditional national states that stressed the role of ethnic identity. The legitimacy of the power of the U. S. has rather been based on the belief in the superiority of the American way of life that would mark the boundary between the civilized world and the various realms of evil. In this sense the power of the U.S. is not expressed in the imperialism typical of the traditional national states. It is rather grounded in its centrality in the Empire that should group together all the Civilized World. Since Civilization should not have limits in its struggle against the forces of evil, similarly the Empire (unlike the old forms of imperialism) should have no limits.

advantages of mobility and cultural standardization could now be reaped at global level.

The resistance of national states has been often unsurprisingly strong. Even when the benefits of cultural standardization were clearly greater than their costs, the cultural standard was not a matter of indifference. The national state was now often there to try to stop the further advancement of that process of cultural homogenization that had been its main task and, perhaps, the fundamental reason for its existence. Globalization meant convergence and suppression of cultural differences in the same way in which the success of a national high culture had meant a decrease of cultural and institutional biodiversity within each country. The former cultural standardizers of the age of Nationalism have often become the victims of a historical nemesis that threatens the survival of their own traditions.

Globalization marks a new age. It is different from the Empires that had in the past unified politically the part of the world that was known. The Roman Empire and, after that, the Holy Roman Empire never posed a comparable challenge to cultural diversity. They kept the universal culture and the lingua franca as the distinctive mark of the ruling classes. Modern globalization spreads the global culture well beyond a ruling minority and, in this sense, it may help to decrease inequalities. In the ancient empires political unity was not associated with cultural unity. Modern Globalism is different: while cultural unity may be a factor putting pressure towards greater political integration<sup>9</sup>, political unity is rather weaker and it is mainly based on the dominance of the United States, on local processes of limited political integration such as the European Union and on some, often inadequate, governance by a few international institutions.

Besides its enormously enlarged boundaries, the nature of modern globalism is also fundamentally different from nationalism. The politically united national state could decrease the risks of the market economy by using both universal cultural homogenization and some forms of social protection. While cultural homogenization was achieved through massive intervention in education, social protection required that the risks of the different productive sectors were not strongly correlated. Indeed, social insurance needed a production structure diversified in a considerable variety of sectors. Otherwise the Nation would have put too many eggs in too few baskets and would not be able to insure its citizens.

Globalism lacks both the social insurance programmes and the universal access to education that characterised nation states. Moreover, it limits the capacity of national states to use either the insurance devices associated with redistribution and with the welfare state or the insurance devices based on cultural and linguistic standardisation.

In the absence of a reliable system of “international insurance” national states should compare the gains from trade due to international specialization with the risks entailed by reduced productive diversification. The balance of these two factors should involve an “optimal degree” of specialization. This degree of specialization will be less pronounced than the one that would be obtained by referring only to the “gross” gains from trade according the standard theory of comparative advantage; the “net” gains of international specialization should also take into account the growing

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<sup>9</sup> It is not inconsistent with this view that this integration may first occur among nations sharing the same civilization (common history, traditions and readings). However, it is an open issue whether this should be considered as first step for integration among these civilizations or lead to a disruptive clash among civilizations (see Huntington, 1997).

costs of supplying internal social protection as the productive diversification of national economies decreases. Unfortunately this “optimal” level of specialization may be difficult to achieve in a globalized economy. Each single individual who moves to the sectors that have become more profitable as a result of international trade gains the full benefits of the new specialization. By contrast, she shares with all the other individuals of the same Nation the increased risk associated with the decrease of the number of productive sectors<sup>10</sup>. Even if national governments realize the divergence between the private and social net benefits of specialization (and, often, they do not seem to do so!) it may well difficult to stop the individuals from specializing according to their own private benefits. An “international tragedy of the commons”, free riding on the “pasture” of productive diversification, may easily spread and increase insecurity in the global economy.

Also the use of cultural standardization- the other instrument by which national economies have traditionally insured their citizens against the risks of market mobility - is seriously impeded in an internationally integrated economy.

In the global economy, access to the dominant cultural standard is much more unequally distributed than in the case of national economies of the past. This inequality creates a division among workers endowed with mobile intellectual assets that are easily employable in the global economy and those that have skills that are less mobile and more specific to the national economy<sup>11</sup>. The first workers may find it more convenient to replace social protection with cultural standardization as a form of insurance device and get out of the mutual insurance system that characterizes national states. Like financial capital these workers may become difficult to tax. Their relatively easy exit from a national system of mutual insurance makes it even more difficult to finance the traditional forms of social protection supplied by the national state and worsens the situation of those workers who cannot use the access to the global cultural standard as a (partial) substitute for social protection (D’Antoni, Pagano 2002). Thus, in this respect, the present globalized world shows some puzzling (even, if perhaps, misleading) similarity with the ancient agrarian societies. Also here (especially in some of the countries where a language different from the Anglo-American tradition prevails) a cosmopolitan elite (but much more numerous than that existing in the agrarian societies!) speaks a new Latin that cannot be used as a working language by the majority of the population which, like in the agrarian societies, has only a limited horizontal and vertical mobility. While old forms of inequalities re-emerge in the modern globalized economy the national states, facing a shrinking tax base and increasingly correlated risks, are not able to offer to their citizens the security that they offered in the past.

The dilemma posed in the process of European integration by the “complementarity-substitution” relation between cultural standardisation and social

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<sup>10</sup> Michele Di Maio has pointed out to me that issue is not only the quantity of the sectors but also their quality. Some sectors may be characterized by more fungible core competencies than others.

<sup>11</sup> This is the division that, according to Yael Tamir (2003), separates “globalists” and “communitarians” or, using a similar terminology, according to Bowles and Pagano (2004), separates “cosmopolitans” from “provincials”. The divide is related to the divide between the global lingua franca and the other languages, which implies that many non-English-speaking countries have a differential access to the “cosmopolitan” standard. As Van Parijs (2002, p. 72) points out “This ubiquitous asymmetric bilingualism is arguably very efficient. But nothing guarantees that it be fair.” Redistributive justice must therefore necessarily include the issue of linguistic justice.

protection can be reframed in this general framework: in many respects, the process of European integration is simply part of the process of globalization and implies that economic integration makes it more difficult for each European economy to offer social protection in a situation of increasing productive specialization. European integration may create a dangerous division between “cosmopolitans” who are able to substitute cultural standardisation social insurance and “provincials” who find it hard to increase the “liquidity” of their skills. At the same time, Europe can offer some remedy for the fact that integration without forms of social insurance leads to excessively risky productive specialization.

If a European welfare state is rather difficult to conceive in the present circumstances, Europe may try to offer mutual insurances among the welfare states of the National Economies allowing their survival in situations in which these economies specialize within the European economic space and run increasingly correlated risks. While redistributions related to social insurance would occur within each single Nation according to its wealth, rules and political compromises, each welfare state could receive some insurance from the other welfare states<sup>12</sup>.

## **7. Conclusion.**

In a culturally and linguistically divided Europe, federalism cannot be considered a system based on an unfettered mobility that allows a free choice among different systems of social insurance and redistribution. It may rather require a system of mutual insurance among the different welfare systems that makes economic integration compatible with social protection (including protection against an “economically forced” mobility towards other states). While Europe may also promote (a limited) cultural standardisation at European level, the latter can be a substitute for social protection only at an increasing cost and can cause a dangerous clash between “cosmopolitans” and “provincials”. Only a system of mutual insurance among national welfare states can help the marriage between the European rich and creative cultural diversity and a process of economic and cultural integration that is not opposed to the solidaristic tradition of the European Nations.

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<sup>12</sup> In principle, such system could make the increased specialization of each economy compatible with stable levels of social protection. While in each country the number of sectors decreases and it becomes increasingly impossible to insure each national sector with the other productive sectors, the mutual insurance among the Welfare States would allow some sort of “indirect insurance” of each European productive sector with the other productive sectors. However, in real practice as well as in economic theory, insurance is always associated with a moral hazard problem and it is an open issue if and how a mild form of European federalism will be able to offer some indirect type of social insurance (and, at the same time, some limited common cultural standards compatible with the diversity of the European nations and regions). As a matter of fact, re-insurance companies, such as Munich Re or Swiss Re, are very important for the economic success of private insurance companies. The European Union could play an analogous re-insurance role with respect to National welfare states.

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