

Breaking-up: An experiment on international economic integration*

Gabriele Camera
Chapman University
University of Bologna

Lukas Hohl
University of Basel

Rolf Weder
University of Basel

November 15, 2017

Abstract

The outcome of the Brexit referendum has revealed that long-run cooperation is challenging and renewed interest in understanding how to reap the benefits from international economic integration. Traditionally, the EU has considered disparities of economic conditions as a threat to cohesion among its member states, and has instituted a transfer policy supporting economic convergence. We test the fundamentals of this policy through an experiment in which cooperation and economic integration are endogenous. Separate groups of players (countries) can benefit from economic integration. We find that heterogeneity in initial economic conditions does not reduce the overall support for economic integration, as compared to homogeneity in economic conditions. Moreover, a policy that redistributes the gains from economic integration to achieve "convergence," may create centrifugal forces, leading economically stronger countries to prefer a unilateral "exit" to continued integration.

Keywords: experiments, indefinitely repeated games, social norms, social dilemmas.
JEL codes: C70, C90, D03, E02

PRELIMINARY TITLE AND ABSTRACT - please do not circulate.

* We acknowledge partial research support through the SNSF grant.