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**Working Paper**

## "Completing Europe's Economic and Monetary Union": Any support from the citizens?

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## "Completing Europe's Economic and Monetary Union". Any Support from the Citizens?

*Francesco Farina and Roberto Tamborini*

### Abstract

The aim of the 'Five Presidents Report' cited in the title acknowledges that an important driver of the European economic crisis has been the faulty original design of the Monetary Union, and that substantial steps are urgently needed towards the creation of truly supranational institutions. Yet economists tend to neglect that however compelling economic analyses may be, the stumbling block on the way of the reform of the Monetary Union is political will, and that in democracies the ultimate source of political will comes from electors. In this paper, first of all the authors wish to bring to the economists' attention some recent analyses of citizens' attitudes towards Europe from political science. Then, by cross-referencing the results of the 2014 elections of the European Parliament with Eurobarometer opinion polls eliciting judgements for the EU vis-à-vis home countries and an indicator of economic pain, they show the presence of a geo-economic-political cleavage across four groups of countries. This is more complex, and perhaps worse, than the simplistic divide between 'North' and 'South' or 'Core' and 'Periphery'. The main implication is that the EU experiences a stalemate between 'more Europe vs. less Europe' at the level of peoples, which seriously undermines support for further integration 'from below'.

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## 1. Introduction

Seven years after the outbreak of the Great Recession in the Western world, one legacy of the crisis at the EZ level is a change in perspective with regard to its causes and cures testified by the sentence in the title, that we quote from the so-called Five Presidents' Report elaborated under the authorship of the EU Commission (Juncker 2015).<sup>1</sup> Prior to the crisis and well within its development, the predominant view was the so-called 'national responsibility' doctrine on which the Maastricht Treaty rests with regard to all economic policy matters, except monetary policy and the few items in the EU budget in Brussels. According to this view, if on the one hand governments are subject to a set of rules, on the other the latitude of their sovereignty remains such that the economic performance of their countries eventually depends on their own policy choices within those rules. Compliance with the rules *per se* can by no means be deemed responsible for poor economic results. The crisis was thus seen as the result of governments failing 'to do their homework'. The institutional response was to further deepen and strengthen the regulatory framework of the Treaties (Six Pack, Two Pack, Fiscal Compact, etc).<sup>2</sup>

Over time, a second view, mainly supported by independent economic and political scholars, has gained ground. According to this view, the blame for the bad development of the crisis should also, if not mostly, be borne by serious faults in the institutional design of the Monetary Union, epitomised by the asymmetry between a supranational monetary institution responsible for the single monetary policy and many independent national fiscal authorities constrained by a set of fixed rules.<sup>3</sup> These rules have proved to be, if not utterly wrong, ineffective as fiscal discipline mechanisms as well as poor substitutes for explicit fiscal policy coordination at the EZ level. In order to fix this fault, it is argued that 'more Europe' is needed, which means substantial strides towards further sharing of common

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<sup>1</sup> See e.g. the collection of papers edited by Baldwin and Giavazzi (eds., 2015)

<sup>2</sup> See e.g. the yearly 'Report on Public Finances' by the European Commission, *European Economy* series. For an instance of particularly outspoken support for this view see e.g. Sinn (2014). More balanced argumentation can be found in some Commission papers such as Buti and Carnot (2013), Kuenzel and Ruscher (2013).

<sup>3</sup> See e.g. the papers by Bénassy-Quéré, Corsetti, De Grauwe, Wyplosz in Baldwin and Giavazzi (eds. 2015)

institutions, and concomitant devolution of exclusive national powers, first and foremost in the fiscal sphere – the so-called Fiscal Union. This second view has eventually been endorsed by the top EU institutions, as testified by the so-called Four Presidents' Report 'Towards a Genuine Economic and Monetary Union' (European Council 2012), followed by the new Five Presidents' Report (Juncker 2015), and by speeches of the President of the European Central Bank (e.g. Draghi (2014a, 2014b, 2015)). For brevity, we shall refer to this process as further *political* integration of the EZ, to distinguish it from the ones of economic integration and strengthening the regulatory framework accomplished hitherto.

Economists tend to neglect that however compelling economic analyses may be, the stumbling block on the way of the reform of the EZ is political will. Though aware of the precarious foundations of the Monetary Union, as a matter of fact almost all national governments of different political colours have repeatedly proved unable, or unwilling, to devolve more sovereign powers. Also, economists tend to blame the appetite for power of politicians. However, some political scientists highlight a two-way causality whereby the political parties influence national public opinions and vice versa (e.g., Bølstad 2015). In democratic regimes politicians are, quite naturally, sensitive to the public opinion, which indeed gives the public opinion a leverage to steer political choices. Specific research on the European integration process has highlighted an important role played by citizen's support (Hooghe and Marks 2009). We therefore address the problem of the political will for 'more Europe' in the field of economic policy 'from below'.

We first wish to bring to the economists' attention some recent analyses of citizens' attitudes towards Europe. Then, we compare further evidence from Eurobarometer opinion polls with the 2014 general elections for the EU parliament<sup>4</sup> By cross-checking opinion polls with actual votes for the EU parliament, we do not imply that the latter are clearly motivated by, or have any direct impact on, actual choices over European issues or on the policy-making process of European institutions (Piattoni 2015, ch. 1). Nonetheless, the EU parliament remains the sole formal representative political arena in the EU, and the 2014 elections have seen a surge in the 'politicisation' of EU issues at the national level, including the issue of

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<sup>4</sup> As a consequence, we have excluded Croatia, which joined the EU in 2014, and we have excluded Latvia from the EZ, which joined it in 2015.

further integration (Hobolt 2015). All in all, we believe that the EU parliamentary elections, if not determinant for actual political decisions, add important information about the translation of citizens' attitude towards EU issues into formal political indications, and, more importantly, *about the advocacy that these issues may find in the national political forces represented in the EU parliament.*

To begin with, in section 2 we first examine citizens' sentiments towards European integration nearby the elections. Following Rose and Borz (2016), we seek to distinguish between opinion polls concerning Europe 'as-it-is' now, and those eliciting more precisely the prospect of 'more *vs.* less Europe'. We introduce the former type as background information, looking at some typical indicators in the first Regular Eurobarometer survey after the elections (n. 82, Autumn 2014). The overall picture is one of a long-run declining trend of pro-Europe indicators. As to prospective views of integration, it is telling that 75% of respondents agree with the statement that "*We need a united Europe in today's world*", but only 42% agree that "*More decisions should be taken at the European level*". Furthermore, we consider a release of the Special Eurobarometer of July 2014 more specifically aimed at detecting judgements, positive or negative, regarding home countries *vis-à-vis* the EU. This conveys significant information because the tension between 'more *vs.* less Europe' is not an absolute one but is conditional upon the alternative of 'more *vs.* less my own country' (Rose and Borz 2016). Analysing respondents by country, we obtain a country mapping along the 2x2 dimensions EU/Home-country, positive/negative. Overall, countries with the majority of respondents being negative towards the EU account for 66.7% of the EZ population and 58.3% of the EU population.<sup>5</sup> But more importantly, 60.8% of the EZ population resides in countries where the majority of respondents is negative also towards their home country – an area we call of 'global discontent'. This finding has significant bearing upon the issue of further political integration, as we shall discuss.

The European financial and economic crisis has spurred research on the effects of the crisis on the attitude towards the EU in general or towards specific issues such as the common currency or transfers of competences to

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<sup>5</sup> Country locations between EZ and No-EZ refer to 2014, i.e. Lithuania is not included into the EZ.

the EU.<sup>6</sup> Though these studies have reverted a pre-crisis tendency to downplay the role of the economic dimension in political orientations (Braun and Tausendpfund 2014), no univocal conclusion has still emerged. In this paper, our aim is not to test the economic determinants of opinions *per se*, but to highlight the extent to which the map of (the intensity of) the crisis adds further characterisation to our four quadrants.<sup>7</sup> To this end, for each country we present a simple index of economic pain over the five years from the outbreak of the crisis to the last year prior to the Eurobarometer survey (2009-13) and then for the year of the survey (2014). The association of the economic dimension with our fourfold distribution of countries is quite nuanced. The bottom line is that the area of global dissatisfaction is also characterised by high economic pain, though economic pain is not systematically associated with EU or home discontent.

Then in section 3 we complete our country mapping with the 2014 electoral results of the EU parliament, and an even more problematic *geo-economic-political map* emerges. Against the background of analyses of the determinants of votes and their implications for further political integration, we substantiate the view of a stalemate of political forces (see also Treib 2014, Hobolt 2015). As one of the causes, we point out that the four areas of divergent EU/Home-country judgements have also expressed consistently different electoral results.

Our main conclusion relevant to the strategy of 'Completing Europe's Economic and Monetary Union', which we set out in section 4, is that the fourfold geo-economic-political map of Europe in the aftermath of the crisis is more complex, and worrisome than the bipolar representations 'North *vs.* South' or 'Core *vs.* Periphery' usually found in the economic literature. Apparent behind Europe's stalemate is *Europe's Great Divide* between countries favouring the EU *status quo*, though possibly for different reasons, where centre-right/right parties prevailed, and other countries calling for a change, albeit in a disorderly manner, where centre-left/left or openly anti-EU parties prevailed. The critical point for the EZ is that it is split between the two sides. Are the EZ citizens in the area of global dissatisfaction ready

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<sup>6</sup> Relevant examples are Braun and Tausendpfund (2014), Kuhn and Stöckel (2014), Tosun et al. (2014), Hobolt and Wratil (2015), Rose and Borz (2016), Guiso et al. (2014),.

<sup>7</sup> We do not claim that characterisation is causation.

to support a change, and is it for 'more Europe'? Is their quest for change compatible with the preference for the *status quo* expressed by the other EZ citizens? Europe's stalemate on the way to progressive integration is now rooted in the citizens' will, and its resolution can hardly be expected to come 'from below'.

## 2. Europe, home countries and the crisis

We begin with an overview of the general attitude of citizens towards Europe and the EZ nearby the EU parliamentary elections of 2014. Following Rose and Borz (2016), we seek to distinguish between the opinions concerning Europe 'as-it-is', and those regarding the prospect of further integration. We provide a brief sketch of most common indicators of the first type as background information. Subsequently we consider the latter type of opinions.

### 2.1 Europe 'as-it-is'

We first review four classic questions delivering the overall attitude of respondents towards the EU in general, and the euro in particular, as reported by the latest available issue of the Standard Eurobarometer (n. 84 Autumn 2015).

The first question elicits the '*image*' of the EU (QA9). Respondents with '*positive image*' are in marked decline: from the peak of 52% in 2007 to 37% in 2015:2. The all-time low was recorded in the turmoil of the crisis (2013), when the positive and negative image scored almost the same 30% of respondents. The election year 2014 was a year of recovery for positive image, which rose to 39%, while negative image recoiled to 22%. Yet the gap has been falling again in 2015 (37% *vs.* 23%).

The second question concerns '*trust*' in political institutions (governments and parliaments), national and European (QA8a). Respondents deliver a similar downward trend of trust at both levels. Relative to the peak of trust in the EU of 57% in 2006, the trough was reached in 2013 with 31%. Again, in the aftermath of the 2014 elections trust in the EU rose up to 41%, but then it fell back to 32% in 2015. With regard to the parallel trend of trust in national institutions, we shall see that important differences arise at the country level when respondents are asked to express a comparative

judgement on Europe *vis-à-vis* their home country 'moving in the right/wrong direction'.

The third question assesses *optimism or pessimism* for the future of the EU (QA22). Optimists plunged from 69% in 2006 to 48% in 2011 and regained ground up to 56% in 2014, to fall again to 53% in 2015.

Finally, let us look at the results of the question about the euro (QA15.1). As regards EZ residents, the barometer of attitudes towards the euro has remained fairly stable over time: between 60% and 70% of '*for*' respondents, with only a slight decline during the crisis (62% in 2013). A well-known persistent feature of this questionnaire is that the EZ residents are more '*for*', and less '*against*', than the overall EU respondents (the difference is regularly around 10 points). An open issue is whether this attitude of the EZ residents is due to a truly positive judgement or rather to the fear that the break-up of the euro is impossible or worse than the present situation.

Overall, while 2014 showed some positive signs, perhaps due to the electoral climate, the decline of pro-EU sentiments over the medium term has been substantial, confirming the perception that the 2014 elections took place at a historical low of EU popularity. The more marked worsening of opinions in 2012-13, and the new downturn in 2015, suggest that the economic crisis, and then the security-immigration crisis, have generated a loss of sympathy with, and confidence in, the EU. This also warns that the security-immigration crisis may now displace the economic dimension in the role of focal point in the public opinion's attitude towards further political integration.

Against this background, we now examine more specific information regarding the issue discussed in this paper: the tension, *at the level of public opinion*, between the national and the supranational dimensions.

## **2.2. Europe vs. home countries. A map of four quadrants**

Turning to opinions regarding prospective further integration, relevant information is provided by two questionnaires in the Special Eurobarometer n. 415, July 2014.

The first (QA13) elicits the attitude towards 'more Europe' by means of two statements. The statement '*We need a united Europe in today's world*' collects 75% of agreement against 19% of disagreement. The statement '*More decisions should be taken at the EU level*' (QA13.4) collects 45% of agreement and 46% of disagreement. This apparent inconsistency reveals a



tension between the *ideal* of a united Europe, which seems to withstand the crisis headwinds, and the willingness to take the necessary steps of power devolution to *this Europe* here and now.<sup>8</sup>

The second questionnaire (D73) provides further important information about this tension. Respondents were asked to answer a two-faceted question eliciting a possible divergent opinion between how Europe as a whole, *vis-à-vis* the respondent's own country, is behaving: '*At the present time, would you say that, in general, things are going in the right direction or in the wrong direction, in the European Union / in your country?*'

The questionnaire does not contain the explicit issue of further integration, but it does elicit a prospective judgment about 'things going in the right/wrong direction'. Admittedly, this question is too generic in order to detect the respondent's position on specific issues, which we will examine later. However the EU/Home-country partition is important because the attitude towards more integration has to be framed in comparison with the alternative represented by the home country (Rose and Borz 2016).

There are four possible choices: EU-R(ight), EU-W(rong), H(ome)-R, H(ome)-W. Table 1 presents the descending ranking of countries according to responses for each choice.<sup>9</sup> It also includes the average values for the EZ countries, the No-EZ countries and the EU as a whole.

[Table 1]

As can be seen, the top EU-R countries are mostly new accession countries; none of them belonged to the EZ in 2014. Indeed, the EZ ranks much lower than the No-EZ. By contrast, the top EU-W countries are all EZ countries so that on this dimension the EZ ranks much higher than the No-EZ. It therefore seems that the EZ is a liability for the feelings towards Europe. The attitude towards the home country is more mixed geographically, but the EZ as a whole ranks lower than the No-EZ for positive judgements, and higher for negative ones.

In Figure 1 we provide, in a single snapshot, the country distribution of respondents along the four dimensions of the questionnaire: that is, EU/Home (EU/H), Right/Wrong (R/W). We have rearranged the data as

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<sup>8</sup> According to Guiso et al. (2014), not only the current EZ crisis, but also earlier major steps towards European integration in easier times have *reduced* pro-European sentiments.

<sup>9</sup> The complement to 100 corresponds to figures related to the other possible answers: "neither the one nor the other" and "don't know".

follows. First we have selected the EU/H dimensions. For each of the two we have computed the *difference* between respondents choosing R and W; hence a positive (negative) figure indicates the prevalence of R over W (of W over R) and *its intensity*. Then each country has been inserted into a scatter plot divided into four quadrants.

[Figure 1]

Starting from top left, the EU-R/H-W quadrant mainly hosts Eastern European, new accession countries, and no EZ ones. These countries have in common a relatively recent conquest of democracy, some internal reform and modernisation processes still incomplete, and active participation in the EU regional structural funds and policies, which overall may create a mix of 'honeymoon' and 'comparative yardstick' effects (e.g. Desmet et al. 2012) that account for their EU-R/H-W attitude. The EU-R/H-R quadrant displays countries with 'global satisfaction', where the majority of respondents appear supportive of the current state of affairs both at the EU and the national level. The popular belief that these are mainly people in the 'German block' is supported by the data. The quadrant EU-W/H-R, with prevalent pro-national feelings, appears less quantitatively significant, though it contains, perhaps unsurprisingly, the UK, the most influential country outside the EZ. Finally we find the EU-W/H-W quadrant with 'global discontent': that is, countries with people largely angry with both the EU and their home country. These are mostly EZ countries, but they are not confined within the usual classification of 'South' or 'Periphery'.

To gauge the quantitative dimension of the four quadrants, in Table 2 we present the size of the population of each of them relative to the active population (age 15-64) of the EU and, for the relevant countries, of the EZ. As can be seen, the countries in the EU-W quadrants sum up to 66.7% of the EZ population and 58.3% of the EU population. Yet the EU-W/H-W quadrant alone accounts for 42% of the EU population and for a remarkable 61% of the EZ population, almost twice the population of global satisfaction. The EZ is largely an angry zone, *but not entirely so*.

[Table 2]

This evidence about the EU-W/H-W quadrant is open to two different interpretations. If one stresses the negative judgement towards the home country, one may expect less resistance to further political integration. If one stresses the negative judgement towards the EU, the implication may be that the EZ has gone too far, governments' are actually unable to deliver

what they promise within the EZ straitjacket, and hence there is more resistance to further political integration.<sup>10</sup> Ambiguity is also present in the interpretation of the EU-R/H-R quadrant. Global satisfaction with both the EU and the home country may indicate good disposition towards further political integration as well as a preference for the *status quo*. It seems instead less controversial that in the EU-R/H-W quadrant the majority of people may view Europe as a positive driver of change of the country.<sup>11</sup>

In order to resolve, at least in part, the ambiguity present in the 'global dissatisfaction' and 'global satisfaction' quadrants, additional information may be provided by the country disaggregation of agreement/disagreement with the statement '*More decisions should be taken at the EU level*', that we interpret as an indicator of attitude towards further political integration. Table 3 shows the results according to the intensity of agreement (difference between agreement and disagreement)<sup>12</sup>

[Table 3]

The first observation is that dispersion is quite high, ranging from +45 to -55 points. As said above, for the EU as a whole agreement and disagreement are almost balanced, with slight prevalence of the latter (-1.6). Notably, the EZ as a whole is in line.

Let us now examine how agreement/disagreement with '*More decisions should be taken at the EU level*' in each country relates to its position in the four quadrants of Figure 1. Recall that disagreement may be driven either by negative judgment towards the EU or by positive judgment towards the home country.

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<sup>10</sup> According to Rose and Borz (2016), 'dissatisfaction with the performance of national government pushes in two opposing directions, depending on the cause' (p. 379). In countries where indicators of 'quality of government' in general (e.g. corruption, transparency, etc.) are historically poor, support for further political integration is stronger. This finding is in line with the 'comparative yardstick' literature mentioned above in connection with the accession countries. By contrast, opposition is stronger in countries where bad economic performance is more salient and is projected onto European responsibilities.

<sup>11</sup> As a matter of fact, the countries in this quadrant by and large fit the characteristics favouring further integration *vis-à-vis* home country dissatisfaction found by Rose and Borz (2016) and Desmet et al. (2012). It is worth noting that, as also reported by Guiso et al. (2014), this was the prevalent attitude in several old accession countries (like Italy, Spain, Portugal, Greece) *before* they joined the EZ, and that have now moved to the EU-W/H-W quadrant.

<sup>12</sup> Each being the sum of 'totally disagree/agree' and 'tend to disagree/agree'.

[Figure 2]

Figure 2 (a) displays the distribution of agreement/disagreement with 'more EU' *vis-à-vis* the EU-R/W dimension. Let us first check for the expected sign correspondence, i.e. how many countries associate prevalent agreement (disagreement) with prevalent right (wrong) judgment for the EU.<sup>13</sup> This occurs for about half of the countries only (13/27); the correlation coefficient is in fact positive (0.1) but statistically weak. However, note that all countries (except Latvia) belonging to the EU-R/H-W quadrant consistently express agreement with more integration. By contrast, the 'anomaly' is that all countries (except Luxembourg) belonging to the EU-R/H-R quadrant express disagreement, and only two of the countries in the EU-W/H-W quadrant express substantial disagreement (Greece and Finland). This evidence suggests that the main driver of agreement/disagreement with further integration is the negative/positive judgment towards the home country rather than the EU *per se*. This hypothesis is corroborated by Figure 2 (b), which shows that in 75% of countries prevalent agreement with more integration is associated with prevalent negative judgement for the home country and vice versa (the correlation coefficient is  $-0.5$ ). As a consequence, the 'global satisfaction' and 'global dissatisfaction' quadrants may be characterized as expressing opposite attitudes towards further integration mainly driven by opposite judgements about home countries.

Finally, it is also important to consider that other Eurobarometer opinion polls show no evidence of outright rejection of EU membership in a national interest view. For instance, respondents who *'think that (our country)'s membership of the EU is a good thing'* have remained between 50% and 60% since 2000 (Eurobarometer, *40 Years Issue*, 2013). In 2014, 61.2% of EU respondents disagreed with the statement *'(Our country) could better face the future outside the EU'* against 28.3 who agreed (Standard Eurobarometer, n. 82, 2014). Prevalence of disagreement was common to all countries (except Cyprus and Slovenia), though its intensity was the highest in the EU-R/H-R quadrant (+51%) and the lowest in the EU-W/H-W quadrant (+24.2%)

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<sup>13</sup> We do not check for the statistical significance of the quantitative relationship between the two indicators because the latter is not relevant to our analysis.

### 2.3. Adding the economic dimension

It is reasonable to think that one main driver of the responses examined above is the perception of the crisis at the national level. This hypothesis is relevant for two reasons. The first is that *differences* in the intensity of the crisis and its perception within the EU may account for differences in judgments and attitudes towards the EU. The second is that if there is a *sustained and generalised* recovery in the near future, the picture provided by the Eurobarometer data may change.

Abundant research is available which tests the hypothesis that the economic crisis can explain citizens' attitude towards European issues (see fn. 6). These studies share three main insights. The first is that the attitude towards stronger integration is the result of multifaceted factors, not only economic ones. The second is that respondents' contextual (e.g. home country, personal characteristics and conditions) and positional (e.g. self-interest *vs.* national identity) differences matter in the composition and relative weights of factors. The third is that these factors have been changed by the crisis, partly in favour and partly against integration. Hence, if on the one hand these studies have reverted a pre-crisis tendency to downplay the role of the economic dimension in orientations towards European matters (Braun and Tausendpfund 2014, Hobolt and Wratil 2015), on the other they do not allow for a firm and univocal conclusion.

Our aim is not to provide yet another test of the effect of the economic crisis on the citizens' opinions, but to see how the crisis maps onto our four quadrants. To this end, we have elaborated a simple index of 'economic pain' for each country. The purpose of the index is to yield a summary measure of the intensity of the crisis, also in the light of results in the literature on economic perceptions by ordinary people (see e.g. Nilsson and Svensson 1986, Baron 1994, Nicotra et al. 2001). Among the eligible economic variables, we have chosen three: real per capita disposable income, unemployment rate, and 'austerity' as given by a restriction of the public primary budget relative to GDP.<sup>14</sup> Whilst all these variables are consistent with academic definitions of crises, what is more relevant to our purposes is

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<sup>14</sup> Unless otherwise stated, the single source of data is the AMECO database of Eurostat.

that they have an impact on personal lives, and that the relevant information is commonly accessible to ordinary people via the media.<sup>15</sup>

According to the relevant literature, perception of crises is conditioned by two dimensions. First, a crisis is not just a single 'bad year': perception is strongly reinforced by duration. Second, perception is also the result of comparison between a contingent situation and a benchmark, e.g. memory of what is 'normal' or of the previous situation. Therefore, we have chosen a well-defined time frame. We have identified 2009, when all countries fell into recession, as the beginning of the crisis.<sup>16</sup> We have then set the five-year *post-crisis period* as spanning from 2009 to 2013, the last full year of official data before the Eurobarometer opinion poll and EU elections.. Symmetrically, we have also set the five-year *pre-crisis period* as spanning from 2004 to 2008. Each variable except austerity enters the index as the difference between its average value in 2009-13 and in 2004-08. Austerity instead consists of the extent of post-crisis fiscal restrictions measured by the year average change in the primary budget/GDP ratio from 2010 to 2013. In the absence of strong *a priori* information on the relative importance of each variable, we have decided to weigh them equally; hence the index is the simple average of the four variables. This is called the 'medium-term index' (MTI): *a negative figure indicates the extent of the crisis as a medium-run overall deterioration of the perceived economic situation with respect to the pre-crisis period.*

On the other hand, *if a substantial improvement* in the economic situation takes place, we may expect an effect on the perception of the previous

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<sup>15</sup> Note that the dimension of 'social alarm' (e.g. media coverage) is important because people's opinions about how 'the country / Europe is doing' do not only depend on their own strictly individual experience. With respect to the well-known Okun's Misery Index, which sums unemployment and inflation, we have dropped inflation because it does not seem socially alarming in today's Europe (which is rather threatened by deflation), and because it is subject to misperceptions by ordinary people. Per capita income and fiscal restrictions (e.g. cuts in benefits or rises in taxes) are instead closer to personal experience, and in the period under consideration they underwent shocks large enough to create social alarm. On the other hand, we use all three variables because, though their changes may be correlated at the aggregate level, they may be not at the individual one (e.g. not all people paying higher taxes or enjoying less social benefits are also unemployed, etc.).

<sup>16</sup> Some countries experienced an early recession in 2008, but this was mostly concentrated in the third or fourth quarter, and was of limited magnitude.

situation, and possibly on the subsequent attitude towards Europe. One hypothesis is that the most recent improvement overcomes the perception of the previous negative experience.<sup>17</sup> However, the improvement may be too weak or short-lived to generate this effect. Hence, we have also computed a 'short-term index' of economic pain (STI) yielded by the change in the relevant variables from 2013 to 2014, Table 4 displays the countries in descending order of economic pain according to both indexes.

[Table 4]

As to the MTI, the first information to be considered is that the large majority (20/27) of the EU countries display a negative index, i.e. from 2009 to 2013 their citizens may have perceived a deterioration of their national (if not necessarily personal) economic situation with respect to the pre-crisis period. Yet, the extent of deterioration is quite different across countries. Greece's economic pain has been eight times worse than Austria's and more than four times worse than the EZ average. It is interesting to note that our MTI matches fairly well the prevalent perception of the national economic situation in 2013 as reported by the Standard Eurobarometer (n. 80, 2013, QA2a.1). We measure the prevalent perception as the intensity (first difference) of 'total good' (rather good + very good) *vs.* 'total bad' (rather bad + very bad) in the opinion poll. As can be seen in Figure 3, in 74% (20/27) of the countries the MTI and the prevalent perception have the same sign (the correlation coefficient is 0.23).<sup>18</sup>

[Figure 3]

On the other hand, the STI indicates that a symmetric 78% of the countries experienced an improvement from 2013 to 2014 (see Figure 4). The sign correspondence between the STI and the *change* in the prevalent perception of the national economic situation occurs for 63% of the countries (16/27; correlation coefficient 0.18). Six of the eleven mismatches occur in countries where the perception has not improved or has worsened while the STI has improved. These countries indeed display the poorest short-term improvement. Overall, the evidence is too limited and short-lived to say

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<sup>17</sup> The so-called 'peak-end effect'; see Fredrickson and Kahneman (1993), Kahneman (2000)

<sup>18</sup> The quantitative relationship between the two indicators is immaterial here, also because the perception indicator is constrained between -1 (100% of "total bad") and 1 (100% of "total good")

whether the recent improvement in the economic situation of most EU countries will be sufficient to overcome the legacy of the economic crisis.

[Figure 4]

Given the broad consistence between our MTI of economic pain and its reported perception, the second information of interest concerns the intersection of economic pain with the EU *vs.* home country dimension. As preliminary descriptive evidence, Figure 5 (a) shows that the sign correspondence between MTI and EU-R/W, i.e. negative (positive) MTI associated with prevalent negative (positive) judgement towards the EU, is not particularly tight: it occurs in 55% cases (15/27 countries; correlation coefficient 0.45). In fact, analysis at the country level shows that the 20 countries with negative MTI are equally split between prevalent negative and positive judgement of the EU. The picture in Figure 5 (b) is similar with regard to the relationship between MTI and H-R/W: only in half of the countries do opinion polls associate negative (positive) MTI with negative (positive) judgement towards the home countries (correlation coefficient 0.075). In the 20 countries with negative MTI, negative judgments prevail in 12 countries, whilst positive judgements do so in 8.

[Figure 5]

More relevant to our analysis are the subsets of the EU: EZ, No-EZ and the four quadrants of Figure 1. We see in Table 4 that, on average, the EZ has suffered almost twice the economic pain, and enjoyed less than half the recovery, with respect to the No-EZ. We also see that the EU-W/H-W quadrant of global dissatisfaction on average ranks very high on both indexes, i.e. severe economic pain in the past five years and feeble relief in the present. Its polar quadrant of global satisfaction EU-R/H-R fares better, and the quadrant EU-R/H-W even more so. The mapping at the country level is also of some interest. 8 of the 9 countries in the EU-W/H-W quadrant also display a negative MTI (the exception is Slovakia). However, note that these 8 countries are just a fraction of the 20 with negative MTI. In fact, also 6 of the 8 countries in the EU-R/H-R quadrant, and 5 of the 7 countries in EU-R/H-W, have a negative MTI, and quite a negative one in some cases.

The association of the economic dimension with our fourfold distribution of countries does not yield clear systematic pattern. It seems however broadly consistent with, though adds some qualifications to, the common findings in the empirical literature mentioned above. First, the economic



pain generated by the crisis has been more severe in the EZ, but mainly concentrated in the countries in the area of global dissatisfaction. Second, the recent economic recovery of this group of countries has brought weaker relief than elsewhere. Braun and Tousseindpfund (2014) in fact find that the negative effect of the crisis on the support for the EU has been stronger in the EZ countries. But the fact that economic pain has been harder in the area of global dissatisfaction can be put in relation with the claim by Guiso et al. (2016) that the negative shift in sentiments towards Europe has been more marked in the Southern countries, where people also seem to have attached greater weight to the perceived unfairness of EU-level policies as a cause of their worse economic conditions.<sup>19</sup> Third, however, economic pain is not systematically associated with global dissatisfaction: several countries affected by non-negligible economic pain show prevalent positive judgements towards their own country and/or the EU.

## 2.4. Overview

In this section we have provided information in order to characterise the attitude of citizens towards further political integration, in particular in the EZ and across countries. The ensuing characterisation, emphasising factors that may play against further integration, can be summarized as follows.

	Economic pain MTI	Economic pain STI	Disagr./Agr. further integration %	'Against' euro %	Agreement leave EU %
EU	-1.3	0.5	46.9/45.3	32.8	28.3
EZ	-2.1	0.2	47.1/45.6	24.1	27.1
EU-R/H-W	0.1	1.0	35.2/53.9	30.3	29.6
EU-R/H-R	-1.8	0.5	57.9/36.0	29.8	20.3
EU-W/H-R	-0.7	0.5	54.0/40.0	38.7	34.3
EU-W/H-W	-2.6	-0.1	43.7/48.6	34.4	32.3

Overall, in the light of our analysis we may say that there is no evidence of outright rejection of the euro or of the EU membership, either at the

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<sup>19</sup> Guiso et al. (2016) perform a panel regression analysis of the drop in the EU on a set of economic variables during the crisis at a fairly disaggregate level. They find that unemployment is a major explanatory variable, but also, as expected, that differences across countries matter.

Union level or in the four quadrants we have identified in Figure 1. However, opinion polls do reveal resistance towards further political integration, which is critically distributed across the four quadrants. They identify a *geo-economic* cleavage of Europe carved by the economic crisis, though not only by the crisis, which is more nuanced and complex than the bipolar ones commonly used in economic analyses.

### 3. From sentiments to votes

In this section we move to the political scenario, and we map the results of the 2014 elections onto our subsets of the EU. The overlap between our reading of opinions put forward in section 2 and the actual votes is remarkable and quite informative with regard to the advocacy that the EZ political integration issues may obtain from the national political forces represented in the EU parliament.

In an effort to organise ideas into a stylised picture, at the cost of some simplification, we attribute the seats in the parliament to three main political aggregations: centre-right/right (CR/R), centre-left/left (CL/L) and No Euro (NE, meaning both 'no euro' or, more radically, 'no Europe'). These aggregations are functional to our analysis of the issue of further political integration *seen in its tension with respect to two other constitutive dimensions of the EU, democratic legitimacy and national sovereignty*. As a first broad characterisation, in the pursuit of further integration the CR/R parties are particularly concerned with losses of national sovereignty, the CL/L parties with losses of direct democratic control over the EU institutions, whilst the NE ones have a strong preference for preserving both national sovereignty and democratic control at the expense of integration. Table 5 reports the electoral results of these three aggregations in terms of seats on the basis of official statements and agreements for parliamentary groups.

[Table 5]

A critical problem is represented by the NE aggregation. Some parties outside the official agreements (classified as Others) are definitely anti-euro and anti-Europe (e.g. the *Northern League* in Italy and the *Front National* in France). NE + Others reach 13.3% of seats. Moreover, the respective right and left wing of the CR/R and CL/L aggregations are similarly opposed to the European limitations on popular sovereignty and national interests, and

they are exposed to the NE's political pressure on their constituencies. According to Treib (2014) and Hobolt (2015), the so-called 'Eurosceptic parties' can be credited with up to 30% of the seats. The flip side of the coin is that they are heterogeneous in many other respects. In Hobolt's analysis, they locate themselves at the opposite ends of the right-left spectrum in most other issues, and express different oppositions and attitudes towards Europe. Thus official parliamentary groups constituted by these parties weigh as little as 6% (see Table 5). In the end, they contribute to paralysis, since they are unable to form a political coalition favouring the dissolution of the EU integration process, while possessing sufficient power, in the parliament and in society, to hamper any progress (Bertsou (2014), Hobolt (2015)).

Now let us examine the mapping of the votes onto our subsets of the EU (see Figure 6 where NI stands for 'others'). To begin with, let us consider the EZ *vis-à-vis* the No-EZ. In our previous analysis, the EZ was an area of harder economic pain and discontent than the EU as a whole. Actually, it assigned an almost balanced share of seats to the CR/R (43.8%) and to the CL/L parties (42.9%), whereas the former obtained the absolute majority of seats in the No-EZ countries (54.3%). This fact may have some bearing upon the process towards a common fiscal institution for the EZ. If such an institution should have a parliamentary legitimacy, and there were an EZ parliament, this would be different from the existing parliament, with greater weight of supporters of changes in European policies.

[Figure 6]

The picture is even more complex if we look at the electoral results in the four quadrants shown in Figure 1. The CR/R success was maximal in the EU-R/H-W quadrant (67.1%), in fact a largely No-EZ area. Then in the EU-R/H-R quadrant of global satisfaction CR/R obtained almost 50% of the available seats, whereas CL/L stopped at 45.7%, and NE had the worst performance. By contrast, the best performance of the CL/L parties (42.9%) was in the EU-W/H-W quadrant expressing global discontent, where also NE and others obtained a conspicuous 17.5%. Finally, in the EU-W/H-R quadrant, the two major aggregations obtained the same share of votes but well below than elsewhere (36.6%), and the NE obtained their largest number of seats (though this was almost entirely due to the success of the UKIP in the UK).

These data show that the geo-economic cleavage across Europe *and the EZ as well* that we have found in section 2 also has a *political* dimension translated into votes in a true political arena. We deem the resulting *geo-economic-political map* a cause of the stalemate on the way to further EZ political integration that we articulate into the following political implications.

1) The EU-R/H-R countries with prevalent global satisfaction may well be supportive of the *status quo*, granted by the CR/R aggregation balancing between traditional pro-Europe parties (such as the EPP) and the pressure on their constituency against 'more Europe' from the right-wing fringes. This hypothesis is further corroborated by the argument put forward by Kuhn and Stöckel (2014) according to which support for further integration is weaker in (relatively) healthier countries.

2) People in the EU-W/H-W countries with global dissatisfaction may be ready to support major changes, but it is not clear *which* changes, *how* and *where*.<sup>20</sup> For instance, we find it unpersuasive Kuhn and Stöckel's (2014) claim that the economically weaker countries and classes, largely present in this area, may welcome more integration as a shield for their interests. During the crisis, EU integration mostly meant more 'austerity' to them: that is, a serious threat to welfare state protections. The shift from an identitarian to a utilitarian approach to EU integration highlighted by Hobolt and Wratil (2015) may remove the hurdle of national identity but may well spur demand for stronger protection from national governments to the extent that the EU policies are perceived as harmful, as has been the case with the EU-W/H-W countries. Rather, this area is paradigmatic of the vicious circle between the economic crisis and its crippling political repercussions. As pointed out by Rose and Borz (2016), where the economic crisis is salient Europe 'as-it-is' is perceived as part of the problem of poor government performance, not of the solution. This prompts the demand for less Europe and more national powers instead, which makes Europe weaker and less effective.

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<sup>20</sup> There has been a single significant success of a pro-Europe party in this area, the Italian Democratic Party. This is explainable, according to its winning electoral slogan, by the wish "to change the country to change Europe". This slogan perfectly fits Italy's location on the map.

It is however open to question whether this area can support further political integration *as a means to obtain a change in European policy-making as well as of actual economic policies*. The majority of seats awarded to the CL/L parties may reflect the ambiguous positioning of this area, once considering that here the left-wing of Europe contestants is not openly against 'more Europe' but mostly for a radical 'change of Europe'. If by dimension and importance this EZ area may be pivotal in supporting major changes, it is unclear what changes and by way of what political forces. It seems that here the major pro-Europe parties may have a chance to prompt support for further political integration only insofar as they can sell it to their electorate as a vehicle to do a U-turn in the EZ economic policies with respect to the *status quo*. Yet this is instead safeguarded by the prevailing parties in the other countries of the EZ.

4) A less controversial pro-integration interpretation seems more appropriate for the EU-R/H-W countries, where Europe 'as-it-is' may indeed be seen as a positive driver of the country's change. However these countries do not belong to the EZ yet.

#### 4. Conclusions

In this paper we have addressed the problem of support for further political integration in the EZ 'from below', that is citizens' will. By comparing Eurobarometer opinion polls, an indicator of economic pain, and the 2014 electoral votes for the EU parliament at the country level, we have shown the surge of what we call Europe's Great Divide along a geo-economic-political cleavage. The landscape is more complex, and perhaps worse, than the simplistic one divided between 'North and South' or 'Core and Periphery'. We have identified four groups of countries with divergent people's judgments about the EU and the home country, the economic pain generated by crisis, and their electoral choices. Among these, a larger area of severe economic pain, expressing global dissatisfaction with both the EU and the home country, and a smaller one with softer economic pain expressing global satisfaction at the EU and home-country level.

The country disaggregation of electoral results shows that the CR/R parties prevailed in this latter area, and we have argued that the resulting political commitment is for the *status quo*. By contrast, CL/L parties (and various euro-sceptical movements) prevailed in the countries of global

dissatisfaction basically by channelling the call for change of economic policies. The intensity of the economic crisis is a relevant factor in this picture, but possibly not exhaustive. Maybe that, as the crisis is perceived to subside, as our STI suggests, the citizens' attitude will change. However, enough evidence is not yet available, while the dramatic security-immigration crisis may replace the economic crisis as the most salient issue in shaping the public opinion.

Our analysis is rather pessimistic that the prospect of 'Completing Europe's Economic and Monetary Union' with further political integration in the EZ may find support 'from below'. It seems that if a chance exists to prompt support, it is by making political integration a vehicle to major changes in the EZ policies as claimed in countries of global dissatisfaction. Yet this prospect may find opposition in the countries of global satisfaction. By contrast, if the aim of creating new common policy-making institutions – e.g. the 'EZ Minister of Finance' – is one of pouring old wine in new bottles, the opposition will arise from the countries of global dissatisfaction. Thus, the political stalemate facing the choice between 'more *vs.* less Europe' is now rooted in the citizens' will, so that it can hardly be resolved by pressure 'from below' in a predictable future. Our conjecture is, however, that this stalemate is not a lasting 'equilibrium'. Either the *status quo* of the EZ institutional and policy framework will shortly generate generalized benefits for all members as promised by its supporters, or the prevailing global dissatisfaction and the demand for change may push - and perhaps are actually pushing - in the opposite direction of further dis-integration.

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## Tables

Table 1. 'At the present time, would you say that, in general, things are going in the right direction or in the wrong direction, in the European Union / in your home country?' Descending ranking of respondents per country

Top EU-R		Top EU-W		Top Home-R		Top Home-W	
BG	49	EL	64	DK	54	EL	79
EE	49	FR	56	MT	54	FR	72
RO	48	CY	49	LU	53	HR	68
HR	47	IT	45	NL	52	ES	66
DK	46	AT	42	DE	46	SL	64
PL	46	ES	42	SE	46	RO	62
LT	45	FI	42	EE	45	IT	58
NL	45	<b>EZ-18</b>	<b>42</b>	IE	45	SK	57
MT	43	BE	41	BE	41	CY	56
SE	41	CZ	40	UK	39	BG	54
BE	40	SE	39	FI	38	PL	53
HU	39	SK	39	AT	35	PT	52
LU	39	<b>EU-28</b>	<b>37</b>	<b>No-EZ</b>	<b>32</b>	<b>EZ-18</b>	<b>50</b>
IE	38	DK	36	CZ	30	CZ	49
<b>No-EZ</b>	<b>36</b>	PT	34	PL	29	LT	48
CZ	35	UK	34	<b>EU-28</b>	<b>29</b>	<b>EU-28</b>	<b>48</b>
LV	35	DE	31	HU	27	<b>No-EZ</b>	<b>44</b>
SK	35	LU	31	<b>EZ-18</b>	<b>27</b>	HU	43
DE	33	NL	31	CY	22	FI	41
FI	33	<b>No-EZ</b>	<b>29</b>	LT	22	SE	41
SL	32	PL	27	LV	22	LV	40
<b>EU-28</b>	<b>30</b>	HR	25	PT	21	BE	39
ES	26	IE	25	SK	20	DK	36
<b>EZ-18</b>	<b>26</b>	HU	23	BG	18	NL	33
AT	25	SL	23	ES	18	UK	31
PT	25	LV	20	RO	18	AT	29
FR	21	RO	20	FR	15	EE	28
UK	20	EE	18	HR	15	IE	28
CY	19	LT	16	IT	13	DE	24
EL	15	BG	13	EL	9	LU	22
IT	15	MT	12	SL	9	MT	13

Source: Special Eurobarometer n. 415, July 2014

Table 2. Size of the population of the four quadrants of Figure 1 relative to the active population (age 15-64)<sup>a</sup> of the EU and, for the relevant countries, of the EZ.

	EU-R/H-W	EU-R/H-R	EU-W/H-R	EU-W/H-W
% of EU population	17.9	23.8	16.4	41.9
% of EZ population	1.2	32.0	5.9	60.8

<sup>a</sup>Eurostat database AMECO

Table 3. Agreement and disagreement with the statement: 'More decisions should be taken at the EU level'. Descending order of intensity of disagreement

	Total agree	Total disagree	Intensity agreement
ES	66	21	45
PT	66	24	42
RO	60	27	33
BE	64	34	30
LU	62	33	29
SI	57	33	24
BG	54	31	23
PL	54	34	20
HU	54	37	17
LT	54	38	16
FR	51	39	12
IT	49	40	9
SK	49	44	5
MT	42	44	-2
CY	46	49	-3
CZ	45	48	-3
LV	44	48	-4
EL	42	54	-12
IE	36	57	-21
EE	36	58	-22
NL	35	59	-24
DE	33	61	-28
AT	32	62	-30
UK	24	66	-42
FI	23	74	-51
SE	23	75	-52
DK	21	76	-55
EU	45.3	46.9	-1.6
EZ	45.6	47.1	-1.5
EU-R/H-W	53.9	35.2	18.7
EU-R/H-R	36.0	57.9	-21.9
EU-W/H-R	40.0	54.0	-14.0
EU-W/H-W	48.6	43.7	4.9

Source: Standard Eurobarometer, n. 82, 2014

Table 4. Country descending order of economic pain

MTI		STI	
GRE	-7.9	GRE	-3.5
IRE	-7.3	POL	-1.1
SPA	-5.7	CYP	-1.0
CYP	-4.4	ITA	-0.6
LUX	-3.9	FIN	-0.3
ITA	-3.4	LUX	-0.2
EST	-3.2	FRA	-0.2
DEN	-2.9	<b>EU-W/H-W</b>	<b>-0.1</b>
<b>EU-W/H-W</b>	<b>-2.6</b>	DEN	0.1
UK	-2.5	NET	0.2
POR	-2.4	<b>EZ</b>	<b>0.2</b>
LAT	-2.3	AUS	0.3
SLO	-2.1	EST	0.4
<b>EZ</b>	<b>-2.1</b>	BEL	0.5
FIN	-2.0	SWE	0.5
<b>EU-R/H-R</b>	<b>-1.8</b>	SPA	0.5
HUN	-1.4	<b>EU-W/H-R</b>	<b>0.5</b>
SWE	-1.0	<b>EU-R/H-R</b>	<b>0.5</b>
FRA	-0.9	GER	0.6
<b>EU-W/H-R</b>	<b>-0.7</b>	UK	0.7
CZE	-0.6	POR	1.0
BEL	-0.6	<b>No-EZ</b>	<b>1.0</b>
LIT	-0.6	BUL	1.0
NET	-0.2	SLO	1.0
<b>No-EZ</b>	<b>0.1</b>	ROM	1.1
AUS	1.0	IRE	1.1
<b>EU-R/H-W</b>	<b>1.3</b>	CZE	1.2
MAL	1.5	<b>EU-R/H-W</b>	<b>1.3</b>
GER	2.5	LAT	1.4
BUL	2.9	SLK	1.6
ROM	3.1	MAL	1.7
SLK	4.0	HUN	2.3
POL	6.3	LIT	2.8

Source: Elaborations on Eurostat AMECO database

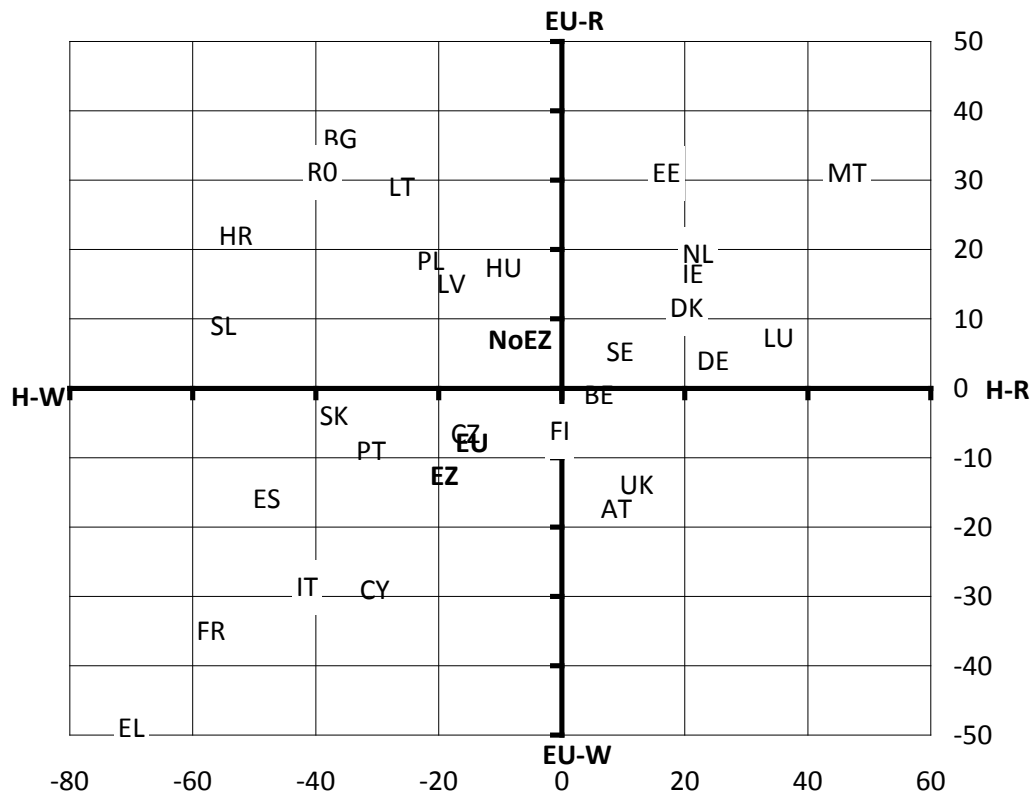
Table 5. Seats in the European Parliament, 2014

Centre-Right/Right	EPP, ALDE, ECR	358	47.7%
Centre-Left/Left	S&D, GREENS/EFA, GUE/NGL	293	39.0%
NE	EFD	48	6.4%
Others		52	6.9%
Total		751	100.0%

EPP = European People's Party, ALDE = Alliance of Liberals and Democrats for Europe, ECR = European Conservatives and Reformists, S&D = Progressive Alliance of Socialists and Democrats, GREENS/EFA = The Greens-European Free Alliance, GUE/NGL = Gauche Unitaire Européenne / Nordic Green Left, EFD = Europe of Freedom and Democracy (UKIP, 5STARS)

## Figures

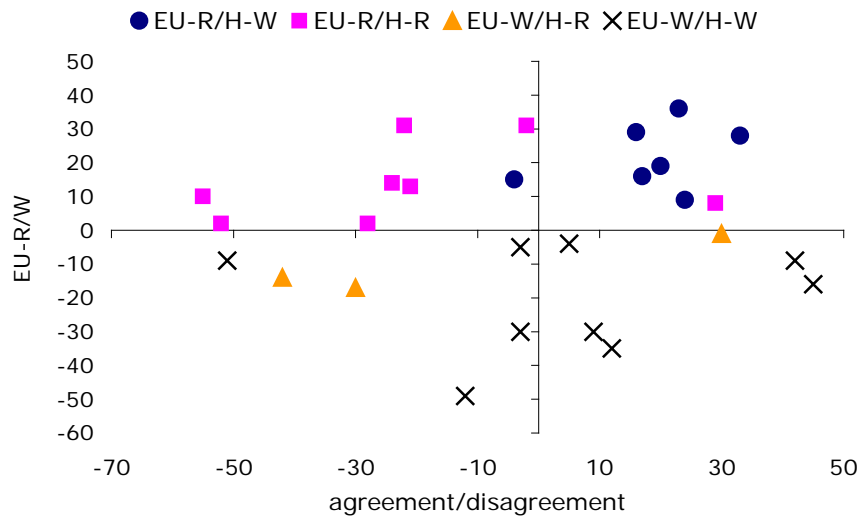
Figure 1. Country distribution of respondents along the four choices in Table 1



Source: elaboration on Table 1

Figure 2

a) Intensity of agreement/disagreement with the statement: 'More decisions should be taken at the EU level' (Table 3) *vis-à-vis* intensity of EU-R/W (Table 1)



b) Intensity of agreement/disagreement with the statement: 'More decisions should be taken at the EU level' (Table 3) *vis-à-vis* intensity of H-R/W (Table 1)

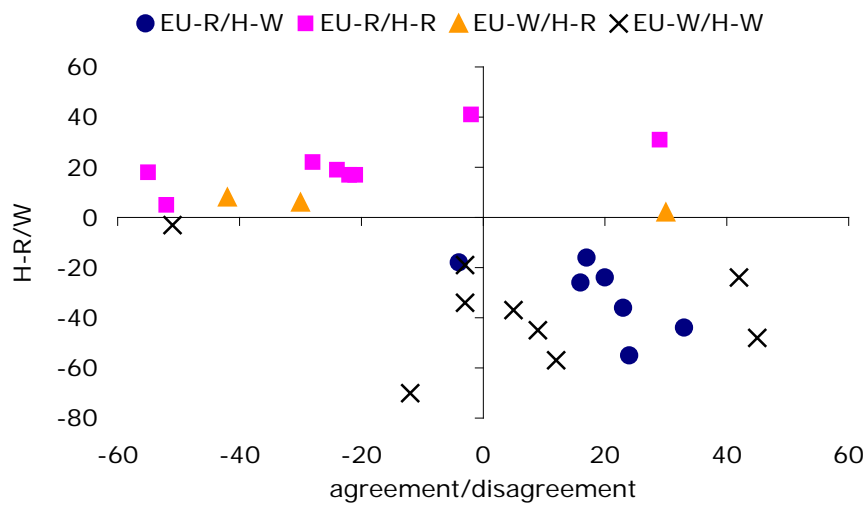
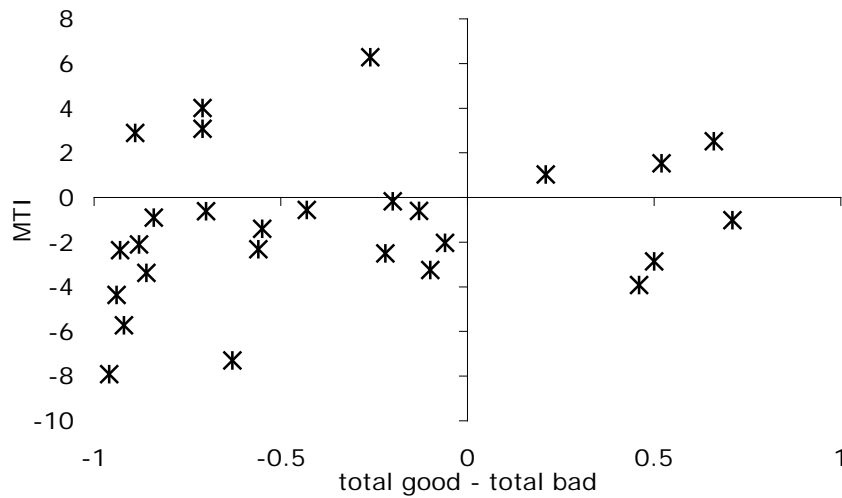
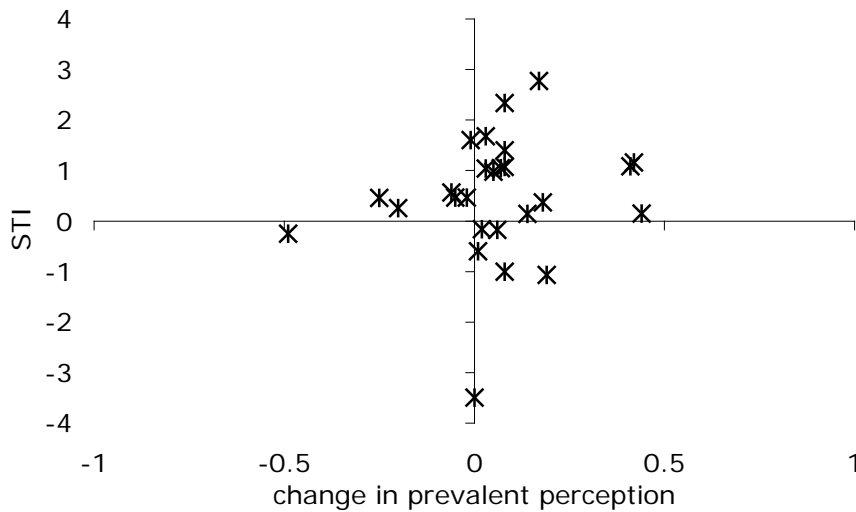


Figure 3. Correspondence between MTI (Table 4) and the prevalent perception of the current situation of the national economy in 2013



Source. Prevalent perception: 'total good' (rather good + very good) – 'total bad' (rather bad + very bad) of percent respondents about the current situation of the national economy (Standard Eurobarometer, n. 80, 2013, QA2a.1)

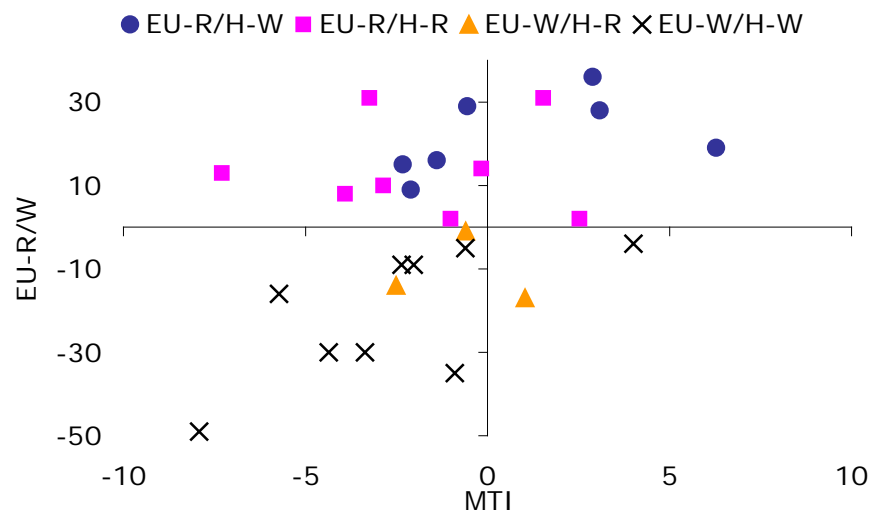
Figure 4. Correspondence between STI (Table 4) and the change in the prevalent perception of the current situation of the national economy 2013-14



Source. Change in prevalent perception: difference between the prevalent perception in 2014 and 2013 (Standard Eurobarometer, n. 80, 2013, n.82, 2014, QA2a.1)

Figure 5

a) MTI (Table 4) *vis-à-vis* intensity of EU-R/W (Table 1)



b) MTI (Table 4) *vis-à-vis* intensity of H-R/W (Table 1)

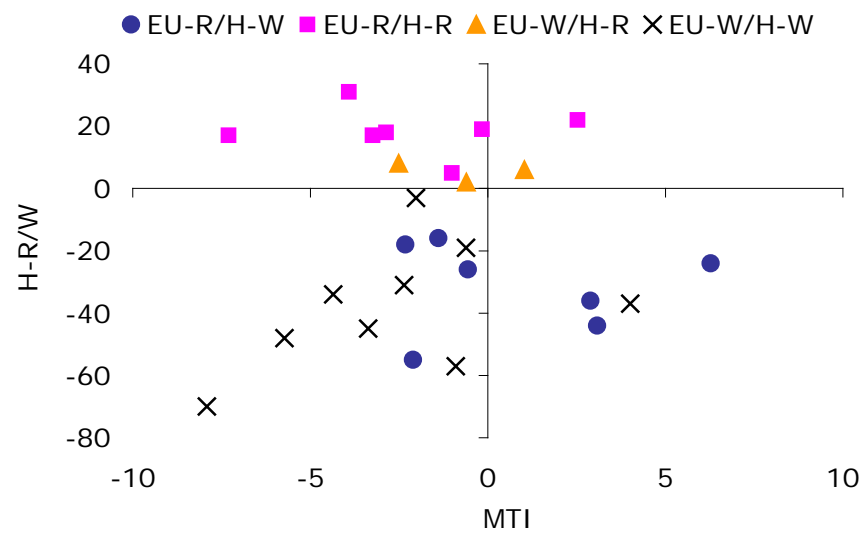
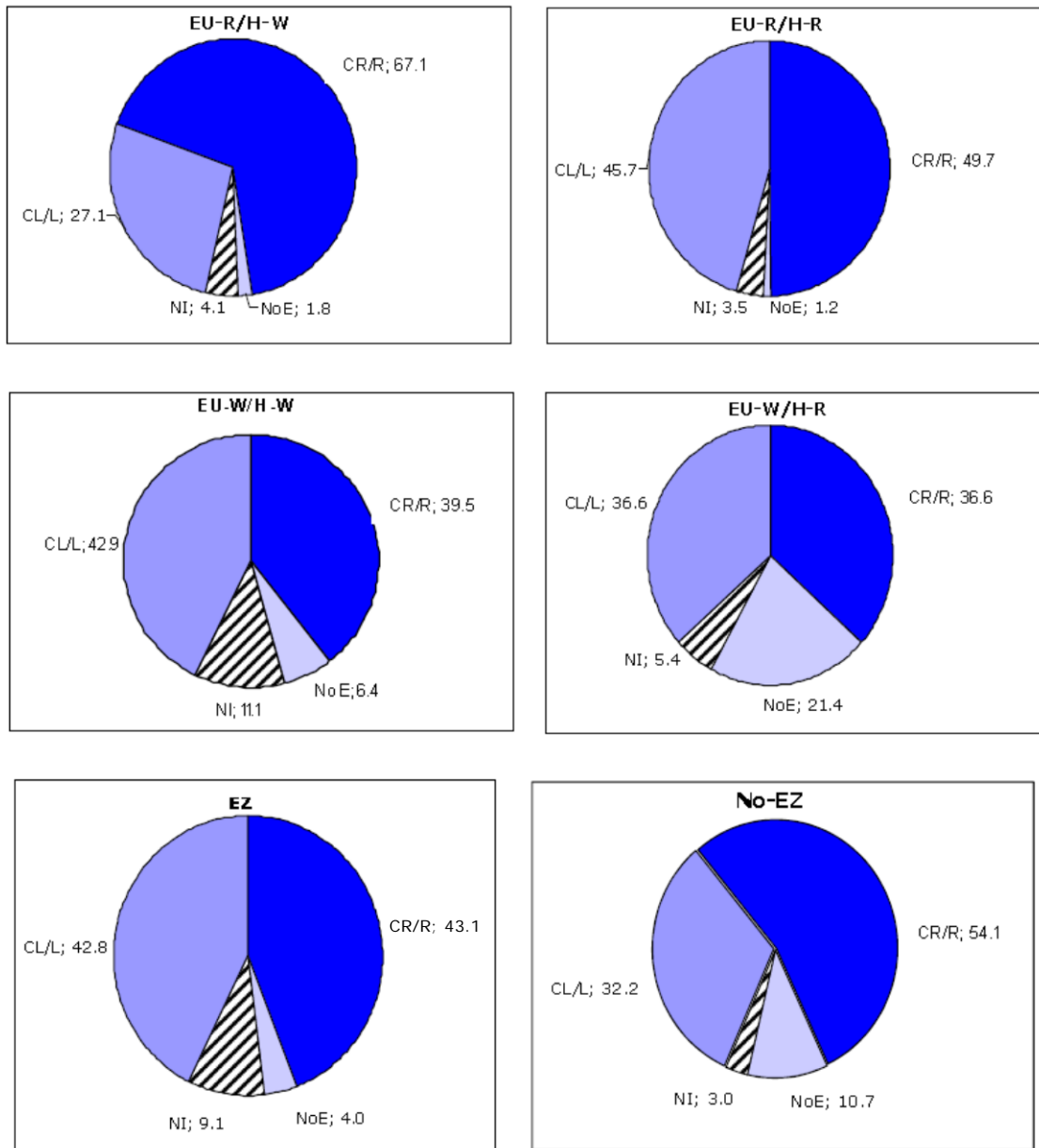


Figure 6. Distribution of Parliamentary seats in the four quadrants of Figure 1





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The Editor