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## The future of the European fiscal union: Survey results from members of national parliaments in France, Italy and Germany

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# DISCUSSION PAPER

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## The Future of the European Fiscal Union: Survey Results From Members of National Parliaments in France, Italy and Germany

# **The Future of the European Fiscal Union: Survey Results from Members of National Parliaments in France, Italy and Germany**

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Abstract: Using data from a unique survey of members of parliaments in France, Germany and Italy in 2018, we estimate the effects of three dimensions on EU and euro area fiscal reform preferences: nationality, political ideology, and populism. We predict and confirm that a German populist party on the right is most opposed to a more developed European fiscal union, while a non-populist politician on the political left in France or Italy is most integrationist. Furthermore, the relative position of French and Italian policymakers is issue dependent and the Left dimension outweighs the German dimension in two out of seven reform issues. Finally, populism intensifies the polarizing impact of national interests.

Keywords: Euro Area Reforms, National Parliament, Survey, European Integration, Populist Parties, Next Generation EU.

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## **1. Introduction**

The euro area debt crisis revealed that the institutional set-up of the Economic and Monetary Union (EMU) as established by the Treaty of Maastricht was imperfect. The crisis, with its sudden loss of market access for sovereign borrowers like Greece, Portugal, and Ireland, and with its contagion to further EMU countries, has kicked off intense reform debates (Darvas et al., 2011; Buti and Carnot, 2012; Lane, 2012) and, since 2010, has led to a comprehensive overhaul of its institutions. For example, European fiscal rules have been reformed considerably with the double intention of making them both more effective and more flexible in order to react to a changing economic environment (European Commission, 2019). New facilities for the provision of emergency liquidity have been created, both by the euro area Member States with the European Stability Mechanism (ESM) (Smeets et al., 2019) and by the European Central Bank (ECB) with its Outright Monetary Transaction program (Tortola, 2019).

Yet, despite these reform efforts and even before the COVID-19 strike, the financial and fiscal institutional set-up are and were perceived as incomplete (Spolaore, 2016; Cecchetti and Schoenholtz, 2020). The European Banking Union is half-built and the euro area lacks macroeconomic stabilization instruments that could insure its Member States against asymmetric shocks. The prominent role of central banks for the liquidity of sovereign bond markets gives rise to concerns about the ‘fiscal dominance’ of monetary policy (Bordo and Levy, 2020), which call for more powerful European fiscal liquidity instruments beyond the scale of the ESM. The reformed Stability and Growth Pact (SGP) seems to have lost support from all sides (it is perceived to be either too strict or too lenient; see, for instance, European Fiscal Board, 2019) and the euro area lacks a credible approach to debt restructuring for Member States with a debt overhang (Heinemann, 2021). These issues are gaining a renewed prominence with the COVID-19 pandemic.

In many instances, ideological differences and heterogeneous views across EU countries have led to the blocking, delay, or only partial implementation of reforms in the past. At the same time, it is generally accepted that progress is needed in order to create a consistent, viable, and crisis-proof institutional set-up for the euro area. How can we explain these blockades and on what grounds and issues could progress be made? In this paper, we seek to answer these questions using data from a unique survey on members of national parliaments in three European countries (France, Germany, and Italy) conducted in late 2018. The survey questions address a broad range of reform issues and cover fiscal and monetary policies - (e.g., the working of the SGP, the introduction of a European Unemployment Insurance (EUI), and the Eurozone budget). We then use our insights to discuss implications for the feasibility of reforms, including in the context of the recent COVID-19 pandemic.

The econometric analysis of the survey responses allows us to examine simultaneously three key factors that determine euro area reform preferences: nationality, party ideology, and populism. As explained in the next section in detail, we predict that i) politicians from a country with better financing conditions and a lower public debt level, such as Germany, should be less supportive of new European financial assistance as compared to representatives from France and Italy, where debt levels are significantly higher; ii) left-of-center parties to be more pro-integrationist than center-right parties, and iii) populist parties (Alternative für Deutschland (AfD) in Germany and both Movimento 5 Stelle (M5S) and Lega Nord (Lega) in Italy; we lack sufficient data on French populists) are more opposed to European integration than non-populist parties.

Combining the predictions for all three dimensions, we expect the strongest opposition to European integration to come from politicians from a German, right, populist party, while the most pro-integrationist view should come from an Italian, left-of-center, non-populist politician. We thus have initial predictions concerning the direction of these relationships, but the quantitative impact of each dimension remains an open question. Our

empirical contribution is that we are able to quantify the relative importance of each factor in shaping the preferences of European policymakers within these national parliaments.

Results from estimating a linear regression model confirm our theoretical hypotheses quite well:

- German politicians are substantially more opposed to European fiscal integration than French ones. On some reform issues, such as EUI, Italians are more integrationist than French policymakers, but this difference does not apply to all policy areas.
- There is strong support for the hypothesis that left-of-center politicians are more integrationist, which holds across all reform issues. Interestingly, the Left dummy outweighs the German dummy in two out of our seven reform issues (EUI and relaxing the SGP).
- Populists are much less integrationist than non-populists. However, Italian populists are much more integrationist than German populists from the AfD on two key reform questions (ECB asset purchases and relaxation of the SGP) but not on other reform issues. These results show that populists' views across Germany and Italy are not synchronized. In this sense, there is a country-specific perspective among populist parties that dominates the political party attachment effect.
- We find the highest overall three-country alignment between the German left and the French and Italian non-populist right, and the highest polarization between the populists from the German right and the non-populist left in Italy and France. Based on our estimation model, we are able to identify the distances in reform preferences for all cross-country combinations of party ideologies.

The rest of the paper is organized as follows. In section 2, we introduce our theoretical framework and relate our work to the previous literature. In section 3, we describe the design, the content of the survey, and the descriptive data from our survey. In section 4, we present

our empirical approach and our results. In the final section, we conclude and discuss our results in light of the continued rise of populism and the COVID-19 crisis.

## **2. Theoretical Framework**

We study the correlates of stated preferences of national MPs on euro area reform proposals. Besides individual characteristics such as age, gender, and educational background, we focus on three key factors as they relate to European integration: nationality, party ideology, and populism.

**Nationality.** Insofar as the benefits from European financial solidarity and mutual insurance differ by country, nationality should matter for politicians' fiscal reform preferences. The antagonism between creditor and debtor countries already created a marked cleavage between these groups of states during the euro area debt crisis (Copelovitch et al., 2016; Wasserfallen et al., 2018). Given that the new institutions proposed in current reform discussions for the EU and euro area (e.g., Eurobonds, EUI) are likely to have substantive financial consequences, similar concerns impact the present reform debate. We thus expect German policymakers to be less supportive of strengthening EU fiscal institutions than French and Italian politicians, as Germany enjoys more favourable financing conditions in bond markets and has a significantly lower level of public debt to GDP in comparison. Moreover, among this group of countries, Germany has registered better growth and employment performance over the last two decades. Hence, German politicians should expect that their country will be less likely to require financial support from European institutions in the future and will rather face a significant net burden from any extension of European financial solidarity. Lastly, although all three countries were net contributors to the EU budget in the past, Germany's contributions (both in absolute terms, and as a share of GDP) have been greater (see Asatryan et al., 2020). While net fiscal benefits are an imperfect measure of the benefits from integration, many political debates surround such

concepts and these concerns are thus likely to play out in the political arena. Previous research investigating these questions has already found strong support for the role of nationality in determining MP preferences, confirming that German politicians are less integrationist than their French counterparts (Blesse et al., 2019a).

**Party Ideology.** Left-of-center and center-right parties differ in their views of the role of government in society. The former tend to emphasize the value of solidarity because differences in economic outcomes among citizens are often considered unfair and seen, in large part, as the result of luck rather than effort and ability. This justifies stronger government interventions to redistribute income and guarantee opportunities for the less fortunate (e.g. Alesina and Angeletos, 2005). With respect to international redistribution and foreign affairs in a broader sense, previous work stressed the role of left-right partisan divide where left (right) voters are more internationalist (isolationist) in international affairs (e.g. Noël and Thérien 2008, Bornschier, 2010 as well as Quinn and Toyoda, 2007). Left-of-center parties should thus be more ready to accept international fiscal redistribution and macroeconomic stabilization at the European level as an act of solidarity on a European scale compared to center-right parties, with their larger emphasis on within-nation solidarity. For European fiscal reform matters, left and center-right partisanship among mainstream parties may play a similar role as it does for domestic redistributive policies. While both ideological positions of mainstream parties support the integration process according to most observers (e.g. Hix, 1999), left-of-center parties may be associated with more interventionist and regulatory policies and center-right parties with less tendencies to intervene and to regulate market outcomes at a European level (Hooghe et al., 2002; Kreppel and Tsebelis, 1999; Tsebelis and Garret, 2000).

Applying this logic to the European context, we expect left-of-center parties to be more in favour of European integration, in particular when it comes to institutions that have a strong redistributive component across countries.



**Populism.** Previous contributions distinguish between mainstream center parties (i.e. be it left or right-of-center) and populist parties at the extremes of the party spectrum (e.g. Hooghe et al., 2002 as well as Taggart, 1998). Thus, the third key variable in our analysis relates to the emergence of populist parties in many EU countries over the last decade. A defining feature of populist movements is their common opposition to elites (Arzheimer and Berning, 2019). Typically, this goes hand in hand with opposition to the European project, seen as an elite project running counter to the wishes of ordinary citizens (Krastev, 2017). For example, members of the German AfD are fiercely against further European integration (Mudde, 2017; Guiso et al., 2019; Guriev and Papaioannou, 2020). It is therefore relevant to distinguish the preferences of populist parties, who we expect to be more opposed to European integration than non-populist parties.

Admittedly, populist parties may not be uniformly against European integration as there are populist parties on both the right and left. In Italy, for example, M5S and Lega differ along this dimension, with the latter having a much stronger nationalistic bias than the former (Albertazzi et al., 2018). A further step in our empirical analysis is therefore to allow for an interaction between nationality and populism. Since our survey contains only populist parties from Germany and Italy, we examine only the role of Italian populists relative to the German AfD.

Taking all three key variables (nationality, party ideology, populism) into account, our framework provides a clear prediction concerning support for European integration: We expect the strongest opposition to come from politicians from a German, right, populist party (AfD), while the most pro-integrationist view should come from an Italian, left-of-center, non-populist politician.

### **3. Survey design and questions**

#### ***3.1. Survey design and party classifications***

The survey covers the members of national parliaments of France (*Assemblée Nationale* and *Sénat*), Germany (*Deutscher Bundestag*) and Italy (*Camera dei Deputati* and *Senato della Repubblica*). Our multilingual survey was jointly conducted by the *École Polytechnique* (France), the *ZEW Mannheim* and the *University of Mannheim* (Germany), and the *Catholic University of Milan* (Italy). French, German, and Italian questionnaires were formulated in their respective languages but had the same content and wording.

The survey was conducted in September 2018. Cover letters with the two-page survey were sent out at the same time from Palaiseau (France) in French for the French parliament, Mannheim (Germany) in German for the Bundestag, and Milan (Italy) in Italian for the Italian parliament. The multi-step process was as follows: first, the questionnaire was sent to the main office of the respective MPs via letter post. The MPs could then respond either by post, email, or a separate online survey tool. Second, reminder emails were sent out to those who did not participate initially and who did not decline to participate. Third, MPs who had still not responded were contacted by phone. Answers were received between September 2018 and January 2019.

The survey was not anonymous. However, confidentiality of the individual answers was guaranteed in order to encourage an unbiased reporting of preferences. We randomized the ordering of questions in order to avoid biased responses due to possible framing effects. The characteristics of individual MPs such as party membership, age, and gender, among others, were obtained from public sources.

The survey resulted in 328 completed answers out of 2,575 questionnaires in total. This amounts to a response rate of 12.7%, which is common among parliamentary surveys (e.g., Blesse et al., 2019a, 2019b; Deschouwer et al., 2014). Table 1 summarizes response

rates across party groups and countries. Response rates in Italy are clearly lower than in the other two countries.

Our party group analysis uses party groups of the European Parliament to classify the parties across countries. The European People's Party group (EPP) comprises MPs from the CDU/CSU in Germany, Les Républicains and Les Indépendants in France, and Forza Italia and Per le Autonomie (SVP) in Italy. Members of the German SPD, the Italian Partito Democratico, as well as the French parties Groupe socialiste, RDSE, and Nouvelle Gauche participate in the European Parliament's Progressive Alliance of Socialists and Democrats (S&D). After the last European elections, the French government party La République en Marche (LREM) formed a new political group with the Alliance of Liberals and Democrats for Europe (ALDE) called Renew Europe, which also contains members of the Free Democratic Party (FDP) in Germany. Lastly, Lega and the German AfD formed a new group, Identity and Democracy (ID), together with the French far right Rassemblement National (RN). However, in order to ensure the anonymity of responses, we are not able to include indicators for RN due to their small number of seats in the French parliament. We present descriptive statistics for the M5S separately, which is not currently a member of any European party.

The party group classification is also the starting point for our broader classification into "left" and "right" parties. We classify all EPP/ALDE/Renew Europe parties as "right" and all S&D parties as "left". In the "right" category we also include AfD, Lega, and Fratelli d'Italia. In the "left" category we also include M5S, BÜ90/Die Grünen, Die Linke, Gauche démocratique et républicaine, Groupe communiste, and La France Insoumise. The classification of our three populist parties of interest deserves special attention. We classify the AfD and Lega as "right" and M5S as "left", as this follows from the parties' positions on migration, nationalism, and their views on economic policy (Mudde, 2017). AfD and Lega have a strong anti-immigration and nationalist profile that is less the case for M5S. At the

same time, M5S has a more interventionist and welfare state-oriented approach compared to the more market-oriented AfD (Decker, 2016) and Lega, with the latter having strong ties to Northern Italian business (Albertazzi et al., 2018). The parties that are classified as neither right nor left are Fraktionlos in Germany, Non-inscrits in France, and Misto in Italy.

Table 1: Survey response rates across countries and parties

| Participation in %     | France | Germany | Italy | Average across countries |
|------------------------|--------|---------|-------|--------------------------|
| S&D                    | 11.6   | 16.3    | 14.7  | 14.4                     |
| Renew Europe           | 16.6   | 25.0    |       | 18.0                     |
| EPP                    | 10.8   | 12.2    | 8.0   | 10.6                     |
| M5S                    |        |         | 6.0   | 6.0                      |
| ID (AfD, Lega)         |        | 31.9    | 5.0   | 14.0                     |
| Other                  | 10.8   | 15.1    | 12.1  | 13.1                     |
| Left                   | 10.8   | 15.6    | 8.9   | 11.3                     |
| Right                  | 14.1   | 18.9    | 5.9   | 13.2                     |
| Neither                | 14.8   | 33.3    | 30.3  | 23.8                     |
| Average across parties | 13.5   | 17.6    | 8.3   | 12.7                     |

Table 1 shows that response rates differ substantially across party classifications. Discrepancies in response rates raise the issue of selection bias. We conduct a non-response analysis (via a Probit analysis, see Table A2 in the Appendix) to identify the factors that influence MPs to participate in the survey (ultimately finding that Germans, Renew Europe members, and MPs with a Ph.D. are more likely to engage in the survey), and control for them in the main analysis.

### ***3.2. Survey questions***

Our survey focuses on questions regarding possible fiscal and financial reforms for the EU and the Eurozone. We asked how much MPs agreed or disagreed with the following proposals or statements (the original question is in quotation marks and a brief commentary

is provided below it):

- (1) *'There should be a new tax-based own resource for the EU budget under direct control of the EU (e.g. an EU tax on a common corporate tax base).'*

This is a proposal to increase the share of genuine own resources by introducing an EU tax (on some common tax base, such as corporate income) directly controlled by the European Parliament (EP) and other EU institutions.<sup>1</sup> Supporters of such a proposal claim that an EU tax for the budget could increase transparency and fiscal responsibility at the European level. Opponents fear that new own resources would pave the way for an excessive budgetary expansion and weaken pressure towards spending efficiency.

- (2) *'A common European unemployment insurance should be introduced to absorb recessions in individual Member States of the EMU.'*

An EUI scheme would provide unemployment benefit transfers to single Member States in times of economic crisis and might stabilize available incomes across Member States.

- (3) *'All euro countries are jointly liable for Eurobonds and all euro countries pay the same interest. The EMU should issue Eurobonds.'*

Eurobonds that represent joint sovereign bond emissions of all euro Member States with collective guarantees would result in a uniform interest yield for all euro members. This would hold independently of the Member States' varying individual default risks and fiscal performance.

- (4) *'The SGP defines deficit and debt limits for EU Member States. The SGP inappropriately constrains fiscal policy in Member States, and should be relaxed.'*

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<sup>1</sup> See, for instance, the report by French parliamentarians in November 2018, 'La refondation démocratique de l'Union Européenne', or the academic proposal at [tdem.eu](http://tdem.eu).

One goal of the SGP is to steer public debt to a level below 60% of GDP and the government's structural deficit below a country-specific medium-term objective. Violations trigger fiscal adjustment processes and eventually lead to fines in the case of non-compliance. Supporters of the SGP see it as necessary to guarantee the stability of a common currency, and to prevent negative spillovers from one country's fiscal policy to other Member States. Opponents stress that the fiscal rules are too complex and rigid, with the result of undermining Member States' economic performance.

- (5) *'The European Central Bank (ECB) took a strongly active position in recent years by purchasing sovereign bonds of euro countries. This strongly active position of the ECB should continue.'*

The ECB's expansionary monetary policy (known as Quantitative Easing (QE)) is controversial, with critics raising concerns regarding asset price inflation, indirect government financing, and long-run risks for financial stability. Supporters suggest that in the aftermath of a serious recession, QE has avoided the risk of deflation while supporting the stability of the euro and Eurozone economies in a time of severely constrained fiscal policy.

- (6) *'For its proper functioning, the European Banking Union should be completed through the European Deposit Insurance Scheme (EDIS).'*

The banking union represents an instrument to contain the spread of a crisis through the international banking system. So far, the banking union lacks one fundamental pillar: The European Deposit Insurance Scheme (EDIS), which could help absorb the shock of economic downturns in the banking and financial sectors. Opponents of an EDIS are afraid of a European collectivization of non-performing loans or excessive sovereign exposure in national banking systems.

(7) *'For a proper functioning, the EMU needs new fiscal institutions (e.g. a euro area budget or a European Minister of Finance).'*'

There is some degree of polarization between Eurozone countries on this issue, since some states worry about being exposed to the fiscal imbalances of other countries, and there may be an underlying risk of moral hazard by high indebted countries.

Parliamentarians could answer each of these questions on a scale from -4 (“Disagree”) to +4 (“Agree”), with 0 as “Undecided”. In most cases, a positive mean value signals support for strengthening the European institutional framework while a negative mean signals a preference for the status quo level of member state autonomy. An exception is the case of the SGP, where a positive value indicates support for a relaxation of the constraints imposed by the SGP and thus more national sovereignty.

### ***3.3. Descriptive statistics***

There is a strong polarization regarding the reform proposals for the Eurozone along the three dimensions of our analysis (nationality, left-right ideology, populism; see Table 2). The respective mean values are weighted by inverse participation rates.

Concerning nationality, German MPs are strongly opposed to further integration and display negative values on average for all survey questions. By contrast, Italian policymakers are strongly in favour of integration on average with highly positive answer values for all questions. French politicians take an intermediate position on most policy issues, though they lean more towards the Italian positions on most questions.

Moving to party ideology on a left-right scale, we find that left-leaning parties are strongly in favour of European integration and a laxer SGP. Answer scores among this group are often in the neighbourhood of a value of 2. The political right displays on average moderate positive or negative values, ranging between -1 and +1, and often close to zero. In the Appendix, we complement Table A.1 on the political ideology position by reporting European party group scores.

Table 2: Means of the responses by country, party ideology and populism

|              | (1)<br>EU tax   | (2)<br>EUI      | (3)<br>Eurobonds | (4)<br>ECB      | (5)<br>SGP      | (6)<br>Fiscal<br>institutions | (7)<br>Banking<br>Union |
|--------------|-----------------|-----------------|------------------|-----------------|-----------------|-------------------------------|-------------------------|
| France       | 1.33<br>(0.28)  | 0.14<br>(0.24)  | 1.15<br>(0.22)   | 1.52<br>(0.20)  | -0.49<br>(0.25) | 1.65<br>(0.26)                | 1.54<br>(0.19)          |
| Germany      | -0.89<br>(0.28) | -1.49<br>(0.28) | -1.65<br>(0.28)  | -1.24<br>(0.25) | -1.59<br>(0.25) | -0.98<br>(0.27)               | -0.45<br>(0.27)         |
| Italy        | 0.49<br>(0.37)  | 2.56<br>(0.20)  | 2.13<br>(0.24)   | 2.27<br>(0.24)  | 2.29<br>(0.26)  | 1.70<br>(0.30)                | 2.09<br>(0.23)          |
| Right        | -0,07<br>(0.24) | -0.42<br>(0.23) | -0.04<br>(0.23)  | 0.40<br>(0.21)  | -0.76<br>(0.23) | 0.51<br>(0.21)                | 0.77<br>(0.19)          |
| Left         | 1,13<br>(0.33)  | 2.22<br>(0.19)  | 1.93<br>(0.22)   | 2.00<br>(0.22)  | 1.82<br>(0.26)  | 1.69<br>(0.29)                | 1.84<br>(0.21)          |
| Neither      | 0,64<br>(0.92)  | 0.84<br>(0.75)  | 1.83<br>(0.63)   | 1.90<br>(0.62)  | 0.76<br>(0.73)  | 1.20<br>(0.84)                | 1.96<br>(0.63)          |
| Not Populist | 0,99<br>(0.20)  | 0.61<br>(0.19)  | 0.99<br>(0.18)   | 1.28<br>(0.16)  | -0.13<br>(0.19) | 1.47<br>(0.17)                | 1.62<br>(0.14)          |
| Populist     | -1,52<br>(0.44) | 0.61<br>(0.41)  | 0.06<br>(0.41)   | 0.31<br>(0.42)  | 1.60<br>(0.43)  | -0.71<br>(0.43)               | -0.18<br>(0.37)         |

Standard deviation in parentheses.

Finally, a stark difference for certain policy issues is also notable when it comes to populists vs. non-populists. We cannot present results for France’s RN politicians because we cannot guarantee anonymity of the answers with their small number of MPs. On the whole, populists are strongly in favour of relaxing the SGP, while non-populists are not. The reverse is observable for the EU tax, new fiscal institutions, and the banking union.

It is important to recognize that average scores within each dimension mask substantial heterogeneity within each group. For example, positions within Germany are highly divided on almost all issues: Christian Democrats are strongly opposed to almost all integration proposals (with scores between -1.75 and -3.5), while Social Democrats are strongly in favour of these measures (with scores between +1.64 and +2.44).

Similarly, even though both AfD and Lega Nord belong to the same European political group (ID) and are classified as right populists, they differ quite a lot in their opposition to more EMU integration, with the former systematically opposing further



integration more strongly than the latter. The substantial heterogeneity within each dimension makes it crucial to examine the role of each variable more systematically.

## 4. Empirical strategy and regression results

### 4.1. Empirical Strategy

We now analyze which factors are most important in determining MPs' preferences. We use OLS, which allows us to isolate our three dimensions of interest (nationality, party ideology, and populism), while controlling for personal characteristics of MPs.<sup>2</sup>

We estimate the following linear regression model (with OLS)

$$y_i = \alpha_0 + \alpha_1 GER_i + \alpha_2 ITA_i + \alpha_3 POP_i + \alpha_4 LEFT_i + \beta POP_i \cdot ITA_i + \gamma X_i + \varepsilon_i$$

where  $y_i$  is the answer of policymaker  $i$  to one of the seven reform questions.  $GER$  and  $ITA$  are country dummies that take the value of 1 if the policymaker comes from Germany or Italy, respectively, and 0 otherwise,  $LEFT$  is a dummy that takes the value of 1 if the politician belongs to a left-of-center party (and 0 otherwise), and  $POP$  is a dummy equal to 1 if the politician is a member of one of our three parties classified as populist (and 0 if not). We control for individual characteristics of policymaker  $i$ , such as age, gender, educational background, and years in parliament, and capture this in vector  $X$ .

Our specification allows us to quantify the impacts of nationality (relative to French politicians), belonging to a populist party, and political ideology on the conventional left-right scale. In line with our theory developed in section 2, we expect Germans (Italians) to be less (more) in favour of European integration compared to French politicians, hence  $\alpha_1 < 0, \alpha_2 > 0$ . We also expect that populists are more opposed to European integration than non-

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<sup>2</sup> As a robustness check, we also performed ordered probit regressions which are available on request. They confirm all key results from OLS.

populists  $\alpha_3 < 0$ , and that left-of-center parties are more integrationist than center-right parties  $\alpha_4 > 0$ .

Of particular interest is the interaction variable  $POP \cdot ITA$ , which captures a possible emphasis on national interest by populist parties. We expect  $\beta > 0$ . Due to the lack of answers from populist parties in France, we can distinguish only between German and Italian populists.

## 4.2. Regression Results

First, we take a look at results when the interaction effect between Italy and Populists is ignored. Table 3 provides strong confirmation for the hypothesis that German politicians are less in favour of European integration than French ones. The magnitudes range from -1.64 points for relaxing the SGP to a point estimate of -3.24 on the issue of Eurobonds. The results for politicians from Italy are not as clear-cut, and show more support than French politicians for some reform areas (EUI, relaxing the SGP, and completing the banking union), but not for others (new fiscal institutions, as well as the EU own tax).

Strong confirmation is found for the pro-integrationist view of left-of-center parties, who give answers of 1.4 points on average above politicians from right-and-center parties. Most striking are the differences for the cases of EUI and Eurobonds, which are in line with the solidarity theme emphasized by such parties. There is also support for the hypothesis that populist parties are less integrationist than non-populists. Except for the question on relaxing the SGP, politicians from populist parties provide answers in the range of 2 to 3 points lower on average than their non-populist counterparts.

Finally, we note that individual characteristics almost never play a role. Years in parliament, however, seems to correlate with less integrationist views on some reform questions.

Table 3: OLS estimation without interactions

|                                   | (1)                 | (2)                | (3)                | (4)                | (5)                | (6)                 | (7)                |
|-----------------------------------|---------------------|--------------------|--------------------|--------------------|--------------------|---------------------|--------------------|
|                                   | EU tax              | EUI                | Eurobonds          | ECB                | SGP                | Fiscal institutions | Banking Union      |
| Germany                           | -2.44***<br>(0.39)  | -1.91***<br>(0.35) | -3.24***<br>(0.33) | -2.71***<br>(0.31) | -1.64***<br>(0.37) | -2.72***<br>(0.35)  | -1.87***<br>(0.31) |
| Italy                             | -1.13**<br>(0.48)   | 1.84***<br>(0.43)  | 0.12<br>(0.41)     | 0.76*<br>(0.39)    | 1.76***<br>(0.46)  | -0.14<br>(0.43)     | 0.82**<br>(0.38)   |
| Left                              | 2.14***<br>(0.33)   | 2.47***<br>(0.30)  | 2.67***<br>(0.28)  | 1.97***<br>(0.27)  | 2.20***<br>(0.32)  | 1.87***<br>(0.30)   | 1.40***<br>(0.27)  |
| Populist                          | -3.31***<br>(0.44)  | -2.02***<br>(0.39) | -1.85***<br>(0.38) | -2.03***<br>(0.36) | -0.021<br>(0.42)   | -3.18***<br>(0.40)  | -3.15***<br>(0.36) |
| Female                            | -0.18<br>(0.31)     | -0.075<br>(0.28)   | -0.2<br>(0.27)     | 0.059<br>(0.26)    | -0.08<br>(0.30)    | 0.057<br>(0.29)     | -0.12<br>(0.25)    |
| Age                               | -0.012<br>(0.01)    | -0.0011<br>(0.01)  | 0.012<br>(0.01)    | 0.028**<br>(0.01)  | 0.012<br>(0.01)    | -0.012<br>(0.01)    | -0.015<br>(0.01)   |
| Years in parliament               | -0.077***<br>(0.03) | -0.049*<br>(0.03)  | -0.053**<br>(0.03) | -0.024<br>(0.02)   | -0.022<br>(0.03)   | -0.048*<br>(0.03)   | -0.025<br>(0.02)   |
| Tertiary education up to bachelor | 0.0066<br>(0.71)    | 0.051<br>(0.64)    | -0.25<br>(0.63)    | -0.22<br>(0.58)    | -0.7<br>(0.70)     | -0.54<br>(0.66)     | -0.07<br>(0.59)    |
| Master or equivalent              | -0.3<br>(0.61)      | -0.009<br>(0.54)   | -0.65<br>(0.54)    | -0.16<br>(0.49)    | -1.07*<br>(0.60)   | -0.037<br>(0.57)    | 0.24<br>(0.50)     |
| Doctoral or equivalent            | -0.27<br>(0.75)     | 0.18<br>(0.67)     | -0.9<br>(0.66)     | -0.1<br>(0.61)     | -0.73<br>(0.73)    | -0.14<br>(0.69)     | 0.052<br>(0.61)    |
| Constant                          | 7.88***<br>(0.92)   | 5.36***<br>(0.82)  | 6.36***<br>(0.80)  | 5.11***<br>(0.75)  | 4.59***<br>(0.89)  | 7.89***<br>(0.84)   | 7.44***<br>(0.74)  |
| Observations                      | 310                 | 303                | 303                | 303                | 302                | 301                 | 301                |
| R-squared                         | 0.395               | 0.481              | 0.52               | 0.506              | 0.381              | 0.473               | 0.457              |

Standard errors in parentheses. \*\*\* p<0.001, \*\* p<0.01, \* p<0.05

Next, we analyze the case with the interaction term between Italy and Populism. Results are shown in Table 4. We first note that including this term has some minor effects on the dummy variables. While the Germany dummy becomes slightly less negative, the dummies for Italy, Left, and Populist parties become slightly more negative. There are almost no changes in significance (except for the populism dummy with respect to the SGP question).

Most interesting is now the interaction term itself. It is strongly positive on the order of almost 2 points and highly significant when it comes to both asset purchases by the ECB and the relaxation of the SGP. For the other reform questions, the coefficient is positive but of much lower value and not significant. We conclude that, on the monetary policy mandate of the ECB and its asset purchases, German (against) and Italian populists (in favour) are even more polarized along the national cleavage than politicians from the non-populist parties. A similar conclusion holds for the relaxation of the SGP for which there is even more disagreement between Italian (in favour) and German populists (against) than between parliamentarians of the other parties.

The fact that populists in Italy and Germany are torn over the issues of ECB financial assistance through QE and fiscal constraints through the SGP can be interpreted as a further polarization of national interests that is related to the high salience of both topics in the populist discourse. ECB financial assistance helps the Italian government obtain more favourable financing conditions, which Italian populists could perceive as a welcome relaxation of the government's budget constraint. From the perspective of German populists, the Eurosystem asset purchases have no national advantage given the country's strong credit reputation and status as the euro area's benchmark borrower. German assessments of the program's desirability will therefore concentrate on the potential inflation and credit risks of sovereign bond purchases by the Eurosystem - topics which have received substantial criticism from the AfD since the party's foundation (Decker, 2016). The finding of strong German populist dissent on the SGP reflects a similar logic, as German populists repeatedly attacked an alleged Southern European fiscal profligacy throughout the euro area debt crisis. Conversely, Italian populists tend to suppress evidence for consolidation needs and discredit fiscal rules as illegitimate constraints on Italian fiscal sovereignty. Tellingly, on other reform issues that have been less salient in the populist discourse but would imply further transfers

of sovereignty to European institutions, there is no significant difference between German and Italian populists beyond the cross-national differences between non-populist parties.

Table 4: OLS estimates with interactions

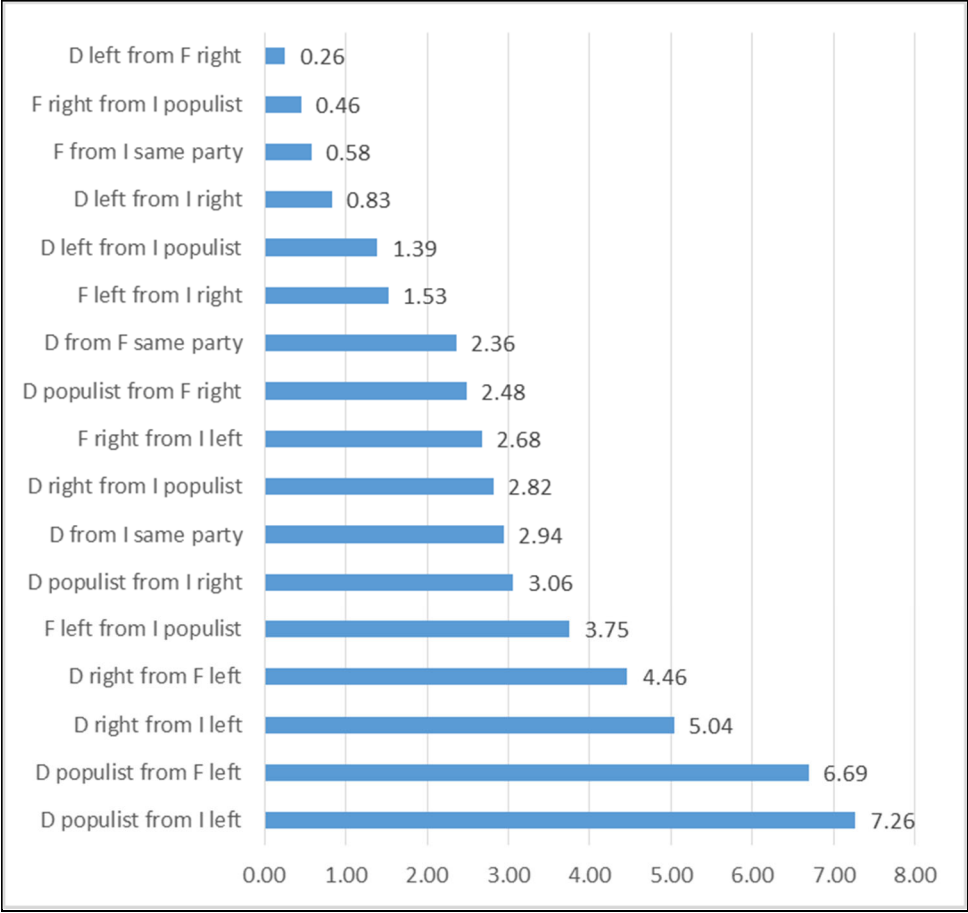
|                                   | (1)                 | (2)                | (3)                | (4)                | (5)                | (6)                 | (7)                |
|-----------------------------------|---------------------|--------------------|--------------------|--------------------|--------------------|---------------------|--------------------|
|                                   | EU tax              | EUI                | Eurobonds          | ECB                | SGP                | Fiscal institutions | Banking Union      |
| Germany                           | -2.39***<br>(0.40)  | -1.76***<br>(0.36) | -3.15***<br>(0.35) | -2.44***<br>(0.32) | -1.37***<br>(0.38) | -2.64***<br>(0.37)  | -1.75***<br>(0.33) |
| Italy                             | -1.19***<br>(0.50)  | 1.64***<br>(0.44)  | 0.0097<br>(0.43)   | 0.4<br>(0.40)      | 1.42***<br>(0.47)  | -0.24<br>(0.45)     | -0.67*<br>(0.40)   |
| Left                              | 2.12***<br>(0.34)   | 2.37***<br>(0.30)  | 2.62***<br>(0.29)  | 1.81***<br>(0.27)  | 2.03***<br>(0.32)  | 1.83***<br>(0.31)   | 1.32***<br>(0.27)  |
| Populist                          | -3.47***<br>(0.58)  | -2.53***<br>(0.52) | -2.13***<br>(0.50) | -2.92***<br>(0.47) | -0.92*<br>(0.56)   | -3.43***<br>(0.53)  | -3.56***<br>(0.47) |
| Populist x Italy                  | 0.36<br>(0.84)      | 1.12<br>(0.75)     | 0.62<br>(0.72)     | 1.98***<br>(0.68)  | 1.98**<br>(0.80)   | 0.55<br>(0.76)      | 0.88<br>(0.68)     |
| Female                            | -0.18<br>(0.32)     | -0.085<br>(0.28)   | -0.21<br>(0.27)    | 0.037<br>(0.25)    | -0.096<br>(0.30)   | 0.054<br>(0.29)     | -0.13<br>(0.25)    |
| Age                               | -0.011<br>(0.01)    | 0.0023<br>(0.01)   | 0.014<br>(0.01)    | 0.034***<br>(0.01) | 0.018<br>(0.01)    | -0.011<br>(0.01)    | -0.012<br>(0.01)   |
| Years in parliament               | -0.078***<br>(0.03) | -0.052**<br>(0.03) | -0.055**<br>(0.03) | -0.029<br>(0.02)   | -0.027<br>(0.03)   | -0.050*<br>(0.03)   | -0.027<br>(0.02)   |
| Tertiary education up to bachelor | 0.0061<br>(0.71)    | 0.044<br>(0.64)    | -0.26<br>(0.63)    | -0.24<br>(0.57)    | -0.68<br>(0.69)    | -0.55<br>(0.66)     | -0.065<br>(0.59)   |
| Master or equivalent              | -0.29<br>(0.61)     | 0.0034<br>(0.54)   | -0.65<br>(0.54)    | -0.14<br>(0.49)    | -1.02*<br>(0.59)   | -0.038<br>(0.57)    | 0.27<br>(0.50)     |
| Doctoral or equivalent            | -0.28<br>(0.75)     | 0.13<br>(0.67)     | -0.94<br>(0.66)    | -0.19<br>(0.60)    | -0.78<br>(0.73)    | -0.17<br>(0.69)     | 0.026<br>(0.61)    |
| Unknown                           | -0.79<br>(0.73)     | -0.11<br>(0.66)    | -1.22*<br>(0.64)   | -0.45<br>(0.59)    | -0.85<br>(0.71)    | -0.64<br>(0.68)     | -0.38<br>(0.60)    |
| Constant                          | 7.82***<br>(0.93)   | 5.21***<br>(0.83)  | 6.28***<br>(0.80)  | 4.85***<br>(0.74)  | 4.30***<br>(0.89)  | 7.82***<br>(0.84)   | 7.31***<br>(0.75)  |
| Observations                      | 310                 | 303                | 303                | 303                | 302                | 301                 | 301                |
| R-squared                         | 0.396               | 0.485              | 0.522              | 0.52               | 0.394              | 0.474               | 0.46               |

Standard errors in parentheses. \*\*\* p<0.01, \*\* p<0.05, \* p<0.1

### ***4.3. Assessing the potential for a three-country consensus***

Our results not only confirm the importance of the three dimensions of nationality, ideology, and populism in shaping MPs' preferences, with the same directional effects predicted by our theoretical reasoning. They also enable us to assess the relative empirical importance of these determinants in order to explore the potential for a future three-country consensus on euro area reform issues. In a French-German study, Blesse et al. (2019a) find that party ideology dominates nationality in the sense that the estimated coefficients for the Left variable were larger in absolute terms than the dummy variable for Germany. They concluded that reform blockades were not bound to continue but could be resolved with changes in national governments' incumbent parties. We now extend this reasoning to the case of three countries and the inclusion of populist movements and apply it to the European fiscal reform agenda. For this purpose, we calculate the absolute differences in reform preference scores, as predicted by our regression model from Table 3, for all possible party group comparisons *across* countries. Hence, we compare the predicted scores for German left/right/populist parties with those from French left/right parties (as we do not observe French populists), and then compare all simulated French and German scores with those from Italian left/right/populist parties. Detailed results are presented in Tables A3 in the Appendix. Figure 1 summarizes the essential finding: the average predicted differences across countries in reform preference scores for the different combinations of parties.

Figure 1: Mean predicted difference of reform preference scores across all seven reform issues



For details on single-policy distance scores see Table A3 in the Appendix, D stands for Germany, F for France and I for Italy.

Our key indicator of preference distance shows that the degree of cross-country polarization depends crucially on the party combination. For the comparison of German populists with French or Italian left politicians, we observe an extreme polarization. Both sides disagree fundamentally and position themselves on opposite extremes of our preference scale. The differences between German conservative politicians and the non-populist left in France and Italy are substantial as well. A close alignment of preferences (i.e. a mean difference in scores below 1 point on the -4 to +4 scale) does exist, however, for German MPs from the left and their right-wing colleagues from Italy and (with an almost negligible difference) France. Since, for the French-Italian difference, the country dummy is relatively small relative to the importance of party ideology, our simulation produces a logical result: French and Italian

MPs tend to agree most if they come from the same political camp. These results allow for a clear conclusion as to which combination of parties offers the best precondition for a three-country consensus on fiscal reforms in the EU and euro area: MPs from the German left coming together with MPs from the French and Italian right. Any other combination would be confronted with a much larger level of disagreement.

## **5. Discussion and concluding remarks**

Our results imply that economic and institutional reforms could become more likely if political majorities align “better” across countries. One of our key empirical contributions is that we are able to specify this “better alignment” precisely as follows: Preference alignment across the three countries’ parliamentarians is closest for the German left with the Italian and French non-populist right. We also conclude that the future impact of populist movements is of crucial importance for Europe’s reform ability. Importantly, we find evidence that the populist polarization is even present *within* European populism as the national cleavage for the cross-border comparison of parties is particularly large for the populist movements. This effect is largely driven by the fact that MPs from the German AfD are fiercely opposed to further European fiscal integration. The argument that this party has no realistic chance of entering a German government coalition disregards that its influence can be of an indirect type, as center-right parties may be afraid of losing voters to the AfD when agreeing to more fiscal transfers and insurance (Wagner and Meyer, 2017; Abou-Chadi and Krause, 2020).

Our survey was conducted in 2018. Since then, the world has changed considerably due to the COVID-19 crisis. In response to the pandemic’s challenges, following a French-German initiative, the EU Member States agreed on an ambitious recovery plan: The Next Generation – EU (NG-EU) for the years 2021-2026, endowed with EUR 750 billion (in 2018 prices). NG-EU contains elements of common debt issuance, extended own source financing, and large-scale cross-national transfers (and loans). The NG-EU is funded with the issuance



of EU debt guaranteed by the EU budget and an additional EU claim on own resource payments from the Member States. Notice that debt issued by the EU to finance the NG-EU falls short of Eurobonds. However, through the EU's additional own resource claim, Member States provide guarantees to the EU budget. Hence, the new type of bonds shares some features with a Eurobond design. Compared to the ESM assistance provided during the euro area debt crisis, the NG-EU support is granted with a somewhat milder type of surveillance and conditionality. Hence, overall, the agreement on NG-EU indeed marks a profound move towards a new degree and quality of fiscal assistance and transfers in the EU.

If we look at these developments from the perspective of our results presented above, the following interpretation emerges: Clearly, the acute crisis together with the perception that the pandemic was an exogenous shock outside of the responsibility of national governments created a sense of urgency and solidarity that has overcome the uncompromising resistance of German Christian Democrats against more fiscal solidarity observed during the last Merkel government. But, to some extent, the readiness of the German government to accept these new fiscal tools also reflects the influence of the Social Democrats in the grand coalition government who had taken over the highly influential German Ministry of Finance after the 2017 general election. Moreover, the populist AfD lost public attention, credibility, and voter support over the first year of the pandemic, giving the Christian Democrats more leeway for European compromises.<sup>3</sup> At the same time, with the Macron government in France and a more moderate government emerging in Italy after the collapse of the preceding populist one, the German government had partners in both countries whose rejection of populist approaches had clearly increased the room for consensus, in line with our key prediction.

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<sup>3</sup> AfD voter support peaked in summer 2018 at 16% but did not surpass 10% in any single month between April and December 2020 - the period in which the political decisions on Next Generation EU were taken ([www.wahlrecht.de/umfragen/forsa.htm](http://www.wahlrecht.de/umfragen/forsa.htm)).

It is too early to say whether these fiscal innovations are of a permanent nature. Right and left politicians in Germany – in full accordance with our results – have voiced contrary expectations and preferences for the future. While NG-EU, including its novel approach to debt financing, indicates a permanent transition towards a more mature Fiscal Union for the Social-Democratic finance minister, it is an exceptional and temporary reaction to a unique crisis and sets no precedent for the Christian Democrats. Similarly, in Italy and France, while there is general agreement on the NG-EU, positions differ for the future, with right-wing and populist parties by far less inclined to transfer own tax resources to the EU budget to finance interests and payments for the EU new debt. Our empirical results suggest that future election results and emerging party combinations in these three countries will play an important role in shaping how this controversy plays out moving forward.

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## Appendix

Table A1: Average answer scores by party groups

| Party        | EU tax          | EUI             | Eurobonds       | ECB             | SGP             | Fiscal institutions | Banking Union   |
|--------------|-----------------|-----------------|-----------------|-----------------|-----------------|---------------------|-----------------|
| S&D          | 2.03<br>(0.32)  | 2.48<br>(0.25)  | 2.14<br>(0.23)  | 2.28<br>(0.26)  | 1.34<br>(0.27)  | 2.75<br>(0.21)      | 2.35<br>(0.20)  |
| Renew Europe | 1.81<br>(0.26)  | 0.24<br>(0.26)  | 0.76<br>(0.27)  | 0.90<br>(0.25)  | -1.05<br>(0.27) | 2.00<br>(0.26)      | 1.52<br>(0.24)  |
| EPP          | -0.28<br>(0.38) | -0.38<br>(0.37) | 0.02<br>(0.38)  | 0.76<br>(0.31)  | -0.70<br>(0.37) | 0.57<br>(0.32)      | 1.15<br>(0.28)  |
| M5S          | -0.31<br>(0.66) | 2.50<br>(0.32)  | 1.56<br>(0.50)  | 1.91<br>(0.45)  | 3.11<br>(0.44)  | 0.67<br>(0.61)      | 1.11<br>(0.42)  |
| ID           | -3.24<br>(0.31) | -1.94<br>(0.62) | -1.96<br>(0.51) | -1.84<br>(0.64) | -0.49<br>(0.65) | -2.60<br>(0.43)     | -1.98<br>(0.49) |
| Other        | 1.15<br>(0.49)  | 0.81<br>(0.42)  | 2.01<br>(0.34)  | 1.68<br>(0.36)  | 0.57<br>(0.42)  | 0.93<br>(0.52)      | 1.90<br>(0.36)  |

Notes: Standard errors are in parentheses. Answers are weighted with the inverse response probability.

Table A2: Response analysis, Probit model

|   | Average Marginal Effects |
|---|--------------------------|
| <u>Country effects (compared to France)</u>                 |                          |
| Germany   | 0.0476***<br>(0.00469)   |
| Italy   | -0.0237<br>(0.0156)      |
| <u>Party effects (compared to EPP)</u>                      |                          |
| S&D   | 0.0420<br>(0.0219)       |
| Renew Europe  | 0.0722***<br>(0.0135)    |
| M5S   | -0.0140<br>(0.0204)      |
| ID  | 0.0408<br>(0.0755)       |
| Other   | 0.0255*<br>(0.0128)      |
| <u>Personal characteristics</u>                             |                          |
| Sex   | -0.0208<br>(0.0235)      |
| Age   | 0.000572<br>(0.000806)   |
| Years in parliament   | -0.000852<br>(0.000930)  |
| <u>Education (in comparison with no tertiary education)</u> |                          |
| Tertiary education up to bachelor                           | 0.0399                   |

|                        |           |
|------------------------|-----------|
|                        | (0.0206)  |
| Master or equivalent   | 0.0510*   |
|                        | (0.0203)  |
| Doctoral or equivalent | 0.0359*** |
|                        | (0.00775) |
| Unknown                | 0.0215    |
|                        | (0.0160)  |
| Observations           | 2,575     |

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Standard errors in parentheses. Average marginal effects from a Probit model where the outcome is a dummy for participation (1: yes, 0: no). Answers are weighted with the inverse of the predicted response rate. Significance levels are \*\*\*  $p < 0.001$ , \*\*  $p < 0.01$ , \*  $p < 0.05$ .

Table A3: Simulation of model predicted cross-country preference distances

| Predicted difference for: | Calculation from the following sum of dummy coefficients: | EU tax | EUI   | Eurobonds | ECB asset purchases | SGP relaxation | EMU fiscal institutions | Banking Union | Mean         |
|---------------------------|---|--------|-------|-----------|---------------------|----------------|-------------------------|---------------|--------------|
| D from F same party       | Germany   | -2.44  | -1.91 | -3.24     | -2.71               | -1.64          | -2.72                   | -1.87         | <b>-2.36</b> |
| D left from F right       | Germany + Left  | -0.30  | 0.56  | -0.57     | -0.74               | 0.56           | -0.85                   | -0.47         | <b>-0.26</b> |
| D from I same party       | Germany - Italy   | -1.31  | -3.75 | -3.36     | -3.47               | -3.40          | -2.58                   | -2.69         | <b>-2.94</b> |
| D left from I right       | Germany - Italy + Left                                    | 0.83   | -1.28 | -0.69     | -1.50               | -1.20          | -0.71                   | -1.29         | <b>-0.83</b> |
| D left from I populist    | Germany - Italy + Left - Populist                         | 4.14   | 0.74  | 1.16      | 0.53                | -1.18          | 2.47                    | 1.86          | <b>1.39</b>  |
| D right from F left       | Germany - Left  | -4.58  | -4.38 | -5.91     | -4.68               | -3.84          | -4.59                   | -3.27         | <b>-4.46</b> |
| D right from I left       | Germany - Italy - Left                                    | -3.45  | -6.22 | -6.03     | -5.44               | -5.60          | -4.45                   | -4.09         | <b>-5.04</b> |
| D right from I populist   | Germany - Italy - Left - Populist                         | -0.14  | -4.20 | -4.18     | -3.41               | -5.58          | -1.27                   | -0.94         | <b>-2.82</b> |
| D populist from F left    | Germany + Populist - Left                                 | -7.89  | -6.40 | -7.76     | -6.71               | -3.86          | -7.77                   | -6.42         | <b>-6.69</b> |
| D populist from F right   | Germany + Populist + Left                                 | -3.61  | -1.46 | -2.42     | -2.77               | 0.54           | -4.03                   | -3.62         | <b>-2.48</b> |
| D populist from I left    | Germany - Italy + Populist - Left                         | -6.76  | -8.24 | -7.88     | -7.47               | -5.62          | -7.63                   | -7.24         | <b>-7.26</b> |
| D populist from I right   | German - Italy + Populist + Left                          | -2.48  | -3.30 | -2.54     | -3.53               | -1.22          | -3.89                   | -4.44         | <b>-3.06</b> |
| F from I same party       | -Italy  | 1.13   | -1.84 | -0.12     | -0.76               | -1.76          | 0.14                    | -0.82         | <b>-0.58</b> |
| F left from I right       | -Italy + Left   | 3.27   | 0.63  | 2.55      | 1.21                | 0.44           | 2.01                    | 0.58          | <b>1.53</b>  |
| F left from I populist    | -Italy + Left - Populist                                  | 6.58   | 2.65  | 4.40      | 3.24                | 0.46           | 5.19                    | 3.73          | <b>3.75</b>  |
| F right from I left       | -Italy - Left   | -1.01  | -4.31 | -2.79     | -2.73               | -3.96          | -1.73                   | -2.22         | <b>-2.68</b> |
| F right from I populist   | -Italy - Left - Populist                                  | 2.30   | -2.29 | -0.94     | -0.70               | -3.94          | 1.45                    | 0.93          | <b>-0.46</b> |

Simulation based on regression model from Table 3. Absolute values of last column (Mean) are depicted in Figure 1 in section 4.3.





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