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National support for the European integration project: Does financial integration matter?

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Abstract

We analyze in how far market perceptions of actual financial integration affect EU integration support at the country level. As indicators of realized states of integration in financial markets we rely upon yield differentials of long-term government debt. To identify particular situations that could undermine the integration process, we suggest a new measure of EU integration risks that fulfills a number of properties which are desirable to ensure its informational value. Our results indicate that tensions to finance public debt in integrated financial markets are the main contributor to weakened support for EU integration. Particularly, large yield spreads increase the polarization on this issue at the country level. Moreover, as a confirmation of a-priori expectations, we find that the national support for EU integration sees a fostering in times of economic upswing and under beneficial structural EU funding. These results indicate that it becomes crucial to monitor increasing international yield differences as they could prepare the ground for claims for EU disintegration policies, thereby, threatening future advances of the EU integration project.

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KEYWORDS

EU15, financial market integration, long-term government bond yields, national support for European integration, polarization

JEL CLASSIFICATION

F51; F53; F55; F59

1 | INTRODUCTION

In most European countries, citizens and political parties have been recognizing for many years the beneficiary effects of increased EU integration. As a political and social endeavor, the EU integration project rests on two largely uncontroversial priorities of European policy namely (a) the establishment of real economic growth opportunities through common market creation (the Treaty establishing the European Economic Community (EEC) in 1957) and (b) the reduction of regional differences in living standards through structural funding (the creation of the European Regional Development Fund (ERDF) in 1975). As a reflection of its economic and social achievements, the European Union (EU) has grown steadily from six member countries in 1951 to 28 in 2013.¹ For the individual voter and party level, the literature has successfully associated the support of the EU integration project with political and economic states related to both priorities of European policy (a) and (b) (e.g., Anderson & Kaltenthaler, 1996; Brinegar & Jolly, 2005; Eichenberg & Dalton, 1993; Esteve-Gonzalez & Theilen, 2018).

The advent of the Maastricht Treaty in 1992 can be considered as a first mark toward a third and more recent priority of European policy, namely (c) the strive for financial integration with monetary unification as a next step toward deeper economic integration. Unlike market creation and regional funding, however, the monetary unification agenda has been from its beginning a salient and highly controversial issue in many European countries. On the one hand, some countries have refused participation in the common currency (Denmark, Sweden, and the UK). On the other hand, the prominent Stability and Growth Pact (SGP) of 1997, which has been created to establish fiscal policy coordination in a monetary unified EU, has become repeatedly an object of political conflict.² In consequence and culminating with the 2016 exit referendum in the UK, the EU integration process has also seen impediments (e.g., the ultimate failure to ratify the EU constitution after 2004) and episodes of political conflict and weakened support that manifests in the appearance and the increased electoral success of parties at the extreme left and the extreme right of the ideological spectrum.³ This has important consequences for EU integration support as both types of parties are Eurosceptical.

On the one hand, financial integration through monetary unification appears conceptually as a natural complement to integrated goods markets, and, hence promises further creation of trade, growth and welfare (Frankel & Rose, 2000) resulting in larger support for EU integration. On the other hand, however, the great recession in 2008 and the subsequent sovereign debt crisis have arrestingly shown that monetary unification comes with loss of national sovereignty and control over economic policy giving rise to vehement criticisms.⁴ In this study, we analyze for the first time, in how far market perceptions of actual financial integration affect EU integration support at the country level. Specifically, building upon Codogno et al. (2003) we regard yield differentials of long-term government debt as indicators of realized states of integration in financial markets. Observing that they could limit public spending and the discretionary scope of parties in government to pursue their partisan policies, large yield differentials might be essential for understanding the support to the EU integration project at national levels.

Empirically, the support for EU integration issues has been analyzed for parties (either with data from party manifestos or expert surveys) and citizens (with Eurobarometer data). Regarding the latter, cross-country analysis has provided sound understandings of the determinants of the mean level of support of specific EU integration issues (e.g., the introduction of the common currency), as well as of suitable measures of consensus (or polarization) on these matters (Anderson, 2005). For a conditional understanding of actual political risks of the EU integration project, however, it is important to consider both dimensions (mean support and associated consensus) jointly. For instance, while particular risky states of EU integration are obvious for the case of a low mean political support, in a highly polarized society a small change in voter support can yield a majority of Euroscepticals which promote EU disintegration policies even if mean support is at a medium level.⁵ Country-level assessments of overall EU integration support in terms of an integrated measure have not been suggested yet. Taking advantage of the composition of so-called ‘Value-at-Risk’ statistics which are widely applied in financial analysis (see Jorion, 2007, for a textbook treatment), as a further novelty, this study proposes such an integrated measure of integration risks.

Covering the EU15 (except Luxembourg) and the period 1984–2014, our empirical analysis relies on nine waves of evaluations by political scientists about party positioning toward EU integration and the percentages of votes received by parties in latest elections. These data have been drawn from the Chapel Hill Expert Survey (CHES). Our results underpin the informational content of combining mean and polarization statistics to signal fragile states of EU integration. Market perceptions of actual financial integration determine political risks of EU integration beyond EU wide redistribution and country-specific states of the business cycle. Increasing international yield differences of government bonds induce tensions to finance public debt and could promote claims for EU disintegration policies. Accordingly, excessive spreads in financing long-term debt deserve primary consideration by political authorities who are interested in advancing the EU integration project.

The remainder of this paper is organized as follows. The next section reviews the related literature. Section 3 provides an axiomatic treatment of the measurement of political risks assigned to EU integration and develops a new index in this direction. Section 4 describes the data and our econometric approach. Estimation results are discussed in Section 5. Section 6 concludes.

2 | RELATION TO THE LITERATURE

2.1 | Measuring support for EU integration

The literature has measured support for EU integration issues both at the individual voter and the party level. Measures of national support based on individual data from Eurobarometer questionnaires have been constructed, for instance, by Anderson (2005) to assess the support for the introduction of the Euro.⁶ In this study, we quantify EU integration support at the country level by means of party positioning on this issue and their voter support in general elections. Focussing on party positioning and voter support has several advantages. First, by using the CHES database, we obtain a data panel of comparable information across countries over a time period of 30 years that is not available for individual data. Second, by considering both party positioning on EU integration and the electoral support of all parties, we can construct measures of national support for EU integration that are much more difficult to obtain from a limited number of respondents. For instance, in Eurobarometer surveys, the number of citizens interviewed each year is around one thousand per country. While the sample intends to be representative regarding the population structure in each country (e.g., gender, number of children, religion, and ideology), this is not the case with regard to electoral support. This

is because abstention in elections is considerable and non-voters are not necessarily representative for the whole population. Therefore, considering a measure that is based on actual voter support is key for the purpose of our study. Despite these considerations, public opinion and party positioning are closely interrelated, however. For instance, it has been shown that political parties and their elites, on the one hand, shape citizen attitudes toward EU integration (Steenbergen et al., 2007) while, on the other hand, they also respond to changes in the public opinion on this matter (Meijers, 2017). Hence, the support for EU integration at the country level is the outcome of national political debates where party positioning and public opinion influence each other.

Regarding party support for EU integration from previous studies, one can broadly distinguish the ideological identity approach and the utilitarian approach to explain party support for EU integration. Proponents of the utilitarian approach argue that parties are more likely supportive for EU integration, if it results in a net benefit to their partisans or their national economy (Anderson & Reichert, 1996; Aspinwall, 2007; Eichenberg & Dalton, 1993). Traditionally, major parties located at the ideological center have taken a neutral or positive position on EU integration. By contrast, minor parties have taken advantage of this by formulating extreme positions to attract votes from Euroscepticals (Hix & Lord, 1997; Hooghe et al., 2010).⁷ More recently, due to the electoral success of radical parties, Euroscepticism has been contagious also for mainstream parties (Hooghe & Marks, 2009; Meijers, 2017). Consequently, the analysis of the overall national support for EU integration deserves a systematic consideration of both mean support for integration and the intensity of political conflict on this issue (for a related discussion see Anderson, 2005). With regard to the measurement of political conflict or polarization in party systems, interestingly, an evidently rich literature yet lacks a consensual approach (Laasko & Taagepera, 1979; Anderson, 2005; Klingemann, 2005; Dalton, 2008). Moreover, the literature has been silent on assessing the level and intensity of conflict jointly. Against this background, we argue in favor of the informational merits of an integrated approach to measure ‘overall national political support for EU integration’. In doing so, we follow an axiomatic approach to construct the measure of interest along desirable theoretical properties. Moreover, putting particular attention on stances of overall support that could undermine the integration process, we identify ‘risky stances of EU integration’.

2.2 | Determinants of support for EU integration

Three main priorities of European policy can be differentiated in identifying potential integration benefits, namely (a) real economic growth through common market creation (EEC Treaty in 1957), (b) the reduction of regional differences in living standards through structural funding (ERDF in 1975), and (c) financial integration through monetary unification (Maastricht Treaty in 1992).

Regarding target (a), results in Eichenberg and Dalton (2007) and Esteve-Gonzalez and Theilen (2018) point to real GDP as an important positive determinant of mean EU integration support conditional on the analysis of data from individual surveys (Eurobarometer) and on party positioning (CHES), respectively. As regards target (b), using Eurobarometer data, Brinegar and Jolly (2005) find that support for EU integration is larger in those countries that receive higher net EU transfers (see also earlier studies from Anderson & Kaltenthaler, 1996; Duch & Taylor, 1997; Eichenberg & Dalton, 1993). Similarly, evidence for increased party support in countries that are net receivers is documented in Esteve-Gonzalez and Theilen (2018).

While the literature has largely ignored the merits of financial integration for EU integration support, that is, target (c), some studies have analyzed the impact of inflation (e.g., Eichenberg & Dalton, 2007) or binary indicators of compliance to the Maastricht criteria (e.g., Esteve-Gonzalez &

Theilen, 2018) on support for EU integration. While such variables can capture certain aspects which are important for target (c), we consider yield spreads of long-term government bonds as particularly informative to summarize the actual evolvement of financial and monetary EU integration. According to stylized theoretical models, differentials in bond yields can be traced back to country-specific fundamentals that govern the ability of fiscal authorities to meet their credit obligations (that are eventually denominated in international currency). Providing insights into the determinants of yield differentials of government bonds in the Euro area, Codogno et al. (2003) find that the inception of the monetary union in 1999 came with a harmonization of credit conditions without, however, achieving full convergence. In unraveling potential determinants of the persistent yield differentials Codogno et al. (2003) point to a prime role of country (default) risk-related factors. As a result, they identify fiscal consolidation and convergence of debt-to-GDP ratios as important triggers toward the harmonization of credit conditions in Europe. Both of these means, however, could easily give rise to political conflict and to a reduction of mean party support for the political integration in the EU. Similarly, large yields to be paid for public debt could limit public spending, and, hence, the discretionary scope of parties in government to pursue their partisan policies. Therefore, we conjecture that yield spreads are potentially important to both mean support for EU integration and polarization on this issue.

3 | MEASUREMENT OF EUROPEAN INTEGRATION RISK

To derive a quantification of overall national political support for EU integration, suppose we have J parties with a policy position p_j on the issue of EU integration, $\underline{p} \leq p_j \leq \bar{p}$, with larger values indicating more pro-European positions. Without loss of generality, we define in accordance with the CHES

$\underline{p} = 1$ and $\bar{p} = 7$. Parties obtain electoral support v_j for their positioning ($v_j \geq 0$ and $\sum_{j=1}^J v_j \leq 1$). Moreover,

$(v, p) = (v_1, \dots, v_J; p_1, \dots, p_J)$, $p_j \leq p_{j+1}$, is an (ordered) distribution of policy support, $\mu = \sum_{j=1}^J v_j p_j$ its mean, and S the space of all distributions. We now come to the desirable properties of a support measure S designed to summarize the informational content of the distribution (v, p) .

According to the first property, S should increase with the mean support for EU integration:

Property 1 $S > S'$ if $\mu > \mu'$

As illustrated in the top of Figure 1, property 1 implies that an increase in electoral support for more ‘pro-European’ parties, or a more ‘pro-European’ positioning of parties increases the support for EU integration.

A second property that S should have is as follows:

Property 2 $S > S'$ if $(v; p) = (v_1, v_2, v_3; p_1, p_2, p_3)$ and $(v'; p') = (v_1, \frac{v_2}{2}, \frac{v_2}{2}, v_3; p_1, p_2 - \epsilon, p_2 + \epsilon, p_3)$.

Property 2 implies that for two distributions sharing the same mean, overall support increases when integration support shifts from the extremes to a central position. As illustrated in the medium panel of Figure 1, this property is very intuitive. While in one country, a strong centralist party position (at level 4, say) moderates political dispute, in the other country, the center divides into differentiated positions (e.g., at levels 3 and 5, respectively). To understand this property, let us consider that level 3 is a critical value of support (in our case a EU disintegration position). Then, while under S in

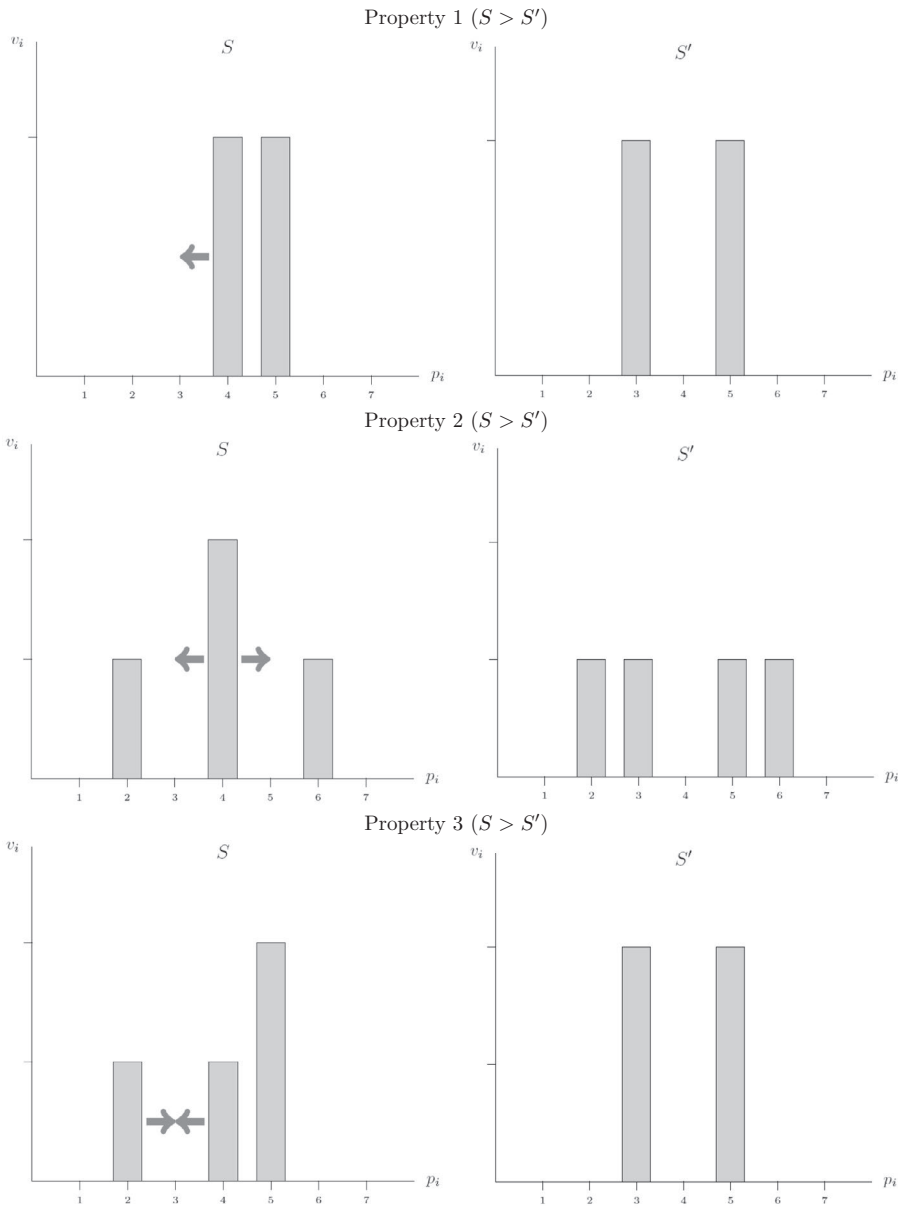


FIGURE 1 Examples to illustrate properties 1–3

the left-hand side panel 75% of voters support a position above this critical level, in the right-hand side panel under S' this share has decreased to 50%. As assured by property 2, policy support is stronger in the first case.

Finally, a third desirable property for S is as follows:

Property 3 $S > S'$ if $(v';p') = (v_1, v_2; p_1, p_2)$ and $(v;p) = \left(\frac{v_1}{2}, \frac{v_1}{2}, v_2; p_1 - \epsilon, p_1 + \epsilon, p_2\right)$ for ϵ small and

$$v_1 \leq v_2.$$

To see the intuition behind this property, consider the following example which is illustrated in the bottom of Figure 1:

Example 1 $(v', p') = (\frac{1}{2}, \frac{1}{2}; 3, 5)$ and $(v, p) = (\frac{1}{4}, \frac{1}{4}, \frac{1}{2}; 2, 4, 5)$.

Again, both distributions agree in mean support ($\mu = \mu' = 4$). In (v', p') , half of the voters support a party with a ‘critical position’ toward EU integration, while in (v, p) , a quarter of voters are more critical and a quarter of voters are less critical. Consider, again, that level 3 is a critical value of support. Then, while under S in the left-hand side panel 75% of voters support a position above this critical level, in the right-hand side panel under S' this share has decreased to 50%. Property 3 guarantees that support for EU integration is more critical in (v', p') which is characterized by a stronger voter support for an Eurosceptical position.

From Figure 1 and the considerations on the properties 1, 2, and 3, it is apparent that assessing the political support for EU integration in an integrated manner deserves both information on the mean and the prevalence of conflict. In specific, such an assessment should be increasing in the mean level of political support and decreasing in associated conflict. The results in Esteban and Ray (1994) imply that a support measure that fulfills properties 1, 2, and 3 must be of the form

$$S(\gamma) = \mu - \gamma \cdot P, \gamma > 0, \tag{1}$$

where γ is a weighting parameter, and P the polarization measure proposed by Esteban and Ray (1994),⁸ that is,

$$P = 10 \sum_{j=1}^J \sum_{l=1}^J v_j^2 v_l \left| p_j - p_l \right|. \tag{2}$$

The definition in (1) takes advantage of the composition of so-called Value-at-Risk statistics (Jorion, 2007) that are commonly applied in financial analysis.⁹ Putting equal weight to the informational content of μ and P , the analysis in this work relies on the choice of $\gamma = 1$, that is, $S(1) = \mu - P$.

While the related literature reports a variety of conflict (or consensus) statistics (see among others Laasko & Taagepera, 1979; Anderson, 2005; Klingemann, 2005; Dalton, 2008), results in Esteban and Ray (1994) imply that the form in (1) and (2) is necessary and sufficient to establish that $S(\gamma)$ fulfills the desirable properties 1, 2, and 3. For instance, applying the polarization measure proposed by Dalton (2008),

$$P^D = \sqrt{\sum_{j=1}^J v_j \left(\frac{p_j - \mu}{(\bar{p} - \underline{p})/2} \right)^2},$$

or a conflict statistic based on the consensus measure proposed by Anderson (2005),¹⁰

$$P^A = 1 - \frac{1}{J} \sum_{j=1}^J v_j^2,$$

would render $S(1)$ at odds with property 3.¹¹ Next, we turn to the empirical implementation of the support measure $S(1)$ defined in (1).

4 | EMPIRICAL APPROACH

4.1 | Data

The CHES merges the data sets from Bakker et al. (2012), Polk et al. (2017) and Ray (1999), and contains evaluations by political scientists about party positioning toward EU integration (p_j) and the percentages of votes received by parties in latest elections (v_j).¹² To assess overall national positioning toward EU integration, we draw upon nine waves from the CHES (1984, 1988, 1992, 1996, 1999, 2002, 2006, 2010, and 2014). The cross section comprises the EU15 excluding Luxembourg, that is, Austria (AUT), Belgium (BEL), Denmark (DNK), Finland (FIN), France (FRA), Germany (GER), Greece (GRC), Ireland (IRL), Italy (ITA), the Netherlands (NLD), Portugal (PRT), Spain (ESP), Sweden (SWE), and the United Kingdom (UK).¹³ For more details on data definitions and sources, see Table 1.

4.2 | Empirical statistics of national European integration support

We compute the weighted mean of party support for EU integration (μ) in country i and survey year t as

$$\mu_{it} = \sum_{j=1}^J v_{jit} p_{jit}. \quad (3)$$

In (3), v_{jit} and p_{jit} are the party j 's share of votes and the party j 's position toward EU integration in country i and time t , respectively. Shares v_{jit} refer to the share of votes that the party has obtained in the most recent national government election prior to the survey year. Specifically, p_{jit} is party j 's position toward the EU integration process in the year of the survey as the mean of the experts' individual assessments.¹⁴ Overall, 1,162 observations on party positioning are summarized in 126 observations for 14 countries in nine periods. Variations of μ_{it} come from three sources. First, changes in electoral support yield variations in the weighted mean support. Second, changes in party positioning assessed by experts cause variations in μ_{it} . Finally, since new parties enter and other parties exit, for a given country the number of parties, J , may change over time which affects mean party support.¹⁵

According to definition (2), the empirical polarization index is determined as

$$P_{it} = 10 \sum_{j=1}^J \sum_{l=1}^J v_{jit}^2 v_{lit} \left| p_{jit} - p_{lit} \right| \quad (4)$$

such that the combined index of national EU integration support is

$$S_{it}(1) = \mu_{it} - P_{it}. \quad (5)$$

TABLE 1 Data definitions and sources

Variable	Definition	Measurement	Source
μ	Mean support for EU integration	Weighted mean of parties' position toward EU integration from 1 (strongly opposed) to 7 (strongly in favor) by country	Own calculations with data from Bakker et al. (2012), Polk et al. (2017) and Ray (1999)
P	EU integration polarization	Polarization index of parties' position toward EU integration by country	Own calculations with data from Bakker et al. (2012), Polk et al. (2017) and Ray (1999)
$S(\gamma)$	Political support for EU integration	$\mu - \gamma P$	Own calculations
$I(S;k)$	Risk indicator S at level k	Dichotomous variable that takes value one for $S < k$ and zero else	Own calculations
BEN	Net fiscal benefits from EU membership	EU expenditure in the country minus national contributions to the EU budget as a share of GDP in percentage points	Own calculation with data from European Commission (2009) and European Commission (2017)
GDP	Relative deviation from income trend	Difference between the country's annual real per capita income and its trend over the period 1980–2014 measured by means of the HP filter (Hodrick & Prescott, 1997)	Own calculation with data from OECD (2017)
YIELD	Interest differential to the mean yield	Differential between the country's interest rate on public debt and the weighted mean of all countries' interest rate	Own calculation with data from OECD (2017) and Eurostat (2017)
EURO	Euro dummy	Dichotomous variable for EU member countries (1 = EU member country)	Data from European Commission (2013)
SURPLUS	Budget surplus	Government surplus as a share of the country's GDP in percentage points	OECD (2017) and Eurostat (2017)
UE	Deviation from unemployment trend	Difference between the country's annual unemployment rate and its trend over the period 1980–2014	Own calculation with data from OECD (2017)

Note: HP filtering has been applied to annual data throughout.

TABLE 2 Descriptive statistics

Variable	Overall mean	Min (country)	Max (country)	Min (year)	Max (year)
μ	5.398 (0.753)	4.634 (UK)	6.291 (ESP)	4.952 (1984)	5.763 (1992)
P	2.424 (1.166)	0.926 (BEL)	4.484 (UK)	2.098 (2002)	2.988 (1984)
$S(1)$	2.973 (1.690)	0.150 (UK)	4.987 (BEL)	1.964 (1984)	3.617 (1992)
BEN	0.474 (1.396)	-0.464 (GER)	3.589 (GRC)	0.061 (2014)	1.014 (1992)
GDP	0.086 (0.915)	-0.506 (FIN)	0.641 (IRL)	-0.452 (1996)	0.857 (2014)
YIELD	0.561 (2.923)	-1.467 (GER)	5.392 (GRC)	-0.058 (2006)	1.662 (1984)
$I(S,2)$	0.278 (0.450)	0 (BEL, ESP, GER)	1 (UK)	0.071 (1992)	0.643 (1984)
$I(S,3)$	0.444 (0.499)	0 (BEL, ESP, GER)	1 (UK)	0.286 (1992)	0.643 (2014)
SURPLUS	-3.375 (4.371)	-6.811 (GRC)	0.378 (FIN)	-7.686 (2010)	-0.121 (2006)
UE	0.009 (0.543)	-0.282 (PRT)	0.158 (FIN)	-0.580 (2014)	0.381 (2010)

Note: For the overall mean (column 2), there are the corresponding standard deviations in parenthesis. Results in columns 3–6 refer to country and time means. For variable definitions see Table 1.

Overall and country-specific descriptive statistics are displayed in Tables 2 and 3, respectively. As Table 2 shows, on average, μ_{it} quotes amount to 5.398 with an empirical standard deviation of 0.753. While France, Sweden, and the UK (Austria, Greece, and the UK) show weakest mean support (and largest polarization) for EU integration, the three countries with the strongest mean support and lowest polarization for EU integration are Belgium, Spain, and Germany. To directly highlight the distinct informational content of mean support and polarization, the relationship between μ and P is displayed in Figure 2. While states of high and low mean support must reduce polarization on EU integration by construction, we find that there is considerable heterogeneity in the degree of polarization on integration for values $4 \leq \mu_{it} \leq 6$, for example. This indicates, indeed, that μ alone cannot capture the actual level of support for EU integration in particular countries and years. Figure 3 illustrates the pronounced cross-sectional and time variation of overall national support for EU integration as quantified by $S(1)$.

4.3 | Risky stances of national EU integration support

According to the CHES, critical thresholds for EU integration support are ‘ $k = 2$ ’ (‘opposed’ to EU integration) and ‘ $k = 3$ ’ (‘somewhat opposed’). As observed in Figure 2, in numerous occasions these thresholds are in the realm of political debate, either because of low mean support or strong polarization. While this adds further justification for the integrated measure in (1) and (5), it also motivates to put particular emphasis on risky stances of overall national support for EU integration. Accordingly, we suggest to identify these risky stances by means of a set of indicators, that is,

$$I_{it}(S_{it};k) = \begin{cases} 1 & \text{if } S_{it} \leq k \\ 0 & \text{if } S_{it} > k, \end{cases} \quad k=2,3. \quad (6)$$

Apart from the UK, Figure 2 shows that Italy, Greece, Austria, Finland, and Sweden are characterized by risky stances for the most recent observations. This is particularly due to the high degree of polarization on EU integration in these countries, since the mean support is similar or even above the one observed in Denmark, France, or the Netherlands.

TABLE 3 Descriptive statistics of political variables (mean national support for EU integration (μ), polarization (P) and the integrated statistic ($S(1)$) by country

Country	μ			P			$S(1)$					
	Mean	SD	Min	Max	Mean	SD	Min	Max	Mean	SD	Min	Max
Austria	5.210	0.807	3.371	6.194	3.539	0.844	2.459	5.081	1.671	1.150	0.311	3.736
Belgium	5.913	0.192	5.648	6.171	0.926	0.249	0.644	1.378	4.987	0.425	4.270	5.526
Denmark	5.141	0.321	4.605	5.546	2.563	0.433	1.773	3.280	2.579	0.658	1.701	3.712
Finland	4.894	1.004	3.061	5.762	2.234	0.617	1.291	3.135	2.660	1.431	0.493	4.472
France	4.851	0.340	4.597	5.660	2.392	0.671	1.374	3.558	2.459	0.869	1.287	4.286
Germany	6.046	0.267	5.565	6.402	1.654	0.420	1.051	2.280	4.392	0.511	3.608	5.137
Greece	5.756	0.758	4.584	6.603	3.180	1.501	1.432	6.325	2.576	2.145	-1.554	5.171
Ireland	5.612	0.283	5.243	6.209	1.871	0.698	0.901	3.377	3.742	0.939	1.866	5.308
Italy	5.199	0.612	3.995	5.908	2.109	0.939	1.258	4.111	3.090	1.481	-0.116	4.649
Netherlands	5.205	0.703	4.157	6.004	1.837	0.441	1.309	2.456	3.368	1.123	1.701	4.571
Portugal	5.927	0.268	5.355	6.243	3.101	1.194	2.061	5.957	2.826	1.446	-0.602	4.182
Spain	6.291	0.110	6.165	6.511	1.393	0.482	0.827	2.297	4.898	0.555	3.976	5.684
Sweden	4.888	1.077	2.954	5.826	2.660	0.892	1.390	4.080	2.228	1.867	-0.830	4.211
UK	4.634	0.388	3.951	5.205	4.484	0.578	3.312	5.343	0.150	0.809	-0.883	1.724

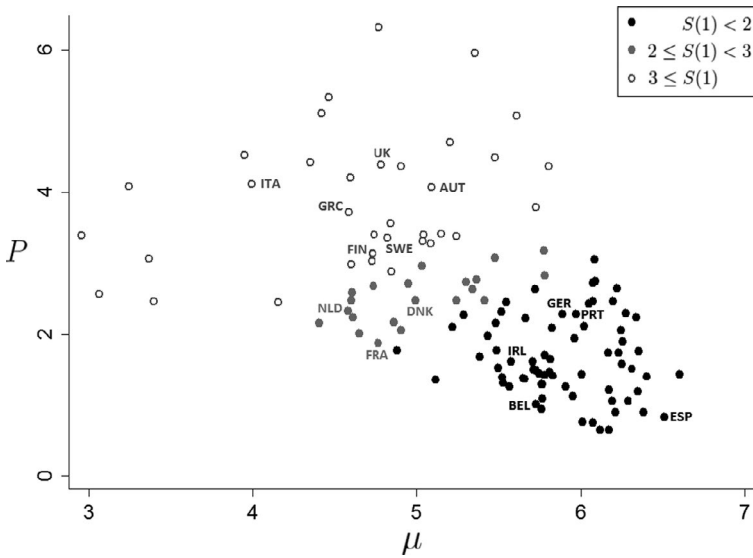


FIGURE 2 Relationship between mean (μ) and polarization (P) of party support for EU integration. For 2014, country positions are indicated with abbreviations

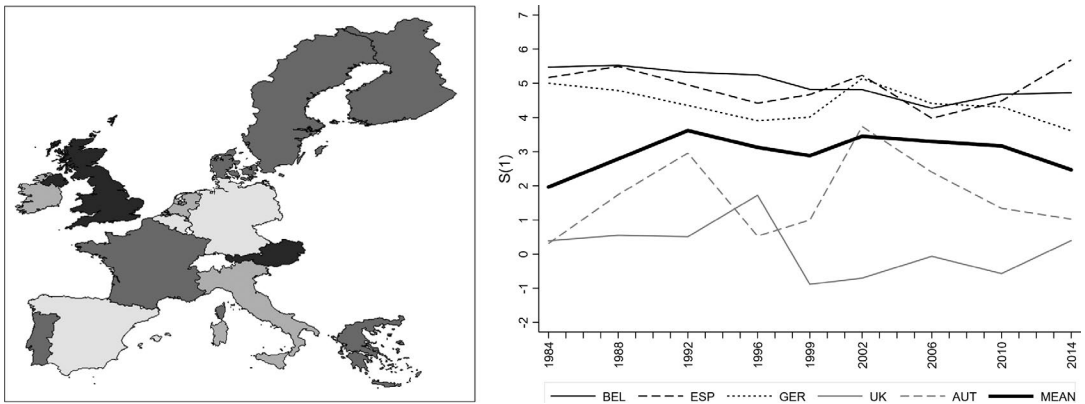


FIGURE 3 Left. Map of the country mean of $S(1)$ where the intensity of the gray color corresponds to the intervals: <2 , $[2, 3)$, $[3, 4)$, >4 . Right. Time evolution of $S(1)$: country means for the highest (BEL, ESP, and GER) and lowest (UK and AUT) values and mean for all countries (MEAN)

4.4 | Explanatory variables

While our main focus is on the effects of actual financial integration on EU integration support, that is, the achievement of target (c), our regression analysis conditions upon two further variables referring to integration targets (a) and (b) of European policy. Specifically, we use deviations of real gross domestic product per capita from the business cycle (GDP) to assess the role of macroeconomic performance for EU integration support in the light of target (a). In addition, we use the difference between the payments that a country receives from the EU and its contributions to the EU budget (BEN), as a major reflection of policies that address target (b). We expect larger benefits from EU

wide redistribution and positive states of macroeconomic performance to increase mean party support, reduce polarization and consequently improve $S(1)$ as our integrated assessment of national EU integration support.

To assess the marginal effects of policies that address target (c) on national EU integration support, we employ yields of long-term government bonds measured in deviations from GDP weighted EU average yields (YIELD). We expect that YIELD influences negatively mean national support for EU integration and spurs respective polarization. Consequently, YIELD is expected to exert a negative impact on $S(1)$.

While the three covariates (BEN, GDP, and YIELD) are in the focus of our benchmark regression models, we complement these analyses with robustness checks where we include further explanatory variables that provide a complementary perspective on macroeconomic performance, monetary integration, and pressures of financing public debt. These variables include unemployment rates in terms of differences from their HP trend (UE), an indicator of participation in the monetary union (EURO) and government budget surplus (SURPLUS).

Apart from the three covariates of interest (BEN, GDP, and YIELD), all models include a set of specific time effects such that the regression intercept represents joint effects for the time periods 1984, 1988, and 2014.¹⁶ While our benchmark regressions do not include country fixed effects, we provide complementary results from least-squares dummy variable estimation that account for unobserved cross-country heterogeneity. All computations are performed in STATA 12, using the commands *xreg*, *xlogit*, and *sqreg*.

4.5 | Econometric models

To study the fragility of EU integration and its potential determinants, the empirical study considers three empirical frameworks that provide complementary information on both the mean levels of political support for EU integration (and conflict) and particular stances of (abnormally) weak political support which might put the integration project into question. As such, the empirical analysis takes full account of the fact that ‘deviations from the average party support’ challenge the integration in an asymmetric manner. In specific, the empirical models comprise:

- linear regressions to explain mean party support for EU integration (μ_{it}), conflict (P_{it}), and the integrated measure ($S_{it}(1)$) as defined in (5),
- binary logit regressions to model the probabilities of risky stances of party support ($I_{it}(S,k)$, $k=2,3$) as defined in (6), and
- simultaneous quantile modeling for left-hand side quantiles of $S_{it}(1)$ defined in (5), where the following quantiles of $S_{it}(1)$ are subjected to joint modeling: 2.5%, 5%, 10%, 30%, and 50%.

While common regression models characterize the ‘conditional mean’ (of μ_{it} , P_{it} or $S_{it}(1)$), the logit specification provides a structural perspective on the probability of an event which is core for monitoring risks of political integration. Going beyond these insights, quantile regressions appear of special merit in the present context. Focussing on the conditional analysis of the lower quantiles of measures such as $S_{it}(1)$ promises a specific understanding of the determinants of particular risky (or abnormal) states of relatively weak party support for EU integration. In particular, results obtained for the lowest quantiles under scrutiny promise an unraveling of those factors (and their effects) which are behind most critical states of the EU integration project.

5 | ESTIMATION RESULTS

Estimation results for linear models and logit regressions are displayed in Table 4. Results from simultaneous quantile models are shown in Table 5. The following discussion of estimation results and diagnostic outcomes focusses on regressions which exclude country-specific fixed effects. As can be seen from Table 4, the inclusion of country fixed effects leaves core model conclusions unchanged. As the number of observations per country is only nine, we did not run more sophisticated logit or quantile regressions with country fixed effects included. If not stated otherwise, the discussion of empirical results refers to 5% nominal significance.

5.1 | Results from linear and logit regressions

On average, net fiscal benefits ($BEN > 0$) exert a mildly significant effect on support for EU integration (μ) and leave polarization (P) and overall support ($S(1)$) unaffected. To illustrate the former effect numerically, consider the difference among the mean levels of BEN recorded for Germany (-0.46) and Greece (3.59). Accordingly, the expected mean support for EU integration changes by 0.49 units which amounts to 9.1% of the mean level of μ . While it lacks explanatory content for $S(1)$ and $I(S;2)$, BEN is effective to shield significantly against particular risky stances of EU integration ($I(S;3)$).

Favorable real economic conditions ($GDP > 0$) foster mean support (μ) for EU integration and reduce conflict (P) on this issue. Unlike the former effect, the latter impact is (mildly) significant. In line with these results, an increase of GDP raises overall political support for EU integration as quantified in terms of the combined measure $S(1)$ with mild significance. Binary regressions for $I(S;3)$ indicate a reduced probability of severe integration risks to be present conditional on positive deviations of GDP from its HP trend.

Unfavorable financial market conditions ($YIELD > 0$) lack any impact on mean party support for EU integration, but raise conflict on this issue with high significance. Moreover, they contribute significantly to a weakening of political support in terms of $S(1)$. For instance, an increase of $YIELD$ by one percentage point reduces the expected political support for EU integration ($S(1)$) by almost 0.13 units which amounts to approximately 4.5% of the mean level. Logit regressions underpin that risks emerging from excess yields are of particular relevance for fragile stances of support for EU integration.

Focussing on conditional time effects, it is interesting to see that the two periods related to the Maastricht Treaty and the advent of the Euro (1992, 2002) are characterized by estimates which imply largest levels of mean support for EU integration matters and smallest levels of polarization on this issue.

5.2 | Results from quantile regressions

Estimation results on the marginal contributions of BEN , GDP , and $YIELD$ are largely robust for the considered smallest quantiles of $S(1)$ (i.e., 2.5% and 5%) being the most critical levels of EU integration risk. As it turns out, all explanatory variables contribute to these quantiles significantly with their expected directional effects. To assess these marginal effects in relative terms, it is worth to weight the documented parameter estimates with the empirical standard deviations of the respective variables (see Table 2). From this exercise, we obtain at the 2.5% quantile average effect sizes of 0.466, 0.584, and -0.859 for net benefits from European redistribution (BEN), macroeconomic

TABLE 4 Coefficient estimates for linear regressions (columns 2–7) and logit models (columns 8–9; *t*-statistics in parentheses; *, **, *** indicate significance at the 10%, 5%, and 1% level, respectively)

μ	<i>P</i>		<i>S</i> (1)		<i>I</i> (<i>S</i> ;2)		<i>I</i> (<i>S</i> ;3)	
BEN	0.121** (2.556)	-0.062 (-1.046)	-0.022 (-0.259)	0.093 (0.614)	0.144 (1.205)	-0.156 (-0.778)	-0.262 (-1.311)	-0.507** (-2.360)
GDP	0.072 (1.044)	-0.012 (-0.192)	-0.219* (-1.890)	-0.145* (-1.754)	0.292* (1.805)	0.133 (1.060)	-0.261 (-0.918)	-0.528* (-1.956)
YIELD	-0.002 (-0.089)	-0.021 (-0.909)	0.124*** (3.585)	0.104** (2.086)	-0.126*** (-2.645)	-0.125* (-1.885)	0.240** (2.067)	0.249** (2.070)
1992	0.585*** (3.217)	0.675*** (4.372)	-0.641* (-1.826)	-0.682** (-2.557)	1.226** (2.607)	1.357*** (3.608)	-2.952** (-2.274)	-1.645** (-1.984)
1996	0.456** (2.170)	0.430** (2.552)	-0.364 (-1.023)	-0.351 (-1.392)	0.820* (1.701)	0.781** (2.264)	-1.904** (-2.063)	-1.074 (-1.486)
1999	0.376* (1.763)	0.340** (2.307)	-0.009 (-0.026)	-0.013 (-0.080)	0.385 (0.740)	0.353 (1.384)	-0.505 (-0.794)	-1.121* (-1.689)
2002	0.480** (2.150)	0.387** (2.228)	-0.642* (-1.926)	-0.599*** (-3.132)	1.122** (2.266)	0.987*** (3.045)	-2.640** (-2.430)	-1.411** (-2.186)
2006	0.339 (1.494)	0.298* (1.713)	-0.343 (-1.153)	-0.358* (-1.805)	0.682 (1.469)	0.656* (1.982)	-2.394** (-2.212)	-1.286* (-1.925)
2010	0.345 (1.453)	0.199 (0.960)	-0.629* (-1.889)	-0.535** (-2.289)	0.974* (1.848)	0.734* (1.866)	-1.190* (-1.698)	-1.418** (-2.010)
Constant	5.048*** (31.463)	5.728*** (38.428)	2.676*** (14.079)	2.133*** (10.392)	2.372*** (7.499)	3.595*** (12.065)	0.050 (0.139)	0.794** (2.018)
FE	No	Yes	No	Yes	No	Yes	No	No
R^2	.1393	.535	.1573	.701	.1260	.647	.1871	.1183
R_0^2	.0823	.528	.0493	.646	.0698	.611	.1516	.0523

Note: Linear regressions are specified alternatively without (benchmark) and with country fixed effects. The number of observations is 126. The estimated constant captures time effects which are jointly representative for the time periods 1984, 1988, and 2014. The row labeled with 'FE' signifies the use of country specific dummy variables. R^2 , R_0^2 denote either the degree of explanation (Linear regressions) or the Pseudo- R^2 statistics (Logit regressions). While R^2 statistics describe model accuracy of the full model, R_0^2 statistics are derived after conditioning exclusively on time effects.

TABLE 5 Coefficient estimates for simultaneous modeling of $S(1)$ quantiles q (t -statistics in parentheses)

q	2.5%	5.0%	10%	30%	50%
BEN	0.334** (2.101)	0.323** (2.038)	0.322** (2.608)	0.217 (1.266)	0.077 (0.485)
GDP	0.638*** (2.771)	0.633** (2.570)	0.632*** (3.261)	0.214 (0.811)	0.396 (1.497)
YIELD	-0.294** (-2.187)	-0.289** (-2.164)	-0.289* (-1.947)	-0.065 (-0.831)	-0.107* (-1.878)
1992	1.955** (2.171)	1.943** (2.139)	2.151** (2.351)	1.936** (2.288)	1.360* (1.691)
1996	1.041 (1.371)	1.024 (1.282)	2.545*** (2.984)	1.165 (1.617)	1.102** (2.196)
1999	0.024 (0.024)	-0.002 (-0.002)	1.358 (1.351)	0.899 (1.529)	0.820 (1.062)
2002	0.425 (0.286)	0.400 (0.258)	3.382** (2.048)	1.931*** (4.199)	1.288** (2.135)
2006	0.275 (0.236)	0.254 (0.220)	2.429* (1.930)	1.606*** (3.355)	0.793 (1.078)
2010	0.960 (0.957)	0.929 (0.921)	2.697** (2.277)	1.740* (1.894)	0.992 (1.121)
Constant	-0.659** (-2.376)	-0.639** (-2.210)	-0.636** (-2.197)	1.035*** (2.828)	2.207*** (5.311)
R^2	.243	.197	.175	.147	.098
R_0^2	.109	.085	.100	.105	.066

Note: R^2 , R_0^2 denote Pseudo- R^2 statistics. For further notes, see Table 4.

performance (GDP), and financial market conditions (YIELD), respectively. These results are interesting in two regards. First, conditional on risky stances of EU integration support financial market conditions dominate those variables which have been established in the related literature (Eichenberg & Dalton, 2007; Esteve-Gonzalez & Theilen, 2018) as important determinants of the political support for EU integration. Second, the results underpin that for understanding actual fragilities of the EU integration project, the informational value of regressions focussing on the mean (see results documented in Table 4) is not sufficient, as it could give an incomplete quantification of relative effect magnitudes.¹⁷

5.3 | Diagnostic results and robustness analysis

The differences in the degrees of explanation $R^2 - R_0^2$ documented in Table 4 indicate the marginal explanatory content provided jointly by BEN, GDP, and YIELD. As it turns out, this is significant at any conventional level for the benchmark specifications which exclude country-specific dummy variables. Apparently, accounting for unobserved heterogeneity in terms of country dummy variables raises the model implied R^2 statistics, while it leaves the assessment of the marginal effects going back to BEN, GDP, and YIELD largely unaffected. While the inclusion of fixed effects guards against the adverse effects of endogeneity to some extent, we further checked the potential of endogeneity by diagnosing if μ , P , or $S(1)$ exhibit explanatory content for linear residuals extracted from BEN, GDP, and YIELD. From nine respective Lagrange Multiplier test statistics, one turns out to be significant at the 5% level. Accordingly, we regard the potential of endogeneity biases as negligible. Finally, as can be seen from the results documented in the Appendix (Table A1), the marginal effects on $S(1)$ documented for BEN, GDP, and YIELD remain also qualitatively robust when adding further control variables (EURO, SURPLUS, and UE). In particular, YIELD remains the covariate with largest absolute effect estimates among all five metric explanatory variables.

6 | CONCLUSIONS

Dating back to the end of World War II, the last six decades have witnessed several waves of socio-economic and political integration in Europe. On the one hand, the advent of European institutions, for example, the common market or, most prominently, the common currency, may be regarded to exemplify successful integration. On the other hand, however, recent debates have arrestingly shown that such institutions also bear the potential for political conflict. Against this background, we analyze the marginal effects of financial market tensions, that is, international yield differentials, on the national support for EU integration.

We use information on party support for EU integration and parties' vote shares gathered from the Chapel Hill Expert Survey to derive a measure of support for EU integration that fulfills a number of desirable properties to ensure its informational value. We find that such a measure is based on a combination of mean support and a polarization index capturing the intensity of conflict regarding EU integration. As it turns out, time variation of mean support and polarization give rise to dynamic alterations of risks to political integration in the EU15. For instance, the weakest threats to integration are found for the year 1992 which is close to the fall of the iron curtain and closest to the initialization of the monetary unification process.

Our results highlight that yield differentials of financing long-term public debt, that is, market perceptions of actual financial integration, are core to understand political risks of EU integration

beyond the effects of macroeconomic performance (i.e., business cycle states) and net EU transfers. Hence, increasing international yield differences could promote claims for EU disintegration policies.

The lessons from this study are threefold. First, party support for EU integration is stronger (weaker) in countries which benefit from (contribute to) EU structural funding. However, noticing that future advances in EU integration are unlikely to bring direct economic benefits from institutional arrangements to all members, the doubtlessly existing indirect benefits of EU integration deserve more elucidation. Second, for the time scheduling of future reforms, appropriate respect of business cycle positions will both strengthen political support for integration and reduce the political fragility of the integration process. Third, financing conditions of government debt should become most topical in the agenda of European policy makers, for instance, within the discussion of European monetary policy and the reform of the Stability and Growth Pact.

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DATA AVAILABILITY STATEMENT

Data available upon request.

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ENDNOTES

- ¹ The current number of member states is 27 after the withdraw of the United Kingdom from the EU in 2020.
- ² Interestingly, the SGP has been criticized for both weak enforcement and excessive strictness of its regulatory framework. As a result, several reforms of the SGP have oscillated back and forth between the implementation of stronger enforcement mechanisms and the allowance for more flexibility at the level of national fiscal policies. Most important reforms took place in 2005 when the SGP had lost credibility after specific sanctions were not applied to France and Germany, and in 2011 (the so-called ‘Six-Pack’). For a discussion of the SGP effects and further references, see, for example, Baerg and Hallerberg (2016), Gali and Perotti (2003), Wyplosz (2006) and Schuknecht et al. (2011).
- ³ Radical left-wing parties oppose EU integration because of its neoliberal character and the austerity measures (March, 2011). Radical right-wing parties are against EU integration because it comes along with a loss of national sovereignty and identity as the control over economic policy is largely transferred to supranational entities (Mudde, 2007). Examples of such far-left and far-right parties are *Die Linke* and the *Alternative für Deutschland* in Germany, the *United Kingdom Independence Party* in the UK, the *Lega Nord* in Italy, the *Rassemblement National/Front National* in France, the *Freiheitliche Partei Österreichs* in Austria and *Podemos* and *VOX* in Spain.
- ⁴ For example, northern and central European countries accused financial integration to have transformed the EU into a transfer union causing fiscally more disciplined economies to subsidize fiscally less disciplined economies (Issing, 2011). By contrast, the austerity measures imposed after the crisis under the SGP have been highly controversial in the peripheral countries as they are seen to have impeded economic recovery after the financial crisis (e.g., Auerbach & Gorodnichenko, 2017).

- ⁵ As an example, notice that the mean level of EU integration support shortly before the exit referendum in the UK has been similar to respective figures of Finland, France, and Sweden. However, the UK showed outstanding figures of party polarization on EU integration matters in comparison with these countries. For more details, see the empirical analysis in Section 4.
- ⁶ For literature overviews, see, for example, Hooghe et al. (2010), Aspinwall (2007), and Hobolt and de Vries (2016).
- ⁷ Giving rise to the so-called Hix-Lord model (Hix & Lord, 1997), the ideological left/right positioning is core to explain party support for EU integration in this literature. See also Loveless and Rohrschneider (2011) for an overview.
- ⁸ The polarization measure in Esteban and Ray (1994) has the general form $P = K \sum_{j=1}^J \sum_{l=1}^J \pi_j^{1+\alpha} \pi_l |y_j - y_l|$, where $(\pi_1, \dots, \pi_J; y_1, \dots, y_J)$ is a distribution, $K > 0$ and $\alpha \in (0, \alpha^*]$, $\alpha^* \approx 1.6$. For this study, the choice of $K = 10$ is particularly suitable, since it results in quotes for P in (2) that are roughly of the same scale as estimates of μ . The choice of $\alpha = 1$ takes account of the importance of group identification in political disputes.
- ⁹ An alternative support measure would read as $\tilde{S}(y) = \mu - \gamma \cdot \sigma$, with $\sigma = \sqrt{\sum_{j=1}^J v_j (p_j - \mu)^2}$. Notice, however, that while this measure also fulfills properties 1 and 2, it does not fulfil property 3. This can be seen immediately from Example 1, where $\tilde{S}(1) = 1.25$ and $\tilde{S}'(1) = 0.75$.
- ¹⁰ His consensus measure (C^A) can be transformed into a conflict measure by using $P^A = 1 - C^A$.
- ¹¹ This can be easily observed with Example 1, where $S^D(1) = \mu - P^D = 3.67 > S^{D'}(1) = \mu - P^{D'} = 3.59$ and $S^A(1) = \mu - P^A = 3.25 > S^{A'}(1) = \mu - P^{A'} = 3.13$.
- ¹² Specifically, in the most recent wave, survey participants were asked 'How would you describe the general position on EU integration that the party leadership took over the course of 2014?' The survey then publishes the mean of the experts' evaluations for each political party.
- ¹³ We do not consider data for members that entered the EU in 2004 or later due to the low time variability of this data, as there are available at most three observations for our dependent variables.
- ¹⁴ The number of experts' responses depends on the country and the year of the survey. For example, the number of experts ranges from 135 for the survey year 1984 (with an average of 8 experts per country) to 337 in 2014 (with an average of 12 experts per country).
- ¹⁵ For additional information, see Bakker et al. (2012), Hooghe et al. (2010), Polk et al. (2017) and Ray (1999).
- ¹⁶ From preliminary analysis, we noticed that when using the maximum set of time effects in regressions to explain μ , P , and $S(1)$ these three periods obtained insignificant time effects throughout. Results obtained from using the full set of time effects are quantitatively almost identical and available from the authors upon request.
- ¹⁷ Weighting parameter estimates in Table 4 that are obtained from linear regressions of $S(1)$ on BEN, GDP, and YIELD result in effect estimates of 0.201, 0.267, and -0.368 , respectively.

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APPENDIX

Table A1 Coefficient estimates for linear regressions (columns 2–7) and logit models (columns 8–9) in model specifications augmented with a Euro dummy, budget surplus and deviations of unemployment from its HP trend

	μ	p	$S(1)$	$I(S;2)$	$I(S;3)$
BEN	0.096** (2.105)	0.008 (0.096)	0.087 (0.733)	-0.121 (-0.627)	-0.453** (-2.001)
	(-0.814)				
GDP	0.070 (0.816)	-0.268** (-1.998)	0.338* (1.858)	0.272* (1.800)	-0.272 (-0.757)
YIELD	-0.015 (-0.510)	0.121*** (3.345)	0.111** (2.384)	-0.140** (-2.347)	0.268** (2.116)
EURO	0.268 (1.495)	-0.726** (-2.382)	0.102 (0.457)	-0.202 (-0.577)	-1.227** (-2.383)
SURPLUS	-0.054*** (-2.825)	0.031 (1.314)	0.043** (2.496)	-0.091*** (-3.176)	0.048 (1.368)
UE	0.002 (0.012)	-0.264 (-1.115)	0.266 (0.707)	0.111 (0.424)	-0.671 (-1.304)
1992	0.578*** (3.115)	-0.811** (-2.147)	1.389*** (2.790)	1.156*** (3.023)	-1.964** (-2.174)
1996	0.520** (2.417)	-0.509 (-1.381)	1.029** (2.050)	0.769** (2.107)	-1.382* (-1.843)
1999	0.415* (1.864)	0.209 (0.535)	0.206 (0.378)	0.732** (2.270)	-0.956 (-1.334)
2002	0.447* (1.890)	-0.371 (-0.973)	0.818 (1.488)	1.375*** (3.672)	-1.233* (-1.782)
2006	0.374 (1.369)	-0.014 (-0.038)	0.388 (0.671)	1.012** (2.525)	-0.875 (-1.062)
2010	-0.026 (-0.095)	-0.029 (-0.073)	0.003 (0.005)	0.537 (1.182)	-0.420 (-0.507)
Constant	4.801*** (26.692)	2.963*** (15.222)	2.221*** (10.737)	3.402*** (10.694)	1.488*** (3.397)
FE	No	No	No	Yes	No
R^2	.229	.224	.215	.678	.233

Note: For further notes see Table 4 in the main text.