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Should European integration go further?

A survey of French, German and Italian members of national parliaments

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The European economic union is incomplete, which makes it vulnerable to macroeconomic shocks. The opportunity to move forward in the integration process was highly debated even before the Covid-19 crisis. Yet the diverging views among countries and political groups are often considered as an obstacle on the path to required agreements for completing the Economic and Monetary Union (EMU). We present the results of a survey conducted in 2018 among members of national parliaments (MPs) in France, Germany and Italy on European integration in policy fields related to risk-sharing and budgetary institutions, asking for their opinion on proposals such as the creation of a European Unemployment Insurance (EUI), Eurobonds, or an EU tax. We find that nationality and political groups are key determinants of support for such proposals, the latter being the strongest. We describe how opinions are divided and try to identify policy proposals which could gather enough political support. The agreement reached on July 21st, 2020 at the last European summit includes financial transfers between States and the creation of Eurobonds, thus representing an important institutional move and an application of some of the reforms suggested by our survey. Yet what has been decided upon is only temporary and leaves open the question of the future of European integration.

- At first glance, the answers show diverging opinions on most questions between countries with Italy supporting more integration, and Germany opposing it for most proposals. France has an intermediate position, leaning towards Italy.
- A breakdown of the results by party affiliation shows a more nuanced picture. For cross-country comparisons, we build a party indicator using the affiliation of national parties to European political groups.
- National MPs associated with the group of Socialists and Democrats (S&D) at the European level show strong support for the creation of new fiscal institutions and a new EU tax, and for risk-sharing institutions (European Unemployment Insurance, Eurobonds). On the contrary, MPs associated with the European People's Party (EPP) are mildly positive or against risk-sharing and fiscal institutions.
- National MPs affiliated to Renew Europe hold similar views to S&D MPs, but are less supportive of risk-sharing mechanisms.
- There is a substantial diversity of positions between the German AfD, the Italian Lega and the 5-star movement: the three parties have diverging views on the future of integration.
- Our econometric analysis shows that party affiliations have more explanatory power than nationality for all questions. This clearly shows that outcomes of national parliamentary elections could change the overall support for any issue.

*Authors of the reference study



The European project at a crossroads

The Economic and Monetary Union lacks macroeconomic stabilization instruments that could insure Member States against asymmetric shocks. The reformed Stability and Growth Pact (SGP) seems to lose support from all sides (it is perceived to be either too strict or too lenient) and the euro area lacks a credible approach to debt restructuring. These issues are coming back in force with the pandemic (see Cecchetti and Schoenholtz, 2020) and an overall reform process should emerge to address the pressing issues of finance and debt, euro area budget and risk-sharing. Although macroeconomists generally present economic integration as a necessary complement to the monetary union, such a process also generates fears that Member States would lose too much of their sovereignty or may become vulnerable to moral hazard issues.¹ Considering ideological differences and heterogeneous views across countries, on what grounds and what issues could changes happen?

A survey of three national parliaments

We answer this question using data from a unique survey of members of national parliaments in three countries (France, Germany and Italy) conducted between September 2018 and January 2019. The national level is relevant for decisions which require the agreement of national governments (and parliaments if drawing a new treaty is necessary). Indeed, national MPs' opinions are often key in setting a government's EU policy.

The three countries are the largest ones in the European Union, both population-wise and GDP-wise.² Therefore their political representatives' agreement to reforms is key in reaching consensus at a larger level. Moreover, given the historical importance of the three countries in the construction and integration process of the EU, it is highly unlikely that reforms backed by neither of their parliaments would hold any chance of being adopted. Finally, it is also interesting to study the opinion of policymakers which can be regarded as a complement to the frequent surveys of public opinion (see Eurobarometer).

¹For example, a country which knows its partners will come to the rescue in case of an economic and budgetary crisis with financial transfers may have less incentives to curb its debt level.

²They represent 47% of the EU population as of 2020, (without the United Kingdom), and 55% of EU GDP.

Our 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).³ The survey sought MPs' opinions on several issues related to European integration, through a series of specific proposals for instruments and options to achieve this. The survey questions address a broad range of reform issues and cover risk-sharing and monetary policies (e.g., working of the SGP, introduction of EUI, Eurobonds) as well as EU governance mechanisms and fiscal policies (such as the introduction of a Eurozone budget, an own EU tax, and legislative initiative for the European Parliament).

The survey resulted in 328 completed answers representing a response rate of 12.7%, similar to other parliamentary surveys (Deschouwer et al., 2014). A non-response analysis shows that our answers are representative of the different parliaments (see the details in Blesse et al., 2020).

In this policy brief we focus on questions related to budgetary and risk-sharing institutions,⁴ which are presented in Box 1. They could be answered on a scale between -4 ("Disagree") via 0 ("Undecided") to +4 ("Agree"). In most cases a positive mean value signals support for strengthening the European institutional framework, a negative mean signals a preference for the status quo of Member State autonomy.⁵

National preferences

We start by presenting average responses by country. In general, we find that Italy is the most in favor of European integration reforms, followed by France, then Germany. Out of the six policy and reform issues presented here we find that there is only one in which a majority support from all three countries seems within reach: the right to legislative initiative for the European Parliament. Figure 1 shows the answers for all six questions.

Italian members of parliament strongly support a deepening of the European integration project by setting up

³We run our survey from the École Polytechnique for France, the ZEW (Centre for European Economic Research) and the University of Mannheim for Germany, and the Catholic University in Milan for Italy.

⁴The results of the other questions regarding, e.g., immigration policies, defence or ECB asset programs, can be found in Blesse et al. (2019b).

⁵An exception is the case of the SGP, where a positive value indicates a relaxation of the constraints imposed by the SGP and thus more national sovereignty.

Box 1: Questions

We focus on some questions of the survey directly linked to risk-sharing and budgetary institutions. We list below the exact formulation of the questions and comment on the stakes for each of them:

1. "A common European Unemployment Insurance (EUI) should be introduced to absorb recessions in individual Member States of the EMU."

A EUI would provide unemployment benefit transfers to single Member States in times of economic crisis and might stabilize available incomes across Member States. Introducing a EUI would amount to creating an important risk-sharing institution.

2. "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 for the share of national debt that is financed through these instruments. This would hold independently of the Member States' varying individual default risk and fiscal performance.

3. "The Stability and Growth Pact (SGP) defines deficit and debt limits for EU Member States. The SGP inappropriately constrains fiscal policy in Member States, and should be relaxed."

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, which reflects the Member State's debt level and growth prospect. Supporters of the SGP see fiscal rules of this type as necessary to guarantee the stability of a common currency, and to prevent negative spillovers from one country's fiscal policy to other countries. Opponents stress that the fiscal rules represent too complex and rigid a straitjacket, with the result of undermining the economic performance of Member States.

4. "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.

5. "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 and other EU institutions. 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.

6. "The European Parliament (EP) should get the right to propose new EU laws (i.e. the legislative initiative) which is currently confined to the European Commission."

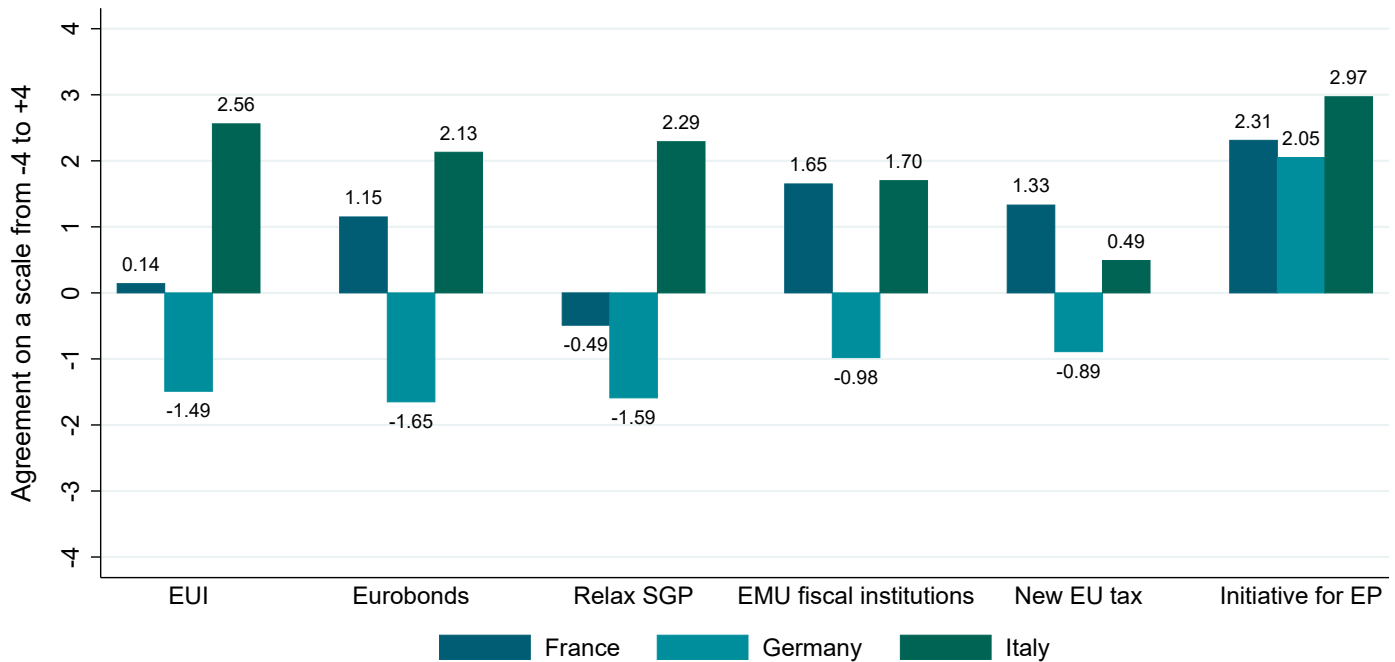
The perceived lack of democracy at the European level and the decrease in participation rates at the European elections (before 2019) fuel the arguments in favour of more decision-making power for the European Parliament, for example, by allowing it to make legislative proposals (at the moment only the Commission has this right).

new or strengthening existing institutions like a EUI, Eurobonds and a Eurozone budget. By contrast, on average, members of the German parliament oppose all of these measures. Regarding EMU reforms, France takes an intermediate position on most questions, often leaning toward the Italian side. Some of these country effects might be driven by the political composition of their parliaments, therefore we turn to responses by party in the section below.

Party preferences

In order to make cross-country comparisons for opinions by party, we use national parties and their affiliations to political groups at the European Parliament. An exception is made for the Five Star Movement (M5S), which is not currently a member of any European party. Due to an insufficient number of observations for smaller groups we can apply the party-group aggregation for all three countries only to the conservative (European People's Party group, EPP) and the social democratic and socialist parties (Progressive Alliance of Socialists and Democrats, S&D). The EPP comprises MPs from the CDU/CSU in Germany, Les Républicains and Les Indépendants in France, and

Figure 1: Country average opinions



Source : Authors' calculations from 2018 survey.

Note: Average opinions are weighted using the inverse response probability (see Blesse et al. 2020). SGP: Stability and Growth Pact.

Interpretation: On average, the opinion of French MPs on the creation of a European Unemployment Insurance (EUI) is a very mild support: the average is 0.14 on a scale from “-4” to “+4”.

Forza Italia and Per le Autonomie (SVP) in Italy. Members of the German SPD, the Italian Partito Democratico, as well as the French parties of Groupe socialiste, RDSE and Nouvelle Gauche, sit in the S&D group in Brussels.

In addition, we consider positions of the French government party La République en Marche (LREM) which did not have any seats in the European Parliament during the 2014-19 legislative term and positions of its allies (MoDem and “UDI, Agir et indépendants”). After the last European elections, LREM MEPs 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 with the German AfD formed a new group, Identity and Democracy (ID), together with the French Rassemblement National (RN). However, in order to respect the anonymity of our responders, we are not able to include indicators for RN, due to their small number of seats in the French parliament.

For all questions, we find that party comparisons present clear-cut divisions, which have a higher magnitude than country divisions. Figure 2 shows the answers.

MPs associated to S&D and Renew Europe show strong support for the creation of new fiscal institutions and a new EU tax. Renew Europe MPs are positive but less

supportive of risk-sharing institutions than S&D MPs (EUI, Eurobonds). MPs associated to EPP are mildly positive or against risk-sharing and fiscal institutions.

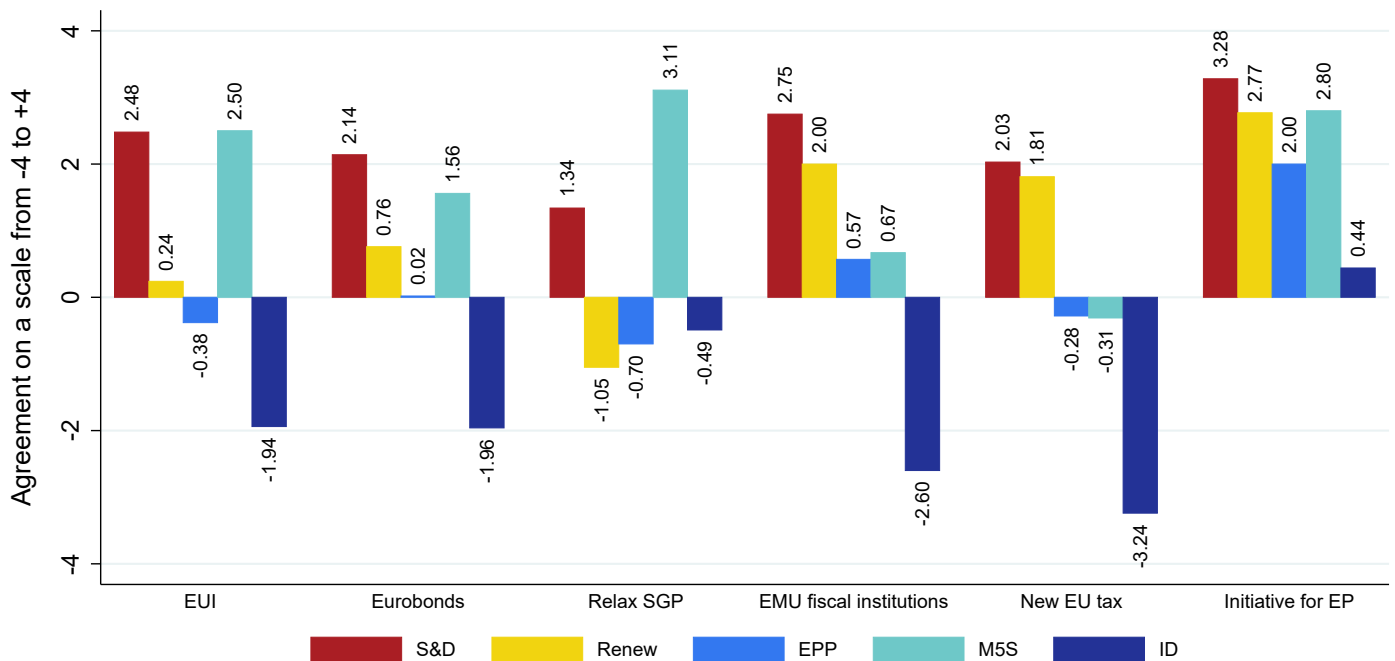
In Blesse et al. (2020) we use a Probit analysis, which enables us to disentangle which of the two factors – ideology or nationality – is most important in driving MPs' preferences. The analysis in our paper enables us to show that party affiliation weighs in more strongly than nationality (with stronger average marginal effects).

The views of “populist” parties

The term “populist” is widely used in the public debate but is constantly discussed in social sciences (see, e.g., Mudde, 2017; Guiso et al., 2019; Guriev and Papaioannou, 2020). The literature usually defines AfD in Germany, and M5S and Lega in Italy as populist parties. We find that the average position of members of parliament from the AfD is a lot more extreme than the average position of the rest of German parliamentarians. AfD politicians fiercely oppose all projects that further reinforce European integration.

By contrast, both M5S and Lega strongly support relaxing the SGP, and they are in favor of EUI and Eurobonds. They differ more markedly on institutional issues, but when it

Figure 2: Party average opinions



Source: Authors' calculations from 2018 survey.

Note: Average opinions are weighted using the inverse response probability (see Blesse et al. 2020). SGP: Stability and Growth Pact.

Interpretation: On average, the opinion of S&D MPs on the creation of a European Unemployment Insurance (EUI) is a very strong support: the average is 2.48 on a scale from "-4" to "+4".

comes to giving legislative initiative to the European Parliament both agree whereas the AfD shows mild opposition to this proposal. These results show that the heterogeneity of opinions among parties referred to as populists across Germany and Italy. Their views are not synchronized and more generally may not easily line up.

Perspectives

What are MPs' views in 2018 telling us about which policies could be implemented in the current pandemic context?

Our survey allows us to show that French and German MPs in 2018 hold (in average) very similar views on our European integration questions with what they responded in 2016 (see Boyer and Raj, 2018, IPP Policy Brief n°30).⁶ That is noteworthy because the national parliaments experienced an unprecedented turnover (e.g. LREM which holds the majority of seats in the Assemblée nationale and the German AfD which is the second largest group of the Bundestag were not present in 2016 yet).

However, such a stability of views should be qualified

when looking at the proposal to relax the SGP. Opposition to this option has strengthened between 2016 and 2018, which could be related to the improvement of economic conditions in the European Union during that period. Thus, preferences expressed by MPs might be sensitive to the economic context and not purely based on a fixed party ideology or national set of ideas. Indeed it seems that German MPs' position over EU economic institutions has evolved in the very last months, with the announcement of a French-German agreement on a recovery plan including a €500 billion extension of the EU budget and diverse public statements.⁷

The Covid-19 crisis has laid bare the urgent need for a coordinated response to the macroeconomic shock in order to avoid a financial or budgetary crisis. The creation of new tools or institutions at the European level could help reduce uncertainty and avoid aggravating the risk of a large crisis. From our 2018 survey, it seems that Eurobonds were more likely to be supported by the three countries than a European Unemployment Insurance. That may explain why they have been favored in the agreement reached at the last European summit on July 21st in the current exceptional context.

⁶Italian MPs were not included in the 2016 wave, and some questions were added in 2018 only.

⁷Another example is the recent op-ed published on July 6th by ex-Finance minister (and now president of the Bundestag) Wolfgang Schäuble in the *Frankfurter Allgemeine Zeitung*.

However, German MPs seem less reluctant to support European-level fiscal institutions on average than risk-sharing mechanisms such as EUI or Eurobonds. The political support required for deepening European integration on the long-term might be easier to build on the budgetary side, unless the evolution of macroeconomic conditions has led MPs to strongly increase their support for Eurobonds or a European Unemployment Insurance.

Reference study

This Policy Brief is based on the paper : “The future of the European project: survey results from members of national parliaments in France, Italy and Germany”, 2020. S. Blesse, M. Bordignon, P.C. Boyer, P. Carapella, F. Heinemann, E. Janeba and A. Raj. CEPR Discussion Paper 15021.

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