

Europe's Great Divide. A geo-economic-political map*

Francesco Farina

Department of Social, Political, and Cognitive Sciences
University of Siena

Roberto Tamborini

Department of Economics and Management
University of Trento

Draft May 2015

Abstract

The interplay between the European economic crisis and its political repercussions is our concern in this paper. On the one hand, it is now widely agreed that an important driver of the European economic crisis has been the faulty original design of the Monetary Union, and that substantial steps are urgently needed towards the creation of truly European fiscal institutions. On the other hand, the stumbling block along this way is political will, and by crossing Eurobarometer opinion polls, an indicator of economic pain and actual electoral votes, we show that the economic crisis has exacerbated the unresolved tension between "more Europe" and "less Europe" *at the level of European peoples*. Data analysis at the country level reveals a surge of what we call Europe's Great Divide along a geo-economic-political cleavage across the EU and across the EZ as well. This is more complex, and perhaps worse, than the simplistic one between "North" and "South" or "Core" and "Periphery".

* An earlier version of this paper was presented at the international conference "What future for the European Union - Stagnation and polarisation or new foundations?", Rome, September 26-27, 2014.

1. Introduction

Europeans are largely aware that Europe is living its most troubled times since World War II. Almost six years after the outbreak of the Great Recession in the Western world, and the initial illusion of being different for better, the European Union (EU) as a whole, and the Euro Zone (EZ) more acutely, suffer comparatively worse economic conditions, with deep social and political repercussions that are shaking the entire construction with unprecedented intensity. The interplay between the economic crisis and its political repercussions is our concern in this paper.

As a matter of fact, an increasing number of European citizens is highly disappointed by Europe. To this are contributing on an equal basis the weak democratic underpinnings of the EU decision process and the inability to fight the economic crisis and the stagnation spectre. In the 2014 EU electoral campaign, for the first time since the EU Parliament took office, the idea itself of European membership was challenged by openly anti-European parties and movements. True, their success in the polls has been thinner than predicted by the media, and the traditional pro-European political families still hold the large majority of the Parliament. Yet the very fact that a success of anti-European forces was *expectable* is telling of the critical situation in which the elections took place. Moreover, these forces are gaining ground in their home countries. Inspecting the results more closely, we shall see that the prospects are indeed, and will remain, highly critical for the EU.

Looking back at the origin and development of the economic crisis, two main views can be found that we outline in section 2. The first, which has been put forward and enforced by the European Commission and the leader countries, derives from the "national responsibility" doctrine on which the Maastricht Treaty rests with regard to all economic policy matters, except monetary policy for countries belonging to the Monetary Union. According to this view, if on the one hand governments face a set of constraints on their budget policy, on the other the economic performance of their countries eventually depends on their policy choices within the constraints, so that compliance with the fiscal rules *per se* can by no means be retained responsible for poor economic results. The European Commission's policy recommendations draw a failsafe way to marry fiscal rigour and growth. In simple words, the European economic crisis is the result of a collection of governments' failures in "doing their homework". Over time a second view, mainly supported by independent economics and politics scholars, has gained ground. In this view, the blame for the crisis should also, if not mostly, be borne by serious failures in the institutional design of the

Monetary Union. The most critical fault is epitomized by the asymmetry between a supranational monetary institution responsible for the single monetary policy and many independent national fiscal authorities though constrained by a set of fixed rules. This ushered in a blatant macroeconomic mismanagement of the crisis, a self-defeating "country-by-country" approach lacking a clear identification and pursuit of *Europe's collective* goals. The idea, in order to fix this fault, is that we need "more Europe", which means substantial strides towards further *political* integration starting from the fiscal sphere. This second view has eventually won the top EU institutions, as witnessed by the so-called "Four Presidents Report" drawing the road "Towards a Genuine Economic and Monetary Union" (European Council, 2012), and by speeches of the President of the European Central Bank (e.g. Draghi 2014a, 2014b).

However compelling economic analyses may be, the notorious stumbling block on the way to this grand (re)design is political will. A well established narrative explains the oddities in the Maastricht Treaty as a compromise between the so-called "French view" of the Monetary Union as a booster of political integration, and the "German view" that would rather invert the order of factors. As a matter of fact, almost all national governments of different political colours have repeatedly proved unwilling to hand over more sovereign powers. Even under the pressure of the crisis, partial and painful progress has only been made in the field of common banking regulation, disappointing the hope for "progress through crises" (Monnet, 1976). There is a tendency among scholars to blame the power appetite of politicians. Yet European governments are expressed by free democratic elections; thus, legitimately, politicians are quite sensitive to the public opinion's orientations, which *in this way* tend to shape political will. Therefore, we address the problem of the political will for "more Europe" in the field of economic policy "from the bottom", looking at recent evidence of European public opinions' orientations provided by the 2014 general elections for the EU Parliament and some concomitant Eurobarometer opinion polls.

In section 3, we first substantiate the view of a political stalemate in the choice of "more" *versus* "less" Europe. We represent this *impasse* by means of the European version of Dani Rodrik's (2011) trilemma of globalization. On the vertexes of a triangle, we place the constitutive dimensions of the EU: "European integration", "National sovereignty", "Democratic consensus". Each of them is incompatible with the other two. One out of three must be given up. In this triangle we also locate the options of the major European political families in the aftermath of the elections, and we

argue that the elections have not solved the puzzle about which among the three goals will be waived.

To show this, in section 4 we delve into citizens' "sentiments" towards Europe as reported by the latest Regular Eurobarometer survey (Autumn 2014) and a release of the Special Eurobarometer of July 2014 aimed at detecting the judgements regarding home countries *vis-à-vis* the EU. This is in fact particularly informative for the issues at stake. On this account, differences emerge between residents in the EZ and the others (No-EZ).² The former are to a large extent negative towards *both the EU and their own country*, whereas the latter are negative towards their own country but positive towards the EU. A third area is positive towards both the EU and the home country, but this consists of a minority of EZ residents. A fourth tiny area is negative with the EU but positive with the home country. It seems that the euro is a liability for the sentiments towards the EU – though not necessarily towards the euro *per se*, as we shall see.

Since economic conditions are regarded as a major driver of citizens' judgments, for each country we present a simple index of economic pain over the five years from the outbreak of the crisis to the last year prior to the Eurobarometer survey (2009-13). It consists of the loss of GDP growth, the loss of real per capita income, the increase in unemployment, and the dosage of austerity. Though not systematically, our index by and large overlaps with the area of overall discontent with the EU and the home country. We may think that people in this area split the blame for the crisis between the EU and their own governments, and that they are ready to endorse major economic-political changes, but probably not in the way enforced by the EZ authorities and rules.

Then in section 5 we cross these sentiments with the actual electoral results, and an even more problematic geo-economic-political map emerges. The four areas of divergent European sentiments pointed out above have also expressed consistently different electoral results. Behind Europe's political stalemate, we can see Europe's Great Divide between countries favouring the *status quo* (though possibly for different reasons) and others calling for a change (albeit disorderly). The former tend to prefer Centre-Right political parties, in the latter Centre-Left or Euro-critical parties tend to prevail. The emerging picture is more complex and tangled than the more usual one based on "North" and "South" or "Core" and "Periphery".

Our main conclusion, that we articulate in section 6, is that this geo-economic-political map, if not utterly surprising, is worrisome. A perverse loop has been created between the economic crisis and its crippling political

² Country locations between EZ and No-EZ refer to 2014, i.e. Lithuania is not included into the EZ.

implications. The legacy of the crisis, and of its misleading “country-by-country” management, far from prompting support for further integration seems to push towards dis-integration of the European political space in tandem with the economic one. Namely a tendency operates to “*nationalize*” the conflicting policy options concerning causes and remedies of the crisis, and the reform of the European institutions. The different options are no longer perceived *trans*-nationally along the political spectrum Left/Right, but rather through the lenses of *national* identity and interest. In Strasbourg national flags will be more and more important than the political ones (Berlusconi, Sarkozy and Merkel all belong to the same party in Strasbourg!). Europe's political stalemate on the way of progressive integration is now rooted in the citizens' will, and its resolution can hardly be expected to come “from the bottom”.

2. National responsibility vs. institutional design

Looking at the interplay between the economic crisis and its political repercussions, a special role should be attributed to the EZ. As of 2015, 19 out of the 28 EU members and 65% of total population belong to the EZ. It includes the largest and more advanced continental economies and is on the frontier of full integration. The economic performance of the EZ, and the policy decisions of its institutions and member states inevitably affect all the other members. Quite naturally, the attitude of citizens towards the EU is largely conditioned by the EZ.

Under various dimensions, the EZ has been the epicentre of the migration of the world Great Recession of 2008-09 in Europe, and in the medium run its performance has been worse with respect to both the United States, where the crisis originated, and the No-EZ countries (Tamborini, 2015). Major world partners and institutions have expressed concern with the EZ being a drag on world recovery.

In the face of the mounting threats of general failure, reactions and reflections initially followed two different approaches. One, endorsed by the EZ policy institutions and some governments led by Germany, remained faithful to the doctrine of *exclusive national responsibility* in all economic matters, except monetary policy, on which the Treaties rest.³ In this view, in a context where monetary policy is committed to maintaining price

³ See e.g. the yearly “Report on Public Finances” by the European Commission, *European Economy* series. As an instance of a particularly outspoken support of this view see e.g. Sinn (2014). A more balanced argumentation can be found in some Commission papers such as Buti and Carnot (2013), Kuenzel and Ruscher (2013).

stability, each member country is required to comply with the fiscal rules established by the Treaties, and with the policy recommendations put forward by the Commission. The performance of each country, whether good or bad, is mostly seen as the result of its own responsibility. In the end, there is no such a thing as the EZ, which is just the statistical average of what the single countries are doing. If the EZ as a whole has performed poorly, it is only because too large a number of members have been unable to manage their economy successfully and to follow rules and prescriptions faithfully. Consequently, the need for reforms is mostly placed at the level of single countries, whereas the general institutional setup is kept out of discussion.

In the other approach, more largely present among economics and politics scholars worldwide, the "misbehaviour" of some members is only part of the story – probably the minor part. The institutional design of the EZ is instead at the centre of the stage. Indeed, it has been matter of lively debate ever since its conception. Criticisms have been revived, and to a large extent vindicated, by the crisis.⁴ The fundamental fact is that the EZ is by no means a simple collection of separate economies, plus the single market built up through the *acquis communautaire* and a common currency. Quite the contrary, economic, financial and monetary integration generates reciprocal externalities which heavily condition the macroeconomic performance of each member. Also, incentives, or disincentives, to national reforms, the choice and success of which cannot be conceived of as being independent of the common institutions. As a consequence, the national responsibility doctrine rests on shaky foundations as both a normative principle and a guide for policy.

First of all comes the asymmetry between devolution of monetary sovereignty to a single central bank and retention of fiscal sovereignty at the national level. Such asymmetry had (and still has) strong political roots in the unwillingness to give up fiscal sovereignty, and it also received some academic support by advocates of the so-called "monetary dominance" as a shield for central bank's independence against "fiscal dominance"⁵. However, critics point out that the ability of the EZ as a whole to deliver macroeconomic stability and "cohesion" is seriously impaired. A second, related criticism is that the set of fixed fiscal rules envisaged by the Maastricht Treaty and the Stability and Growth Pact was badly conceived and, more importantly, cannot be taken as a substitute for true fiscal policy

⁴ More recent distinguished contributions come from De Grauwe (2013), Wyplosz (2013)

⁵ Examples are Beetsma and Uhlig (1999), Dixit (2001), Dixit and Lambertini (2001).

coordination. The key point, mentioned above, is that the fiscal rules ignore cross-country externalities, whereas the thrust of policy coordination among countries belonging to a common currency area is the internalization of externalities in the pursuit of the common good. This misconception of the fiscal rules is seen as the critical factor behind the substantial failure of the so-called "austerity" policies imposed onto the EZ countries, with its "country-by-country" approach lacking a clear identification and pursuit of *Europe's collective* goals. A third poisoned fruit of the national responsibility doctrine, clothed with ubiquitous "moral hazard" problems, is the lack of truly supranational governance and risk-sharing mechanisms in the financial sector. This was indeed where all begun: the contagion from the US to the EZ banking systems, the contagion within the EZ, the contagion from private to public financial distress.

While the line of thought and policy faithful to the national responsibility doctrine is still alive, the idea that the core of the EZ problems lies in its institutional original sin has gained ground and has eventually been endorsed by the highest representatives the EU institutions (European Council, 2012; Draghi, 2014a, 2014b). The ambitious document drawing the lines of "A Genuine Economic and Monetary Union" signed by "the Four Presidents" in June 2012 essentially takes stock of all the critical points recalled above. The challenging message is that the EZ, and the EU as a whole, need a leap forward in the *political* integration process. This message is not entirely novel, however. The designers of the Monetary Union, and the political leaders who signed the Maastricht Treaty, were well aware that a monetary union without a fiscal and political union is impaired and cannot go far. The bet was that progress in the economic and monetary dimension, albeit imperfect, would prompt progress in the others too, either on the wings of success or under the pressure of resolving crises (Padoa Schioppa, 2004; Spolaore, 2013). So far, the bet has not been won. Will it be in the predictable future? To address this question we should delve into its political dimension.

3. Europe's stalemate

On the road towards European integration, a stumbling block was, in the famous words of Tomaso Padoa Schioppa, the "Impossible Quartet" consisting of free trade, free capital movements, monetary policy autonomy, fixed exchange rates (Padoa Schioppa, 1988). The choice was to give up monetary sovereignty to keep the other "public goods". Today, we find ourselves in the European version of Dani Rodrik's (2011) trilemma of globalization.

On the vertexes of a triangle (see Figure 1) we can place the constitutive dimensions of the EU: "European integration", "National sovereignty", "Democratic consensus". Each of them is incompatible with the other two. One out of three must be given up. "European integration", as it developed over the last decades, reveals itself – or is perceived – as conflicting with the autonomy of governments in deciding on matters which may penalize the national economy (the vertex "National sovereignty"), and with national institutions which are direct expression of people's will (the vertex "Democratic consensus"). The EZ fiscal rules, largely blamed for the negative consequences of austerity, are emblematic. In the triangle, Europe's stalemate corresponds to a point situated at an equal distance from the three vertexes. Which one should be waived among the three goals? Which will governments point to? Provided that the European Parliament will be able to use the wider powers gained with the Lisbon Treaty, which policy strategy could it put forward and with what political majority?

In relation to these questions, on the triangle we can also map the main European political aggregations, Centre-Right/Right (CR/R), Centre-Left/Left (CL/L) and No Euro (meaning both "no euro" and, more radically, "no Europe"), located along the sides of the triangle according to their traditional preferences about the trilemma. Thus, in the pursuit of European integration, the CR/R gives priority to National sovereignty, the CL/L to Democratic consensus, and the No Euro have strong preference for preserving both National sovereignty and Democratic consensus, that is the end of the EU as we know it. Table 1 reports the electoral results of these aggregations in terms of seats in the European Parliament emerged from the general elections of March 2014.

It goes without saying that our mapping is somewhat arbitrary and does not exactly correspond to actual political agreements and coalitions. To say the least, the political area pointing more to the base than to the tip of the triangle is larger than our No Euro. Some parties outside the official coalitions (classified as Others) are definitely anti-euro and anti-Europe (e.g. the Northern League in Italy and the *Front National* in France). The respective right and left wing of our CR/R and CL/L aggregations are similarly against the European limitations to popular sovereignty and national interests. As a matter of fact, the true political scenario is even more crippling than it appears in our triangle.

The parties openly against Europe are heterogeneous under many other dimensions and are far away from the others as well. They are unable to form a political coalition favouring a process towards the dissolution of the EU integration process. The CL/L parties, not only have minority seats, but

they also have by and large gathered heterogeneous discontent and protest with the current state of affairs promising to "change Europe". An ingredient of the recipe is a relaxation, if not renegotiation, of the EZ fiscal rules; some also claim for an accelerated move towards a fully fledged democratic and federalist Union, pointing up on the left side of the triangle. However, it is not clear how far their electorate is ready to go along the way of devolution of National sovereignty. The CR/R parties won the elections offering protection to national interests and fears (especially in the North), rather than more Europe and cooperation (with the South), thus leaning towards the bottom on right side of the triangle. But it is not clear whether they will allow for more integration in small homeopathic doses filtered through National sovereignty by way of the "intergovernmental method", or they will simply defend the *status quo* vetoing any reform of the existing institutional architecture of the EU, and first and foremost of the EZ.

The President of the Commission, Jean-Claude Juncker, is, and will be, weak. He seems part of the stalemate problem, not of its resolution. For Juncker is obviously on the opposite side for the CL/L parties, but he is also too "communitarian" (up on the right side of the triangle) for those who are very "intergovernmental" (down on the right side; hence the UK opposition to Juncker).

For the moment, therefore, few chances seem to exist to go towards the tip of the triangle from either side. To give an example, the creation of a supranational fiscal authority has been dwelling on the top of the agenda of governance reforms for many years. How appointed, with what powers, and with what enforcing instruments *vis-à-vis* single countries? In other words, the electorate still in favour of the EU is really ready for a leap to a genuine federalism? We are quite dubious. As shown for instance by Guiso et al. (2014), not only the current EZ crisis, but also earlier major steps towards European integration in easier times have *reduced* pro-European sentiments. As they aptly depict the situation of the Europeans, "there is no desire to go backward, no interest in going forward, but they cannot to say still" (p. 6). The joint analysis of opinions, sentiments and votes expressed by the EU citizens that we are going to present in the next sessions will substantiate our notion of Europe's stalemate, and in particular that the 2014 elections have not resolved it, if not aggravated it, unveiling what we call Europe's Great Divide along a geo-economic-political dimension.

4. Europe, home countries and the crisis

Our source of data is Eurobarometer, the public opinion surveys conducted by Eurostat on behalf of the European Commission which

provides a great deal of information about citizens' opinions and sentiments on European matters. Admittedly, Eurobarometer opinion polls are often too loose to provide reliable information about how citizens position themselves on European issues. However, this caveat should not be taken as an utmost limit. Granted that the most viable conception of democracy is still the people's expression of being "for or against" on a series of issues, this character of the Eurobarometer questionnaires just reflects the simplifying character of any democratic expression of opinion.

Let us start with an overview of the evolution of the general attitude towards Europe and the EZ reported by the latest available issue of the Standard Eurobarometer (n. 83, Autumn 2014). As shown by Figure 2, concerning the "image" of the EU, the positive image has been on a marked declining trend for seven years from 50% of respondents in 2006 to the historical low in 2013, when positive and negative image totalled almost the same 30% of respondents. 2014 was a year of recovery of respondents with positive image up to 39%, while of those on the opposite front recoiled down to 22%. Another question concerning "trust" in political institutions (QA8a) yields a similar declining trend for the EU, shared, however, with national parliaments and governments, and with no sign of recovery. As regards either optimism or pessimism for the future of the EU (QA22), optimists plunged from 69% in 2006 to 48% in 2011 to regain ground up to 56% in 2014. Overall, while 2014 has shown positive signs, decline of pro-EU sentiments over the last eight years remains substantial.

By contrast, Figure 3 shows that the barometer of attitudes towards the Monetary Union has remained fairly stable over time between 60% and 70%, with only slight decline of "for" respondents during the crisis, and the remarkably persistent feature that EZ residents are more "for", and less "against", than No-EZ ones. This is an interesting feature to which we shall offer some insight.

Against this background, we now examine more specific information regarding the issues under discussion in this paper, namely the tension, *at the level of public opinion*, between the national and the supranational dimension. Relevant information is provided by two questionnaires in the Special Eurobarometer n. 415, July 2014. The first (QA13) elicits the attitude towards a stronger Europe by means of two statements. The statement "*We need a united Europe in today's world*" collects 75% of agreement against 19% of disagreement. The statement "*More decisions should be taken at the EU level*" collects 45% of agreement and 46% of disagreement. This apparent inconsistency reveals a tension between the *ideal* of a united Europe, which seems to withstand the crisis headwinds,

and the willingness to take the necessary step of power devolution to *this Europe* here and now.

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

The questionnaire is such that there are four possible choices: EU-R(ight), EU-W(rong), H(ome)-R, H(ome)-W. We present the data in different formats. Table 2 shows the data by country: each column gives the respondents to each of the four choices in percent points.⁶ Table 3 presents the descending ranking of countries according to respondents for each choice. The tables also include the values for the EZ countries, the No-EZ countries and the EU as a whole

As one can see, the top EU-R countries are Bulgaria, Estonia, Romania, Croatia, Denmark, Poland, Lithuania. These are all new accession countries except Denmark, with a possible "honeymoon" effect, and none of them belongs to the EZ as of 2014. Indeed, the EZ ranks much lower than the No-EZ. By contrast, the top EU-W countries are all EZ countries (Greece, France, Cyprus, Italy, Austria, Spain, Finland, and Belgium) so that under this dimension the EZ ranks much higher than the No-EZ. It seems therefore that the EZ is a liability for the feelings towards Europe. The attitude towards the home country is more mixed geographically, but the EZ as a whole ranks lower than the No-EZ for positive judgement, and higher for negative judgement. These data are open to two different interpretations. One regards the majority of the EZ public opinion as subscribing to the Commission's message that each country is mostly responsible for its own problems and solutions. The other points out that the EZ governments' sovereignty is a fiction, since they are actually unable to deliver what they promise within the EZ straitjacket. Overall, these data suggest that the EZ is an area of bitter discontent *both* towards the EU *and* towards own home countries.

In Figure 4 we provide a single snapshot of the country distribution of respondents along the four dimensions of the questionnaire, that is European Union/Home (EU/H), Right/Wrong (R/W). We have rearranged the data as follows. First we have selected the EU/H dimensions; for each of the two we have computed the *difference* between respondents choosing R and

⁶ The complement to 100 corresponds to figures related to the other possible answers: "neither the one nor the other" and "don't know".

W⁷; hence a positive (negative) figure indicates the prevalence of R over W (of W over R) and *its intensity*. Then each country has been inserted into a scatterplot divided into four quadrants.

The EU-R/H-R quadrant displays countries where the majority of respondents appear supportive of the current state of affairs. The popular feeling that these are mainly people in the "German block" is not contradicted by the data. The political indication may be that this area would vote for the status quo. At the opposite pole we find the EU-W/H-W quadrant, that is people largely angry with both the EU and their home country. Again, these are mostly EZ countries. The political implication may be that this area is ready to support major changes, but it is not so clear *which* changes, *how* and *where*. For instance, Gros's (2014) interpretation of the electoral results as being in the end supportive of pro-Europe parties *and policies* is questionable. The most relevant success (if not the single one) of a pro-Europe party, the Italian Democratic Party, is explainable with a wish to change the country, but, in the light of the location of Italy on the map, not so much by the wish the change it as today's Europe dictates.⁸

An interpretation *à la* Gros seems more appropriate for the EU-R/H-W quadrant, suggesting that here Europe(as-it-is) may indeed be seen as a positive driver of the change of the country. It may be recalled that, as also reported by Guiso et al. (2014), this was the majoritarian attitude in several countries (like Italy, Spain, Portugal, Greece) *before* joining the EZ that have now moved to the EU-W/H-W angry club. Finally the last quadrant with EU-W/H-R seems less relevant quantitatively, with the no-surprise of the UK and, perhaps with some surprise, of Austria.

To gauge the quantitative dimension of the four quadrants, in Table 4 we present the size of the population of each of them relative to the active population (age 15-64) of the EU and, for the relevant countries, of the EZ. As can be seen, the EU-W/H-W quadrant of (prevalent) global dissatisfaction hosts 42% of the EU population and a remarkable 61% of the EZ population, almost twice the population of (prevalent) global satisfaction. Europe is largely an angry continent.

It is reasonable to think that one main driver of the responses examined above along the four options of the questionnaire is the perception of the crisis at the national level. This hypothesis is relevant for two reasons. The first is that *differences* in the intensity of the crisis and its perception within the EU may account for differences in judgments and attitudes towards the

⁷ This is necessary also because respondents across questions are not normalized to 100%, so the respective figures are not easily comparable.

⁸ Indeed, the winning slogan coined by the Democratic leader Matteo Renzi was "change Italy to change Europe".

EU. The second is that if there will be a *sustained and generalized* recovery in the near future, the picture provided by the Eurobarometer data may change.⁹

In order to introduce the economic dimension, we have elaborated a simple index of "economic pain" for each country. The aim of the index is to yield a summary measure of the intensity of the crisis. Among the number of economic variables that may be considered, we have chosen four: growth rate, percapita real disposable income, unemployment rate, and "austerity" as given by a restriction of the public primary budget relative to GDP.¹⁰ While all these variables are consistent with academic definitions of crises, what is more to them is that they have an impact on personal lives, and information about their levels and trends is commonly accessible to ordinary people via the media.

In order to better capture the perception of the crisis, we have followed two methodological considerations. The first is that an economic crisis is not just a single "bad year": perception is strongly reinforced by duration. The second is that perception is also essentially the result of a comparison of a contingent situation with a benchmark, e.g. memory of what is "normal" or of what preceded the situation. Therefore, we have chosen a well-defined time frame. First, we have identified 2009, when all countries fell into recession, as a common beginning of the crisis. Then we have set the five-year *post-crisis period* spanning from 2009 to 2013, the last full year of official data before the Eurobarometer opinion poll.¹¹ Symmetrically, we have also set the five-year *pre-crisis period* spanning from 2004 to 2008.¹² Then, each variable except austerity enters the index as the difference between its average value in 2009-13 and in 2004-08. Austerity consists instead in the extent of post-crisis fiscal restrictions measured by the year average change in the primary budget/GDP ratio from 2010 to 2013. In the absence of strong a priori information on the relative importance of each variable, we have decided to weigh them equally; hence the index is the simple average of the four variables. This is called "medium-term index" (MTI): *a negative figure indicates the extent of the crisis as a medium-run overall deterioration of the economic situation with respect to the pre-crisis period.*

⁹ A brief overview of the literature on the economic dimension of voting see e.g. Ward (2015).

¹⁰ Unless otherwise stated, the single source of the AMECO database of Eurostat.

¹¹ As a consequence, we have excluded Croatia, which joined the EU in 2014, and we have excluded Latvia from the EZ, which it joined in 2015.

¹² Some countries experienced an early recession in 2008, but this was mostly concentrated in the third or fourth quarter, and was of limited entity.

A corollary of our methodological premises is that *if a substantial change* in the economic situation takes place, it may have an effect on the perception of the previous situation. Hence, we have also computed a "short-term index" (STI) yielded by the change in the relevant variables from 2013 to 2014, the year of the Eurobarometer opinion poll. Table 5 displays the country descending order of economic pain according to both indexes.

The first information to be considered is that more than 3/4 of the EU countries display a negative MTI, i.e. from 2009 to 2013 they have suffered a deterioration of their economic situation with respect to the pre-crisis period. Yet, the extent of deterioration is quite different across countries. Greece's economic pain has been eight times worse than Belgium's and more than three times worse than the EZ average. On the other hand, almost all countries (except Slovenia, Cyprus, Greece and Denmark) have experienced an improvement from 2013 to 2014. Note, however, that some of the countries with the worst MTI also have poor or negative STI (and vice versa) a picture reminiscent of the so-called "hysteresis effect". This effect may also operate at the perception level, so that weak recent improvement may be insufficient to overcome the legacy of negative economic experience.

The second information we are interested in concerns the interplay of economic pain with our subsets of the EU: EZ, No-EZ and the four quadrants of Figure 4. We see in Table 5 that the EZ has suffered almost double economic pain, and enjoyed less than half recovery, with respect to the No-EZ. As to the mapping of economic pain onto the four quadrants, we also see that the EU-W/H-W quadrant indeed ranks very high under both indexes, i.e. hard economic pain in the earlier five years and feeble relief in the present. To get additional information on how much, and where, the economic pain may be connected with negative judgments towards the EU or the home country, in Figure 5 we present the correlation graph between each country's MTI and the net R/W responses about the EU (panel (a)) and about the home country (panel (b)). The statistical correlation in panel (b) is almost nonexistent, whereas it is weakly positive in panel (a). This descriptive evidence is in line with recent statistical analyses showing that strict economic variables do not have overwhelming impact on electors' judgements (Ward, 2015). Nonetheless, it indicates that the factors accounting for economic pain seem to weigh (statistically) more in the negative judgment towards the EU than towards home countries.¹³

With regard to the role of the economic crisis, we can conclude that 1) the economic pain associated with the crisis has been harder in the EZ, and in particular in the countries in the EU-W/H-W quadrant, 2) the recent

¹³ Guiso et al. (2014) also show that the negative judgment towards the EU has increased after the crisis in all countries.

recovery of this latter group of countries has brought weaker relief than elsewhere, 3) the economic pain has more bearing on negative judgments towards the EU than home countries. Overall, in the light of this analysis we may also say that Figure 4 identifies a *geo-economic* cleavage of Europe carved by the crisis which is more nuanced, and complex, than the conventional one between "Core" and "Periphery" or "North" and "South", which at most, and quite roughly, captures the EZ polarization between our quadrants of overall satisfaction (EU-R/H-R) and overall dissatisfaction (EU-W/H-W).

5. From sentiments to votes

Sentiments and opinions matter politically as they are translated into votes and, above all, seats in the Parliament. Hence we have also mapped the true electoral results of Table 1 onto our subsets of the EU as can be seen in Figure 6. The overlap between sentiments and votes is remarkable and quite informative.

To begin with, let us look at the EZ *vis-à-vis* the No-EZ. In our previous analysis the EZ appears as an area of harder economic pain and discontent than the EU as a whole. Actually, it assigned an almost balanced share of seats to the CR/R (43.8%) and to the CL/L parties (42.9%), whereas the former got the absolute majority of seats in the No-EZ countries (54.3%). Were there an EZ Parliament, it would be different than the existing one, reflecting greater weight of supporters of changes in European policies and politics. Think of the Commission: while its composition barely reflects the electoral results of the EU as whole, the powers it exerts in the fiscal and monetary affairs are different for EZ and No-EZ citizens. If to some extent this *fact* is not acknowledged, the EZ citizens might start complain that their political will has been distorted by people living *outside* the EZ, which is indeed a different institutional entity in some key prerogatives of sovereignty.

The picture is even more complex if look at the four quadrants in Figure 4. In section 3 we showed that the majority of people in the EU-R/H-R quadrant are supportive of the current state of affairs and are probably in favour of the *status quo* at the EU level. Indeed, the CR/R parties got almost 50% of the seats in this area. CL/L stopped at 45.7%, whereas - unsurprisingly - No Euro here had the worst performance. Approval for Europe(as-it-is) seems also consistently expressed by countries in the EU-R/H-W quadrant, which is where the CR/R aggregation got the largest success (67.1%) at the expenses of all the others. By contrast, the EU-W/H-W quadrant expressing global anger granted the majority of seats to the

CL/L parties (42.9%), but also a conspicuous 17.5% to No Euro and Others (NI). In the EU-W/H-R area the two major aggregations obtained the same share of votes but well below elsewhere (36.6%) and the No Euro got their largest number of seats, though this is almost entirely due to the success of the UKIP in the UK.

These figures say that the CR/R parties won the EU Parliament in the EU-R/H-W and the EU-R/H-R quadrants, that is Germany and its historical North-Eastern satellites *across the EZ as well as the no-EZ*. But can these pro-Europe(as-it-is) votes be summed up? Do they come from, and do they approve, the *same* Europe? In perspective, are countries in these two areas better EZ partners than the present ones? Maybe, or may be not if in the long run the costs of being in the EU with the euro exceed the benefits from being in the EU without the euro (as some EZ citizens have perhaps come to believe).

Therefore, the *geo-economic* cleavage across Europe that we have found in the data also has a *political* dimension. We deem the resulting geo-economic-political map worrisome. It reveals the germs of dis-integration of Europe *at the level of national public opinions and electoral choices*, which jeopardizes the chances of "progress through crises" in force of pressure "from the bottom".¹⁴ In particular, a tendency emerges to "*nationalize*" the conflicting policy options concerning causes and remedies of the crisis, and the reform of the EU institutions. What we mean is that e.g. the Italians who vote Left or Right do not wish the same Europe as e.g. the Germans who vote Left or Right, whereas on European matters the distance between Left and Right within Italy and within Germany *is less than* between the Italian and the German Left, and between the Italian and the German Right. In Strasbourg the different political colours of Left and Right fade away, and the colours of the national flag become predominant.

6. Conclusions

It is now increasingly agreed, up to the top EU institutions, that an important driver of the European economic crisis has been the faulty design of the Monetary Union. First and foremost its shaky foundations on the national responsibility doctrine epitomized by the asymmetry between a supranational monetary authority and independent, un-coordinated fiscal

¹⁴ As is well-known, financial markets anticipated the dis-integration process (see e.g. Croci Angelini et al., 2014). After the launch of the euro, rapid financial integration boosted cross-border lending and portfolio diversification with negligible perception of country-specific factors. From 2009 onwards, cross-border lending suddenly stopped, and strong re-nationalization of financial portfolios occurred, mostly at the expenses of the weaker countries.

sovereigns. The idea of overcoming this original sin through implicit coordination of fiscal policies enforced by fixed rules has not withstood the first hard stress test of the Great Recession. Indeed, the "country-by-country" approach ensuing from the national responsibility doctrine has led to serious mismanagement of the crisis. In this view, substantial steps are urgently needed towards further political integration, starting from the creation of truly European fiscal institutions *vis-à-vis* the ECB.

The stumbling block along this way is traditionally seen in the lack of political will. By means of a European version of the Rodrik Trilemma of globalization we have represented the stalemate of major European political forces in the face of the three constitutive dimensions of the EU – European integration, National sovereignty, Democratic consensus – only two of which can be jointly achieved. We have argued that the 2014 EU Parliament general elections have left the stalemate unresolved.

To substantiate this argument, we have approached the political will problem "from the bottom". By crossing Eurobarometer opinion polls, an indicator of economic pain, and actual electoral votes at the country level, we have shown the surge of what we call Europe's Great Divide along a geo-economic-political cleavage. This is more complex, and perhaps worse, than the simplistic one between "North" and "South" or "Core" and "Periphery". We have identified four groups of countries according to people's judgment about the EU and the home country in the present contingencies. The EZ is split between a group of overall discontent, and a group of overall satisfaction, with both the EU and the home country. The largest part of other EU countries, mostly new accession and emergent ones, fall in a third group with positive judgement towards the EU and negative towards their home country. The fourth group contains a few countries positive with the home country and negative with the EU. The disaggregation of electoral results into these four groups shows that the Centre-Right parties won the EU Parliament gaining the absolute majority of seats in the second and third group of countries, therefore consistently expressing support for the *status quo*. By contrast, Centre-Left parties prevailed in the first group of overall discontent promising (albeit disorderly) a change of European institutions and their policies. Had the EZ its own parliament, it would be equally split between Centre-Left and Centre-Right.

Our analysis leads us to conclude that a pernicious loop has been triggered between the economic crisis and its political repercussions. The crisis, far from prompting further integration, pushes in the opposite direction. The "country-by-country" crisis management pursued in obedience to the national responsibility doctrine has contributed its own part. A tendency has taken hold towards "*nationalizing*" different policy options

about the crisis management and the reform of the European institutions. We mean that the policy options are no longer *trans*-national along the traditional Left/Right dimension, nor are expressed by way of *trans*-national political families as they appear on paper. The main political families instead become the passive – if not complacent – vehicles to engage an *inter*-national struggle for death or life of the "national self" in the European arena. The political stalemate facing the choice of "more" or "less Europe" is now rooted in the citizens' will, so that it can hardly be resolved by pressure "from the bottom" in a predictable future

References

- Beetsma R., Uhlig H. (1999), "An Analysis of the Stability and Growth Pact", *Economic Journal*, vol. 109, pp. 546-571
- Buti M., Carnot N. (2013), "The Debate on Fiscal Policy in Europe: Beyond the Austerity Myth", ECFIN *Economic Brief*, n. 20.
- Croci Angelini E., Farina F., Valentini E. (2014), "Contagion Across Eurozone's Sovereign Bonds and the Core-Periphery Divide", DISSE Working paper n. 45.
- De Grauwe P. (2013), "Design Failures in the Eurozone. Can They Be Fixed?", European Commission, Fellowship Initiative 'The Future of EMU', *European Economy*, Economic Papers, n. 491.
- Dixit A. (2001) "Games of Monetary and Fiscal Interactions in the EMU", Papers and Proceedings of the European Economic Association, *European Economic Review*, vol. 45, pp.589-613.
- Dixit A., Lambertini L. (2001), "Monetary-Fiscal Interaction and Commitment versus Discretion in a Monetary Union", Papers and Proceedings of the European Economic Association, *European Economic Review*, 45, pp.977-987.
- Draghi M. (2014a), "Unemployment in the Euro Area", Speech at the Annual Central Bank Symposium in Jackson Hole, August 22, www.ecb.org.
- Draghi M. (2014b), "Stability and Prosperity in Monetary Union", Speech at the University of Helsinki, November 27, www.ecb.org.
- European Council (2012), "Towards a Genuine Economic and Monetary Union. Report by the President of the European Council Herman Van Rompuy", <http://www.consilium.europa.eu/>
- Gros D. (2014), "Voting Against Europe?", LUISS School of European Political Economy, Policy Brief.
- Guiso L., Sapienza P., Zingales L. (2014), "Monnet's Error?", LSE-European Institute, *Europe in Question* Discussion Paper Series, n. 83.
- Kuenzel R., Ruscher E. (2013), "The Future of EMU", ECFIN *Economic Brief*, n. 22.
- Monnet J. (1976), *Memoires*, Paris, Fayard.

- Padoa Schioppa T. (1988) "The European Monetary System: a long-term view", in F. Giavazzi, S. Micossi and M. Miller (eds.), *The European Monetary System*, Cambridge, Cambridge University Press.
- Padoa Schioppa (2004), *The Euro and Its Central Bank. Getting United After the Union*, Cambridge (Mass.), The MIT Press.
- Rodrik D. (2011) *The Globalization Paradox: Democracy and the Future of the World Economy*, New York, W.W. Norton.
- Sinn H. W. (2014), *The Euro Trap*, Oxford, Oxford University Press.
- Spolaore E. (2013), "What is European Integration Really About? A Political Guide for Economists", *Journal of Economic Perspectives*, Summer.
- Tamborini R. (2015) "Transatlantic austerity, 2010-13. A comparative assessment", in Paganetto L. (ed.), *Anaemic Europe - How to Achieve Dynamism and Mass Flourishing*, Wien, Springer, pp. 123-161.
- Wyplosz C. (2013), "Europe's Quest for Fiscal Discipline", European Commission, Fellowship Initiative 'The Future of EMU', *European Economy*, Economic Papers, n. 498.

Tables and figures

Table 1. Seats in the European Parliament, 2014

Centre-Right/Right	EPP, ALDE, ECR	358	47.7%
Centre-Left/Left	S&D, GREENS/EFA, GUE/NGL	293	39.0%
No Euro	EFD	48	6.4%
Others		52	6.9%
Total		751	100.0%

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

Table 2. "At the present time, would you say that, in general, things are going in the right direction or in the wrong direction, in the European Union / in your home country?" (% respondents per country)

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

Source: Special Eurobarometer n. 415, July 2014.

Table 3. "At the present time, would you say that, in general, things are going in the right direction or in the wrong direction, in the European Union / in your home country?". Descending ranking of respondents per country

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

Source: Table 2

Table 4. Size of the population of the four quadrants of Figure 4 relative to the active population (age 15-64)^a of the EU and, for the relevant countries, of the EZ.

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

^aEurostat database AMECO

Table 5. Country descending order of economic pain

MTI		STI	
GRE	-8.1	SLO	-1.0
IRE	-7.4	GRE	-1.0
SPA	-5.8	CYP	-0.6
LAT	-4.4	DEN	-0.3
CYP	-4.4	FRA	0.1
EST	-3.9	LUX	0.1
LUX	-3.7	ITA	0.1
ITA	-3.3	FIN	0.1
EU-W/H-W	-3.2	AUS	0.2
POR	-2.9	EST	0.4
LIT	-2.8	EZ-17	0.5
SLO	-2.7	EU-W/H-W	0.5
UK	-2.7	NET	0.5
DEN	-2.6	EU-W/H-R	0.6
EZ-17	-2.6	BEL	0.6
FIN	-2.3	SWE	0.6
EU-R/H-R	-2.2	EU-R/H-R	0.7
CZE	-2.2	GER	0.7
HUN	-2.1	ROM	0.7
No-EZ	-1.4	LAT	0.9
EU-W/H-R	-1.2	UK	1.0
FRA	-1.2	SPA	1.1
SWE	-1.0	No-EZ	1.2
NET	-1.0	BUL	1.4
BEL	-1.0	MAL	1.4
EU-R/H-W	-0.8	SLK	1.5
ROM	-0.3	EU-R/H-W	1.5
AUS	0.0	POR	1.5
BUL	0.5	CZE	1.6
MAL	0.8	LIT	1.7
SLK	1.1	POL	1.8
GER	1.4	IRE	2.2
POL	4.0	HUN	2.3

Source: Elaborations on Eurostat AMECO database

Figure 1. Europe's "Impossible Triplet"

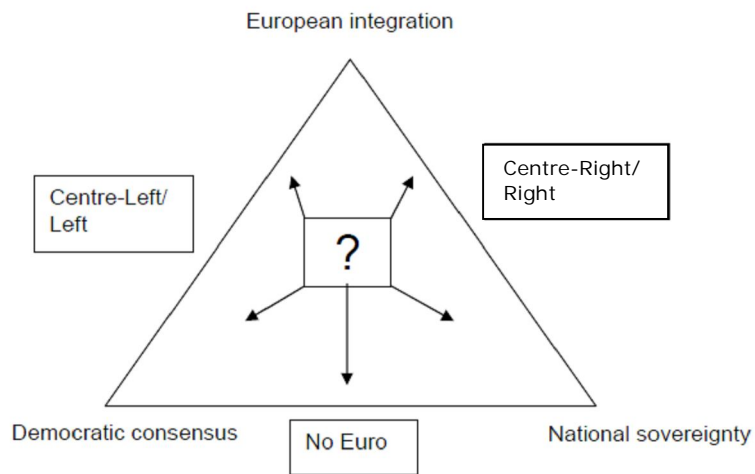
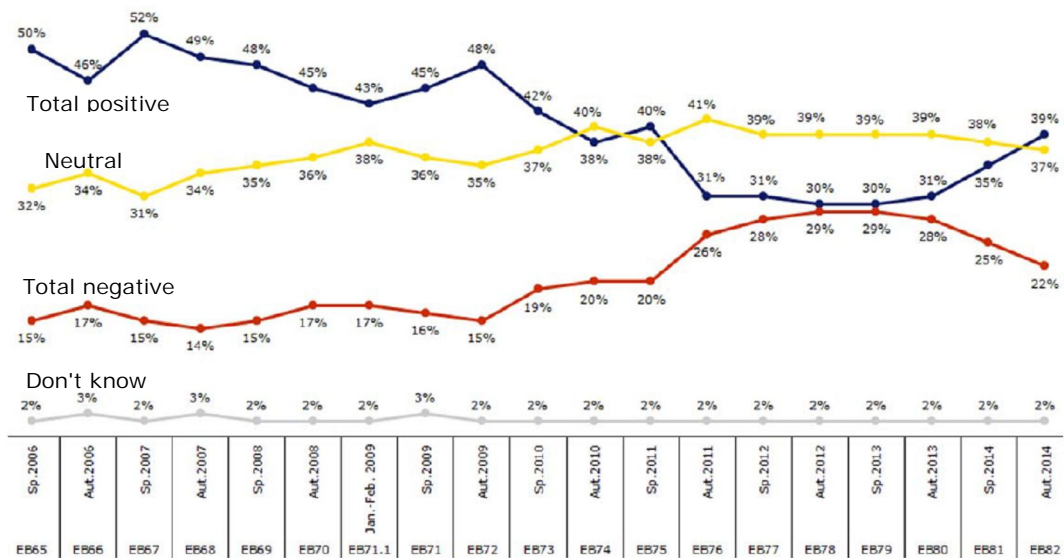
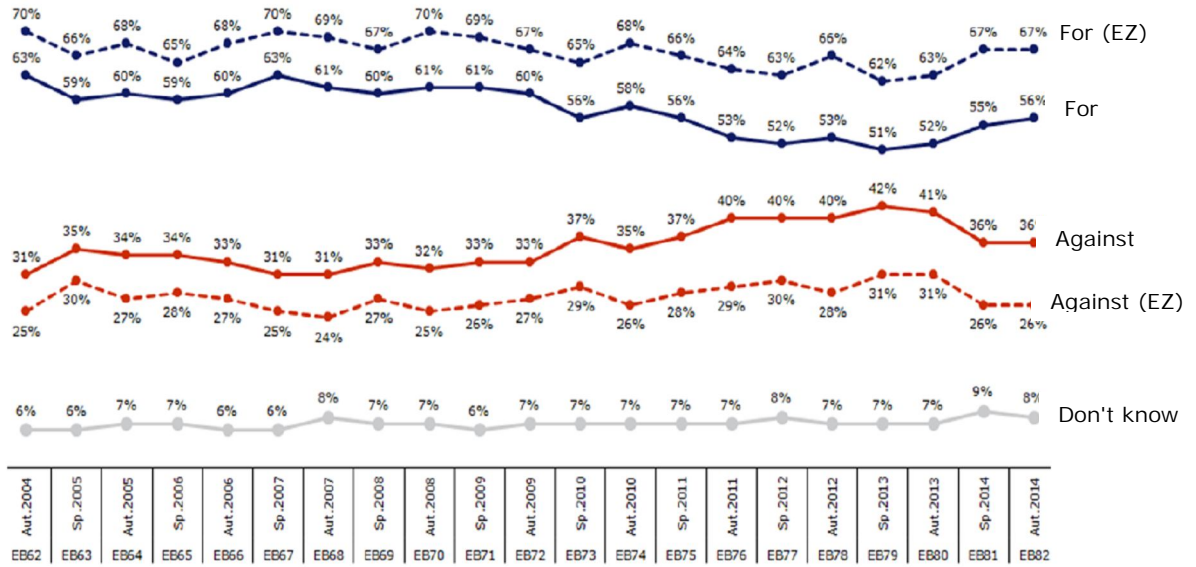


Figure 2. QA9. In general, does the EU conjure up for you a very positive, fairly positive, neutral, fairly negative or very negative image? (% of EU)



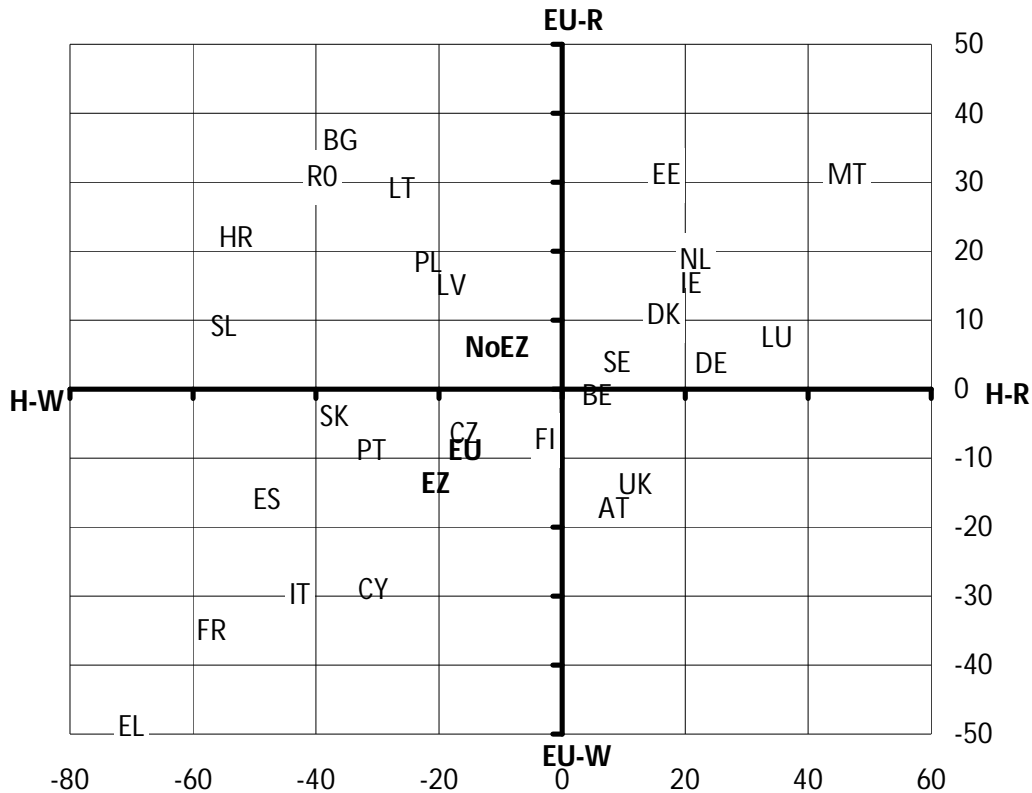
Source: Standard Eurobarometer (n. 83, Autumn 2014)

Figure 3. QA19.1. Please tell me whether you are for or against a European Economic and Monetary Union with one single currency, the euro (% of EU)



Source: Standard Eurobarometer (n. 83, Autumn 2014)

Figure 4. Country distribution of respondents along the four choices in Table 2



Source: elaborations on Table 2

Figure 5. Correlation graph between each country's economic pain and R/W judgement towards (a) EU, (b) home country

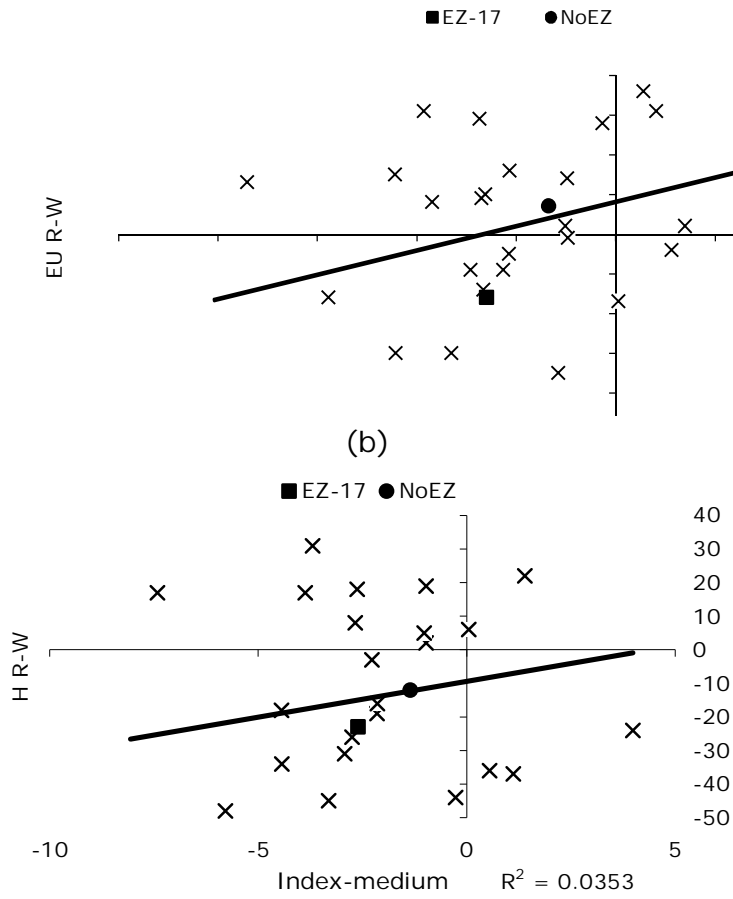


Figure 6. Distribution of Parliamentary seats in the four quadrants of Figure 4

