

# **European fiscal reform preferences of parliamentarians in France, Germany, and Italy**

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

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

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## **Introduction**

The Great Recession engendered a vigorous debate on fiscal governance in the Economic

and Monetary Union (EMU) (Buti and Carnot, 2012; Darvas et al., 2011; Lane, 2012), which has led to comprehensive institutional reforms. Despite these reform efforts and even before the COVID-19 strike, the financial and fiscal governance structures of EMU were perceived as largely “incomplete” (Bilbiie et al., 2021; Cecchetti and Schoenholtz, 2020; Lane, 2021; Spolaore, 2016). Increasingly, the literature has been examining how divergence in national economic traditions, preferences, and beliefs has stymied further reform. Focusing on Germany and France, Brunnermeier et al. (2016) stress how different economic policy traditions can explain the current impasse. In the view of these authors, the German tradition favors rules-orientation and a euro area governed by credible fiscal rules in combination with market-imposed fiscal discipline. By contrast, in the French tradition, there is greater support for European fiscal solidarity and a higher tolerance for deficit spending.

Nationally divergent reform preferences have been studied extensively to date based on population surveys (Alesina et al., 2017; Guiso et al., 2016; Zingales et al., 2016). Moreover, Wasserfallen et al. (2018) map the positions of EU governments on specific euro area reform options in the aftermath of the Greek debt crisis. By contrast, we analyze the views of national parliamentarians, which allows us to identify the specific hurdles to consensus among political representatives. Surveys of European and national parliamentarians have become an established tool of European integration research (see the surveys in: Deschouwer and Depauw, 2014; Whitaker et al., 2017). We contribute to this literature by focusing on euro-area fiscal reform issues, which so far have not been covered in great detail by other parliamentary surveys, with the exception of Blesse et al. (2019a). Yet we go further than Blesse et al. (2019a), who only covered German and French MPs, to include Italian national parliamentary chambers.

By examining the positions of representatives in France, Germany, and Italy, we not only survey the large EU founding members and the largest euro zone economies, but also take three countries with substantially different fiscal traditions and policy stances.

Underlying fiscal fundamentals play no small part in the existing lines of conflict between “creditor” and “debtor” nations in European fiscal debates (Copelowitch et al., 2016). Italy represents a high-debt country with a low growth potential (Pellegrino and Zingales, 2017) and, as a result, is the most prominent case of a large euro country with substantial debt sustainability risks (European Commission, 2021). Germany, by contrast, has witnessed significantly better fiscal and economic performance since the 2008 financial crisis, and also enjoys a strong reputation as the European benchmark issuer of government bonds. France occupies an intermediate position between the two, as it is an economy with deteriorating fiscal indicators but a good credit rating. These broader fiscal conditions – which inform national interests in relation to fiscal solidarity, fiscal rules, market discipline, and monetary policy – make the study of MP reform preferences eminently valuable. If our survey identifies areas and political alignments that allow for cross-country consensus on European fiscal reform between these three countries’ national parliaments, the emergence of a broader consensus within the euro zone along these lines may be a distinct possibility.

A further contribution is that we map parliamentarians’ fiscal reform preferences in a three-dimensional space defined by nationality, party ideology, and populism.<sup>1</sup> In our view, these three dimensions have a large potential to explain support for European fiscal integration. Nationality is associated with a particular fiscal interest, as described above; party ideology on a left–right scale is tied to general views regarding fiscal solidarity and the proper role of government; and populist parties are united in their critical views on (European) elites, predicting a more skeptical position on an increase of EU fiscal powers. We employ this preference map to measure positional distances between two given parties in different countries. On this basis, we predict which cross-national party combinations are more likely to agree than others on the future of euro area fiscal institutions.

As explained in the next section, we expect: (a) politicians from a country with better financing conditions and lower public debt levels, such as Germany, to be less supportive of

new European financial institutions as compared to representatives from less fiscally robust nations, such as France and particularly Italy, where debt levels are significantly higher; (b) left-of-center parties to be more inclined to support European transfers and fiscal insurance than center-right parties, and (c) populist parties to be more opposed to European fiscal integration than non-populist parties. Our empirical results confirm all hypotheses and, in addition, allow us to identify the combination of governing parties in different countries that are most supportive to EMU reforms.

### **Key factors**

We study the correlates of stated preferences of national MPs on euro area reform proposals focusing on three key dimensions: nationality, party ideology, and populism.

**Nationality.** Insofar as the benefits from European financial solidarity and mutual insurance differ by country, nationality should be a determinant of politicians' fiscal reform preferences. During the sovereign debt crisis, the divergence between "creditor" and "debtor" nations was a major source of antagonism (Copelovitch et al., 2016; Wasserfallen et al., 2018). As the proposed new EU and euro area institutions (such as Eurobonds, European Unemployment Insurance, and European taxes) are all likely to have substantial financial consequences, such reform proposals tend to be controversial between countries due to a divergent cost-benefit perspective. We thus expect German policymakers to be less supportive of strengthening EU fiscal institutions than French and Italian politicians, as Germany enjoys more favorable financing conditions in bond markets and has a significantly lower level of public debt to GDP.

**Party ideology.** Left-of-center and center-right parties differ in their views on the role of government (Potrafke, 2011). The former tend to emphasize the value of solidarity, as differences in economic outcomes between citizens are largely considered to be the result of luck, rather than effort or ability. This justifies strong government intervention to

redistribute income and guarantee opportunity (e.g. Alesina and Angeletos, 2005). Furthermore, as stressed by previous work, left wing voters and parties tend to be more internationalist in the domain of foreign affairs, while right wing parties tend to be more isolationist (e.g. Bornschieer, 2010). Left-of-center parties should thus be more ready to accept international fiscal redistribution and macroeconomic stabilization at the European level compared to center-right parties, given the latter's larger emphasis on within-nation solidarity. While mainstream parties from both the left and right favor the integration process (e.g. Hix, 1999), left-of-center parties are likely to support more interventionist and regulatory policies at the European level (Hooghe et al., 2002; Kreppel and Tsebelis, 1999).

Overall, we then expect left-of-center parties to be more in favor of European fiscal integration, particularly when it comes to arrangements that have a strong redistributive component between countries.

**Populism.** The third key variable in our analysis relates to the emergence of populist parties in many EU countries over the last decade. A defining feature of populist movements, whatever their place in the political spectrum, is their common opposition to elites (Arzheimer and Berning, 2019; Hobolt and Tilley, 2016).<sup>ii</sup> Typically, this goes hand in hand with opposition to the European project, which is seen as an elite endeavor that is contrary to the interests of ordinary citizens (Krastev, 2017). It is therefore relevant to differentiate between the preferences of populist and non-populist parties, and we expect the former to be more opposed to European integration than the latter. However, populist parties may not be uniformly against European integration, as there are populist parties on both the right and left of the political spectrum. In Italy, for example, M5S and Lega strongly differ along this dimension, with the latter having a much stronger nationalistic and anti-immigration bias than the former (Albertazzi et al., 2018). A further step in our empirical analysis is to allow for an interaction between nationality and populism, which opens up the possibility for a specific national perspective to moderate or strengthen the populist anti-EU affect.

Taking all three key variables (nationality, party ideology, populism) into account, we then expect the strongest opposition to reforms of the EMU and the EU to come from a German right-wing populist politician (i.e. an AfD representative), while the most pro-integrationist view should come from an Italian left-of-center, non-populist politician. Moving beyond purely qualitative statements, our empirical analysis allows us to quantify the relative importance of these factors.

### **Survey design and party classification**

The survey addressed all members of national parliaments in France (*Assemblée Nationale* and *Sénat*), Germany (*Bundestag*), and Italy (*Camera dei Deputati* and *Senato della Repubblica*) and was run simultaneously in the three countries in each national language in 2018.<sup>iii</sup> The survey resulted in 328 completed responses out of 2,575 questionnaires in total. This amounts to a response rate of 12.7%, which is common among parliamentary surveys (e.g. Blesse et al., 2019a, 2019b; Deschouwer et al., 2014).<sup>iv</sup>

We use the European Parliament's party groupings to classify national parties' ideological leanings. Two longstanding alliances are the European People's Party group (EPP) and the Progressive Alliance of Socialists and Democrats (S&D). After the last European elections, the French government party La République en Marche (LREM) formed a new political group with the Alliance of Liberals and Democrats for Europe (ALDE) called Renew Europe, which also contains members of the Free Democratic Party (FDP) in Germany. Lastly, Lega and the German AfD formed a new group, Identity and Democracy (ID), together with the French far right Rassemblement National (RN)<sup>v</sup>.

Accordingly, we classify all EPP/ALDE/Renew Europe parties as "right" and all S&D parties as "left". In the "right" category we also include AfD, Lega, and Fratelli d'Italia. In the "left" category we also include M5S, BÜ90/Die Grünen, Die Linke, Gauche démocratique et républicaine, Groupe communiste, and La France Insoumise. The

classification of our three populist parties of interest deserves special attention. We classify the AfD and Lega as “right” and M5S as “left”, as this follows from the parties’ positions on immigration, nationalism, and economic policy (Mudde, 2017). AfD and Lega have a strong anti-immigration and nationalist profile; M5S has a more moderate position on these issues. M5S also tends to support economic policy intervention and the welfare state to a greater extent than the more market-oriented AfD (Decker, 2016) and Lega (Albertazzi et al., 2018)<sup>vi</sup>.

### ***Survey questions***

Our survey focuses on questions regarding possible fiscal and financial reforms to the EU and euro zone. Specifically, we asked to what extent the MPs agreed or disagreed with the following statements:

- (1) *“There should be a new tax-based own resource for the EU budget under direct control of the EU (e.g. an EU tax on a common corporate tax base).”*
- (2) *“A common European unemployment insurance (EUI) should be introduced to absorb recessions in individual Member States of the EMU.”*
- (3) *“All euro countries are jointly liable for Eurobonds and all euro countries pay the same interest. The EMU should issue Eurobonds.”*
- (4) *“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.”*
- (5) *“The European Central Bank (ECB) took a strongly active position in recent years by purchasing sovereign bonds of euro countries. This strongly active position of the ECB should continue.”*
- (6) *“For a proper functioning, the EMU needs new fiscal institutions (e.g. a euro area budget or a European Minister of Finance).”*

(7) *“For its proper functioning, the European Banking Union should be completed through the European Deposit Insurance Scheme (EDIS).”*

Parliamentarians could answer each of these questions on a scale from -4 (“Disagree”) to +4 (“Agree”), with 0 as “Undecided”.

### **Empirical results**

We use an OLS regression analysis to identify which factors are most important in determining MPs’ preferences, while controlling for their personal characteristics. More precisely we estimate the following model:

$$q_i = \alpha + \beta \times G_i + \gamma \times I_i + \vartheta \times L_i + \mu \times P_i + \mu \times P_i + \rho \times P_i \times I_i + \sigma \times C_i + \varepsilon_i,$$

where  $i$  is a parliamentarian,  $q$  is their response to the question asked,  $G_i$  is an indicator equal to 1 if they are German,  $I_i$  is an indicator equal to 1 if they are Italian,  $L_i$  is an indicator equal to 1 if they belong to a left wing party,  $P_i$  is an indicator equal to 1 if they belong to a populist party and  $C_i$  is a set of controls exposed in Table 1. The structure of the estimated model implicitly implies that German and Italian MPs are compared to French MPs. Moreover, we performed a non-response analysis to identify the factors that influence MPs to participate in the survey. Our observations are weighted with the inverse response probability.

### **Regression results**

Table 1 provides strong confirmation for the hypothesis that German politicians are less in favor of European fiscal integration than French ones. The magnitudes exposed in the first row of Table 1 show the gap between a German MP’s average response and that of a French MP’s, keeping all other characteristics equal. They range from -1.37 points for relaxing the SGP to -3.15 on the issue of Eurobonds. The results for Italian politicians are not as clear-cut, and show more support than French politicians for some reform areas (EUI, relaxing the SGP, and completing the banking union), but not for others (new fiscal institutions, as well as the EU-level tax).

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

Since our sample only includes German and Italian populists, the interpretation of the populist dummy and the interaction is straightforward. The populist dummy represents the specific relative position of German populists, and the interaction term between Italy and populism indicates the divergence of Italian populists from that position. German populists (i.e. from the AfD) are much less in favor of European fiscal integration and the establishment of new European fiscal capacities. At the same time, they support strict fiscal rules, as indicated by their opposition to a relaxation of the SGP. Compared to this, Italian populists are much more positive on the order of almost 2 points (highly significant) when it comes to both asset purchases by the ECB and the relaxation of the SGP. On the monetary policy mandate of the ECB and its asset purchases, German and Italian populists are highly polarized, with the former in favor of these measures, and the latter opposed. Importantly, the German-Italian disagreement on ECB support is even stronger between both countries' populist parties than between the non-populist parties. A similar conclusion holds for the relaxation of the SGP, for which there is even more disagreement between Italian and German populists (with the former in favor and the latter opposed) than between parliamentarians of other parties. These results can be interpreted as a further polarization of national interests that is related to the high salience of both topics in populist discourse (Arnemann et al., 2021). Statements by German policy makers concentrate on the potential inflation and credit risks of sovereign bond purchases by the Eurosystem, issues that have

been prominent aspects of AfD rhetoric since the party's founding (Decker, 2016). On the SGP, German populists have repeatedly attacked Southern European states for their ostensible fiscal profligacy. Conversely, Italian populists tend to ignore or downplay evidence that fiscal consolidation is necessary, and denounce fiscal rules as illegitimate constraints on fiscal sovereignty.

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

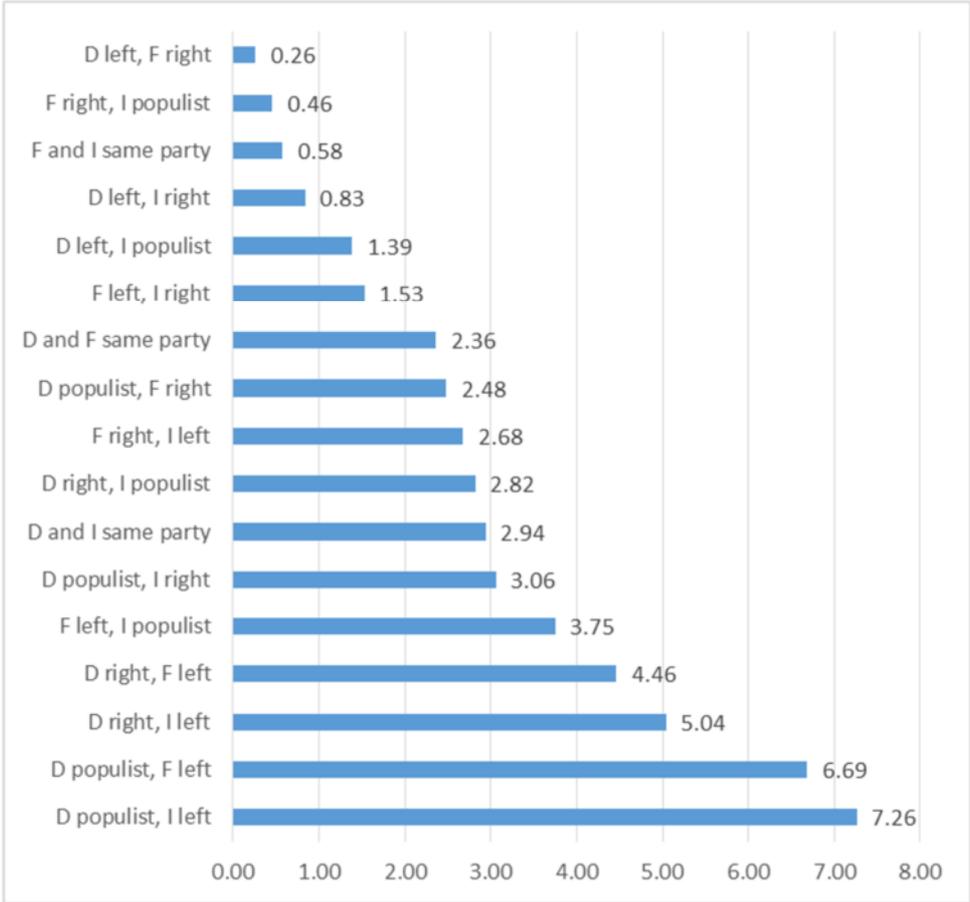
Note: Standard errors in parentheses. \*\*\* p<0.01, \*\* p<0.05, \* p<0.1

Table 1. OLS estimates with interactions.

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

Our results enable us to identify the importance of the different factors allowing us to assess the potential for a future three-country consensus on euro area reform issues. Blesse et al.

(2019a) find that party ideology dominates nationality and therefore concluded that reforms could be achieved with changes in national governments' incumbent parties. We now extend this reasoning to the case of three countries and the inclusion of populist movements. For this purpose, we calculate the absolute differences in reform preference scores, as predicted by our regression model from Table 1, for all possible party group comparisons *across* countries. Figure 1 summarizes our key finding: the average predicted differences between countries in reform preference scores for different party combinations.<sup>vii</sup>



Note: D stands for Germany, F for France, and I for Italy.

Figure 1. Mean predicted difference in reform preference scores across all seven reform issues.

The indicator shows that the degree of cross-country polarization depends on party

combinations. We observe the largest polarization when comparing German populists with French and Italian left-wing politicians. Both sides disagree fundamentally and position themselves on opposite extremes of our preference scale. The differences between German conservative politicians and the non-populist left in France and Italy are substantial as well. A closer alignment of preferences (i.e. a mean difference in scores below 1 point) does exist, however, for German MPs from the left and their right-of-center colleagues in Italy and France. Since Table 1 shows that French-Italian differences are relatively small our simulation produces a logical result: French and Italian MPs tend to agree most if they come from the same political camp. These results allow for a clear conclusion as to which party combination offers the best hope for a three-country consensus on fiscal reforms in the EU and euro area: MPs from the German left coming together with MPs from the French and Italian non-populist right. Any other combination would be confronted with a much larger level of disagreement.

### **Discussion and concluding remarks**

Our results imply that certain EMU reforms could become more likely if political majorities align 'better' across countries. This would be the case in particular for a European unemployment insurance scheme as well as for a reform that relaxes the SGP in its current form. Preference alignment across the three countries' parliamentarians is closest for the German left in combination with Italian and French non-populist right.

Our survey was conducted in 2018. Since then, the world has changed considerably. In response to the COVID-19's challenges, the EU Member States agreed on an ambitious recovery plan: The Next Generation EU (NG-EU) budget for the years 2021-2026, endowed with EUR 750 billion (in 2018 prices). NG-EU contains elements of common debt issuance, extended own source financing, and large-scale cross-national transfers (and loans). Hence, the new type of bonds shares some features with a Eurobond design. Overall, the agreement

on NG-EU indeed marks a profound move towards a new degree and quality of fiscal assistance and transfers in the EU (Bilbiie et al., 2021; Lane, 2021).

Clearly, the acute crisis together with the perception that the pandemic was an exogenous shock outside the responsibility of national governments created a sense of urgency and solidarity that eroded the opposition of the German Christian Democrats to greater fiscal solidarity, as observed during the last Merkel government. At the same time, with the Macron government in France and a more moderate government emerging in Italy after the collapse of the preceding populist one, the German government had partners in both countries, as the rejection of populist positions had clearly increased the room for consensus, in line with our key predictions.

It is too early to say whether these fiscal innovations are of a permanent nature. Moreover, a consensus between France, Germany and Italy can be seen as a necessary but not sufficient condition for reforms that ultimately require unanimity among all Member States. However, the crucial role played by the large EU countries' in enabling pivotal reforms has become particularly evident in light of the decision to establish the NGE-EU against the initial resistance of smaller countries (e.g. "Frugal Four"). Our empirical results suggest that election results and emerging party combinations in these three countries will play an important role in determining how fiscal integration proceeds in the future.

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- <sup>i</sup> We follow the literature in defining Alternative für Deutschland (AfD) in Germany, and Movimento 5 Stelle (M5S) and Lega Nord (Lega) in Italy as “populist” parties (Mudde 2017, Guiso et al., 2019; Guriev and Papaioannou, 2020). We do not present separate results for France’s Rassemblement National, because the small number of MPs belonging to this party did not allow us to guarantee their anonymity in our survey.
- <sup>ii</sup> Various terms are used to describe parties that have increasingly challenged the established parties since the financial crisis, including “challenger parties”, “niche parties”, and “populist parties”. These terms are closely related but are no perfect synonyms. The “populism” terminology emphasizes the anti-establishment position (see Hobolt and Tilley, 2016, on the use of this differentiated terminology).
- <sup>iii</sup> See Blesse *et al.* (2019b) for a general description of the survey design and implementation that apply also in the survey for this study.
- <sup>iv</sup> The Online appendix summarizes response rates across party groups and countries.
- <sup>v</sup> M5S is treated separately, since it is not currently a member of any European party group.
- <sup>vi</sup> The parties classified as *neither* (left or right) are “*fraktionlos*” in Germany, “*non-inscrits*” in France, and “*misto*” in Italy.
- <sup>vii</sup> Detailed results are presented in the Online appendix.