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Breaking the link? How European integration shapes social policy demand and supply

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ABSTRACT

How does European integration affect the welfare state? This paper argues that European integration has non-complementary consequences for the political economy of welfare spending: European economic integration increases popular demand for social spending, whereas European political integration decreases the supply of social spending. Thus, the conflicting implications of European integration essentially break the link between social policy preferences and social policy. Using statistical models that deal with the multilevel structure of the theoretical argument, we find a positive relationship between economic integration and support for social policy. In the second part of the empirical analysis, dynamic model specifications at the country level show that higher levels of political integration are associated with lower levels of social spending. Furthermore, we provide evidence that social policy responsiveness declines as political integration increases.

KEYWORDS European integration; social spending; policy responsiveness; political economy

Introduction

Policy-making in democracies is expected to be responsive to the concerns of citizens in order to be legitimate. Earlier research showed that policy-making in liberal democracies broadly follows the dynamics of public opinion, as political representatives depend on public support for re-election (e.g., Page & Shapiro, 1983; Soroka & Wlezien, 2004, 2005). Since conflicts about redistribution and the welfare state are a politically salient issue, empirical studies suggest that the democratic mechanism of opinion representation works particularly well in this policy area (Hobolt & Klemmensen, 2008; Soroka & Wlezien, 2010; Wlezien, 1995). As a consequence, different social policy preferences across countries are found to account for persistent cross-national differences in welfare spending (Brooks & Manza, 2006a, 2006b, 2007;

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Rehm, 2011). More recently, this favorable assessment on the functioning of democracy has been challenged by research that identifies significant biases in the responsiveness of policy-makers to public demands (especially against the poor, see Giger et al., 2012; Gilens, 2005, 2012). Others claim, however, that the bias is less severe because the preferences of the rich and poor largely move in parallel (e.g., Branham et al., 2017; Enns, 2015).

This paper is inspired by these contributions but takes a somewhat different road. The responsiveness literature and its critiques focus on the political representation of public opinion and whether policy-makers weigh the demands from different constituencies unequally. However, this perspective neglects the possibility that policy-makers could be externally constrained in their actions (for a rare exception, see Ezrow & Hellwig, 2014). In other words, politicians – even if willing – might be simply not able to respond to public demands due to external forces. In the long term, this would be a serious threat to the legitimacy of decision-making in liberal democracies. The problem is particularly severe if the same constraints tying the hands of policy-makers fuel public demands for more governmental action. In this case, the ability of policy-makers to deliver gets compromised exactly when the public expects governments to do more to help them cope with a changing socioeconomic environment.

We believe that the contradictory mechanisms of the public demanding more action from the government and policy-makers not being able to deliver are particularly relevant in the European Union (EU). We argue that the logic of *European economic integration* – the process of creating a comprehensive Single Market in the EU – increases public demand for compensatory social policies, as workers are exposed to more uncertainty and higher labor market risks in the integrated European market. At the same time, *European political integration* – the parallel process of increasingly replacing national with EU-level policies – constrains the ability of EU member states to respond to public demands for social compensation policies by obliging them to meet stricter budgetary rules. Put differently, European integration has increased public demands for social intervention at the same time as it has made it harder for policy-makers to respond to these concerns. The result is a situation that may further contribute to the legitimacy crisis of the EU.

To test the empirical implications of the theoretical model we use a two-step approach. First, we apply a Bayesian mixed-effects within-between modeling strategy of individual preferences, employing five waves of the European Social Survey (ESS) for 22 EU member states observed every two years between 2004 and 2012. We find that within-country changes in economic integration and compliance with economically relevant EU law are systematically related to more support for welfare spending. Second, we examine the determinants of policy output on the macro level

in two-way fixed-effects models, which control for average social policy preferences of the general public, the rich, and the poor. We cannot detect any statistical relationship of public preferences with social spending, indicating a lack of responsiveness of policy-making to popular demands for social compensation. However, we find that higher levels of political integration are associated with lower levels of social spending and that policy responsiveness declines as institutional participation in the EU intensifies. We therefore conclude that – first – citizens do in fact respond to intensified economic competition by demanding more compensation as suggested in the classical compensation thesis. But – second – there is no systematic evidence that policy-makers actually respond to these demands. Our results indicate that this lack of responsiveness is at least partly a consequence of the current institutional set-up of the EU.

The paper proceeds as follows. The next section elaborates on the theoretical argument in detail. We then describe the data, methodology, and statistical specifications used in the analysis. Subsequently, we present empirical findings of our logistic mixed-effects and time-series-cross-section (TSCS) models. Finally, we conclude by summarizing the main contributions and discussing how they link to current political and scholarly debates.

The argument

In this section, we first discuss the association between economic integration and social policy demand on the micro level of preferences. We then turn to the macro-level link between political integration, social policy output, and government responsiveness.

Economic integration and demand for social policy

The literature has produced a wealth of findings on the individual and contextual factors that are associated with social policy preferences, such as economic self-interest, ideological predispositions, and welfare state institutions (see Rueda & Stegmueller, 2019). So far, the influence of the European integration process on welfare state attitudes has been largely ignored as a topic for research in this area. We can draw, however, on a body of research that studies the implications of economic globalization for public opinion on the welfare state. This work goes back to Cameron's (1978) and Katzenstein's (1985) well-known 'compensation thesis'. The basic premise is this: Intensified economic integration increases economic insecurity, which in turn triggers increased public demand for social insurance and redistributive compensation from the welfare state (see empirical evidence in Walter, 2010, 2017).

Building on this work, we argue that the individual-level logic of the compensation thesis is particularly relevant in the context of the EU. We highlight

two major channels through which European economic integration may contribute to more economic insecurity among workers. First, the creation of the Single Market has increased economic competition and has created new exit options for mobile capital. This exerts significant downward pressure on wages and employment conditions. Second, compared to the national arena, it is much more difficult for labor unions to organize effectively on the European level. We acknowledge that both of these channels leave aside differences across countries, sectors, or type of workers. However, while we do not want to negate such differences, the focus of this paper is on the structural dynamics of liberalization in the European integration process and how they exert certain socioeconomic effects across a broad range of contexts (cf. Beckfield, 2019; Scharpf, 2010; Tober, 2019).

Coming back to the first point, there is solid evidence that economic integration in the form of the Single Market has defragmented markets and has increased competition, as a growing number of firms are squeezed out of the market, while fewer firms compete with each other (Allen et al., 1998; Baldwin & Wyplosz, 2019). Badinger (2007) and Chen et al. (2009) show that competition in the Single Market has led to a significant reduction in profits, thus providing incentives to firms to lower wages to market-determined rates. At the same time, the Single Market of the EU has created a huge labor pool and has opened up new avenues for investment in other European countries. Thus, it has become easier for firms to substitute domestic workers with imported cheap labor from other EU countries or to move entire business processes to these countries (for EU-specific empirical evidence on this, see Egger & Egger, 2003; Geishecker, 2006; Hassel et al., 2016; Marin, 2006).

Second, European economic integration has decreased the bargaining power of organized workers and as a result weakened their ability to shield workers from described market forces. Growing firm and wage competition across borders weakens the power of unions in collective wage bargaining, which critically depends on available profits that can be captured by unions resulting in higher wages or better working conditions (Booth et al., 2000; Guadalupe, 2007). Moreover, since business is more mobile than labor within the borders of the Single Market and the asymmetric threat of an exit on the part of employers is permanent (Streeck & Schmitter, 1991), unions increasingly lose control over the supply of labor (Tober, 2019). In this situation, 'unions find themselves compelled to accept lower wages or less attractive employment conditions in order to save existing jobs' (Scharpf, 2002, p. 649).

In principle, these mechanisms by which economic integration affects labor market outcomes are valid both for the process of European integration as well as economic globalization. However, the former differs from the latter not only in terms of location, but more importantly, economic integration within the EU's Single Market is a much more intensified form of economic

integration because it is institutionally and legally reinforced by the process of political integration, which is heavily geared to promote the removal of trade barriers and the creation of harmonized markets (Mongelli et al., 2005).

Taken together, these considerations suggest that higher levels of economic integration should be associated with more demand for compensation. Thus, our first hypothesis (H_1) on the demand effect of European integration is:

Hypothesis 1 European economic integration is positively associated with public support for social spending.

Political integration and supply of social policy

If policy-makers are indeed responsive to public opinion, increasing public demand for compensation policies should go along with an expansion of welfare states at the national level or with a strengthening of the social dimension of the integration process at the EU level. As cited above, the literature is divided on the question of whether welfare state policy-making is broadly responsive to public opinion or whether policy responsiveness is fundamentally selective. However, what is largely absent from this debate is how external constraints might delimit the leeway for policy change. An exception to this overall dearth of studies is Ezrow and Hellwig (2014) who claim that economic globalization limits the responsiveness of political parties to public demands. In the following, we propose that this rationale particularly applies to the context of European political integration.

From the get-go, the process of establishing the Single European Market favored the abolishment of barriers to liberalization over the establishment of new economic and social regulations of market activity at the EU level (Ferrera, 2017; Scharpf, 1996, 1999). The process of political integration – in particular as it relates to the euro as the common currency – introduced a set of rules for fiscal policy-making at the national level. With the signing of the Maastricht Treaty in 1992, EU member states obliged themselves to meet the so-called Maastricht convergence criteria before entering the EMU, including annual government budget deficit (must not exceed 3 percent of GDP) and debt (must not exceed 60 percent of GDP) limits. To ensure compliance not only at the time of adopting the euro but also in the following years, the Stability and Growth Pact (SGP) entered into force in 1998. In 2011, against the backdrop of the European sovereign debt crisis, the so-called Sixpack reformed the SGP by tightening its regulations. More recently, the European Fiscal Compact was signed in 2012. The ratifying partners agreed that government budgets need to be balanced (3 percent or less of GDP) and a country's annual structural deficit must not exceed 0.5 percent of GDP (1 percent of GDP for member states with a low debt ratio). Furthermore, the treaty requires that all countries adopt budget

rules through means of high-level legislation in order to ensure that fiscal discipline is a national obligation.

Despite the tightening of EMU's fiscal rules, critics have questioned both their effectiveness and their successful implementation (e.g., De Grauwe, 2008; Hallerberg et al., 2009). Prima facie, history seems to corroborate their point of view. Already at the time of the start of the euro, 8 of the 11 countries failed to meet the debt criterion (Austria, Belgium, Germany, Greece, Italy, Malta, the Netherlands, and Spain). In the early 2000s, Germany and France obtained a temporary suspension of the criteria due to their bad fiscal performance. In the recent past, the European sovereign debt crisis (see Lane, 2012) has even more shaken confidence in the functioning of EMU's fiscal instruments.

Empirical research, however, consistently shows that the EMU has had a structurally constraining impact on fiscal policy in member states, and thereby also imposes significant constraints on social policy-making. Using a quasi-experimental design based on a synthetic control approach, Koehler and König (2015) find that EU countries would have increased their level of debt by € 36 billion more per year if they had not introduced the euro. Filippin and Nunziata (2019) show that social spending decreased in all but one (Luxembourg) of the 12 first euro-adopting countries compared to non-adopting EU member states. While the largest spending cuts occurred in the years immediately before the official introduction of the euro (likely as result of the entry criteria), the SGP appears to have ensured that these differences persist even after the monetary changeover. Several other studies confirm the negative effect of political integration – especially membership in the EMU – on social spending (Bertola, 2010; Busemeyer & Tober, 2015; Herwartz & Theilen, 2014).

Taken together, we posit that the constraints of political integration severely affect the fiscal ability of policy-makers to respond to public demands for more generous welfare state policies.[1] There might be some room for fiscal spending in response to worsening socioeconomic conditions – especially rising unemployment – due to automatic stabilizers built into the fabric of European welfare states, but there is little leeway for fiscal expansion beyond that. These constraints help to explain why there is no systematic association between public support for social policy compensation on the one hand and actual policy output in terms of social spending on the other hand.

In sum, the second hypothesis (H_2) on the supply effect of European integration is:

> **Hypothesis 2** European political integration is negatively associated with social spending. The fiscally constraining influence of political integration helps to explain why policy-makers are not responsive to increasing public demands for social policy, in particular in member states which exhibit high levels of institutional participation.

Summary

Figure 1 is a graphical depiction of our argument. European integration affects social policy demand and supply simultaneously but in contradictory ways. On the one hand, economic integration fuels public demand for compensation (H_1). On the other hand, political integration delimits the fiscal possibilities of national-level policy-makers to supply social policy (H_2). European integration therefore provokes a mismatch between demand and supply, essentially breaking the opinion-policy link.

Empirical strategy

We test the key implications of the theoretical model in two steps. First, to estimate how individual demand for compensation responds to country-level variation in economic and political integration, we apply a Bayesian mixed-effects within-between modeling strategy. The mixed-effects models draw on five waves of the European Social Survey (ESS) and cover up to 153.120 individuals in 22 member states for the time period from 2004 until 2012. Since our central independent variable – the index of European integration – is only available until 2012, we cannot make use of later waves of the ESS, unfortunately.

Second, to assess the macro-level impact of political integration on both welfare spending and the policy responsiveness of governments, we employ TSCS two-way fixed-effects models. The TSCS analysis is based on 24 countries annually observed for those 9 years for which the European integration index is available (216 country-year observations).

Measurement

In what follows, we discuss the measurement of the key dependent and independent variables used in the analysis.[2]

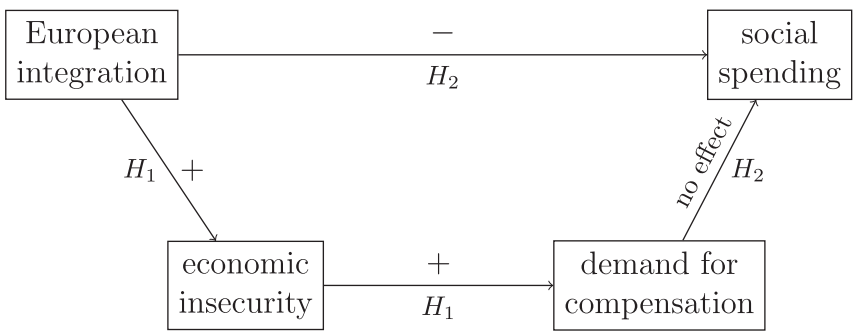

Figure 1. European integration and the political economy of welfare spending.

European integration. There are few measures of European integration that specifically gauge the extent of integration across different dimensions in member states. Recently, however, an index was released that measures the economic and political dimensions of European integration on the level of individual member states (König & Ohr, 2013). The economic dimension – the degree of market relations in the Single Market – is measured by the sum of a country's intra-EU imports and exports as a percentage of GDP (openness to EU trade) and as a percentage of its total sum of imports and exports (importance of EU trade compared to trade relations outside the EU). The indicator of political integration combines information on institutional participation in the Schengen area and membership in the EMU (floating exchange rates; in Exchange Rate Mechanism (ERM) II; in Eurozone) with data on member states' compliance with EU law (counting infringement proceedings of the European Commission and European Court of Justice verdicts). Thus, the component of institutional participation captures both important examples of the institutional manifestation of negative integration (Schengen, ERM) and the effect of the EMU directly. For ease of comparability, the data are normalized to a scale ranging from 0 to 100, where 100 represents maximum integration. The indicators are weighted on the basis of a principal component analysis (for more information, see König & Ohr, 2013). While the first version of this index contained only 14 countries, we make use of an updated version that includes 24 member states annually observed between 2004 (i.e., the time of the EU Eastern enlargement) and 2012.

Social policy preferences. From a theoretical perspective, we are interested in measuring individual-level demand for compensation policies. This entails aspects of redistribution and social insurance. Unfortunately, the basic module included in all ESS waves only contains a general question about (absolute) demand for redistribution. Respondents are given this statement: *Government should reduce differences in income levels*. Individuals are then asked whether they (1) disagree strongly, (2) disagree, (3) neither agree nor disagree, (4) agree, or (5) agree strongly.

As Rehm (2009, p. 863) points out, this survey item has several weaknesses: 'The question does not include a budget constraint; the question does not remind people of higher taxes in case they opt for redistribution; there is no mention of specific policy instruments used to achieve redistribution'. We thus argue that – due to its broad character – this question measures support for welfare policy more generally. We turn the measure into a dichotomous variable that takes on a value of 1 in case of strong agreement and 0 otherwise (including general agreement). We apply this strategy in an attempt to at least alleviate some of the weaknesses of the survey item, which seem to have incentivised respondents to almost never oppose the statement and disproportionately frequently settle on general agreement (see Figure A7 in the appendix).

Social policy preferences will also enter the dynamic macro-level analysis examining whether average support for social policy systematically affects levels of social spending. For that purpose, we simply take the arithmetic mean of respondents' preferences (on the original scale) of a given country in a given year. We also include average levels of support for different income groups.

Social policy. To capture government social policy efforts we employ social spending data provided by Eurostat, which measure total expenditure on social protection as a percentage of GDP. While the use of social spending as an indicator of welfare state effort is frequently practiced in existing political economy research (e.g., Iversen & Soskice, 2015), this practice has also become subject of severe criticism in the welfare state literature (Clasen & Siegel, 2007; Scruggs, 2006). We nonetheless (have to) rely on it for two reasons. First, compared to alternatives, information on government expenditure is richly available – both with regard to time and space. Especially small countries like Cyprus and member states of Eastern Europe are not or only very sparsely included in alternative measures of welfare entitlements. Second, given that Eurostat data on public spending is harmonized across member states, data quality is likely to be very high.

Controls. The mixed-effects and TSCS specifications use different sets of control variables. In the mixed-effects models, we include a number of micro-level control variables in order to capture systematic differences between individuals. These controls are age (in years), gender, education (in years), categorical information on the respondent's employment status (in education, in paid work, unemployed), union membership, a measure of subjective religiosity, self-placement on a political left-right scale, and subjective income.[3] On the country level (cf. Schmidt-Catran, 2016), we control for social spending and income inequality before taxes and transfers (pre-fisc Gini index) from Eurostat. Additionally, we include GDP per capita calculated from the Penn World Table (Feenstra et al., 2015).

In the TSCS models, we expect that – besides European integration – the following factors might influence welfare spending: GDP growth, unemployment, pre-fisc inequality, public debt as percentage of GDP (all from Eurostat), annual deficit as percentage of GDP, and a measure of partisan control of government (where higher values indicate a higher percentage of left-wing cabinet posts, see Armingeon et al., 2014). As these control variables are pretty standard, we will not discuss them in more detail.

Statistical specifications and methods

Mixed-effects models. To empirically test the argument that economic (and political) integration affects support for social policy (H_1), we employ a Bayesian logistic mixed-effects within-between modeling strategy.

We denote by Preferences_{ict} the binary response – support for social policy – of individual i ($i = 1, \cdots, N_c$) living in country c ($c = 1, \cdots, 22$) in year t ($t =$ 2004, 2006, 2008, 2010, 2012). x_{ict} is a vector of individual-level controls. The country- and time-specific constants are denoted by α_{ct}. Hence, the individual-level mixed-effects logistic regression equation is given by:

$$\Pr(\text{Preferences}^{*}_{ict} = 1) = \text{logit}^{-1}\left(x_{ict}\beta + \alpha_{ct} + \epsilon_{ict}\right), \tag{1}$$

where ϵ_{ict} is the error term.

Treating the varying intercepts as a function of the country-level factors, the country-level equation is:

$$\alpha_{ct} = \psi_{\alpha} + \lambda_B \bar{z}_c + \lambda_W (z_{ct} - \bar{z}_c) + \eta_c + \delta_t + \xi_{ct}, \tag{2}$$

where ψ_{α} is the grand mean of all individual social policy preferences across countries and years, and z_{ct} is a vector of country-level variables, in particular economic and political integration. We use a within-between model specification that allows us to estimate within- and between-country effects simultaneously (Bell et al., 2019; Fairbrother, 2014). The between-country effect λ_B is calculated as the cross-time mean of each country-level variable, $\bar{z}_c$. Subtracting this term from the original vector z_{ct} gives the within-country effect λ_W. To take account of the cross-classified (non-nested) structure underlying our longitudinal data, we include variance components at all relevant levels (Rasbash & Browne, 2008): Country (η_c), year (δ_t), and country-year (ξ_{ct}).

Maximum likelihood estimation of mixed-effects models can produce severely biased coefficients and confidence intervals when the number of countries is small. The problem is particularly serious for country-level estimates and non-linear models (Bryan & Jenkins, 2016). In contrast, Bayesian estimation yields much more robust and conservative results (Stegmueller, 2013). Thus, we estimate our models in a Bayesian framework. Given that the number of groups is relatively small, we assign weakly informative half-t priors, $t(4, 0, 1)$, on the variance components (Gelman, 2006). Furthermore, we center all continuous variables and scale them by two times their standard deviation so that the resulting coefficients can be roughly interpreted in the same way as the unscaled binary indicators (Gelman, 2008).

TSCS models. We examine the argument that European political integration suppresses the supply of social policy and thus prevents aggregated social policy preferences from being translated into policy (H_2) by using a TSCS approach.

Given that our dependent variable – social spending – is a trend-ridden indicator, we employ a Prais-Winsten estimator where the serially correlated residuals are modeled as a first-order autoregression process. In order to control for groupwise heteroskedasticity and contemporaneous correlation of errors, we apply panel-corrected standard errors (Beck & Katz, 1995,

1996). Additionally, we include country- and time-fixed effects (two-way fixed-effects specification) which account for unobserved country (e.g., the historical strength of the left might affect both European integration and social spending) and time effects (e.g., the economic and fiscal crisis). This is a quite rigorous test of the argument, as much of the variation in the dependent variable will be accounted for by the fixed effects. The basic TSCS regression equation is given by:

$$\begin{aligned}\text{SocialSpending}^{*}_{ct} = \gamma_1 \text{PoliticalIntegration}_{ct} + \gamma_2 \text{Preferences}_{ct-1} + z_{ct}\beta \\ + \alpha_0 + \epsilon_{ct}. \end{aligned} \tag{3}$$

Finally, to test the argument that institutional participation in the EMU reduces social policy responsiveness, we estimate following interaction model:

$$\begin{aligned}\text{SocialSpending}^{*}_{ct} = \gamma_1 \text{Participation}_{ct} + \gamma_2 \text{Preferences}_{ct-1} \\ + \gamma_3 \text{Participation}_{ct} \cdot \text{Preferences}_{ct-1} \\ + z_{ct}\beta + \alpha_0 + \epsilon_{ct}. \end{aligned} \tag{4}$$

Model results

We argue above that European integration increases citizens' demand for social compensation and at the same delimits the leeway of policy-makers to respond to these public concerns. In this section, we present empirical evidence for our theoretical claims.

Demand for social policy

Table 1 presents standardized coefficients (posterior means) and standard errors (posterior standard deviations) from Bayesian logistic mixed-effects models. To save space, we only present and discuss the estimates of our measures of European integration (see Table A4 in the appendix for full results of all controls).

The results in Models 1–4 show that within-country economic and political integration have a positive and statistically significant impact on demand for social policy. In other words, within-country increases in European integration are systematically associated with stronger popular demand for social spending. None of the other macro-level variables reaches statistical significance (see Table A4). These findings are not sensitive to our specific prior choice. Furthermore, they are robust to an ordered logit specification and sample reduction (see Tables A5 and A6 for these sensitivity tests).

In Model 5, we include each subindicator of the economic and political integration indices separately. We find that the effect of economic

Table 1. Bayesian logistic mixed-effects estimation of the impact of economic integration on demand for social policy.

	Model 1	Model 2	Model 3	Model 4	Model 5
Economic integration (B)	−0.28 (0.24)	−0.36 (0.24)	−0.31 (0.24)	−0.33 (0.26)	
Economic integration (W)	0.11* (0.04)	0.12* (0.05)	0.11* (0.05)	0.11* (0.05)	
Openness (B)					−0.23 (0.33)
Openness (W)					0.14* (0.05)
Importance (B)					-0.04 (0.31)
Importance (W)					0.00 (0.04)
Political integration (B)	0.04 (0.26)	0.06 (0.24)	0.11 (0.25)	−0.02 (0.27)	
Political integration (W)	0.14* (0.05)	0.14* (0.05)	0.14* (0.05)	0.13* (0.05)	
Participation (B)					0.07 (0.31)
Participation (W)					0.06 (0.04)
Compliance (B)					−0.10 (0.28)
Compliance (W)					0.15* (0.06)
Social spending (B+W)		✓			
GDP per capita (B+W)			✓		
Market inequality (B+W)				✓	
Individual-level controls	✓	✓	✓	✓	✓
Standard deviations					
Country	0.55	0.53	0.54	0.52	0.57
Year	0.10	0.11	0.10	0.07	0.08
Country-Year	0.18	0.18	0.18	0.18	0.18

* Zero outside the credible interval. Estimates (posterior means) with standard errors (posterior standard deviations) in parentheses. Based on two chains run for 3000 iterations after a burn-in of 1000. (B) indicates the between-country effect and (W) the within-country effect of a variable.

integration depends on how open a country is to EU trade and not on how important that kind of trade is to trade with the rest of the world (the latter would have contradicted the globalization literature). As for political integration, the effect on demand for social policy is driven by the measure of legal compliance. The pivotal element of this measure (see Table A3 for details) are European Court of Justice verdicts pertaining to the Single Market. This suggests that the more a country complies with the laws of the Single Market, the higher is the demand for compensation among its citizens. In short, we find strong evidence for our first hypothesis: European economic integration exhibits a positive association with public support for social spending. Moreover, we are able to show that the logic of the compensation thesis is particularly relevant in the context of the EU due to the legal framework provided by European political integration.

To make these effects more tangible, we calculate average marginal predicted probabilities based on Model 1 in Figure 2. Simulating changes in within-country integration from the lowest to the highest observed value[4] increases the probability of demanding more compensation by eight percentage points for economic integration (A) and seven percentage points for political integration (B). In both cases, a one standard deviation increase is associated with an increase in the predicted probability by about one percentage point.

Supply of social policy

We now look at the second step of the analysis, employing a series of TSCS models to identify the determinants of policy output on the macro level. We first examine the evidence for a direct relationship between political integration and social spending. We then turn to the link between political integration, public demand, and social spending.

Political integration. Table 2 presents unstandardized coefficients and panel-corrected standard errors from TSCS two-way fixed-effects models. The dependent variable is social spending. In a previously fitted training model (see Table A7 in the appendix), public debt, the annual deficit, and market inequality were not systematically related to social spending. Thus, we exclude these variables from the subsequent analysis.

Looking at Model 1, we find that the estimated coefficient of political integration is negative and the confidence interval does not include zero. Simulating an increase of political integration from the lowest observed value – United Kingdom in 2006 – to the highest – Estonia in 2012 – is associated with a decrease in social spending as a percentage of GDP by about 1.2 percentage points (from 26.3 to 25.1). While this difference might sound modest, in real value terms it is significant. For instance, taking the GDP of the United Kingdom in the last quarter of 2006, a decrease of 1.2 percentage points amounts to £4.327.492.195. An increase of one standard deviation from the mean value of political integration – roughly similar to an increase from the level of Portugal in 2007 to the level of Portugal in 2012 – is accompanied by a decrease of approximately 0.26 percentage points in

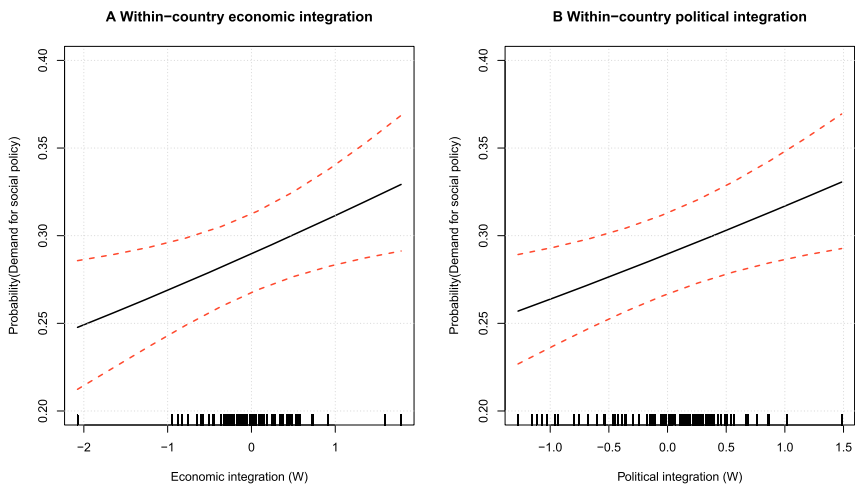

Figure 2. Average marginal predicted probability of demand for social policy by within-country economic and political integration with 95% credible intervals.

Table 2. TSCS two-way fixed-effects estimation of impact of political integration on supply of social policy.

	Model 1	Model 2	Model 3	Model 4
Political integration	−0.02* (0.01)			
Participation		−0.02* (0.00)	−0.03* (0.01)	−0.03* (0.01)
Compliance		−0.01* (0.01)	−0.02 (0.02)	−0.02 (0.02)
Economic integration	0.01 (0.04)	0.01 (0.04)	0.02 (0.08)	0.02 (0.08)
GDP growth	−0.14* (0.02)	−0.14* (0.02)	−0.16* (0.04)	−0.16* (0.04)
Unemployment	0.21* (0.02)	0.19* (0.02)	0.17* (0.05)	0.16* (0.05)
Left government	0.10* (0.04)	0.11* (0.04)	0.31 (0.17)	0.33 (0.18)
Popular support for social policy$_{t-1}$			−0.39 (1.66)	
Support, lower income groups$_{t-1}$				−1.58 (1.72)
Support, higher income groups$_{t-1}$				1.17 (2.06)
Constant	27.33* (1.96)	27.41* (1.99)	30.05* (7.42)	30.99* (7.70)
Observations	213	213	77	76
Countries	24	24	22	22

* Zero outside the confidence interval. Models 3 and 4 use robust standard errors. Since it is not clear what the R^2 actually measures in the context of a Prais-Winsten transformation, we abstain from reporting it (Wooldridge, 2015, p. 384).

social spending. Taking the case of Portuguese GDP in the last quarter of 2012, this is equivalent to € 112.866.452.

Model 2 decomposes our measure of political integration in its two subcategories, i.e., compliance with EU law and participation in steps of institutional integration. The results suggest that institutional participation – especially EMU membership – is the more important driver of the negative relationship between political integration and social spending.[5] Economic integration exhibits no statistically significant association with social spending in either of these two models. The interpretation of this finding is straightforward. Although both dimensions of European integration are systematically related to demand for social policy, only political integration and in particular the budgetary constraints of the EMU affect government spending. These results are robust to a jackknife estimation strategy (see Table A8). Moreover, the structurally depressing effect of institutional participation on social spending is consistent across different social policy areas (see Table A9).

Policy responsiveness. Our statistical analysis does not indicate that social policy preferences play a significant role in determining levels of social spending. When we include aggregated social policy preferences[6] (see Models 3 and 4), the estimated coefficients are not distinguishable from zero. This result holds regardless of whether we look at all respondents or lower (value of 0 on our income perception variable) and higher (value of 1 on our income perception variable) income groups.[7]

Furthermore, our second hypothesis predicts that this lack of responsiveness is due to institutional participation in the EMU and the fiscal constraints of the SGP. Figure 3 tests this argument explicitly by depicting the marginal effect of social policy preferences on social policy supply conditional on institutional participation (see Table A10 in the appendix for the underlying

regression results). Beside the average preferences of all respondents (Panel A), we again look at support for social policies among lower (Panel B) and higher (Panel C) income groups.

The figure shows the constraining effect of institutional participation in the EU on social policy responsiveness. The interaction term between institutional participation and public preferences is negative and statistically significantly different from zero in each model (see β-coefficients in the top-right corners). This suggests that the more a country integrates institutionally in the EU, the less this country's government responds to increases in demand for social policy. The graph for all respondents (Panel A) indicates that in countries with zero levels of institutional participation (i.e., the United Kingdom as well as the Czech Republic, Hungary, and Poland in the early years of the observation period), there is a statistically significant positive relationship between social policy preferences and social policy output. However, as institutional integration increases, the effect decreases and

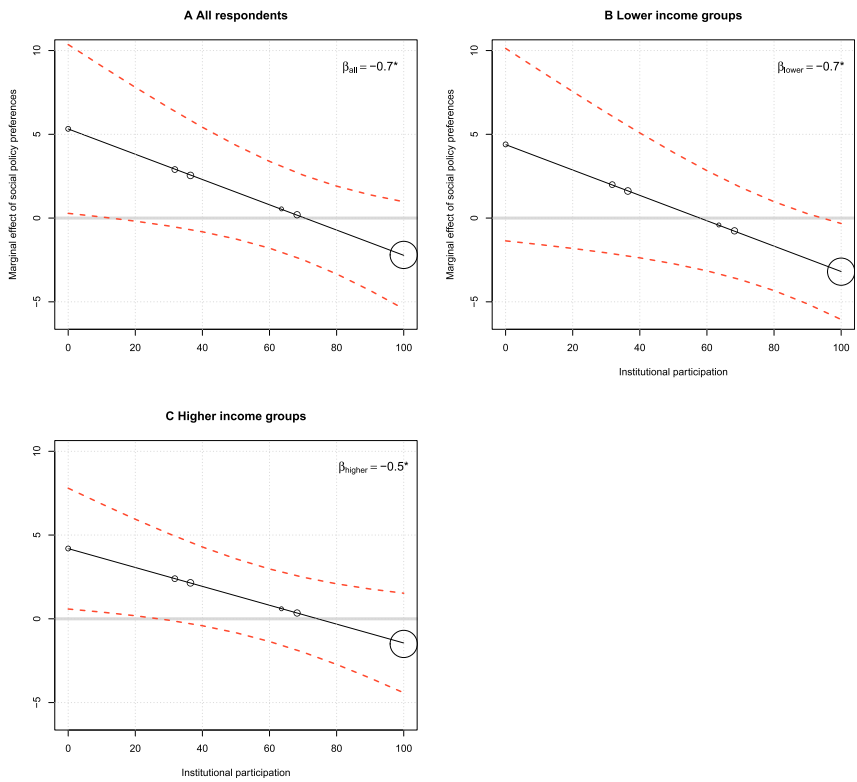

Figure 3. Marginal effect of social policy preferences on social policy supply conditional on institutional participation with 95% confidence intervals. Circles indicate empirical observations of institutional participation (size is proportional to frequency).

becomes quickly indistinguishable from zero. For countries in the EMU (i.e., institutional integration equals 100), the insignificant point estimate is even negative. Panels B and C show interesting differences across income groups. They indicate that governments in non-participating countries are responsive to higher income groups (Panel C), but not to lower income groups (Panel B). Moreover, for lower income groups living in EMU member states, there is evidence to suggest that higher demand for social policy is even associated with less social policy.

We acknowledge that including the aggregated preferences leads to a significant decrease in the number of observations and thus the statistical power of these models. Yet, we take the fact that – particularly in the context of country- and time-fixed effects – the remaining variation in the data still bears out the theorized relationship between political integration and policy responsiveness as suggestive evidence for our argument. In the appendix, we estimate the same interaction models using either total political integration or its compliance subindicator instead of institutional participation (see Table A11). With these modifications, the results of Figure 3 cannot be replicated, which suggests that institutional participation is the main driver behind the decline in government responsiveness. Moreover, in order to single out the impact of EMU more directly, we repeat the same statistical exercise with a dummy for EMU membership replacing the index of institutional participation. Our findings remain valid under this alternative specification (see Table A12).

We thus summarize: Institutional participation – especially membership in the EMU – is negatively associated with social policy output in terms of social spending. This result corroborates the confining effect of European political integration on the fiscal leeway of member states. Moreover, there is no systematic association between public preferences and policy output in integrated countries. Our analysis suggests that the institutional constraints at the EU level help to explain this lack of government responsiveness.

Conclusion

In this paper, we have analyzed the contradictory implications of European integration for welfare states and the legitimacy of democratic decision-making in the EU. Based on large-scale analysis of survey and aggregate-level data, we found that European economic integration – reinforced by the legal framework of political integration – is positively associated with increased demand for compensation via social policies. However, our analysis also shows that European political integration confines the fiscal leeway of member states and therefore the degree of responsiveness to public demands for compensation.

This paper goes beyond existing work in three respects. First, the explanatory approach in this study is the first that explicitly accounts for the multidimensional implications of European integration on the political economy of the welfare state. Second, the responsiveness literature has so far largely neglected the potential impact of external constraining forces on the ability of policy-makers to comply with public demands. Third, our approach is more comprehensive compared to others (e.g., Walter, 2010, 2017), since we have not only looked at the micro level, but also have investigated the linkage between public preferences and actual policy output. While we consider this comprehensive approach a major strength of this paper, we also realize that more research is needed to substantiate the individual claims of our theoretical argument.

Finally, this study has important implications for current political debates. In the wake of the Eurocrisis, various austerity measures were implemented that can be understood as a stricter continuation of the fiscal rules of the EMU. At the same time, the crisis has led to escalating levels of unemployment and a significant drop in wages in some of the member states. These developments suggest that the contradictory implications of European integration persist and will potentially intensify in the future, resulting in an even larger divergence between social policy demand and supply. This mismatch may contribute to low levels of trust between Europe's citizens and the project of European integration, in particular if the social dimension of the European integration process continues to be neglected.

Notes

1. Beyond EMU, political (i.e., institutional) manifestations of negative integration – especially those that reduce cross-border transaction costs and exchange rate fluctuations – should generally have a constraining effect on fiscal spending because they induce tax competition between member states and decrease corporate tax rates (Genschel et al., 2011).
2. See the appendix for detailed descriptive statistics on all variables.
3. ESS main income variable lacks comparability over time as its coding was changed after the third wave. Therefore, we use a subjective measure of income that was included in all waves (see variable 'hincfel'). A value of 1 indicates that respondents are *living comfortably* or *coping* on their present income, whereas 0 indicates that life is *difficult* or *very difficult* on present income.
4. For economic integration, this is Ireland in 2004 (lowest) and Belgium in 2008 (highest). For political integration, this is Spain in 2008 (lowest) and Estonia in 2012 (highest).
5. Our measure of institutional participation exhibits within-country changes in the following countries: Cyprus, Czech Republic, Estonia, Hungary, Latvia, Lithuania, Malta, Poland, Slovakia, and Slovenia (see Figure A5). The finding corroborates extant research that has shown the same relationship for longstanding EU members and earlier time periods (e.g., Busemeyer & Tober, 2015; Filippin & Nunziata, 2019).

6. Aggregated social policy preferences enter the models lagged by one year, accounting for the fact that preferences should not turn immediately into policy (cf. Brooks & Manza, 2006a, 2006b, 2007).
7. The results do not change when we include both income groups separately.

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No potential conflict of interest was reported by the author(s).

Data availability statement

Supporting data and materials for this article can be accessed at https://doi.org/10.7910/DVN/IA2KHW.

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