

Monnet's Error? *

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L'Europe se fera dans les crises et elle sera la somme des solutions apportées à ces crises.

[Europe will be forged in crises, and will be the sum of the solutions adopted for those crises.]

Monnet, J. (1976) *Mémoires* (Paris: Fayard).

From Kaldor (1971) to Friedman (1999) most economists predicted that a currency union was not sustainable without a political union. In spite of this consensus, in 1992 the Maastricht Treaty was signed and in 1999 the euro was introduced. These choices were not made out of ignorance about the necessary conditions for a currency union to work, but out of a strong conviction that integration will force further integration. In the words of Romano Prodi, one of the euro founding fathers, "I am sure the euro will oblige us to introduce a new set of economic policy instruments. It is politically impossible to propose that now. But some day there will be a crisis and new instruments will be created."

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The integration “chain reaction” predicted by Monnet can take place for two reasons. Integration can create the political consensus for further integration, where crises provide the catalyst to transform political consensus into action. Alternatively, the chain reaction can be the result of a “scorched earth” strategy. By burning bridges behind, integration might be able to force further integration simply because there are no alternatives. This further integration can occur in spite of growing political opposition, not because of a rising political support. Even under this alternative crises can be a catalyst, but not to transform a political consensus into action, but to force unpopular choices down the throat of reluctant voters.

So far history seems to have vindicated Monnet’s theory. Before the 2010 European Sovereign Crisis nobody would have anticipated a common supervision of the European banking sector any time soon. Since November 2014 this has become a reality. Yet, was this move triggered by a rising consensus toward more integration or was it forced down the throat of reluctant voters? Answering this question is crucial to the future of the euro and of Europe in general. If integration increases the demand for further integration, political integration is just a question of when, not if. By contrast, if integration forces further integration against voters’ will, the integration process is more at risk. As all chain reactions, there is the risk of a meltdown.

In this paper we address the question of whether integration fosters demand for further integration. By using Eurobarometer’s surveys we put together the longest possible time series of questions regarding Europeans’ perceptions of the past and future benefits of European membership, support for the common currency as well as the level of trust in European institutions in the 15 European countries that joined Europe up to 1995 (France, Germany, Italy, Belgium, The Netherlands, Luxembourg, The UK, Ireland, Denmark, Greece, Spain, Portugal, Austria, Finland, and Sweden).

To begin with there is a very different *level* of pro-European sentiment (Europhilia), across EU members. Initially, Southern European countries were much more pro-Europe than Northern European ones. This difference appears related to the quality of institutions of each country vis-à-vis Germany. The worse the relative quality of domestic institutions, the higher the demand for Europe was.

This positive feedback loop, however, seems to break down with the 1992 Maastricht treaty (and the simultaneous crisis in the European Monetary System). There is a drop in support for European membership and by looking at individual data this drop is highly correlated with a reduced support for the single market and for further political integration. This step seems to have created a permanent backlash.

While the question on past benefits of European membership exhibit a similar behavior, the attitudes towards the common currency and the trust towards the EU and the ECB show very different patterns. The support for the Euro seems to be remarkably stable, in spite of the Eurozone crisis, while trust in European institutions plummeted, even more so than the trust toward national institutions.

By using the surveys before and after the watershed moments, we build pseudo-panels (Deaton, 1985) to probe deeper into the causes of the consensus drop. The deterioration in the support for Europe in 1992 appears directly linked to a worsening in opinion regarding the benefits of a single European market, a single currency, and further political integration. This effect is similar across all countries, with the exception of Denmark, for which is worse.

When we look at the effect of the Eurozone crisis, the most important determinant of discontent toward Europe seems to be the level of unemployment. The interest rate spread of a country public debt vis-à-vis the German Bund also has also a negative impact on support for EU membership. This effect, however, disappear if we allow a separate time trend for Southern European countries. We confirm this evidence by creating a pseudo-panel with the two surveys before and after the crisis and using individual perceptions of the economic conditions, rather than macro level variables.

Because the single currency forces also a single monetary policy, disappointment with Europe may arise because common policy decisions may be suboptimal from a domestic point of view. To estimate how much of the disenchantment towards Europe is correlated with the suboptimality of a common monetary policy, we compute the difference between the country optimal Taylor rule and the ECB policy rule for each country. We find that these deviations are highly predictive of the drop in support for Europe and in the trust towards the ECB. Yet, paradoxically, they are not predictive of the drop in support for the common currency. Europeans seem to believe in the common currency, not in the way it is managed.

Most Europeans are unhappy with the direction that the European Union has right now, but they still consider it a useful institution to deal with crises. In spite of the worst recession in recent history, the Europeans still believe in the common currency. Yet, they show no appetite to delegate more power to the EU.

Since the survival of the Euro is dependent upon further transfers of national powers to the EU, then the European Project seems to be stuck: Europeans do not want to go forward, they do not want to go backward, but they cannot stay still.

The rest of the paper proceeds as follows. In the next section we summarize the main lines of debate around the European integration process. Section 2 describes the main data used in our analysis; Section 3 discusses the sentiments of the Europeans towards the European project at the time it was started or the country joined it; Section 4 shows evidence of the temporal evolution of the sentiments towards Europe and how they correlate with macro-economic variables. Section 5 uses a pseudo-panel approach to shed light on the effect of three critical moments on the European project (The Maastricht Treaty/ERM crisis, the 2004 Enlargement and the 2010 Eurozone crisis) on European sentiments. Section 6 speculates on the future of Europe and Section 7 discusses some policy alternatives. Section 8 concludes.

1. Theories of the European Integration Process

The process of European Integration has been greatly influenced by the functionalist view, as interpreted and advanced by Jean Monnet, one of the EU founding fathers. The functionalist view postulates that European integration is mostly pushed by élites and interest groups that transcend national boundaries (Haas (1958, 1964). It is called "functionalism" (sometimes neo functionalism) because it aims at transferring specific "functions" to supranational institutions (for an excellent overview on the topic, see Spolaore, 2013).

The functionalist approach finds its first institutional implementation in the European Coal and Steel Community Treaty. The treaty established five main institutions, which constituted the foundation of the institutional framework of the European Community (Laffan and Mazey, 2006). These institutions, which do not respond directly to voters, are deputized to push further the integration process.

The institutional counterpart to this strategy is the so called *methode communautaire* (Community Method), which granted to the European Commission (composed of appointed members) a central role in formulating proposals. The appointment method naturally led to a Commission populated by pro-Europe members, who always pushed for further integration.

A corollary of this approach is that the Commission must not be highly politicized, but must represent all mainstream parties in Europe. In so doing this method favored the formation of an élite of pro-Europe bureaucrats, with little or no political accountability. It is what Marquand (1979) calls Europe's "democratic deficit".

As discussed in Spolaore (2013), functionalists believe that moving some policy functions to the supranational level creates pressure for more integration through both

positive and negative feedback loops. The positive feedback occurs as politicians and voters observe the benefits of integrating some functions and will want to integrate more. The negative feedback occurs when partial integration leads to institutional and economic inconsistencies that will push further integration by forcing the introduction of the complementary reforms needed. Needless to say, for the negative feedback mechanism to push further integration that fixes the institutional inconsistencies, it must be true that dismantling the initial integration is costly – that is institutional and economic integration comes with irreversibility, so that pushing forward may be less costly than pulling back. According to Eichengreen (2006) and Pierson (1996) technocrats typically start from narrow areas of expertise (e.g. coal, steel) where they have an informational advantage and voters and national politicians are not able to predict or anticipate the contradictions generated by these partial integrations, nor are interested in opposing them because they affect a limited number of voters.

A leading example of this “burning the ships” strategy is the euro. In the words of the former German Chancellor Helmut Schmidt “This is the great strength of the euro, that nobody can leave it without damaging his own country and his own economy in a severe way.”¹

As explained by Monnet’s collaborator George Ball (1994): “Monnet recognized that the very irrationality of this scheme might provide the pressure to achieve exactly what he wanted – the triggering of a chain reaction. The awkwardness and complexity resulting from the singling out of coal and steel would drive member governments to accept the idea of pooling other production as well.”

At least some European founding fathers seem to have conceived the mechanism knowing that these inconsistencies would lead to crises. These crises were seen as opportunities to force further integration which voters would have not favored otherwise. In the words of Romano Prodi, one of these founding fathers, “I am sure the euro will oblige us to introduce a new set of economic policy instruments. It is politically impossible to propose that now. But some day there will be a crisis and new instruments will be created.”

Therefore, in order for the functionalist approach to work, an initial integration step should lead to more demand for integration later, either through the positive or the negative feedback loop (or both). Most importantly, the functionalist approach

¹ In an interview with David Marsh in 2007 cited in David Marsh “The Euro: The Politics of the New Global Currency” Yale University Press; 2009, p. 255.

implicitly assumes that there is no risk of a backlash, pushing the integration project backward. Padoa-Schioppa, one of the founding father of the euro, once said that the Economic and Monetary Union (EMU) has the same name of an ostrich-like Australian bird. "Neither," he said, "can go backwards."²

Yet, there is a contradiction implicit in this approach. On the one hand, this strategy makes sense only if further integration is not desired today. If voters were in favor of further integration from the start, the functionalist approach would be redundant. On the other hand, if voters were against further integration and fully anticipated the feedback effects, they will oppose even the first move. Thus, to work the functionalist approach requires a certain degree of voters' deception, which adds to the perception of a democratic deficit.

In this paper we analyze the public opinion regarding the European project through the lenses of Monnet's conjecture. First, we analyze the functioning of the positive feedback loop. In particular, we study whether the pro European sentiment evolves as a function of the time spent in the Union. We also analyze the evolution of a country xenophobic attitude as a function of the number of immigrants coming from Europe and from outside of Europe. It is possible that mistrust toward other nations and citizens prevents comprehensive integration, at the start, but as citizens learn to trust other immigrants and get to know them, the public opinions may shift. According to this hypothesis, as Europe becomes more integrated, especially with the abolition of the internal border of control and several European initiatives, such as the Erasmus program, European citizens learn to trust more their counterparts. This positive feedback could, in turn, change positively the sentiment toward further integration.

Second, we analyze the negative feedback loop at three critical junctures of the European project: i) the signing of the Maastricht treaty/ERM crisis; ii) the 2004 EU enlargement to Eastern Europe; iii) the Great Recession and the associated 2010 Eurozone crisis.

2. The Data

2.1 The Eurobarometer Surveys

The Eurobarometer surveys are the product of a unique program of cross national and cross temporal social science research. The effort began in the early 1970s, when the

² Lorenzo Totaro, Brian Swint and Flavia Krause-Jackson, "Padoa-Schioppa, Euro Architect, Founding Member of ECB Board, Dies at 70, Bloomberg.com Dec 19, 2010.

European Economic Community (EEC)'s Commission sponsored simultaneous surveys in the EEC to measure public awareness of, and attitudes towards, the Common Market and the European Community institutions. In 1974, the EEC Commission launched the Eurobarometer series, designed to provide a regular monitoring of the social and political attitudes in the nine member-nations: France, Germany, Great Britain, Italy, the Netherlands, Belgium, Denmark, Ireland, and Luxembourg.

These Eurobarometer surveys are carried out in the spring and fall of each year. In addition to regular readings of support for European integration, each survey explores some special topics. Beginning with Barometer 7 in the spring of 1977, the surveys measure also the support for the European Parliament.

The geographic scope of Eurobarometer surveys has gone hand in hand with the Community's enlargement process: it has included Greece since fall 1980, Portugal and Spain since fall 1985, the former German Democratic Republic (East Germany) since 1990, Finland since the spring of 1993, and Sweden and Austria since the fall of 1994. Since the 2004 eastern enlargement of the Union, the survey has included the Republic of Cyprus, the Czech Republic, the Baltic States, Malta, Poland, Slovakia and Slovenia. In spring 2007 Romania and Bulgaria have also been included.

For the sake of consistency, we excluded citizens from countries not yet in the European Union at the time of the survey³ as well as respondents below the age of 18. Among all the Eurobarometer waves, we select those in which questions about the attitudes towards membership, the euro, and the European Central Bank are asked. The exact wording of these questions is reported below

QUESTION WORDING

MEMBERSHIP *Generally speaking, do you think that (OUR COUNTRY)'s membership of the European Union is. (Good, Neither good nor bad, Bad)? We compute the share of respondents who answer Good.*⁴

BENEFIT *Taking everything into consideration, would you say that (OUR COUNTRY) has on balance benefited or not from being a member of the European Union (Benefited, Not benefited)? We compute the share of respondents who answer Benefited.*

³ So that, for instance, Finns are included since spring 1995 as opposed to spring 1993.

⁴ In earlier datasets the coding of the third option "Neither good nor bad" is inconsistent. Even after reviewing the codebooks we were unable to reach a desired level of confidence in our results. For this reason we limited ourselves to the dichotomist choice.

EURO *Please tell me for each proposal, whether you are for it or against it. [...] There has to be one single currency, the euro, replacing the (NATIONAL CURRENCY) and all other national currencies of the member states of the European Union.*

(For, Against). We compute the share of respondents who answer “For”.

TRUST EU *For each of the following institutions, please tell me if you tend to trust it or tend not to trust it? [...] The European Union. (Tend to trust, Tend not to trust).* We compute the share of respondents who answer “Tend to trust”.

TRUST ECB *For each of [the following European institutions], please tell me if you tend to trust it or tend not to trust it? [...] The European Central Bank (Tend to trust, Tend not to trust).* We compute the share of respondents who answer “Tend to trust”.

The MEMBERSHIP variable is a measure of the view of the current and future benefits of belonging to the EU. By contrast, the variable BENEFIT represents an assessment about the past benefits, while we interpret TRUST EU as an assessment of how the European project is managed. Similarly, the EURO variable assesses the beliefs in the necessity of a common currency, while we interpret the TRUST ECB variable as a judgment on the way the common currency is managed. In this way we are able to distinguish between opinions about the *validity* of the European unification project and opinions about the *performance* of the current European institutions. As we will see, this distinction will turn out to be empirically important.

The summary statistics of these variables are contained in Table 1. Panel A reports the individual data, while Panels B and C report averages by country. Finally, Panel D reports sample statistics on electoral variables. For a detailed description of these variables see Table A1 in the online Appendix. Our data include all Eurobarometer surveys where these variables appear. The last usable survey is 2012 (or 2013 depending on the variable), since Eurobarometer has stopped asking the Membership question.

2.2 Demographic variables

The Eurobarometer surveys contain information on the date of birth of respondents. By using this date, we cluster people in five cohorts: the War II generation (born before 1945), the post War II generation (between 1946 and 1957), the baby boom

generation (between 1958 and 1967), the Erasmus generation (so called because they benefited from European fellowship program to study abroad between 1968 and 1979), and the millennial generation (born after 1979).

The Eurobarometer surveys contain also data on years of education and occupation recorded in 10 categories.⁵

2.3 Macroeconomic Variables

The exact description of the macroeconomic variables we use is contained in Table A.1 in the online Appendix. For the unemployment rate (unemployed persons as a share of the total active population) we use the Annual Macro-Economic Database of the European Commission; for inflation, the OECD Consumer Price Indices. As ECB policy rate we use the Marginal Lending Facility Rate (MLR), i.e. the interest rate at which major financial institutions obtain overnight liquidity from national central banks in the Eurosystem, against eligible assets. We obtain the pre-Euro national central bank policy rate from the IMF International Financial Statistics (discount rate, line 60).

The gross contributions to – and receipts from – the E.U. budget are from Kauppi and Widgren (2004) for the period 1976-2001 and from Financial Programming and Budget - Revenue and Expenditures file for 2001-2012.

2.4 Attitudinal and Cultural Variables

We derive some indicators of cultural and attitudinal differences across countries from the European Social Studies surveys. As indicators of racism we use the answer to the following question “On this list are various groups of people. Could you please mention any that you would not like not to have as neighbors?” One measure (called “no neighbors: race”) equals to one if the respondent mentions “People of a different race” as a possible answer. The other measure (called “no neighbors: immigrants”) equals to one if the respondent mentions “People of a different country” as a possible answer.

As a measure of pride we use the question “How proud are you to be a ... (country) citizen.” We compute the share of respondents who declare themselves Very Proud on a 4pt scale (1 = Very Proud, 2 = Quite Proud, 3 = Not very proud, 4 = Not at all proud).

⁵ 1. Farmer, Fisherman (Skipper); 2. Professional - Lawyer, Accountant, Etc; 3. Business - Owner Of Shop, Craftsman, Proprietor; 4. Manual Worker; 5. White Collar - Office Worker; 6. Executive, Top Management, Director; 7. Retired; 8. Housewife, Not Otherwise Employed; 9. Student, Military Service; 10. Unemployed, D.K., N.A.

The genetic distance is the bilateral genetic distances between countries computed by Cavalli Sforza (2000) and used by Guiso et al. (2009) and Spolaore and Wacziarg (2009).

3. Sentiment toward the European Union

Before analyzing the evolution of sentiments toward Europe it is important to study whether citizens of different countries have a different baseline attitude vis-à-vis the European project. As the Union was formed, did the initial level of support differ across countries? Why?

Table 2 shows the sentiments toward the European project the first time this question was asked (which changes from question to question and from country to country). The oldest question is whether EU membership is a good thing for the country, which was asked since 1973. For the core countries (France, Belgium, The Netherlands, Germany, and Italy), thus, the question is asked several years after they joined the EU, something we need to keep in mind in the interpretation.

The first column reports the fraction of people, by country, who answer “Good” to the question “Generally speaking, do you think that (OUR COUNTRY)'s membership of the European Union is (Good, Neither good nor bad, Bad)?” The data show a large difference of opinions across geographical areas. Among the core countries there is an overwhelming majority in support, with Italy being the most favorable (80%) and France being the least favorable (69%). By contrast, for later entrants the picture is mixed. United Kingdom (36%) and Denmark (46%) joined with only a minority supporting the EU. So did Greece (42%), Sweden (40%), and Austria (42%). Instead, Portugal (72%) and Spain (78%) enjoyed a large majority of supporters for the project at the time of entry.

The remarkable difference in support between early and later entrant (73% vs 52%) may reflect a selection effect (the more enthusiastic joined first) or an acquired taste effect (consistent with the positive feedback effect predicted by the functionalist approach).⁶

The other answers show a similar pattern. Yet, there are some differences. The fraction of respondents who in 1984 agreed that their country benefited from being

⁶ A formal test that the difference in sentiments at entry is lower for later entrants does not reject the null for “Membership is good” and for “Membership benefits” (p-values 0.007 and 0.057, respectively); there is no evidence that it differs for trust but not for trust in the EU, presumably because this question is asked much later than the other two when some disillusion with the EU project has already affected the opinions of the early members as we document in Section 4.

a member of the European Union is the majority in France (55%), Belgium (52%), the Netherland (69%), Luxemburg (72%) and Ireland (61%), while is less than half in Germany (41%), Denmark (44%), Greece (47%) and the UK (34%). The difference may reflect the fact that this question focuses on the past (have you benefited), rather than the present/future (is membership good today).⁷

On average, citizens of the core countries seem to trust the European Union less than they think it is beneficial. The fraction of respondents who trust it are the majority only in Italy (63%) and Luxembourg (76%). Among the late entrants, Southern countries have a more positive view, while Northern ones do not trust the European Union.

Can we explain these differences in opinion with country-specific variables? To this purpose, we extract the country fixed effects from the following O.L.S. regression run on the sample of respondents to the pooled Eurobarometer surveys in the year when a country entered the EU (or 1973 for the original six countries):

$$(1) \text{Membership}_{ijt} = \alpha + \beta X_{ijt} + \gamma D_j + \epsilon_{ijt}$$

where i stands for individual, j for country and t for the entry year. The Membership variable is a dummy variable equal to 1 if a respondent answers "Good" to the Membership question in that country year. X_{ijt} are individual demographics (gender, cohorts, education, occupation), and D_j are country fixed effects.

Figure 1 plots the country fixed-effects (relative to Germany) derived from (1). There is a very strong North-South component in these country fixed effects. The picture is similar (not reported) if, instead of the Membership variable, we use Benefit (a dummy variable =1 if a respondent thinks that his country has on balance benefited from EU), the support for the Euro, or the Trust in EU and ECB. For simplicity, we will refer to all these variables measuring the support towards the European projects as Europhilia indicators.

In Table 3 we regress these countries' fixed effects on potential determinants of Europhilia. Each RHS variable is a proxy for a motive for supporting Europe cited in the public debate. Since we only have 15 observations, we run univariate regressions with each of the variables in the rows of Table 3 as RHS variables.⁸ Each

⁷ For the newcomers, Spain and Portugal in 1986 and Finland Sweden and Austria in 1995, the answer has not much relevance, since they have just joined the EU.

⁸ Specifically, Table 3 reports the coefficients b_j^z of the regression $y_i^j = a + b_j^z x_i^z + u$

entry in the table shows the slope coefficient (and its standard error) of the regression where the LHS is the variable reported at the top of the column and the RHS is the one variable indicated at the beginning of the row. Statistically significant coefficients are marked in bold.

Though not all motives should affect each indicator of support for the European project, we are not very successful in explaining these country fixed effects. Given the number of right hand side variables, the level of statistical significance is close to what we would expect just by chance. Thus, the main objective of this table is to show which motives do not matter.

To begin with, a prevailing view – rooted in Robert Schuman 1950 proposal to Germany (and any other country in Europe willing to join) to create a community of peaceful interests - is that Europe was the response to the horrors of the two World Wars. For this reason, we use as a possible determinant of Europhilia the sum in number of deaths suffered by a country in World War I and in World War II divided by its population at the beginning of each war. We do not find any evidence to support that the European unification is a mere consequence of the destruction of the war. One could argue that the relative number of deaths might not capture well the destructions of war. However, countries that were spared the horrors of WWII, such as Spain and Portugal, exhibit a higher level of Europhilia than countries devastated by the war, such as Austria and England.⁹

Similarly, we do not find any support for the idea that a country's average attitude towards Europe depends upon its relative GDP per capita, the ratio between Net Receipts from the EU and GDP, the openness to trade (proxying for an "Economic insurance", "Economic Transfers", and "Trade Opportunities" motives, respectively), the level of xenophobia, the level of patriotism, and the genetic distance of its indigenous population with the indigenous population of the rest of the European Union (a proxy for cultural barriers).¹⁰

where i indexes the country, j the left-hand side variables ($j=1\dots J$), z the right hand side variable ($z=1\dots Z$). Each time we regress one of the y_i^j on one of the x_i^z . That is we run $J*Z$ regressions. The table reports the b_j^z coefficients.

⁹ In the regressions in the first row the measures of attitude towards Europe are obtained from respondents in the various countries and surveys that were born before 1945. Thus, it seems that the result is not due to the fact that the memory of WWII is fading way among the generations that were not exposed to the war.

¹⁰ For the economic motives see, among others, Baldwin (2006) and for cultural barriers Herrera et al (2014).

By contrast, a measure of institutional quality (the difference in each country government effectiveness vis-à-vis Germany, computed in 2007) seems to be correlated with Europhilia. The government effectiveness is a World Bank's World Government Indicator Index, capturing "perceptions of the quality of public services, the quality of the civil service and the degree of its independence from political pressures, the quality of policy formulation and implementation, and the credibility of the government's commitment to such policies (increasing in government capacity" (Kauffman et al (2010)). Countries with more effective governments than Germany are less Europhile. By contrast, countries with relative bad institutions seem to be happier to be part of the EU. This result suggests that citizens believe that the European institutions will have a quality that averages the quality of the member states. Joining Europe could signify that the political and economic institutions will improve in the European Union for weaker quality countries.

An alternative explanation is that institutional quality is a proxy for the years a country had democratic institutions. Thus, countries with younger democracies are more likely to favor the European project. We try to distinguish between these two hypotheses by correlating the number of years each country had a democratic government with Europhilia.¹¹ The results (unreported) show that proxies for democracy are not correlated with European consensus.

We repeat the same exercise by using the variable BENEFIT, which measures the past benefit and not the future one. This question is not the most meaningful one for countries at entry, since they do not have much an experience. Not surprisingly, no variable seems to have any explanatory power.

When it comes to support for the Euro, we find that, besides the relative institutional quality, also the xenophobia indicator seems to have an effect: more xenophobic countries tend to support the euro more. This effect seems to be the result of a higher level of xenophobia among southern European countries, who support the Euro more.

In sum, attitudes towards Europe do not seem to be affected either by cultural barriers or by the claimed desired to avoid a future war. We find some support for the "Institutional quality transfer."¹²

¹¹ From 1880 to today the number of years for each country Polity IV gives a score of 6 or more.

¹² These results are robust to using the sentiments in the entire sample period; that is if instead of correlating these factors with the country fixed effect residual from (1) we correlate them with the fixed effects from a similar regression run using the data for the entire period, including time fixed effects.

4. The Temporal Dynamics of Europhilia

With these different baselines in mind, we can now analyze the evolution of sentiments over time.

4.1 Aggregate Analysis

Figure 2 reports the evolution of the fraction of people with a positive sentiment about EU membership from 1973 to 2012 (the last year the information was collected) for the 15 core EU countries.¹³ In this figure we have grouped the countries into three areas, Northern Europe (Denmark, Ireland, and United Kingdom), Central Europe (France, Belgium, Netherlands, Luxemburg and Germany), and Southern Europe (Greece, Italy, Portugal, and Spain). While there is some variation within each group, the geographical three-partition seems to fit the data well.

Given the continuing enlargement of the EU, we are concerned that the increase in the set might confound the temporal pattern. For this reason, we limit the sample to the earliest 15 members, imputing to a missing country its entry level of the corresponding variable until it enters to make the series homogenous.¹⁴ However, in Figure 2, panels B, C, and D we analyze each country separately to distinguish any compositional effect deriving from new entrants' opinions.

Figure 2A shows a steady improvement in Europhilia during the period leading to the Maastricht Treaty (1992): at the peak, in the second half of 1991, the fraction of Southern Europe supporters was more than 80%, the fraction of Central European supporters was 61%, while in Northern Europe a majority of respondents (59%) believed that EU membership provided a benefit to their country.

As Figure 2 panels B-D show most of the increase in consensus is concentrated among the Eurosceptic countries located in the North and in Greece. This trend seems consistent with the positive feedback reaction of Monnet. The support for Europe rises among initially skeptical countries thanks to a positive feedback effect of membership.¹⁵

The year 1992 is a watershed from many points of view. In February 1992 the Maastricht treaty is signed, establishing not only the path to a common currency, but

¹³ Until 1991 the European Union was called European Economic Community. From now on we are going to refer it to EU, regardless of the time period

¹⁴ The EU founding members were France, Germany, Italy, Belgium, Netherlands, and Luxembourg. UK, Ireland, and Denmark joined in 1973, Greece in 1981, Spain and Portugal in 1986, Austria, Finland and Sweden in 1995.

¹⁵ Obviously, because consensus is measured as a percentage of the population with favorable sentiments towards the EU, there is less scope for it to increase in a country where it is already high (say 80%) than in a country where it is low.

also final political unification as the ultimate goal. In September 1992 the Italian Lira and the British Pound were forced off the EMS system. Finally, in January 1993 the single market becomes a reality, thanks to the adoption of 280 pieces of legislation that replace national regulation with common European laws.¹⁶ In years following these episodes the consensus toward Europe seems to decline. It is hard to disentangle the relative importance of these three factors with aggregate data. Nevertheless, the fact that the drop in consensus is not concentrated or particularly pronounced in the two countries that were forced to exit the EMS seems to rule out the EMS as a main factor. However, because the EMR crisis affected the participating countries at large not only those who were forced out of the exchange rate agreement, there may be not enough power in the data to distinguish.

One possible interpretation – consistent with Monnet's chain reaction theory - is that the positive feedback loop generated by the initial European experience allows the pro-Europe elite to make a step forward, step that is later resented by voters, once they appreciate the consequences of this step. An alternative interpretation is that to create support for a further integration step, the European Union spent a great deal in promoting the idea. This promotion temporarily boosted consensus. Once it subsided, consensus dropped.

The post-1992 discontent is mostly concentrated among Southern European countries, the ones that were most enthusiastic to begin with. Over time the initial difference among pro-European countries and skeptics disappears and the ranking seems to flip in the last survey, where a minority (44%) in Southern Europe perceives membership as beneficial, while a majority supports the European project in Central Europe (60%) and in Northern Europe (53%). It looks as if Southern European countries initially believed in an institutional arbitrage (which would enable them to benefit from Northern European superior institutions at no cost). Over time they learned that there is no free lunch.

In Figure 3 we plot the year fixed effects of a modified version of regression (1) where we consider all the years available (t instead of being the entry year is any year from entry to 2012). These fixed effects capture the dynamic in Europhilia common to all the 15 countries after we control for demographic changes in the various countries. It clearly confirms that overall there is a general increase in Europhilia from 1981 to 1991, followed by a large drop from 1992 to 1997.

¹⁶ http://ec.europa.eu/internal_market/20years/singlemarket20/facts-figures/history_en.htm

One may wonder whether the changes over time are due to the same people switching opinion or to younger generations having different opinions from older generations. Figure 4 tries to study this question. In the modified version of regression (1) we estimated the cohort effects, leaving as omitted cohort the War II generation (born before 1945). These cohort effects are plotted in Figure 4.

Interestingly, all cohorts have a similar attitude toward Europe, with the exception of the millennial generation (born after 1979). Given the structure of the data, the evolution of beliefs of this generation only affects the more recent years. People born after 1979 are significantly more pro-Europe at the beginning (1998) than all the other cohorts and they end up being significantly less favorable than all the other generations in 2012. To the extent the younger generation is predictive of future trends this is a worrisome sign for the European project. Beginning in 2003, all cohorts start to become less pro-Europe than the war generation, albeit these differences are not statistically significant.

4.2 A Panel Analysis

With these data we cannot clearly address causality. Nevertheless, in this section we study how the sentiment toward Europe correlates with macro-economic variables. In Table 4 we report the results of the following regression

$$(2) \text{Membership}_{jt} = \alpha + \beta X_{jt} + \gamma D_j + \delta D_t + \varepsilon_{jt}$$

where the symbol jt indicates the average across individuals in a given country-year of a certain variable, D_j are country fixed effects, D_t are time fixed effects, and X_{jt} are country's characteristics at time t . Thus, the LHS is the country average of the MEMBERSHIP variable in each year from 1973 to 2012.

In column (1) we control only for year fixed effects, which explain 14% of the total variation. In column (2) we control only for country fixed effects, which explain 65% of the total variation. Controlling jointly for year and country fixed effect (column (3)), we can explain 74% of the total variation.

In column 4, instead of the year fixed effects, we insert a post 1992 dummy and a post 2004 one. Both have a negative and statistically significant coefficient. This result confirms the visual impression of Figure 2. Yet, the year fixed effects have more explanatory variables than the two dummies.

In column (5) we return to the specification in column (3) that includes both country and year fixed effects and add to it two economic variables that capture country specific macroeconomic dynamic: the level of unemployment and the difference between the yield of the local sovereign and that of the German Bund. We interact the spread with a dummy=1 for the countries belonging to the Eurozone after the national currency-Euro changeover and with another dummy for the non-Eurozone countries or for these countries before the Euro. This way we capture different meanings of the spread in the two group of countries/time periods.

As expected the level of unemployment has a negative and statistically significant effect on Europhilia. A one percentage point increase in unemployment reduces MEMBERSHIP by 60 basis points (10% of the sample mean). The effect of unemployment on whether EU membership is perceived as beneficial is not different across different periods: when we interact unemployment and some specific year dummies (euro-crises years) we do not find a significant coefficient. A similar result is true for the spread. An extra percentage point in the spread reduces MEMBERSHIP in a Eurozone country after the adoption of the single currency by 78 basis points (13% of the sample mean). The spread has instead no effect on the sentiments towards membership of the non-eurozone countries (or of Eurozone countries before the Euro), presumably because it shows little variation over the sample period except during the financial turmoil of the early 1990s.

Interestingly, when we look at the year fixed effects (not reported) the 2011 and 2012 dummies lose statistical significance if we insert these two variables relatively to the omitted years.¹⁷ Thus, the drop in Europhilia in recent years seems to be entirely explainable with economic factors.

In commenting Figure 2 we noticed that most of the post 2004 drop was concentrated in Southern European countries. For this reason in column (6) we interact the post 2004 dummy with the South dummy. The post 2004 dummy becomes insignificant, suggesting that the effect is concentrated in the Southern countries. Instead, the post Maastricht dummy remains significant, and its effect is even larger. Because 1992 and 2004 are particularly relevant points in the data we will try to study them in more detail in the next section by using the micro-level data. Thus far, we have focused all our attention on MEMBERSHIP, for which we have the longest time series. The pattern for the BENEFIT variable (unreported), which is available only since 1983, is very

¹⁷ An F-test for the significance of the 2011 and 2012 dummies has a p value of 0.25

similar. By contrast, the picture is quite different if we look at the trust toward the EU (Figure 5). While this variable is available only since 1997, it presents a much more dramatic pattern. Among Southern European countries trust towards the EU drops from 70% to 20% in six years. For the rest of Europe the drop is less pronounced, but still very large (from 62% to 37% for the Central countries and from 59% to 35% for the Northern ones). Thus, while Europeans continue to see the benefits of the EU membership, they are very unhappy of the way this membership is managed by the current institutions. This performance suggests that if the founding fathers hoped to win over the skeptics, they miscalculated that the public opinion could be turned against European institutions, rather than convinced of their necessity.

It is possible that this malcontent is entirely driven by economic conditions. In the last six years Europe has been affected by a recession that is in many cases deeper and longer than the one experienced in the 1930s. Hence, it is not surprising, that Europeans express their dissatisfaction toward existing institutions, being them national or supranational. Thus, to assess the health of the European project we should not focus too much on the trust towards the EU, but on the relationship between the trust towards the EU and the trust towards the national government. The ratio between these two variables is plotted in Figure 6.

Consistent with our previous results, on average Southern European people trust the EU more than their national governments, while Center and North Europeans do not. Interestingly, however, there is a severe drop in relative trust after 2009. Part of that drop reflects the rise in the previous two years. As the 2008 crisis hits the various economies there was an immediate loss in the trust towards local government, and only later a drop in the trust towards the EU. In 2013 the relative trust in all three geographical areas is lower than at the beginning of our sample period (1997), but not by a lot. There are exceptions, though. In 1999 Italians trusted the EU much more than their own government. In 2013 this difference was cut in half.

In Figure 7 we look at the support toward a common currency. Interestingly, this question was asked well before the introduction of the Euro, so we can track public opinion for a long time. Surprisingly, we do not observe a pattern similar to Figure 2. While there is a decline in support among Southern countries, this decline takes place after 2002, not after 2010. The Eurozone crisis seems to affect negatively the support for the common currency in the countries *not* in the euro (UK, Denmark and Sweden), which see the support drop from 61% to 43% and in the Northern European countries in the Eurozone (a drop of 15 percentage points) that have been moderately

affected by the crisis. It does not affect support among Southern European countries, which fluctuates around 60%. A very different picture emerges if we analyze the behavior of trust in the ECB. Here the drop after the Eurozone crisis is severe, especially among Southern European countries, where the trust in the ECB drops from 64% in 2008 to 24% in 2013.

Figure 8 shows a divergence in the pattern of trust toward the euro and trust toward the ECB in few selected countries, especially after the global financial crisis. While the trust toward the Euro remains strong in most of the countries, there is a significant reduction in trust toward the ECB both in strong economies (Germany) and in weak economies (PIGS). In Greece support to the Euro becomes even stronger while trust in the ECB falls by 40 percentage points. This remarkable divergence suggests that European citizens are disappointed about the management of the crisis, but maintain a relatively positive attitude toward the common currency. An alternative interpretation for being in favor of the Euro while expressing mistrusts towards the ECB is that countries anticipate the cost of exiting the single currency and, forcefully, favor the status quo. This explanation, which is consistent with the negative feedback loop theory described in Section 1, seems validated by the fact that support towards the euro dropped substantially for those countries who are not in the euro.

4.3 Xenophobia

Thus far we have only used economic variables to explain the changes in European sentiment toward the European institutions and the European project. It is possible, however, that some cultural variables, such as attitudes towards immigration, can explain the deterioration in support for the EU.

To measure attitudes towards immigrants we rely on the European Social Study (ESS). We use two questions. The first is "Is [country] made a worse or a better place to live by people coming to live here from other countries?", where the answers range from 0 = Worse place to live to 10 = Better place to live. The second question is "Would you say it is generally bad or good for [country]'s economy that people come to live here from other countries?", where the answers range from 0 = Bad for the economy to 10 = Good for the economy.

Figure 9 plots the share of respondents in each country who answer 4 or less in these two questions. We use this as proxies for xenophobia.¹⁸ As we can see, the two

¹⁸ Voting to xenophobic countries could be an alternative (an perhaps better) measure

responses are highly correlated, but they do not show much variation over time. The two countries where we see a pronounced increase are Greece and Ireland. Thus, it is unlikely that such slow moving variables can explain the changes in Europhilia.

In unreported regressions we try to explain the change in the MEMBERSHIP variable with our proxies for xenophobia. The coefficient on xenophobia is statistically insignificant both alone and interacted with unemployment, suggesting that it plays no significant role in the decline of support towards the European project.

Overall, we can conclude that the economic crisis tends to undermine the trust in the European institutions, but not (at least not yet) the beliefs in the benefits of Europe. On a one hand, we could say that Monnet's chain reaction theory might have some validity. If economic crises increase the desire to reform European institutions, but do not reduce the desire for Europe, then Monnet's chain reaction might work. We will return to this in the next section. On the other hand, (contrary to Monnet's view) we see that the support for Europe dropped any time there was a milestone toward more European integration (such as the 1992 Maastricht Treaty and the 2004 enlargement) and this drop does not seem to disappear with time. Rather, it seems cumulative.

5. The Three Watershed Moments

The analysis so far only reports correlations based on aggregated data. One obstacle to the use of micro-data is the fact that in every survey Eurobarometer interviews a different sample of citizens, so it is not possible to study in a panel how changes in individual economic conditions affect the perception toward the European project. Moreover, many interesting questions are not asked every period, making it impossible to dig deeper into the reason of some changes.

To circumvent these problems, we use the pseudo-panel technique (Deaton (1985)) by using surveys just before and after the three major turning points in the European project (the 1992 Maastricht treaty, the 2004 enlargement, and the 2010 Eurozone crisis).

5.1 The Maastricht Treaty

of xenophobic sentiments. However, we need time variation in xenophobia and we have no data on voting to xenophobic parties over time. Furthermore, while voting to a party may reflect several dimensions of its platform besides xenophobia, our survey measures isolated more precisely this dimension.

Figure 10 plots some similar or identical questions which were asked in both the March 1992 and 1993 surveys. The graph to the left shows the support for the single market. The grey bars show the share of respondents who in 1992 answered “A Good Thing” to the question “Overall, what do you think that the completion of the Single European Market in 1992 will be?” The black bars show the share of people who in 1993 answer “Advantages” to the question “Do you think that Single European Market brings more advantages or more disadvantages for (OUR COUNTRY)?”. The two questions not being identical, we mostly focused on the differential changes across group of countries, rather than on the difference itself.

The most striking fact is that in 1992, when it was approved, there was not a majority in favor of the single market. The only countries where the majority of the respondents supported the single market were the PIIGS: Italy, Portugal, Spain, Greece, and Ireland. As a consequence, only in Southern Europe (and in Ireland) a majority of respondents thought that the completion of the single market was a good thing, while in the Northern European countries citizens were split in half among those who thought the change was positive and those who did not. In the Center less than 40 percent supported the change.

One year after the implementation, respondents were asked to reflect on the change and decide whether completing the single market was advantageous to the domestic economy. The support drops dramatically in the South from 63% to 42% and in the Center from 34% to 18%, while it remains substantially stable in the North.

By contrast, in 1992 there is an overwhelming support in all the countries for further political integration. The panel on the right of Figure 10 depicts the share of respondents who in March 1992 (grey bars) and in March 1993 (black bars) answered “For” to the question “Are you for or against the formation of a European Union with a European Government responsible to the European Parliament?”.

The figure shows that this overwhelming majority deteriorates between 1992 and 1993 in all geographical areas. The differences, though, are not as dramatic as those for support of the single market. In the South support falls from 85% to 81%, in the Center from 76% to 65%, and in the North from 50% to 40%.

To try to understand whether sentiments toward the single market or the Maastricht treaty are correlated with our variable of interest (whether membership is beneficial), we rely on the micro data. Following Deaton (1985), we construct a pseudo-panel. For each of the two cross-sections, we define synthetic individuals (or, as they are often referred to in literature, *cohorts*, not to be confounded with our generational cohorts

used before) identified by a set of demographic characteristics.¹⁹ We finally use these units as if they were true individuals on a panel data set.

We define cohorts using five characteristics: besides age, we use gender, nationality, education, and job. Variables are recoded in a way that ensures approximately equal unconditional probability of belonging to a certain cohort (Verbeek and Nijman, 1992). Data are then collapsed averaging values across cohorts for each time period (Deaton, 1985) and the corresponding synthetic individuals in the two dataset are matched to finally set up the pseudo panel. To verify that our pseudo-panel well reflects the original data we compare the aggregate behavior of our key variables of interest and check that they exhibit similar trends. The model we estimate is of the generic form:

$$(3) \Delta \bar{y}_{ij} = \alpha_{ij} + \beta \Delta \bar{x}_{ij} + \gamma_j + u_{ij}$$

where $\Delta \bar{y}_{ij}$ is the change in sentiments for the synthetic individual i leaving in country j , $\Delta \bar{x}_{ij}$ is the change in the individual specific opinions (such as the support for the Single Market described in Figure 10) and γ_j a country fixed effect. Note that since this is a regression in first differences, the country fixed effect γ_j captures differences in time trend across countries.

Table 5 presents the results of a regression where the dependent variable is the difference in our MEMBERSHIP over the period 1992-93. The explanatory variables reflect the change of opinion in support for the economic integration (Single Market), in support for political integration (Single Government), and in support for monetary integration (Single currency). All the variables indicating change in support for the advancement of the euro project have a positive and statistically significant coefficient, suggesting that the deterioration in Europhilia during this period is linked to a worsening in opinions regarding the benefits of a single European market, a single currency, and further political integration. Interestingly, no country fixed effect, besides Denmark, is significantly different from Germany.

The large drop MEMBERSHIP observed in Figure 2 does not seem to be a simple time effect, but it is directly correlated with the fall in support for further integration.

¹⁹ Sometimes in literature the term "cohort" is used to specifically define year-of-birth groups. In this case we employ the term in a broader sense (Verbeek, 2008), as groups of individuals sharing some common characteristics among which we include year-of-birth cohorts.

What we are unable to explain with the available data is the cause of this drop, which is generalized across all members. It is reasonable to conjecture that is related to the gap between the perception of the European project that is portrayed at the official level and the reality perceived by the citizens. In light of Eichengreen (2006), European technocrats choose to push agendas where the asymmetry of information between them and the voters is large, so to avoid political opposition at the time of implementation. Our estimates suggest that consensus is higher before the change when voters are less informed. However, when the change takes place and voters learn about the consequences, support may drop. Obviously, both the drop in sentiments towards the benefit of membership and in support towards further economic and political integration can reflect a deterioration in expectations about the economic consequences of the Treaty before it was implemented and right after. Unfortunately, we cannot test here this possibility. Differently from what is done in the subsequent waves, Eurobarometer did not collect these expectations in 1992 and 1993. This hypothesis can however be tested for the other two watershed episodes, the 2004 enlargement and the 2009 Eurozone crisis to which we turn.

5.2 Enlargement of the European Union: 2004

We follow a similar approach to try to explain the variation in Europhilia around the 2004 Eastern European enlargement, using a 2002 and a 2005 survey. In the left panel of Figure 11 we report the fraction of people who answered “For” to the question “What is your opinion of further enlargement of the EU to include other countries in future years”. In 2002 the majority of the respondents in each sub-area supported the enlargement. Once again, the majority of the support comes from the Southern countries, despite those countries are more likely to lose European subsidies in favor of new poorer entrants. The Northern countries come second in their support for enlargement, the Central European last, but still with a close to 60% majority.

In 2005, respondents were asked the same question. Note that while the question is the same, the meaning is different. In 2002 the candidates for further enlargement were the Eastern European countries that became members in 2004, while in 2005 the candidates for further enlargements are Turkey and the former Yugoslavian republics that are not members yet. Thus, once again, we should focus on the differential change across groups of countries, rather than on the change itself. Consensus for further enlargement drops across the board, but it drops more in Central and Northern European countries than in the South.

In the right panel we plot the fraction of people who states that they were in favor of a European Union with a single currency: the Euro. Here the question is not only the same, but can also be interpreted in the same way. Thus, we can also look at the absolute change. The evidence shows a strong support for the single currency in all the geographical areas and a reduction in support only in the South, mostly driven by Greece and Spain.

To better understand these shifts in opinions as well as the drop in sentiments about membership documented in Figure 2, we use a pseudo-panel to correlate the change in MEMBERSHIP and in the variables presented in Figure 11 with changes in individual expectations about their personal economic situation and the future of the national economy at large before and after the Enlargement that are available in these waves of Eurobarometer. We use a specification similar to (3), including country fixed effects. The results are presented in Table 6. When the LHS is the change in MEMBERSHIP individuals who have a more upbeat view of the future of the economy as a whole, favor membership in the union. Changes in expectations about their personal financial or job situation do not alter their view about membership. Hence, in revising downwards their assessments of the merits of being a member of the union right after the enlargement, individuals seem to be guided by a reassessment of the impact of the scale of the European Union on the national economy overall. These expectations become gloomier, and drive downwards consensus towards the European project. A similar picture emerges when the left-hand side variable is the change in support for the Euro (second column) or for further enlargement (third column). In the case of the Euro, even the change in perception about future national employment situation comes in positive and significant. Interestingly, unlike in the previous pseudo-panels, many country fixed effects are statistically significant suggesting that the changes in Europhilia around 2004 have more to do with country-specific factors than with individual specific-ones. In particular, the regression where the dependent variable is the change in support for the single currency exhibits significantly negative country fixed effects for all the Southern European countries. Thus, it looks like the South of Europe started to fall out of love with the euro much before the Eurozone crisis.

5.3 The Eurozone crisis

Figure 2 shows a drop in the perception of membership's advantages after 2008. To investigate further this sentiment shift around the Euro crisis we use individual data to

construct a pseudo panel for the period of 2009-13, like we have done for the previous turning points.

Table 7 presents the results of the regressions. Unfortunately, the MEMBERSHIP question was not asked in the last period, thus we could not use it. The LHS variables are respectively the changes in support for the Euro (first column), the change in trust towards the EU (second column), the change in trust toward the ECB (third column), and the change in the difference between percentage of people supporting the Euro and percentage of people trusting the ECB. The change in economic expectations are both about personal job and financial situation and about the national economic situation.

Overall, Table 7 confirms the result obtained on a longer panel with aggregate country data (Table 4): revisions in expectations about economic conditions are highly predictive of euro-sentiments. Changes in the perception of the Euro, Trust in the EU, and Trust in the ECB are correlated with the change in expectations on future personal job situation, household financial situation, as well as changes in perception of the national employment situation. Contrary to the enlargement, during the Euro-crisis both deteriorated expectation about personal and national finances contribute to the Europeans disenchantment with the European project.

By using aggregate country data – as we did in Table 4 – it is hard to rule out that the observed correlations are driven by country-level omitted variables. Pseudo-panel regressions allow us to measure changes in expected economic conditions at the individual level; finding that they predict peoples consensus towards the European institutions, adds some credibility to the idea that economic crisis and economic disappointment may drain consensus, calling for less rather than more Europe.

5.4 The Effect of the ECB policy

Table 7 shows that the economic variables do not eliminate independent country-level fixed effects. In particular, in explaining the changes in trust toward the ECB the country fixed effects are economically and statistical significant. They show that the loss in trust towards the ECB has not been homogenous. To what extent the ECB policy has reduced Europhilia or, worse, has fed Europhobia?

To answer this question we need to determine first how the ECB policy fitted the needs of each country. Figure 12 plots the optimal policy rate (in percentage points)

and the actual ECB policy rate for each country. The optimal policy rate i^* is based on a Taylor's (1993) rule defined as

$$(4) i_{it}^* = r_i^* + \pi_{it} + 0.5(\pi_{it} - \pi_{it}^*) - (u_{it} - u_i^*)$$

where π_{it} is the inflation rate for country i at time t , measured as the change in the non-food, non-energy consumer price index; u_{it} is the seasonally adjusted unemployment rate for each country published by Eurostat, u_i^* is the Non-Accelerating Wage Rate of Unemployment. In this formula, for each country, we set $r^* = \pi^* = 2$.²⁰

It emerges quite clearly that there are two set of countries: the so called PIGS (Portugal, Ireland, Greece, and Spain), for which the ECB policy rate is quite distant from the optimal national rate, and the rest, for which the ECB policy rate approximates well the optimal national rate.

In Figure 13.A we correlate the 2008-2012 drop in MEMBERSHIP with the mean absolute deviation of the monetary policy rate from the country Taylor rule. There is a clear negative relation, which is statistically significant. The PIGS, which were most penalized by the ECB policy, are the ones where Europhilia drops the most. The same relationship is present for most of the other variables. For example, in Figure 13.B the relationship between loss of trust in the ECB and mean absolute deviation of the monetary policy rate from the country Taylor rule is almost a perfect straight line. Thus, European citizens recognize when the European policy hurts them and respond accordingly.

²⁰ There are two issues in using this methodology as a measure of the distance between the ECB policy and the monetary policy that best reflects the national conditions of the economy. The first is how good is the Taylor rule as a description of the monetary policy in Europe; the second, how well it can approximate internal optimal policy. Gerlach and Schnabel (2000) find that the Taylor rule does quite well when applied to the EMU countries and cannot reject that the sensitivity of interest rates to inflation are 1.5 and 0.5 respectively, the same as in the US. Clarida, Ghali and Gertler (1998) show that it also characterizes well the Bundesbank monetary policy before the Euro. Interestingly, they argue (and show evidence in support) that the Bundesbank rule can provide a reasonable basis to characterize the domestic monetary policy of France, Italy and the UK in the absence of the constraints on the monetary policy of these countries before the Euro due to the fixed exchange rate regime. They use a similar methodology to ours to estimate the interest rate gap as a measure of the economic stress that each country incurred by operating in the ERM (the pre-euro fixed exchange rate agreement). Some country specific estimates, suggest that a simple Taylor rule with US type parameters may be a reasonable characterization of national monetary policy before the Euro. For instance, Dalle Nogare and Vassalli (2002) find that a Taylor rule with a reaction to inflation of 1.5 and to output of 0.3 characterizes well Bank of Italy policy before the Euro.

The Taylor rule does not simply reflect unemployment but also inflation and inflation dispersion was far from negligible over the period of the analysis. If we force the country Taylor rule to depend only on inflation and plot the average absolute deviations of this Taylor rule from the ECB policy rate against the change in trust towards the ECB we find a very similar pattern to the one shown in Figure 13 (not reported). This result rules out the possibility that the correlations in Figure 13 reflect just the movements in national unemployment rates.

Interestingly, the negative correlations between the distance from the Taylor rule and sentiments is not due to the fact that the countries that did worse during the crisis were also farther away from the ECB policy rule. In fact, we have run (unreported) regressions of the change in Trust in the ECB and Membership is good on the distance from the Taylor rule and on the percentage change in GDP between 2011 and the year before the crisis and find that the distance from the Taylor rule is still significant even controlling from the loss in output suffered by the country during the crisis. To make sure this is not capturing other macroeconomic variables we have also tried adding to the regressions the change in the current account since the start of the crisis and replacing the change in GDP with the change in consumption which may better capture citizens economic discomfort. Results are unaffected.

Most surprisingly, the only variable that does not seem to be correlated with the mean absolute deviation of the monetary policy rate from the country Taylor rule is the support for the common currency (this is true controlling or not for the output loss during the crisis). As we can see in Figure 13.C, if anything the relation is positive, albeit not statistically significant.

To understand this paradox we need to realize that even before the introduction of a common currency National Central Banks were not completely free to set their rates. The EMS system was imposing some limits on the ability of each country to deviate from a common interest rate (e.g. Clarida et al (1998)). To see how much the introduction of a common currency has worsened the monetary policy flexibility of each country we compute the mean absolute deviation of the national monetary policy rate from the country Taylor rule in the pre euro era (1991-1999).

Figure 14 plots each country's mean absolute deviation of the actual monetary policy rate from the country Taylor rule in the euro era against the same value in the pre- euro era. The most remarkable fact is that basically every country is below the 45 degree line, implying that for no country the ECB monetary policy deviated from the country-specific Taylor rule more than what their pre-euro monetary policies deviated from

optimal country-specific Taylor rules. The three countries that seemed to have gained in flexibility are Greece, France, and Finland.

This result helps explain why European citizens blame the ECB, but not the common currency. The common currency per se is not the culprit (at least vis-à-vis the pre-existing situation). Yet, the ECB policy could have been more sensitive to the PIGS country needs.²¹ Hence, the growing distrust towards the ECB.

At the same time, citizens seem to draw a distinction between the ECB – the manager of monetary policy under the single currency – and the single currency itself, blaming the former, not the latter, as suggested by the patterns of correlation in Figures 13B and 13C.

6. Quo Vadis Europe?

The Eurobarometer being a European institution avoids asking questions that might lead to very clear anti-European answers. Probably for this reason, it is not easy to find questions that allow us to gauge where Europeans want Europe to go.

One indirect way we can glance at this issue is a question asked in 2009 and 2013. European citizens are asked which institution they think is most capable to take action against the recent economic crisis. The possible answers are the domestic government, the United States, the European Union, the International Monetary Fund, and the G20 group. Once again, while the question is exactly the same in 2009 and 2013, the context is different. In 2009 the crisis was entirely due to a U.S. problem, while by 2013 the Eurozone crisis had exploded.

Figure 15 plots the answer for the EU 15 divided by geographical areas. Each bar represents the share of respondents who mentioned the corresponding institution as the most capable. In 2009 the EU is indicated as the most capable (or the second most capable) institution to tackle the crisis in all groups. The Northern European countries trust more the local government, the Center European one the G20.

Surprisingly, the results are not very different in 2013. The Southern European countries have lost a bit of confidence toward the EU, but the Center and North European once have gained a bit more confidence. This evidence is particularly

²¹ Notice that the ECB policy was not constrained by a zero lower bound. The latter was hit only in the second half of 2014 (when the rate was set at 0.05%). Over the period covered by our data, the ECB rate has always been above the zero lower bound. Until early 2012 it was 1% and in early 2011 and it was even increased to 1.6%. Notice also that even at the zero lower bound people may still have room to think that the ECB is not “doing enough”, as it can rely on quantitative easing. The latter has only been started in March 2015.

remarkable in face of the fact that between 2010 and 2013 the European Unions did not show a great degree of coordination and ability to act. Yet, in the world everything is relative. May be we can say about the EU what Winston Churchill said about democracy: the worst institution, until you consider all the existing alternatives.

Another question in Eurobarometer that can help us gauge the overall attitude towards Europe is the opinion about the direction of one's own country and that of the EU. More specifically, both in 2009 and in 2013 Eurobarometer asks "At the present time, would you say that, in general, things are going in the right direction or in the wrong direction, in our Country/In the EU?" The possible answers are: Wrong Direction, Neither Right Nor Wrong and Right Direction. The bar graphs in Figure 16 show the percentage of people who respond "Wrong Direction" both for "our country" (left panel) and for "the European Union" (right panel).

Not surprisingly, the percentage of people who think the EU is going in the wrong direction increased dramatically between 2009 and 2013, in all three groups, particularly so in Southern Europe. More people think that the EU is going in the wrong direction than in the right one.

Yet, it is interesting to contrast the opinion about the direction of the country and that of the EU. In Southern Europe more people think the country is going in the wrong direction than the EU is. This is not true for the Center and the North. To some extent, thus, there is a negative "halo" effect. People unsatisfied with their economic situation blame all institutions. It is hard, thus, to take this result as evidence of anti European sentiments.

A partial alternative to Eurobarometer is provided by the Pew Research Center. A May 2014 survey conducted by this center shows that in all the seven countries surveyed there is a majority of citizens against devolving further power to Europe. This majority is 76% in the UK and barely 50% in Germany, but always a majority is (Table 8). The fraction of citizens opposing more power to the EU is perfectly negatively correlated with the degree of Europhilia of a country. Yet, in all countries, other than Italy, there is a strong majority to retain the euro. Thus, Europeans do not seem to want to move forward but they do not want to move back either.

7. Policy Implications

The European integration process seems to have weakened the political support for further integration. One possible reason is that the early integration steps have exploited the biggest gains from integration. As the integration moved further, it started to touch

areas where the benefits were not so large, generating an increased opposition. This dissension has been exacerbated by the crisis. All institutions (national and international) exhibit weaker support during the crisis. In this respect, the mistrust towards European institutions is not unique. In spite of this growing opposition to Europe, there seems to be very little desire to go back. The “scorched earth” version of the chain reaction seems to have worked, at least in the sense of increasing the cost of any step backward.

The major risk in this moment is an exacerbation of nationalist tensions. Ten years ago would have been unthinkable for a German to refer to a Greek as “lazy” or for a Greek to refer to a German as “Nazi”. Unfortunately, today is commonplace in the media, playing on stereotypes that are false (the Greeks work more hours per week than the Germans and there are proportionally more Nazis in Greece than in Germany).

We know from the literature on African development (Michalopoulos and Papaioannou, 2013) that ethnolinguistic fractionalization is a major source of tension in the political process, which is exacerbated at the time of crises. Europe has a high degree of ethnolinguistic fractionalization and the level of trust between different population is often very low (see Guiso et al, 2009). This fractionalization is exacerbated by a segmented media market. The German media caters to Germans, the Greek media to Greeks and so on. As a result, they tend to exacerbate the nationalist sentiments.

Many European nations (Like Germany, France, and Italy) found themselves in a similar situation at unification. To overcome the internal fractionalization they forced an homogenization through schooling and (when it became available) national TV. Yet, European nations cannot seem to be able to agree even on the symbol to put on the euro notes (the buildings are imaginary), how can they agree on a common set of history books?

The most successful step in this direction was the Erasmus program of university fellowship. Unfortunately, only a small minority goes to university and even less take advantage of this opportunity. An idea would be to extend it high school, providing the opportunity of students to spend a semester or a year in a high school of a different European country. This would eliminate the false stereotypes and facilitate a cultural integration.

Our analysis also suggests that the risks of the Monnet’s strategy might exceed its benefits. While so far successful in advancing the European agenda, Monnet’s chain reaction carries the risk of a meltdown, which possible tragic consequences. To avoid

this meltdown there is a need of a more serious political discussion about the cost and benefits of unification. If the European project needs to regain consensus it must be perceived as a choice, not as a forced outcome.

8. Conclusions

While EU membership has strong support in most of the EU-15, this support dropped every time the European project made a step forward and never recovered. Rightly or wrongly, the Eurozone crisis has contributed to further erode this support, albeit the drop appears more related to the terrible economic conditions and, thus, it is potentially reversible. Today a majority of Europeans think that the EU is going in the wrong direction. They do not want it to go further, but overall they do not want it to go backward either, with all the countries (except Italy) having a pro Euro majority.

One possible interpretation of these results is that Europeans like the idea of Europe but dislike the *way* this idea has been implemented. Another possible interpretation is that the attempt to jump start the chain reaction has left the Continent stuck in a political impasse: in spite of the unpleasant current conditions, there is no desire to move forward, while there is too much fear to move backward. This interpretation is consistent with the fact that support for the euro has plummeted in EU countries not belonging to the Eurozone, which do not face this irreversibility problem. Thus, one could infer that if it were not for fear of the unknown, even Eurozone countries might be less supportive of the common currency.

On the one hand, Monnet's chain reaction theory seems to have worked. In spite of limited support in some countries, European integration has moved forward and has become *almost* irreversible. On the other hand, the strategy has worked so far at the cost of jeopardizing the future sustainability. The key word is "almost". Europe and the euro are not irreversible; they are simply very costly to revert. As long as the political dissent is not large enough, Monnet's chain reaction theory delivered the desired outcome, albeit in a very non-democratic way. The risk of a dramatic reversal, however, is real. The European project could probably survive a United Kingdom's exit, but it would not survive the exit of a country from the euro, especially if that exit is not so costly as everybody anticipates. The risk is that a collapse of the euro might bring also the collapse of many European institutions, like the free movement of capital, people and goods. In other words, as all chain reactions, also Monnet's one has a hidden cost: the risk of a meltdown.

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