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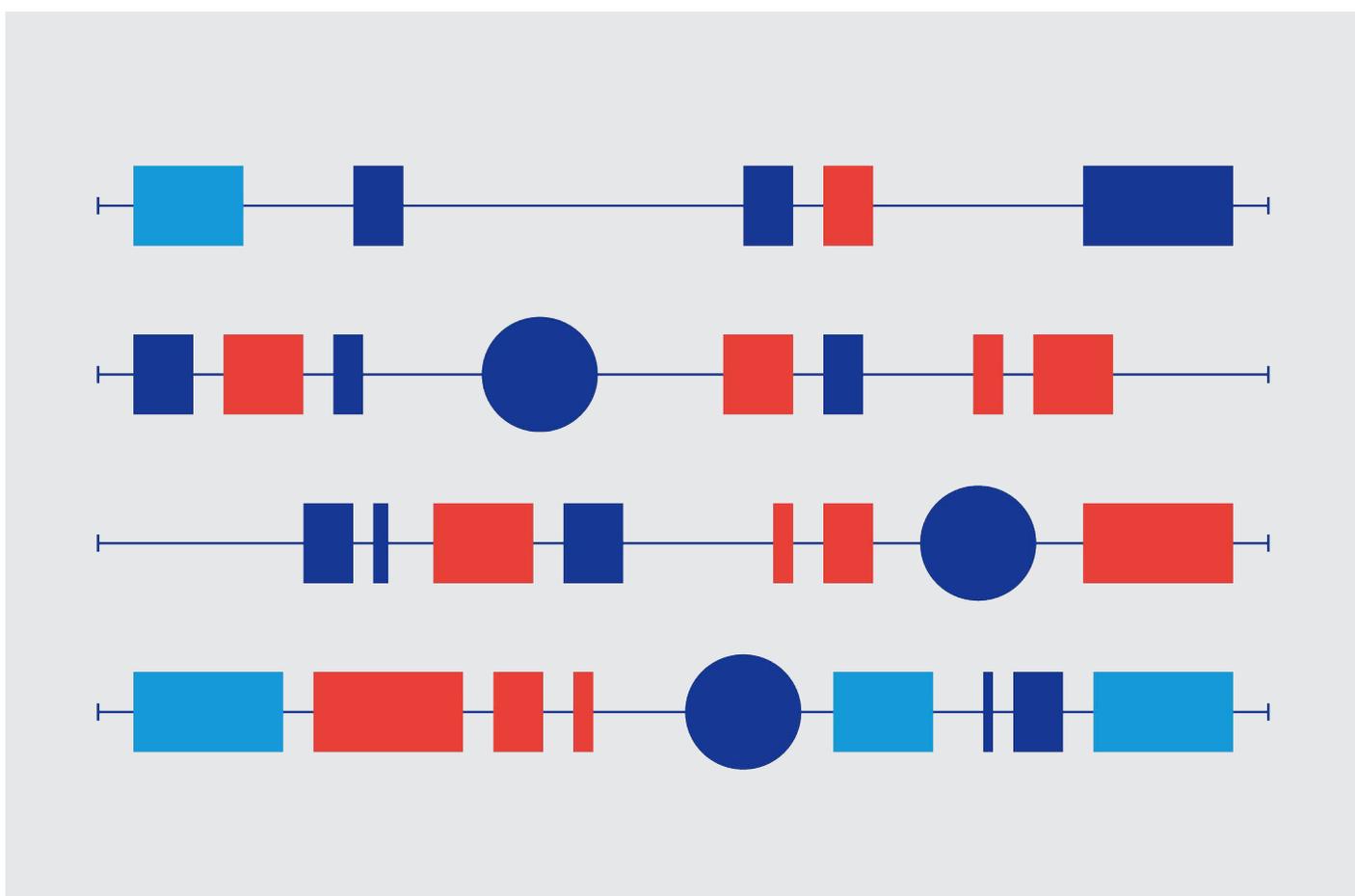
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Mapping Contestation on Economic and Fiscal Integration: Evidence from New Data

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Abstract

Since the start of the euro crisis, deep political conflicts overshadow the discussions on reforms of the Economic and Monetary Union (EMU). For stabilizing the monetary union, some pundits and countries advocate more rigorous fiscal rules, while others emphasize the need for fiscal transfers within the EMU. As part of a Horizon 2020 project, we collected data on member states positions in the negotiations of 47 economic and fiscal integration policies discussed from 2010 to 2015—including, for example, the negotiations on the ESM, the fiscal compact, and the assistance to Greece. We analyze this data with scaling methods to empirically investigate the underlying dimensionality of the political conflict. The findings show that EMU politics are dominated by a one-dimensional conflict structure—namely, the conflict between Southern countries advocating for more fiscal transfers and the Northern countries prioritizing fiscal discipline. The Central and Eastern European member states align with the Northern coalition. One of the implications of our findings is that the polarized one-dimensional conflict structure leaves little room for the negotiation of package deals. However, a sliver lining may be that the politics of the EMU are conducive for the political success of French-German leadership.

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1 Introduction

The political and social consequences of the deep economic shock in Europe were detrimental after the eurozone crisis erupted in late 2009. The economic crisis hit large parts of the European population with long lasting consequences. Governments all over Europe were voted out of office or had to step down. Banks had to be rescued or closed. After all, the crisis revealed that the institutional framework of the EMU was insufficient. Against this backdrop, urgent calls for a more resilient monetary union dominated several rescue negotiations that were supposed to make the EMU more stable and to end the economic, social, and political crises. Although there was broad agreement on the need for reforming the institutional framework of the monetary union, the views on the causes of the crisis—and thus also on the necessary reforms—differed strongly.

Two opposing views still dominate the debates on the EMU negotiations. Some pundits and policy makers mainly stress the importance of strictly enforced fiscal discipline. They are, of course, also critical of any sort of fiscal transfers within the monetary union because they believe that redistributive measures destabilize the EMU by setting wrong incentives. The basic assumption of this view is that too high deficits and debts in some countries are the core problem of the monetary union. Others, in deep contrast, identify economic imbalances as the main problem of the EMU. Accordingly, they ask for permanent and comprehensive fiscal equalization measures—rather than enhanced fiscal discipline. We identify this dispute between fiscal austerity and redistribution within the EMU as the main underlying dimension of political conflict in EMU negotiations. After elaborating conceptually on how countries can theoretically position themselves on the two dimensions of fiscal austerity and redistribution, we empirically analyze the aggregated positions of each member states in the negotiations on EMU reforms.

Since 2010, several reform measures have been enacted. European leaders re-enforced fiscal discipline with the Sixpack, Twopack and the Treaty on Stability, Coordination and Governance in the EMU; they provided financial assistance to economically hard-hit member states with the European Financial Stability Facility, the European Stability Mechanism and the Greece Assistant Programs; and they europeanized part of the financial sector with the legislation on the banking union. In addition, more far-reaching measures such as debt mutualisation with Eurobonds were discussed. In all of these reform packages and programs, the EU member states fiercely discussed multiple policy issues. As part of a Horizon 2020 project, we identified with extensive document analysis and expert interviews 47 contested issues in these negotiations and coded the positions that each member states advocated on these 47 issues.

We analyze this data on member states positions empirically with dimension reduction methods. We use W-NOMINATE for estimating the aggregated position of each country and for analyzing the underlying political conflict structure over all 47 policy issues. The findings show that we can only find one dominant underlying conflict structure. The main cleavage in this one-dimensional conflict space is between the Southern and Northern countries. The former advocate for strong

redistribution measures and soft fiscal rules, while the latter take the opposite stance (that is, strict fiscal discipline and only limited redistribution). By and large, the Central and Eastern European member states align with the Northern countries. With the support from the Central and Eastern European countries, the negotiation outcomes are overall closer to the position of the Northern coalition.

We also analyze the aggregated positions of the EU institutions. While the Council, Commission, ECB, and Parliament backed the Southern countries, the consolidated positions of the EuroGroup and ECOFIN are closer to the Northern countries. The presented analysis is a first attempt to get at the very aggregated big picture of the EMU negotiations by analyzing the underlying structure of the politics of EMU reforms. The findings also lay the ground for the formulation of interesting puzzles and the more in-depth analysis of specific specific issues with coalitions deviating from the general pattern identified in this paper (the paper by Bailer et al. (2017) makes first attempts in that direction). Finally, several practical implications follow from our findings. For example, the results highlight how difficult the negotiations over all the different EMU reform proposals are because the very polarized one-dimensional conflict structure leaves little room for the negotiation of package deals. However, a sliver lining may be that the politics are conducive for the political success of French-German leadership, as both France and Germany hold positions on the extremes of the political conflict space (Degner and Leuffen, 2017).

The remainder of this paper is structured as follows. Section 2 introduces the data on member states' position in the 47 contested issues; Section 3 theoretically elaborates on the main conflict dimension in EMU negotiations, Section 4 presents the empirical method and findings; and Section 5 concludes.

2 Collecting Data on Member States Positions

In this section, we summarize the different steps of the data collection strategy of the Horizon 2020 project EMU choices. The data collection approach can be divided into four different steps: a) the identification and selection of policy proposals; b) the identification and selection of relevant policy issues of the selected proposals; c) the definition of the policy space and the coding of the positions of member states and EU institutions based on document analysis; and d) the validation and completion of the data with expert interviews. For more details on the data collection and the data, please consult Wasserfallen et al. (2017).

The data includes the proposals and positions of member states in the decision making during the Euro crisis on EMU reform proposals between 2010 and 2015. Besides directives and regulations—i.e., secondary law—, we also analyze primary law changes and new intergovernmental treaties and forward looking proposals, which were not yet decided upon, but were heavily discussed in the defined time period. We identified secondary legislation proposals through the EurLex database, while we extracted proposals for treaty changes, new intergovernmental treaties,

and forward looking proposals from the European Council’s Reports. This identification strategy led to ten proposals which can be grouped into four different thematic groups:

- Proposals on temporary and permanent fiscal crisis management—i.e., the European Financial Stability Facility (EFSF), the European Stability Mechanism (ESM), and the Greece Assistant Programs. For the purpose of this paper, we define these measures as policies that enhance fiscal redistribution within the EMU.
- Proposals to reform the Stability and Growth Pact (Sixpack, Twopack and the Treaty on Stability, Coordination and Governance in the EMU). For the purpose of this paper, we define these reforms as policies that enhance fiscal discipline in the EMU.
- The Banking Union with the Single Rulebook, the Single Supervisory Mechanism, and the Single Resolution Mechanism.
- Three forward looking proposals which were intensively discussed in our time period of interest: the introduction of Eurobonds, the financial transaction tax, and the reform proposals of the four/five presidents’ reports.

The selection process of the most relevant and contested policy issues contains two steps. First, all contested issues in every proposal were identified by document analysis. We compiled a text corpus of more than 830 news articles. All of these articles respond to at least one of our policy proposals and were published in the defined time period. Second, we used the qualitative text analysis software *Atlas.ti* to code the whole text corpus. The coder identified every contested issue, for which member states and EU institutions discussed more than one plausible solution. We counted the number of articles in which these contested issues appeared. The issues were then ranked by their frequency and selected accordingly. In short, the selected issues cover the policy debates that were most frequently discussed in the specialized media. Table 1 presents the complete list of all 47 issues of our ten policy packages.

Table 1: *Analyzed contested issues grouped in broader policy packages.*

Policy Package	Contested Issue
Sixpack	Suspension of Council voting rights for SGP non-compliant member states Withholding EU Funds to deficit countries The adoption of SGP sanctions: reversed qualified majority Sixpack rules on “good” and “bad” debts Sixpack asymmetry of macro-economic imbalances
Twopack	Redemption Fund Pre-approving budgets by the Commission Independent macro-economic forecasts
TSCG	Adoption of the TSCG Foundation of the document: treaty change Nature of the “golden rule” Role of the ECJ Role of the EC Participation of non-eurozone member states to the Euro summit Purpose of the TSCG Economic policy coordination Incorporation to EU Treaties
President Report	Short-term ambitions for the fiscal union Potential redistribution within the fiscal union Political accountability Social policy integration
Greece Assistant Programs	Initial willingness to support Greece (Bailout I) Support for the first Greek program IMF involvement in the first Greek program Debt relief in the second Greek package
Eurobonds	The idea of a mutualization of eurozone-debt
ESM	Changing EU treaties Size of ESM Conditionality Scope of the ESM Private sector involvement Financing of the ESM Role of supranational institutions in the ESM
EFSF	Preparedness to issue loan guarantees IMF involvement Enhancement of the EFSF’s effective capacity Allowing the EFSF to use additional instruments
Banking Union	EU cap on bank bonuses: legal versus shareholder-approved Capital buffers: centralization versus flexibility Scope of the SSM: all banks vs. some banks Protecting non-euro countries from ECB dominance in banking supervision Institutional responsibility for SSM (ECB) SSM deadlines: speed versus quality SRM decision-making powers SRF build-up and mutualization SRF fiscal backstop
Financial transaction tax	Introduction of financial transaction tax

Every contested issue implies, by definition, presence of alternative policy options. We followed the approach of the DEU project and conceptualized political controversies for the questionnaire as issue scales, with actors placed at different positions on these issues according to their preferences (Thomson et al., 2012). We used dichotomous scales for binary issues and ordinal scales on a range from one extreme to another if several options were discussed. The numerical code approximates the position of an actor on the proposals between the two extremes of 0 and 100.

The identification of the most extreme positions was the first step in coding member states' positions. We then further searched for primary and secondary documents for the coding of member states positions. Eventually, we analyzed more than 5000 documents and coded about 52% of all member states positions. In addition, we conducted 25 expert interviews with national or EU officials. Our interview partners were present in the negotiations over the selected policy proposals and have therefore substantive knowledge about member states' positions. Every expert was interviewed on 3 to 9 policy issues (see Table 1). All interviews followed the same procedure. First, the interviewer introduced the policy proposal, issues space, and timing of interest. Second, the interviewee was asked to validate our contested issues and policy spaces derived from the document analysis. Third, we asked the interviewee about the positions of the missing member states on each issue.¹

With the expert interviews we could increase the completeness of the data set from 52% after the document analysis to 71%. The most important member states and those with the most extreme positions are the ones with the least missing data. We could decrease the data coverage gap between these member states and the rest thanks to our extensive data collection approach, which integrates document analysis and expert interviews in a holistic way. Wasserfallen et al. (2017) discuss the advantages of this data selection approach in more detail. Before we turn to the empirical analysis of the data, the next section theoretically elaborates on the main dimension of conflict in the EMU negotiations. The conceptual discussion is informed by the fact that most of the 47 contested issues listed in Table 1 fall in the two categories of fiscal discipline and fiscal redistribution within the EMU.

3 The Key Conflict in EMU Politics

Two views that are in direct opposition to one another dominate the debate on the causes and implications of the EMU crisis. For some, the violation of debt rules destabilized the monetary union. Accordingly, they called for the strengthening of fiscal oversight with strict deficit and debt rules. The basic assumption of this view is that fiscal discipline is the key to stabilize the EMU. Others, however, identified economic imbalances within the monetary union as the underlying cause of the crisis, calling for permanent and comprehensive fiscal equalization within the monetary union

¹See also Armington and Cranmer (2017), who collected similar data with expert interviews. Their empirical analysis shows that member states positions are largely explained by a country's competitiveness.

in the form of a fiscal transfer system, a common budget with own taxes or a common unemployment scheme. The basic assumption of this analysis is that the economically stronger regions have to financially support the weaker regions, which lost in the monetary union the option of devaluation as an instrument to regain economic competitiveness.

The academic literature has shown that during the immediate Euro crisis debt levels and deficits were not correlated with measures of the intensity of the crisis such as long term interest rates on government bonds (Johnston, Hancké and Pant, 2014). This finding clearly does not support the interpretation that the EMU can be stabilized with fiscal discipline measures. The political economy literature also emphasizes that the EMU crisis followed the well known dynamic of accumulating balance-of-payments imbalances. Financial capital flew from current account surplus countries to borrowing countries, which, at some point, could not service their debts anymore (Copelovitch, Frieden and Walter, 2016; Frieden and Walter, 2017). According to this dynamic, creditor countries demand from debtor countries reforms that should increase their ability to pay, while debtor countries ask for debt reliefs.

The distinct economic interests between creditor and debtor countries in the Euro crisis also overlap with the main political conflict in respect to EMU reforms, which evolved around the questions of more fiscal discipline and further redistribution within the monetary union. Moreover, the two opposing views that the EMU should be stabilized with more fiscal discipline versus more redistribution reflect economic paradigms, which have shaped macroeconomic debates in Europe since the 1950s (Hall, 1989, 1992). On the policy level, most of the reforms listed in Table 1 are practical expressions of the two paradigms. The Sixpack, Twopack, and the TSCG all aim to stricter enforce fiscal discipline. In contrast, the ESM, EFSF, the Greece Assistant Programs, and the idea of Eurobonds are all policy measures that are consistent with the view that the EMU needs more fiscal redistribution. Building on this conceptual reflection, we analyze member states aggregated positions in EMU negotiations. Simply put, member states that aim to stabilize the union with fiscal transfers within the EMU push for comprehensive measures in the ESM, EFSF, and the Greece Assistant Programs, while they are more skeptical about tougher fiscal rules in the Sixpack, Twopack and the TSCG. The political leaders of member states thinking according to the fiscal discipline tradition take the exact opposite view, advocating hawkish positions on fiscal discipline and arguing against (or for only minimal) fiscal transfers within the EMU.

Figure 1 plots the conceptual approaches to the EMU crisis according to these two opposing perspectives, emphasizing either fiscal redistribution or fiscal discipline. The top left and bottom right corners reflect the positions that prioritize one of the dimensions over the other. Member states in the top left corner advocate for redistribution measures and against (or for only soft) fiscal rules. In direct opposition, the countries in the bottom right corner argue that more strictly enforced fiscal discipline would stabilize the EMU. If these two opposing views dominate the conflict among member states, we do not have a two-dimensional conflict space as Figure 1 suggests. Rather,

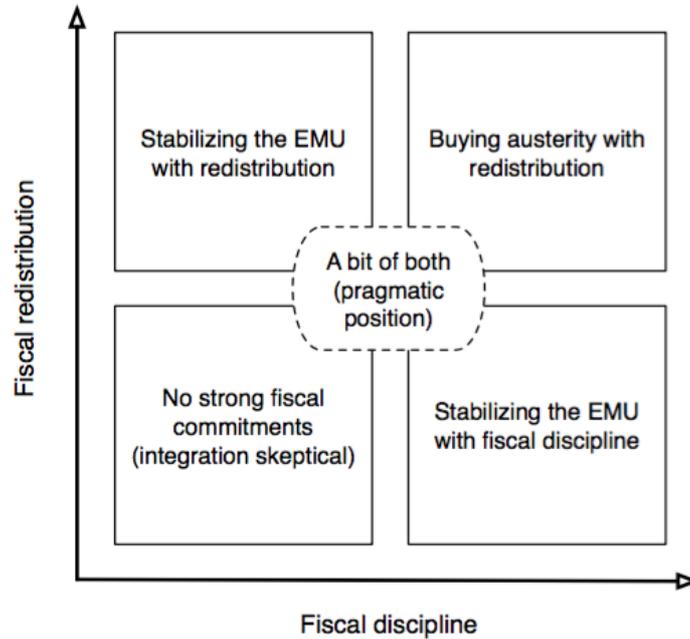


Figure 1: *Conceptual distinction of member states' positions in EMU negotiations according to the two dimensions of fiscal austerity and redistribution.*

the political conflict then spans on the diagonal from the top left corner to the bottom right on one underlying dimension—with the two extreme positions either prioritizing fiscal discipline or redistribution. In this case, any movement in the direction to more fiscal discipline is mirrored by the same change towards less redistribution, and vice versa.

However, some countries may take positions in the top right or bottom left corner, which means that they support reforms for more fiscal austerity and more redistribution within the monetary union, or oppose both of them. If we do find countries with these positions, the political conflict space is two-dimensional because we observe different combinations over the whole two-dimensional space. In this case, multiple and cross-cutting coalitions are possible, since countries in the top right or bottom left corner align in some issues with the group of countries prioritizing fiscal discipline, while they support in other issues member states arguing for more redistribution. Finally, a position in the middle of the plot suggests some indifference in the question of whether more fiscal discipline or more redistribution is needed. Positively expressed, the a-bit-of-both approach could be called pragmatic. More critically viewed, this resembles the often raised criticism of muddling through.

The next section empirically analyzes member states positions in EMU negotiations based on the two conceptual dimensions of fiscal discipline and redistribution discussed above. To that end, we aggregate member states positions with dimension reduction methods using the data introduced in the previous section on the 47 policy issues listed in Table 1. The analysis of the underlying conflict

structures will show whether the politics of EMU reforms are structured along a one-dimensional space, where, over all issues, the same groups of countries confront one another on the diagonal of Figure 1 (from the top left to the bottom right—that is, the same countries advocating for fiscal discipline stand always against the same group of countries arguing for more redistribution). Or, whether we also find position patterns of countries that oppose both more fiscal discipline and more redistribution within the EMU, and of countries supporting both. In this case, the politics of EMU reforms would be structured on multiple dimensions.

4 Method and Empirical Findings

Of the 47 contested issues 26 issues are dichotomous variables, while 21 issues have three or more parameter-values and are therefore ordinal variables. This difference complicates the selection of an appropriate dimension reduction method because the underlying data has not a unique structure. Scholars use ordinal dimension reduction methods like Basic Space Scaling for analyzing perceptual or preferential data, where respondents place themselves—or in our case countries—on a series of ordinal policy scales. The analysis of binary alternatives, however, builds on parametric or non-parametric unfolding methods (Armstrong et al., 2014).

To get at a consistent coding, we transform each issue alternative into a dummy variable and analyze the binary outcomes with W-NOMINATE, which is the standard dimension reduction method for binary variables. This transformation has the advantage that we a) maintain the differentiation in each issue, b) take full advantage of the variation in the data, and c) do not violate any assumption of the method on the structure of the data. Issues with three ordinal scales are accordingly transformed in three binary variables. We increased the weights of the binary issues, which are not transformed in several different variables, to prevent that the contested issues with multiple parameter-values dominate the estimation results. Thus, in our weighted estimation, each of the 47 issues has the same weight.

Following the theoretical discussion above, we reduce the data to the aggregated preferences of each actor on the two dimension—namely, the emphasis on fiscal redistribution and fiscal austerity, respectively. We map actors' preferences on the two dimensions discussed in the conceptual framework presented in Figure 1 using W-NOMINATE as dimension reduction method. Poole and Rosenthal (1985) developed NOMINATE in the 1980s as an unfolding method for parliamentary roll call data. NOMINATE is a three-step estimation procedure for binary data based on the spatial theory of voting. This theory assumes that legislators have an ideal point on a latent dimension and vote for the policy alternative that is closest to their own ideal point. Each vote has two policy points: yes and no. A legislator is expected to vote yes, if a policy alternative is closer to his or her own ideal point (that is, the utility is higher for him or her to vote for this policy outcome). The NOMINATE model uses a Gaussian utility function. Hence, high utility is assigned to outcomes close to an individuals' ideal point, while policy alternatives far away from the leg-

islaters preferences approaches zero. NOMINATE assigns starting values for the legislators ideal points calculating them from the agreement score matrix between legislators. The values for all parameters are estimated by holding two of them fixed and by maximizing the likelihood function over the third parameter. This process is repeated until convergence (Armstrong et al., 2014). In this paper, we do not estimate the ideal points of legislators, but of countries. We assume that national governments have an ideal point and support policy alternative that are closest to this ideal point during the negotiations. Therefore, we argue that our data is similar enough to roll-call data for which NOMINATE was developed. We use the static version `wnominate` in R to perform the W-NOMINATE procedure (Poole et al., 2011).

Following the conceptual discussion of the previous section, we estimate the ideal points using a two dimensional W-NOMINATE model. To set the polarity of the estimated configuration we assign a positive value for Germany on the first dimension and a positive value for Greece on the second dimension. This does not influence the ideal point estimation directly. It simply groups Germany and Greece on one side of the dimensions together with all other actors who have similar positions. Germany was selected because it was an advocate for more fiscal austerity; Greece, on the other hand, was the member state that was hit the hardest by the Euro crisis and therefore argued distinctively for more redistribution. However, the results are similar, if we select other countries than Germany or Greece to set the polarity. To illustrate the independence of the ideal point estimation from the identifier, we ran the model again using, as identifiers, the Netherlands for the first dimension and Portugal for the second dimension. The ideal point estimates of the two dimensional result do not change (see Figure 6 in Appendix 6).

Figure 2 presents the estimated ideal points of the dimension reduction analysis. The x-axis shows the aggregated positions of the countries for the first dimension, which is, according to our conceptual framework, the dimension of more or less strict fiscal austerity rules. The y-axis displays the actors' position on the second dimension, which we theorized as support for more or less redistribution within the EMU. To check the robustness of our findings, we also perform Basic Space Scaling. The results of both analysis are very similar (see Figure 7 in Appendix 6). Thus, the findings are robust and not biased because of the transformation of the issues into binary variables (as discussed above).

Figure 2 shows a clear conflict on the first dimension. The countries that were hit hard by the crisis and that face serious fiscal problems group around the left end of the first dimension, while the ideal points of the Northern member states and the countries that recovered relatively fast from the economic crisis lie on the other end of the first dimension. The new member states from Central and Eastern Europe populate the middle of the plot, but are closer to the countries arguing for fiscal discipline. While the findings on the first dimension are in line with the conceptual discussion of the previous section, the positions on the second dimension do not show a clear divide that would follow the theoretical differentiation between countries supporting more or less redistribution within

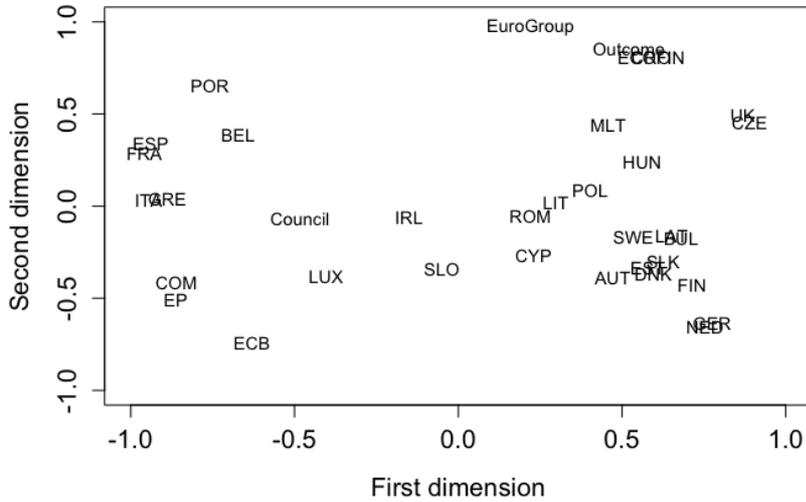


Figure 2: *Ideal points of member states, outcomes, and EU institutions in the two-dimensional space estimated with W-Nominate.*

the Eurozone. In other words, the empirical results on the second dimension are not consistent with the conceptual interpretation discussed in the previous section. Countries on the top right of Figure 2 are not member states that would support both fiscal discipline and more redistribution; neither are the countries on the bottom left known to be critical of any reform measures. All of these points are in the same direction. We can empirically identify with scaling methods the conflict identified in our conceptual framework, but not on two dimensions. Thus, the empirical findings suggest that the two dimensions—fiscal discipline and redistribution—are not two distinct dimensions, rather they represent the extreme positions of one single dimension. Empirically, we identify them with the ideal points on the first dimension of Figure 2.

A more detailed analysis of the dimensionality of our data supports this interpretation. The statistics provided by the W-Nominate model show that member states positions on the 47 issues are on an aggregate level structured on the first dimension. Almost 82 per cent of all positions of the actors can be predicted correctly with the use of one single dimension. Adding the second dimension only improves the result to about 87 per cent. Figure 3 plots how well each contested issue fits on the first and the second dimension of the W-NOMINATE analysis. The further to the right an issue appears on this graph, the more it was decided along the first dimension (and the less on the second one). Figure 3 shows that only a few issues load mainly on the second dimension. Most issues divided the countries along the first dimension. A closer look at the substantive content of the issues indicates that issues regarding both redistribution and fiscal discipline load on the first dimension.

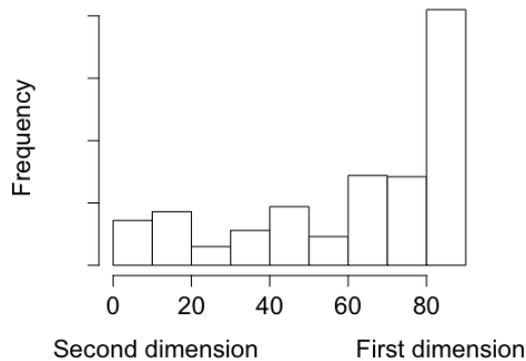


Figure 3: *Loading of issues on the first and second dimension based on the cutting line angles of the two-dimensional W-Nominate model.*

Hence, the empirical evidence suggests that our theoretical concept focusing on the importance of redistribution and fiscal discipline is accurate in the sense that they represent the two extremes of one single dimension, but according to the empirical findings, there is no difference in the coalition formation between the policies that enforce fiscal discipline and the policies that increase redistribution within the currency union. The politics and conflicts among member states in all these issues are essentially the same. Thus, the two dimensional space discussed in the theoretical section, which distinguishes between fiscal discipline and redistribution, collapses, in light of the empirical analysis, to one big conflict dimension spanning on the diagonal of Figure 1 (from the top right to the bottom left).

For investigating whether we find additional important latent dimensions of conflict, besides the dominant first dimension discussed so far, we analyze the scree plot shown in Figure 4, which provides a useful overview of the overall dimensionality of the data. The plot displays the eigenvalues of a correlation matrix associated with a factor on the y-axis. The higher the eigenvalue, the more explanatory power has an additional latent dimension. With this analysis, we can gauge the relative importance of each additional dimension. In short, the scree plot shows in how many underlying dimensions we can meaningfully separate the data. The findings are consistent with the interpretation so far. The first dimension explains a large part of the variance of member states positions on the 47 contested issues. Adding a second dimension, however, does not add much more explanatory power to the model (adding a third, fourth or fifth dimension is associated with a similar improvement like the second dimension). Expressed differently, we observe only one strong latent dimension in the data, which explains a large share of the data. The variance not explained by the first dimension is not explained by a strong second or third dimension, but by many latent factors, which by themselves have only little explanatory power. Thus, the findings again support

the one-dimensional interpretation of the data: the politics of the EMU are dominated by one structural dimension of conflict. However, it is important to note that there is substantial variation in the positioning of member states that is not explained by this dominant first dimension, but we cannot identify a structural pattern for this left-over variance.

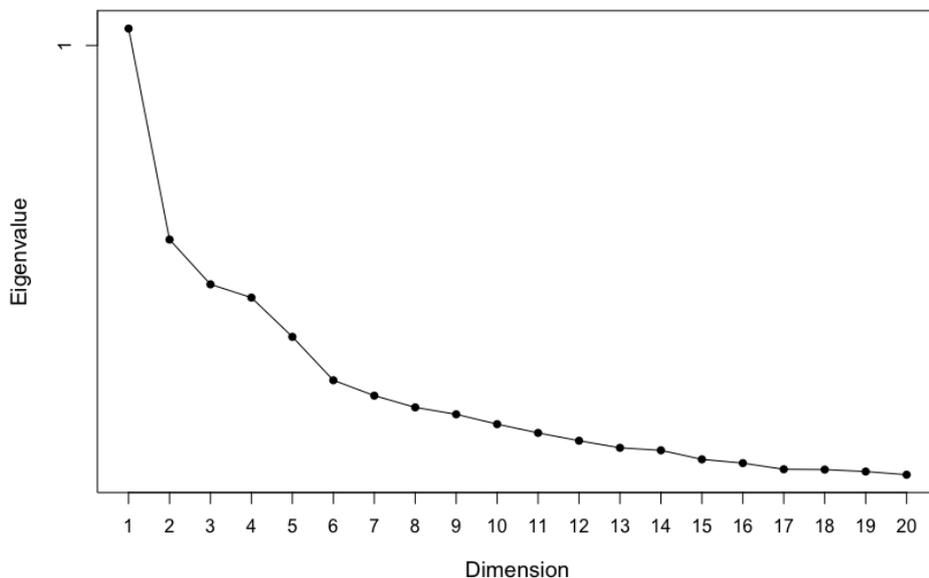


Figure 4: *Scree plot showing the explanatory power of adding additional dimensions to the analysis.*

We run the W-Nominate model again by estimating the actors’ ideal points on one single dimension, given that the dimension reduction analysis suggests that there is only one strong underlying dimension of conflict separating countries that advocate fiscal austerity from countries that push for further redistribution. Again, we used Germany as identifier. A second identifier is not necessary in a one-dimensional model. Figure 5 presents the estimated ideal points. The x-axis shows the aggregated positions of the countries for the first dimension from support for fiscal austerity to redistribution. As expected, the ideal points are very similar to the positions of the first dimension shown in Figure 2. The ideal point “outcome” also shows the aggregated positioning of the negotiated outcomes for the analyzed 47 policy issues. We also estimated the positions of the EU institutions (to the extent to which they formulated consolidated positions that we could code).

Figure 5 shows that the Southern countries (France, Spain, Italy and Greece), which argue for more redistribution, represent one extreme of this dominant conflict dimension. Also, the results indicate that the Commission, the European Parliament, the Council, and the ECB support the Southern coalition. Belgium and Luxemburg are positioned close to this group, while Ireland and Slovenia are the only countries in the middle. The Northern and Eastern member states are placed

on the right side of the conflict dimension. This coalition is less coherent than the Southern group, but represents the majority of all member states in the European Union. Also, the Central and Eastern countries hold less extreme positions, and they have less firm stances in the issues at stake as compared to the Northern and Southern countries. This may be good news for the Southern countries, as there may be a chance to get the Central and Eastern European countries on their side.

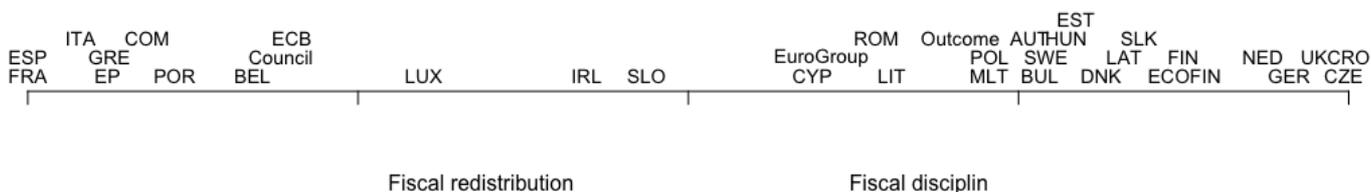


Figure 5: *Ideal points of member states, outcomes, and EU institutions on the one-dimensional space estimated with W-Nominate.*

As far as the European institutions are concerned, the EuroGroup and ECOFIN align, in contrast to the Commission, the European Parliament, the Council, and the ECB, with the Northern countries. Finally, the outcome of the contested issue does not lie on one of the extremes, although it is clearly more closely to the right side, where the majority of member state line up. Overall, the findings show that the Northern countries could get the support of the Central and Eastern European countries, and they were more successful than the Southern countries in the sense that the outcome is closer to their positioning. Based on all these empirical findings, we would like to discuss four implications:

- *Dimensionality of conflict:* The analysis of the dimensionality clearly shows that the political conflict in all 47 issues was dominated by one strong dimension. This makes political compromise very difficult. Negotiating political agreements is easier in a multi-dimensional conflict structure with cross-cutting cleavages because in multi-dimensional cleavage structures, the conflicts are not always between the same groups of countries. Rather, a member state works side-by-side with another member state on one specific set of issues, while the same two member states then oppose one another on a different conflict dimension. In a multi-dimensional conflict structure with different cross-cutting coalitions, member states can negotiate compromises, including side-payments and package deals. One strong dimension of conflict, however, intensifies polarization and results in gridlock.
- *The pivotal role of the Central and Eastern European countries:* The conflict between the Northern and Southern countries dominates the politics of the EMU. Important in that

respect is the positioning of the Central and Eastern European countries. They could make much more use of their pivotal positioning in-between the Northern and Southern countries. Overall, the Northern countries were more successful in getting the support of the Central and Eastern European countries. Therefore, they were also more successful in shifting the policy outcome to their side.

- *The French-German integration axis:* Although the Northern and Southern camps stand in strong opposition to one another, the good news may be that any compromise between France and Germany should have a very high chance of political success, as they populate both extremes of the conflict space. Thus, the specific constellation of conflict in EMU debates is perfect for French-German leadership, which has shaped European integration from the beginning (Degner and Leuffen, 2017). The question, however, is whether France and Germany can come up with a bold compromise given their opposing positions. They may not find much common ground. But with whatever they come up with, the politics are very conducive for its success.
- *European institutions:* Also, the differences between the European institutions is interesting. The more the Council decides together with the Commission, ECB, and the Parliament, the more the Southern countries, led by France, will get their way. In contrast, the more the negotiations and discussions are dominated by the finance ministers in the ECOFIN and the EuroGroup, the closer will the outcome be to the preferences of the Northern countries.

5 Conclusion

The dispute between advocates of fiscal austerity and of more redistribution within the monetary union dominate the politics of EMU reforms. To analyze how that dispute empirically structured the EMU reform negotiations since 2010, we investigated original data on member states positions on 47 contested issues negotiated in the Sixpack, Twopack, TSCG, ESM, EFSF, and the Greece Assistant Programs. We collected data on member states positions using extensive document analysis and expert interviews as part of a Horizon 2020 project. In this paper, we analyzed the data with dimension reduction methods using W-NOMINATE.

The findings show that there is one strong conflict dimension dominating all EMU reforms—namely, the conflict between Southern countries advocating for more fiscal transfers and Northern countries, such as the Netherlands, Germany, and Finland, which took the opposite stance by prioritizing strict fiscal discipline over redistribution. The Northern coalition was more successful in the sense that the negotiation outcomes were closer to their positions, not least because the Central and Eastern European member states, by and large, aligned with the Northern countries. We have discussed several implications of our findings. For example, that the polarized conflict

structure is conducive for the political success of French-German leadership, as both countries hold positions on the extremes of the political conflict.

Please note that this is a first draft and that this paper is planned to be part of a special issue. In that context, we provide with this analysis an empirical investigation of the underlying conflict structure dominating the politics of EMU reforms. The presented empirical findings show that member states positions in EMU negotiations follow a systematic underlying structure. Further papers that are planned for the special issue will complement and extend the presented analysis. For example, the paper by Wasserfallen et al. (2017) discusses in more detail the collected data on member states positions, the work by Bailer et al. (2017) seeks to explain the positioning of member states, drawing also on the results presented in this paper, and, finally, Degner and Leuffen (2017) investigate more in-depth the German-French integration axis in respect to EMU politics.

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6.2 Basic Space

Figure 7 displays the outcome of the two dimensional Basic Space scaling model. Basic Space scaling was developed to map issue scale data on one or more latent dimensions (Poole, 1998). It is implemented in the `blackbox` function in R. Basic Space scaling represents a valid robustness check for our W-NOMINATE analysis. While NOMINATE was developed for binary data, scholars use Basic Space scaling for ordinal data. Due to the binary character of more than half of our issues, we decided to transform our data in order that the variables fit the requirements of W-NOMINATE. Below, we report the Basic Space result of the non-transformed data as a robustness check. The results displayed in Figure 7 indicate robust findings. Both models find a clear divide between a Southern and Northern coalition on the first dimension.

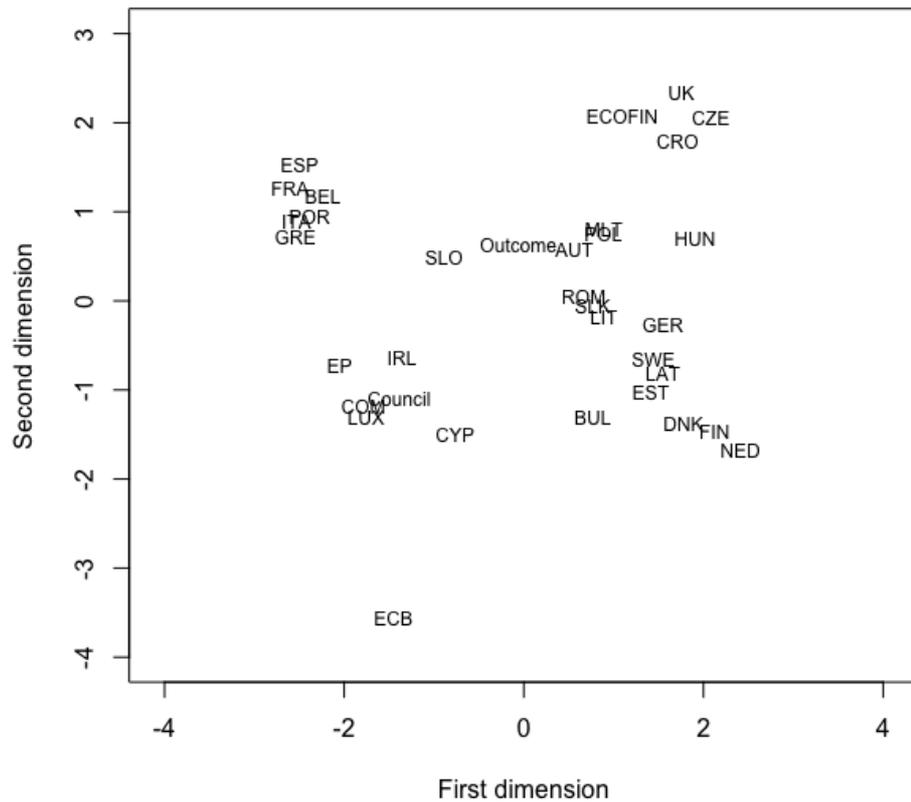


Figure 7: *Ideal points of member states, outcomes, and EU institutions in the two-dimensional space estimated with Basic Space scaling.*

Finally, Figure 8 plots the results of the one-dimensional analysis using Basic Space scaling, which are similar to the findings of the W-Nominate analysis shown in Figure 5.

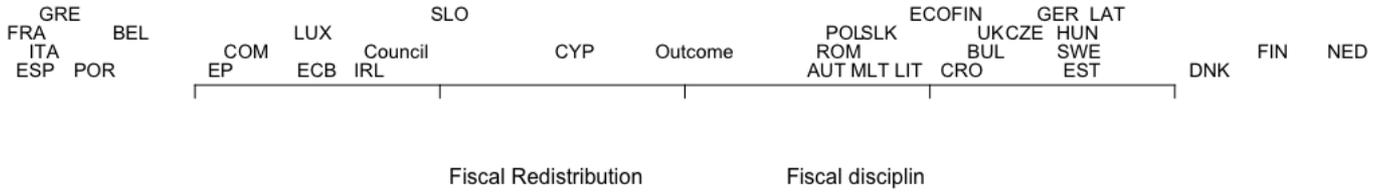


Figure 8: *Ideal points of member states, outcomes, and EU institutions on the one-dimensional space estimated with Basic Space scaling.*

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