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ECONOMIC INTEGRATION: CONFLICT VERSUS COHESION

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Abstract

Studies of the determinants of voting behavior in industrial countries suggest that citizens care about economic performance for the nation overall, as well as about local or personal well-being. Arguably, this finding partially reflects a type of intra-national “cohesion”. Such cohesion is likely to help alleviate conflicts that emerge among diverse groups within integrated national economies.

This paper asks whether there is similar evidence of “cohesion” across countries in Europe. The empirical work, based on survey data for France, Germany, and Italy on attitudes towards membership in the European Community, finds little evidence, if any. This lack of cross-national cohesion may exacerbate the conflicts that arise in the process of international economic integration.

Economic Integration: Conflict versus Cohesion

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A striking fact about many national economies seems to be that their citizens care not just about the economic well-being of their own locality, but also about the economic well-being of the nation overall. Arguably, this type of "cohesion" helps to alleviate some of the conflicts that arise as diverse groups lobby national policy makers in their own interest.

As the global economy becomes more integrated, national authorities increasingly have control over policies that influence economic agents based in other countries. This mis-match between the growing internationalization of economic activity and the continued national jurisdiction of most policy setting and implementation may set the stage for increasingly contentious conflicts among nations. One mechanism that could gradually help to alleviate such conflicts would be an increase in cross-national cohesion -- in the sense that residents of one country are concerned about economic performance internationally.

The objective of this paper is to take a preliminary look at this aspect of cohesion. In particular, it asks whether there is evidence that residents of nations in the European Community during 1974-92 cared about economic performance in the EC overall, or only about performance in their own countries. Integration among these nations has been characterized as "the archetype of regional integration: the only experiment in formal, institutionalized integration above the level of the nation-state to have survived and strengthened from the early 1960s to the present." (William Wallace, 1994, p.1) Thus, it seems more likely that this type of cohesion – or sense of community – would have evolved among EC members than among most other groups of nations.

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I. Global Economic Integration and National Policy-Making

Economic activity has become increasingly international during recent decades as the world economy moves away from a set of national markets towards a global marketplace. A variety of trends are strikingly clear. Trade has grown significantly faster than income; international capital flows (including foreign direct investment) have increased rapidly; and expansion of trans-national corporations has facilitated an increasing globalization of production processes. (See United Nations, 1992, 1993 & 1994 for reviews of these trends.)

However, there does not appear to be a parallel internationalization in the political arena. In particular, nations independently set and implement a vast array of policies that influence economic activity. This includes policies that have traditionally been viewed as appropriately “domestic” – such as product standards, worker safety, anti-trust, environmental regulations and tax codes – but which are increasingly viewed as affecting cross-border competition. Indeed, the contentious debate over inclusion of the labor and environmental side-agreements to the NAFTA provides one recent example. The mismatch between national political jurisdictions and internationalization of economic activity raises a host of interesting issues for analysis as well as areas of potentially difficult cross-national conflict that are beyond the scope of this paper.²

II. Economic Performance and Voting Behavior: Evidence on Cohesion

There is substantial evidence that residents in industrial countries care more about aggregate national economic performance than about local performance or personal well-being when they elect domestic policy-makers. As discussed above, this finding is of particular interest in the present context, because one interpretation is that the relative importance of national performance as a determinant of voting behavior reflects a degree of national cohesion that might help to alleviate conflict among domestic interest groups.

Numerous analyses strongly support the conclusion that economic performance is an important determinant of voting behavior in industrial countries. (See Morris P. Fiorina, 1991, and Sam Peltzman, 1990.) More specifically, Michael S. Lewis-Beck (1988) finds that, controlling for

² Indeed, the Brookings Series on Integrating National Economies examines interrelated aspects of the mis-match between national

national economic performance, an individual's personal financial situation has no impact on vote intention at the federal level in Britain, Spain, France, Germany or Italy. For the U.S. at the presidential level, Gregory Markus (1992) finds that national growth matters for individual electoral choice, even controlling for the individual's personal financial situation while Donald R. Kinder, Gordon S. Adams and Paul W. Gronke (1989) find that national economic performance is more important than personal or "group" (socio-economic, religious, racial) well-being by a wide margin. James Campbell (1992) and Peltzman (1992) find that national GDP growth matters many times more than state GDP growth in explaining the popular presidential vote by state. U.S. voters also seem to penalize senators, governors and other elected state incumbents little if at all for poor economic performance in their state. (See John E. Chubb (1988) and Robert Stein (1990).)

One explanation for the finding that voters care more about national than local economic behavior is a sense of cohesion -- or altruism. Kinder and D. Roderick Kiewiet (1979), argue that voters are "sociotropic" in that they are motivated by their perceptions of collective well-being, not simply by their own individual well-being. This interpretation raises intriguing questions: What determines the community with which individual voters identify? Does it evolve? The view has also generated an active debate. (See Fiorini, 1991.)

A competing explanation stresses a sophisticated form of self-interest as spelled out by Peltzman (1992). The key point is that regions of a national economy have little scope for controlling local economic performance. A U.S. state, for instance, is a small, very open economy without an independent central bank, with relatively little scope for influencing cross-border flows and with limits on its ability to conduct independent fiscal policy. Thus, a rational voter should recognize that national policy makers have much more influence over the direction of the overall economy than over the deviation of local (and personal) fortunes from national averages. Such a voter should hold state and local policy makers even less accountable than national policy makers for economic performance.

Existing evidence is consistent with both explanations. On the one hand, survey results find that voters perceive national policy makers to be more responsible than state and local officials for economic performance and that these perceptions influence voting behavior strongly. This suggests that there is something to the "sophisticated self-interest" view, since it is hard to see why perceived

sovereignty and increasing economic integration. Collins (1993) discusses some of the distributive issues.

accountability would play such an important role if voters actions were determined purely by sociotrophism. At the same time, other types of evidence point to a strong sense of community. In the U.S., for instance, Anne Krueger (1989) argues that residents may oppose trade liberalization that would cause clearly identifiable losers, even when they themselves stand to gain. Thus, the findings for individual industrial countries appear to reflect a combination of sophisticated self-interest as well as a significant degree of national cohesion.

III. EC Integration and Economic Performance

Is there any similar evidence of cross-national cohesion within the EC?³ Given the widespread acceptance that further economic integration has gained in this region, residents of EC member countries seem more likely than residents of other groups of industrial or developing countries to see themselves as members of a broader community. However, it is difficult to find an appropriate indicator of "cohesion". Voting behavior is inappropriate given the range of political systems in Europe, and the lack of elected officials who are perceived to have significant policy making authority.

One alternative is to use information about support for EC membership. The interpretation would be as follows. A finding that individuals support EC membership only when their own economy is doing well, and that EC-wide performance indicators are irrelevant, would provide no evidence of EC-wide "cohesion". In contrast, a finding that individuals care both about own country and EC-wide variables in a parallel fashion -- or care primarily about the EC wide variables -- would provide evidence of some degree of cross-national cohesion. Of course, such a finding might also reflect self-interest.

Eurobarometer has conducted a survey of attitudes towards EC membership semi-annually since 1973. It provides a time series for a number of EC member countries on the percent of respondents who view their own country's membership in the EC as "a good thing". Advantages of this indicator are that it provides a long enough series for empirical analysis, is comparable across countries and can be interpreted as an indicator of support for union membership – or degree of

³ The European Community officially became the European Union after the ratification of the Maastricht Treaty in 1993. However, since the data used in this paper goes through 1992, the term "European Community" (EC) is used throughout.

cohesion. A disadvantage is that attitudes towards EC membership may measure a variety of factors other than the extent of cross-national cohesion. In many respects, however, this difficulty of interpretation is also true of the country-level voting data discussed above.

The basic methodology is quite simple. Analysis focuses on France, Germany and Italy. For each country, the measure of cohesion is regressed on indicators of EC-wide and own country macroeconomic performance (expressed as a deviation from EC-wide performance) and on a time trend to capture trend changes in attitudes toward membership as shown below:

$$S_i = \delta_0 + \delta_1 \cdot (g_i - g_{EC}) + \delta_2 \cdot g_{EC} + \delta_3 \cdot (\pi_i - \pi_{EC}) + \delta_4 \cdot \pi_{EC} + \beta_1 \cdot t + \beta_2 \cdot D + \varepsilon_i$$

where S_i is support for EC membership in country i ; π_i, π_E are inflation in country i and in the EC overall; g_i, g_{EC} are GDP growth in country i and in the EC overall; t is a time trend; and D is a dummy variable, equal to one for spring surveys.⁴ If respondents care about EC-wide performance, then α_2 and α_4 should be strongly significant and large relative to own country parameters, α_1 and α_3 . Economic indicators are lagged one period in the empirical analysis to reflect the information available to respondents at the time of each survey. The three equations are estimated as a system so as to exploit the likely cross-equation correlation of the errors. The estimation corrects for first-order serial correlation in each equation.

The regression results are reported in Table 1. In both Germany and Italy, support for EC membership appears to have grown during the 1970s and 1980s, and respondents tend to be somewhat less supportive of union membership during the end of the year than they are in the spring. There is no evidence of either a trend in French attitudes or of a systematic difference between the spring and the fall.

Macroeconomic performance influences support for EC membership in all countries, but interestingly, different variables matter. French respondents care only about inflation, and not about growth. Their support for EC membership rises strongly as French inflation declines relative to EC-

⁴ Data on support for EC membership come from the Eurobarometer (April 1992). Respondents were asked: "Generally speaking, do you think your country's membership in the European Community is a good thing, a bad thing or neither good or bad?" Surveys containing this question have been conducted twice a year since the end of 1973 – typically in April/May and again in October. (The dummy variable D is to pick up any systematic differences in attitudes in the spring versus the fall.) S_i is the percentage of respondents in country i who view EC membership as "a good thing." CPI inflation rates and GDP growth rates for each country come from the IMF International Financial Statistics. These are semi-annual growth rates computed using quarterly data. Inflation and growth rates for the EC overall come from OECD Main Economic Indicators. (IMF quarterly GDP data are not available for all EC members.)

wide inflation, suggesting that French support for membership tended to increase as it became easier to sustain a common macroeconomic policy without exchange rate adjustments. Italians also care about inflation, not growth. But unlike the French respondents, their support for EC membership tended to be high when own inflation was high. In Germany, it is growth that matters. (Note that, the insignificance of the inflation variables in the German equation need not mean that German respondents did not care about inflation. They may simply not have believed that EC membership influenced the ability of the Bundesbank to determine domestic inflation levels.) As for France, there is evidence that own and EC-average economic performance have opposite effects on German support for EC membership, with support rising with own growth but falling with average EC growth.

For each of the three, the own country deviations are more important than the EC-average variables. In a striking contrast to within country results, the null hypothesis that all of the EC variables should be excluded from the regression can not be rejected at a 10% significance level. (The chi-square statistic is 10.05, with 6 degrees of freedom.)

IV. Concluding Remarks

This analysis of European attitudes towards EC membership finds little cross-national evidence of the type of cohesion that appears to exist within nations. If it has not evolved despite decades of integration in Western Europe, it seems unlikely to evolve rapidly in response to global integration more generally, and unlikely to help alleviate the policy conflicts generated by increasing economic integration.

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Table 1

Economic Performance and Support for EC Membership

Regression Results

Equation: $S_i = \delta_0 + \delta_1 * (g_i - g_{EC}) + \delta_2 * (\Pi_i - \Pi_{EC}) + \delta_4 * \Pi_{EC} + \beta_1 * t + \beta_2 * D + U_i$

	France	Germany	Italy
δ_0	57.052 (6.752)	48.103 (6.843)	59.829 (8.457)
δ_1	0.120 (0.280)	0.522 (1.785)	-0.249 (-1.062)
δ_2	-0.092 (-0.306)	-0.179 (-0.576)	0.183 (0.673)
δ_3	-1.104 (-2.531)	-0.394 (-0.586)	0.384 (1.990)
δ_4	-0.820 (-0.168)	0.449 (0.929)	0.566 (1.320)
β_1	0.233 (1.078)	0.308 (1.905)	0.402 (2.269)
β_2	-0.753 (-0.663)	-2.424 (-1.809)	-3.362 (-2.979)
ρ	0.555 (4.277)	0.270 (1.983)	0.471 (3.784)
R^2	0.628	0.404	0.308
# of observations	36	36	36
Mean of S_i	61.472	58.778	73.472

Note: t-statistics are given in parenthesis. See text for explanation of variables, and data sources.