The causal effect of EU fiscal transfers on public support for the European Union

– Extended Abstract –

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Since the European debt crisis in 2009, there has been a rapid increase in anti-EU attitudes in all member states of the EU. Anti-European sentiment had its current peak in June 2016, when Great Britain's citizens decided in a national referendum to leave the European Union. As one consequence, citizens of other EU member states demand similar referenda, letting themselves decide whether to remain a part of the EU or not. However, the European Union as an institution can only remain functional if people value it as useful. Thus, any further decrease of support of the populace will eventually result in a less stable Europe. Hence, the question of how support for the EU can be accelerated is more important than ever.

Thus, it is essential to examine means to directly increase support for the European Union. In this paper, we address the question whether the receipt of fiscal transfers (here: transfers under the *Convergence Objective* of the EU), which are directly controlled by the EU, lead to higher levels of support for the European Union.

This hypothesis is founded on the economic theory of public support for European integration, meaning that individuals are in favor of European integration due to economic and financial benefits, for example through trade liberalization. Since European integration is a process of trade liberalization, there is an increased factor mobility and exchange of goods and services between EU member states. International trade benefits in particular individuals with factors

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relatively abundant in the national economy, and disadvantages individuals endowed with factors that are relatively scarce, since the latter can be imported to a cheaper price then when produced at home (cf. Brinegar, Jolly 2005; Hooghe, Marks 2005; Mayda, Rodrik 2002; O'Rourke, Sinnott 2001). Thus, in capital-rich countries (respectively member states), individuals with high human capital endowment will benefit the most. Therefore, particularly professionals and managers benefit from trade liberalization and are in favor of European integration. In contrast, unskilled, labor-rich individuals in capital-rich states are less advantaged, which might result in Euroscepticism (cf. Anderson, Reichert 1995; Gabel, Palmer 1995; Hooghe, Marks 2005; Inglehart 1970; Rodrik 1997). In labor-rich member states, however, the reverse is the case. In these countries, unskilled, labor-rich individuals are more in favor of European integration than their professional counterparts (cf. Hooghe, Marks 2005). Additionally, individuals who are fearful of their own and national future economic situation are more likely to oppose European integration (cf. Anderson 1998; Christin 2005; Eichenberg, Dalton 1993; Hooghe, Marks 2005; Rohrschneider 2002).

Generally spoken, according to the theory of rational choice and concept of maximizing utility, it can be reasoned that individuals evaluate EU membership in terms of general financial benefits. Thus, trade liberalization is not the only benefit of the European Union, but also the distribution of financial benefits through the EU. Accordingly, regions that receive rather less financial help are more skeptical towards the EU compared to other EU member states receiving relatively large amounts of transfers, since utility of EU membership increases with the amount of received fiscal transfers. Another concept that explains the increase of support through an amount of money received is the theory of reciprocity (cf. Falk 2007), which is not as recognized as the theory of maximizing utility in the literature on support for the EU. However, Chalmers and Dellmuth (2015) mention at least the possible positive influence of fiscal transfers on support through the channel of perceiving funds as a sign of EU member states' solidarity.

Therefore, our research question is whether there is a positive, causal impact of receiving fiscal transfers from the EU on support for the European Union.

Empirical results of recent research show several factors that influence support for the EU. These are monetary and financial impacts, such as fiscal transfers (cf. Chalmers, Dellmuth 2015; Hooghe, Marks 2005; Osterloh 2011) and economic circumstances and considerations (cf. Becker et al. 2016; De Vreese, Boomgaarden 2005; Hooghe, Marks 2005). Further on, national identity (exclusive vs. multiple identity) was found to be the most influential

determinant (cf. Carey 2002; Chalmers, Dellmuth 2015; Fligstein et al. 2012; Hooghe, Marks 2005). Also, high levels of education (cf. Becker et al. 2016; Osterloh 2011) and political awareness (cf. Chalmers, Dellmuth 2015; Osterloh 2011) are important factors to increase support for European integration. The existence of party cues is a determinant of public support for the EU as well (cf. Hooghe, Marks 2005; Maier et al. 2012).
However, findings of these authors are not consistent at all, especially in regard to the impact of fiscal transfers on public support for the EU: some researchers found positive, statistically significant coefficients for fiscal transfers (e.g. Hooghe, Marks 2005; Osterloh 2011). Others found contradictory coefficients in statistically significance and effect direction, but an indirect correlation between fiscal transfers and public support through channels of national identity, education and political awareness (e.g. Chalmers, Dellmuth 2015).

We contribute to the literature in several respects. Since these results do neither suggest a consistently positive, nor negative, or even a causal relationship between fiscal transfers and public support, in this paper, we want to identify the causal impact of fiscal transfers on support for the EU. Importantly, since fiscal transfers are issued by the European Union itself, fiscal transfers could be – in case of a positive causal impact on support – an instrument to directly shape support for European integration.

Apart from applying causal methods, another contribution to the literature is the usage of a new, explorative data set. Former research mostly used Eurobarometer data, which is, however, not representative at NUTS 2 level, since there are too less observations for each NUTS 2 region. Therefore, to the best of our knowledge, we are the first to apply European Parliament election data to model public support for the EU. More precisely, we use the share of votes for pro-EU parties to model public support for the European Union. We employ data from four different data sources: the European Election Database (EED), the Chapel Hill Expert Survey (CHES), Eurostat and the Cambridge Econometrics' European Regional Database (ERD).
To create a variable to measure support for the EU (here: share of votes for EU friendly parties), we combine data on the share of votes for each running party in European Parliamentary Elections from the *EED* with data on a party's EU orientation from the *CHES*. Data is given for four election periods: 1994, 1999, 2004 and 2009. Since we do not have data on NUTS 2 region's exact amount of money received under the *Convergence Objective*, we make use of information on a region's recipient status. This setting has several advantages. First, we do not need the exact amount of money in our empirical analysis. Second, we are able to apply a

regression discontinuity design (RDD) and two-stage least squares instrumental variable approach (2SLS).

Thus, our empirical strategy in the case of an RDD approach follows Becker et al. (2010). We take advantage of the quasi-experimental setting: usually only regions with a GDP per capita less than 75% of the EU-average (75% threshold) receive structural funds under the *Convergence Objective*. However, since the EU allows exceptions from this objective rule, there are slight deviations from this rule, so that some richer regions receive funds and poorer regions receive no funds under the *Convergence Objective*. Thus, we apply a fuzzy RDD approach as a first step to identify the causal relationship between fiscal transfers and public support for the EU. As a calculation base, we follow Becker et al. (2010) and use the average of three years of GDP per capita from six to three years before the start of a new fiscal transfers programming period to compute the average EU GDP per capita. We then compare regions that are just below and just above the threshold, which can be seen as similar in all aspects despite their status of receiving large amounts of fiscal transfers under the *Convergence Objective.*
The 2SLS approach we use is also based on the quasi-experimental setting, since we can instrument the receipt of fiscal transfers under the *Convergence Objective* with the distance of a region's GDP from the 75% threshold.

First empirical results, which are based on panel fixed effects, suggest a positive impact of fiscal transfers on public support for the European Union. The causal empirical consolidation using RDD and 2SLS is yet to come. In case we are able to confirm this result in a causal setting, our findings have important implications for the European Union: the EU might be able to positively influence citizens' EU attitude with customizing its structural funds politics.

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