# EU Enlargement and Satisfaction with Democracy: A Peculiar Case of Immizerising Growth

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# The Paper in a Nutshell

- Investigate how enlargement of multi-level systems affects satisfaction with democracy
- Therefore, we adopt a public choice perspective
  - Focus on the probability of being outvoted
- Theoretical model
  - Given the institutional arrangement
  - Enlargement tends to depress satisfaction with democracy
- Empirical analysis
  - Time Series for Germany (1976 – 2009)
  - Two dimensions of satisfaction with democracy: SWD (stated) and PART (revealed)
  - EU enlargement tends to reduce SWD and significantly reduces PART

# Outline

- Introduction
- Where we start from (a literature review)
- Theoretical Framework
- Empirical Analysis
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# Introduction

- European integration was intended to be a role model in terms of peace keeping.
- Nowadays, the EU and EMU appear to lie in shambles
- Even if it may not fall apart, conflict rather than cooperation dominate the scene
- This goes along with
  - Increasing dissatisfaction with European democracy
  - A gap between peoples identification and political visions (Zimmermann & Just, 2001; McLaren, 2007; Haller, 2010)

# Introduction

- The Economist (Sept. 3, 2011) wrote that

„... the méthode Monnet has brought two problems. One is that it alienates voters. Elected governments must increasingly answer for policies they do not fully control, while voters have no power to 'throw the bums out' in Brussels. The European Parliament, self-aggrandising and mediocre, cannot fill the democratic deficit“ (p. 53)

# Introduction

- Or... in even more harsh words:
  - Nigel Farage: „Who the Hell You Think You Are?“ (Quelle: http://www.youtube.com/watch?v=2gm9q8uabTs)

# Introduction

- European level has acquired more and more power to the account of nation states
- Institutional arrangement has not kept pace with rapid enlargement
- Despite economic benefits of the EU, discontent and dissatisfaction appears to be on rise
- This amounts to a public choice related issue:
  - Threat that identification with the European idea, as envisioned by the founding fathers, is at risk

# Introduction

- Further more
  - Dissatisfaction with EU enlargement could undermine the functioning of the political system in the nation states
- Regime satisfaction is the cement of societies (Diamond, 1999)
- In this paper
  - Theoretical model
    - Enlargement of multi-level systems reduces regime satisfaction
    - Focus on probability to get outvoted
  - Empirical analysis
    - Examining the impact of EU enlargement on regime satisfaction and voter participation in Germany
    - Results are in line with theory

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# Where we start from

- In this paper: focus on a classical externality problem
- Citizens of the EU are only indirectly involved in the process of EU enlargement
- Decisions in high politics may impose direct (taxation) or indirect (discomfort, alienation, anxiety) external costs on individuals
- This may affect their satisfaction with democracy (in general and in the individuals‘ home countries)

# Where we start from

- The economic perspective:
  - Prospects on membership and the image of the EU should reflect the perceived net benefit of the citizens in different countries
    - Those who benefit directly (via the EU budget) or indirectly (via market forces) should be in favor of membership (Anderson and Reichert, 1995)
  - Distributional issues should arise in tandem with diversity in membership (either by Stolper Samuelson effects or real exchange rate adjustments) (Eichenberg and Dalton, 2007; Jaime-Castillo, 2006; Rohrschneider and Loveless, 2010)
    - Thus, support should head south with enlargement

# Where we start from

- But economic‘s not all that counts:
  - Dependent variable: life satisfaction in the EU
    - Böhnke (2008): cost-benefit effects on satisfaction in EU vary widely across member states
    - Rohrschneider and Loveless (2007, 2010): As better the national macroeconomic performance, as more important are political (as opposed to economic) criteria
  - Focusing more directly on satisfaction with democracy
    - Pacheco and Lange (2010) use actual political participation as endogenous variables
    - Karp et al. (2003): EU mediated distribution of benefits strongly shapes satisfaction with EU institutions

# Where we start from

- Further factors that determine satisfaction with democracy:
  - Knowledge and information
    - Rohrschneider (2002), Scheuer and Schmitt (2009): the more individuals know about the EU, the lower is their EU-specific satisfaction with democracy
  - Institutional quality
    - Wagner et al., 2009
    - Bjørnskov et al., 2010
    - Hobolt, 2012

# Where we start from

- How enlargement affects satisfaction with democracy is seldom on research agendas
- Karp and Bowler (2006): enlargement as endogenous variable
  - Dissatisfaction has significant negative effects on attitudes towards enlargement
- From a public choice perspective: enlargement exogenous
  - Enlargement affects satisfaction with democracy (via voting mechanism)
  - Voting leverage decreases since a single vote is losing its relative weight (Downs, 1957)
  - Dissatisfaction may be the result

# Where we start from

- Feeling represented is crucial when it comes to satisfaction with procedures (Rohrschneider, 2002; Ehlin, 2008)
- Winners should favor democracy more than losers (Anderson and Tverdova, 2001; Blais and Gelineau, 2007)
- Thus, the number of those outvoted may be a source of dissatisfaction with democracy
- Our theoretical model drops in here
  - Focus on the external costs of voting procedures

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# Theoretical Framework

- Assumptions
  - Three-level system:
    - one supranational level
    - n countries
    - z regional jurisdictions
  - Taken together, countries have a population size P
  - Countries are symmetrical
    - They host the same number of jurisdictions
    - And the same number of voters
  - The majority rule is applied at each level for political decisions

# Theoretical Framework

- If x countries join the club:
  - n + x club members
  - z (n + x) regions
  - Total Population increases to P (1 + x/n)
- Consider a representative jurisdiction at each level.
- Thus, the maximum number of outvoted after enlargement is

$$(V_F)_S = \frac{1}{2} \cdot \frac{(n+x)}{n} \cdot P - 1 \qquad (V_F)_N = \frac{1}{2} \cdot \frac{1}{n} \cdot P - 1 \qquad (V_F)_R = \frac{1}{2} \cdot \frac{1}{n} \cdot \frac{P}{z} - 1$$

at the supranational, the national and the regional level

# Theoretical Framework

- Suppose that all jurisdictions at each level are intertwined via the decision making process
- Considering the whole club:
  - The maximum number of outvoted after enlargement adds up to

$$(V_M)_a = (V_F)_S + (n+x) \cdot (V_F)_N + (n+x) \cdot z \cdot (V_F)_R$$
$$= 3 \cdot (n+x) \cdot \frac{P}{2 \cdot n} - (1 + (z+1) \cdot (n+x))$$

- The number of outvoted before enlargement is

$$(V_M)_b = \frac{3}{2} P - (1 + (z+1) \cdot n)$$

# Theoretical Framework

- To calculate the frustration of being outvoted, we relate
  - The maximum number of people outvoted
  - To the respective population affected via the decision making process

- After enlargement: $$R_a = \frac{1}{2} - \left[\frac{1 + (z+1)\cdot(n+x)}{3\cdot(n+x)}\right]\cdot\frac{n}{P}$$

- Before enlargement: $$R_b = \frac{1}{2} - [1 + (z+1)\cdot n]\cdot\frac{1}{3\cdot P}$$

# Theoretical Framework

- The differential impact of enlargement on relative frustration is unambiguously positive

$$R_a - R_b = \underbrace{\frac{1}{3}}_{\text{1st term}} \cdot \underbrace{\frac{x}{n}}_{\text{2nd term}} \cdot \underbrace{\frac{1}{P \cdot \left(1 + \frac{x}{n}\right)}}_{\text{3rd term}} > 0$$

- Increase in frustration is
  - Smaller the larger the number of levels (here: 3)
  - Smaller the larger the club before enlargement (P or n)
  - Larger the larger the number of new members (x/n)
    - Even if the pure population-boosting effect (3rd term) mildens the increase in frustration, it is inevitably associated with new member states (the 2nd term)

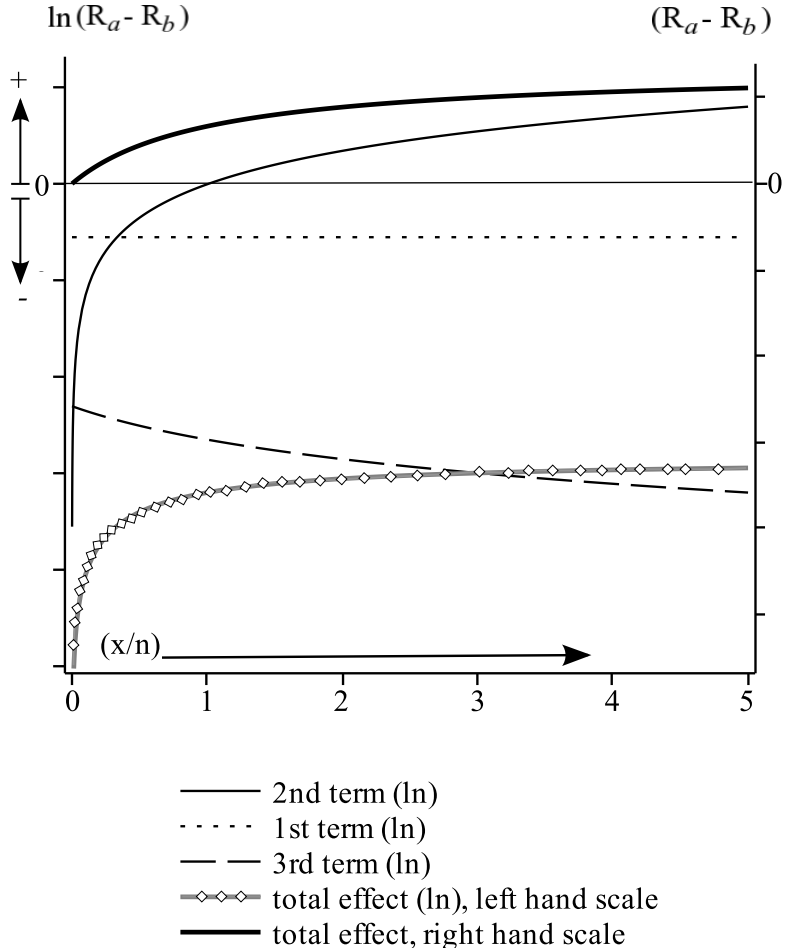
# Theoretical Framework

- Theoretically, we can disaggregate the enlargement effect and look at the margin:

$$\frac{\partial\left(R_a - R_b\right)}{\partial\left(\frac{x}{n}\right)} = \frac{1}{3}\left[\frac{1}{\left(1+\frac{x}{n}\right)\cdot P} - \left(\frac{x}{n}\right)\cdot\frac{1}{\left(1+\frac{x}{n}\right)^2\cdot P}\right]$$

$$= \frac{1}{3}\cdot\frac{1}{\left(1+\frac{x}{n}\right)^2\cdot P} > 0$$

# Theoretical Framework




Impact of Enlargement on SWD (insiders' perspective)

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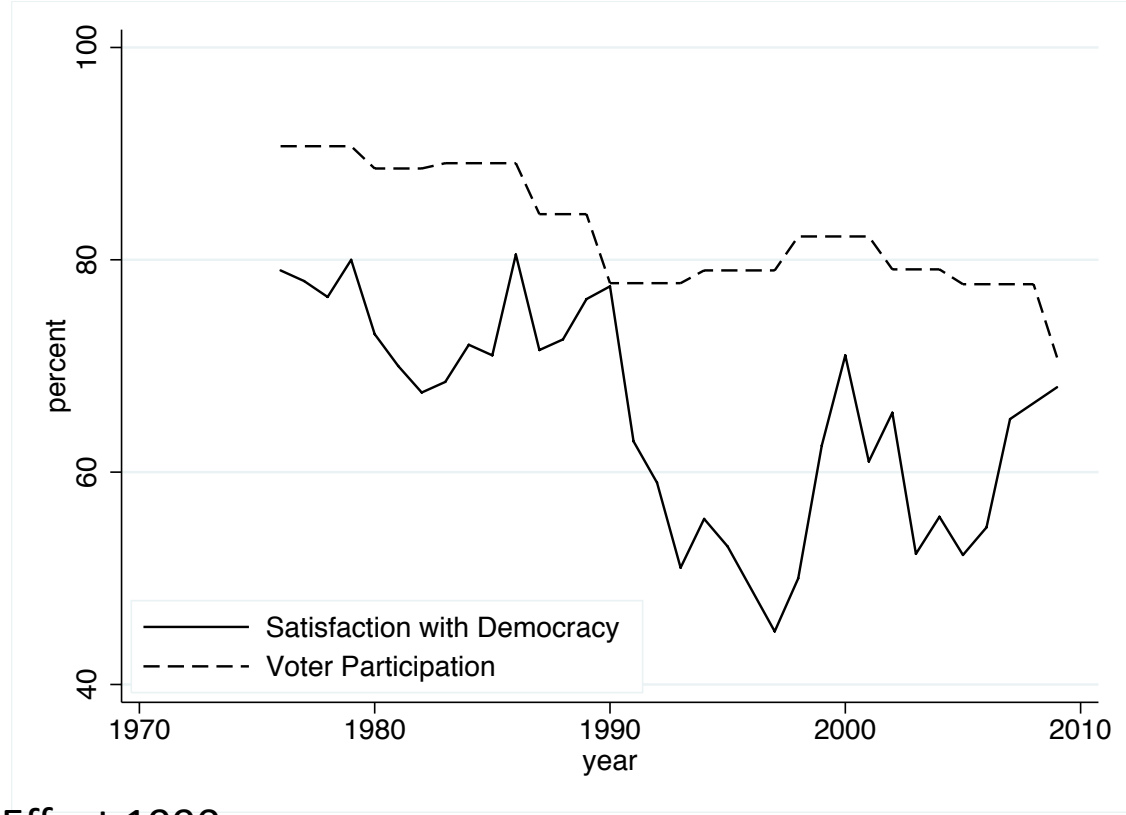
# Empirical Analysis

- Examine the effects of EU enlargement using German time-series data
- Germany is of interest, because
  - Economic importance
    - Standing aloof from democracy would have destabilizing effects for EU
  - Double enlargement
    - Two enlargement processes at the same time (German reunification and EU enlargement)

# Empirical Analysis: Exploring the Data

- Two endogenous variables (different dimensions of satisfaction)
  - Satisfaction with democracy (SWD)
    - Stated preferences (Eurobarometer data)
    - Are you satisfied with the way democracy works? (4 values)
    - Calculate percent that are very satisfied or fairly satisfied (the first two groups)
  - Voter participation (PART)
    - Revealed preferences (Federal Statistical Office)
    - Election data to German parliament in percent

# Empirical Analysis: Descriptive Statistics




Displacement Effect 1990:

- False hopes
- Excess burden (financing)
- More pronounced in SWD

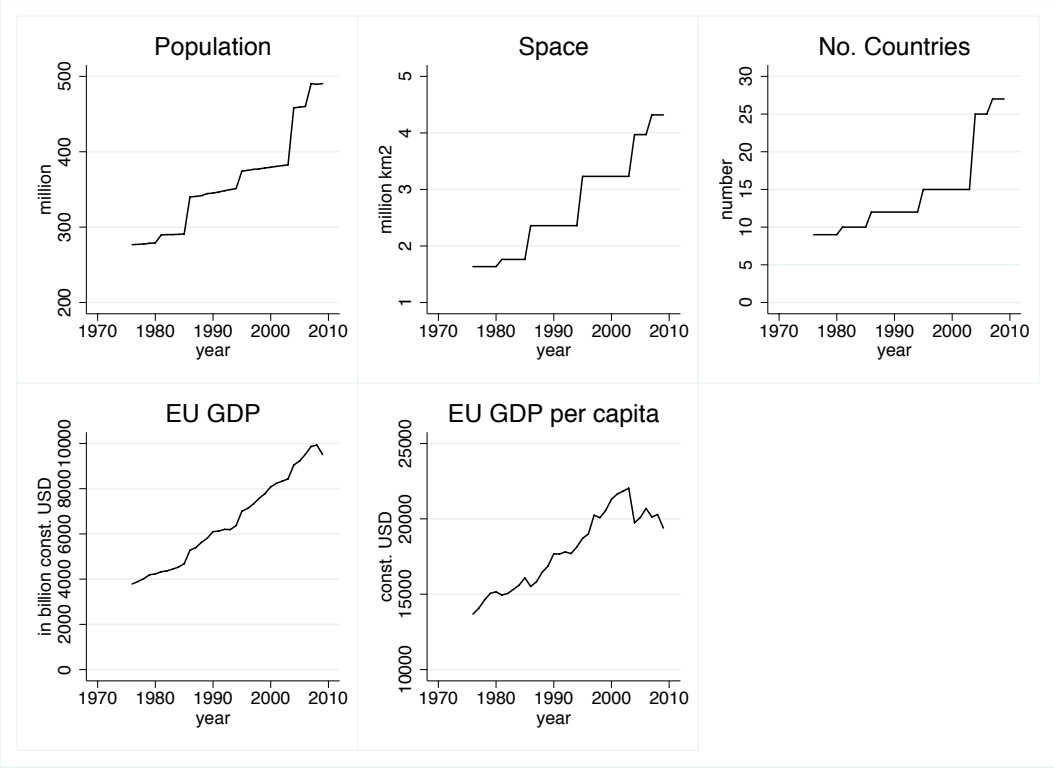
Bouncing back in late 1990s:

- Prospect of EU east enlargement
- Negotiations, evaluations started well

# Empirical Analysis: Exploring the Data

- Five proxies for EU enlargement (provided by PWT, OECD Labor Force Statistics, CIA Factbook, WDI)
  - Total EU population
  - Geography of the EU (space in $km^2$)
  - Number of EU member states
  - EU-GDP (for the whole EU in real terms)
  - EU-GDP p.c. (real GDP p.c.)
- In the theoretical section we differentiated between different dimensions
- Empirically, they can hardly be disentangled: “One cannot have one’s cake and eat it too.”
  - We therefore use the different proxies alternatively

# Empirical Analysis: Descriptive Statistics




- Space and No. Countries no variation between the years
- Others are characterised by two effect:
  - Widening of EU (pure enlargement effect)
  - Country specific factors (growth effect)

- We disentangle these two components
- Create „pure“ effects

# Empirical Analysis: Descriptive Statistics

Table 1: Bivariate Correlations

| | SWD | PART | Pop (pure) | Space | No. of countries | EU-GDP (pure) | EU-GDP pc (pure) |
|---|---|---|---|---|---|---|---|
| SWD | 1 | | | | | | |
| PART | 0.6452* | 1 | | | | | |
| Pop (pure) | −0.4697* | −0.8172* | 1 | | | | |
| Space | −0.5596* | −0.8082* | 0.9713* | 1 | | | |
| No. of countries | −0.4180 | −0.7194* | 0.9749* | 0.9421* | 1 | | |
| EU-GDP (pure) | −0.5920* | −0.8308* | 0.9632* | 0.9949* | 0.9172* | 1 | |
| EU-GDP pc (pure) | 0.2020 | 0.6807* | −0.8879* | −0.7537* | −0.8808* | −0.7361* | 1 |

* indicating bivariate statistical significance at the level of 1 per cent

1. Negative Correlations between proxies and endogenous variables
2. Correlations seem to be stronger for PART than for SWD
3. EU GDP p.c. (pure) is an inverse proxy for EU enlargement

# Empirical Analysis: Exploring the Data

- Control variables for Germany
  - PWT
    - GDP
    - GDP p.c.
    - Openness [(M + X)/GDP]
  - IMF economic outlook
    - Unemployment rate
    - Inflation rate
- Overall:
  - Time series for Germany (annual information 1976 – 2009)
  - SWD and PART as endogenous variables
  - Five EU enlargement proxies as main exogenous variables
  - Control variables

# Empirical Analysis: Estimation and Results

$$\mathrm{SWD}_t = \beta_0 + \beta_1 \mathrm{Enlarge}_t + \gamma \Delta_t + \tau X_t + t + u_t$$

$$\mathrm{PART}_t = \beta_0 + \beta_1 \mathrm{Enlarge}_t + \gamma \Delta_t + \tau X_t + t + u_t$$

- Endogenous variables SWD and PART
- Five proxies of EU enlargement as main exogenous variable
- Δ contains two dummy variables
  - d_de capturing German reunification
  - d_east capturing (prospects of) east enlargement
- X contains country specific macroeconomic control vatiables
  - GE-GDP, GE-GDP p.c., inflation, unemployment, openness
- Time trend t

# Empirical Analysis: Estimation and Results

$$\text{SWD}_t = \beta_0 + \beta_1 \text{Enlarge}_t + \gamma \Delta_t + \tau X_t + t + u_t$$

$$\text{PART}_t = \beta_0 + \beta_1 \text{Enlarge}_t + \gamma \Delta_t + \tau X_t + t + u_t$$

- u characterized by serial autocorrelation (Durbin-Watson Statistic, Breush-Godfrey LM test and Durbin‘s alternative test)
- Prais-Winsten method
  - GLS estimator with errors assumed to follow 1st order autocorrelation
  - Small sample size: original PW instead of Cochran-Orcutt transformation
- Robust Huber/White sandwich estimations in order to control for heterogeneity and possible outliers

# Empirical Analysis: Estimation and Results

Table 2: Effects of EU enlargement on SWD (endogenous variable: SWD)

| | Pop (pure) | Space | No. of countries | EU-GDP (pure) | EU-GDP pc (pure) |
|---|---|---|---|---|---|
| Enlarge | $-7.23e{-}08$ | $-6.15e{-}06$ | $-.7610$ | $-.0095$ | .0043 |
| | $(-1.52)$ | $(-1.42)$ | $(-1.46)$ | $(-1.43)$ | (1.46) |
| d_ger | $-17.0393^{***}$ | $-17.3144^{***}$ | $-16.2467^{***}$ | $-18.1735^{***}$ | $-16.5979^{***}$ |
| | $(-6.48)$ | $(-6.32)$ | $(-6.91)$ | $(-5.84)$ | $(-6.62)$ |
| d_east | $-8.8362^{***}$ | $-4.9187$ | $-7.7225^{**}$ | $-6.1113$ | $-12.3180^{***}$ |
| | $(-2.64)$ | $(-1.26)$ | $(-2.47)$ | $(-1.63)$ | $(-2.68)$ |
| GE-GDP | $-1.27e{-}06$ | $9.68e{-}07$ | $-8.08e{-}06$ | $1.54e{-}05$ | $-7.43e{-}06$ |
| | $(-0.03)$ | (0.02) | $(-0.18)$ | (0.28) | $(-0.15)$ |
| GE-GDP pc | .0015 | .0014 | .0014 | .0006 | .0017 |
| | (0.31) | (0.30) | (0.33) | (0.12) | (0.38) |
| Infl. | $-2.7849^{***}$ | $-2.8045^{***}$ | $-2.5528^{***}$ | $-2.8587^{***}$ | $-2.7163^{***}$ |
| | $(-4.36)$ | $(-4.25)$ | $(-4.56)$ | $(-4.17)$ | $(-4.39)$ |
| Unempl. | $-3.4956^{***}$ | $-3.5086^{***}$ | $-3.3412^{***}$ | $-3.3616^{***}$ | $-3.5349^{***}$ |
| | $(-6.51)$ | $(-6.35)$ | $(-6.73)$ | $(-6.80)$ | $(-6.30)$ |
| Openness | $.5047^{***}$ | $.4648^{***}$ | $.6285^{***}$ | $.4087^{***}$ | $.5415^{***}$ |
| | (3.84) | (3.70) | (3.35) | (3.59) | (3.56) |
| t | $-.4003$ | $-.4126$ | $-.4038$ | $-.5356$ | $-.3615$ |
| | $(-0.61)$ | $(-0.63)$ | $(-0.59)$ | $(-0.88)$ | $(-0.53)$ |
| constant | $81.8667^{***}$ | $70.6841^{***}$ | $74.5253^{***}$ | $91.6950^{***}$ | 6.7738 |
| | (2.95) | (2.85) | (2.74) | (2.97) | (0.16) |
| No of Obs. | 34 | 34 | 34 | 34 | 34 |
| DW Statistic | 1.9773 | 1.9640 | 2.0053 | 1.9564 | 1.9803 |
| R-Squared | 0.9209 | 0.9172 | 0.9243 | 0.9143 | 0.9210 |
| Prob>F | 0.0000 | 0.0000 | 0.0000 | 0.0000 | 0.0000 |

t-Statistics in parentheses
* / ** / *** denoting statistical significance at the level of 10 / 5 / 1 per cent

# Empirical Analysis: Estimation and Results

Table 3: Effects of EU enlargement on PART (endogenous variable: PART)

| | Pop (pure) | Space | No. of countries | EU-GDP (pure) | EU-GDP pc (pure) |
|---|---|---|---|---|---|
| Enlarge | $-.5.20e{-}08^{***}$ | $-.4.74e{-}06^{***}$ | $-.4442^{*}$ | $-.0073^{**}$ | $.0029^{**}$ |
| | $(-2.69)$ | $(-2.71)$ | $(-1.95)$ | $(-2.57)$ | $(2.48)$ |
| d_ger | $-1.5222$ | $-1.6110$ | $-1.1168$ | $-2.0659$ | $-1.2839$ |
| | $(-0.32)$ | $(-0.34)$ | $(-0.24)$ | $(-0.44)$ | $(-0.27)$ |
| d_east | $3.9476^{*}$ | $6.9009^{**}$ | $4.4907^{*}$ | $6.1795^{**}$ | 1.4980 |
| | (1.69) | (2.41) | (1.78) | (2.30) | (0.65) |
| GE-GDP | $-3.21e{-}05$ | $-3.22e{-}05$ | $-3.24e{-}05$ | $-2.42e{-}05$ | $-3.43e{-}05$ |
| | $(-0.65)$ | $(-0.66)$ | $(-0.63)$ | $(-0.52)$ | $(-0.68)$ |
| GE-GDP pc | .0038 | .0039 | .0036 | .0036 | .0039 |
| | (1.03) | (1.07) | (0.96) | (1.03) | (1.03) |
| Infl. | $-.2627$ | $-.2870$ | $-.1187$ | $-.3392$ | $-.2151$ |
| | $(-0.82)$ | $(-0.88)$ | $(-0.37)$ | $(-1.03)$ | $(-0.67)$ |
| Unempl. | $.9908^{***}$ | $.9802^{***}$ | $1.0962^{***}$ | $1.0932^{***}$ | $.9755^{***}$ |
| | (3.40) | (3.31) | (3.63) | (3.76) | (3.24) |
| Openness | $.3631^{***}$ | $.3411^{***}$ | $.4190^{***}$ | $.3015^{***}$ | $.3833^{***}$ |
| | (3.34) | (3.24) | (3.14) | (3.16) | (3.24) |
| t | $-1.5095^{***}$ | $-1.5045^{***}$ | $-1.5802^{***}$ | $-1.5784^{***}$ | $-1.5153^{***}$ |
| | $(-5.00)$ | $(-4.86)$ | $(-5.45)$ | $(-5.06)$ | $(-5.03)$ |
| constant | $68.0916^{***}$ | $60.3189^{***}$ | $60.2698^{***}$ | 78.4407 | $15.9213^{***}$ |
| | (5.29) | (4.91) | (5.03) | (5.08) | (0.79) |
| No of Obs. | 34 | 34 | 34 | 34 | 34 |
| DW Statistic | 1.9424 | 1.9439 | 1.9056 | 1.9515 | 1.9249 |
| R-Squared | 0.9290 | 0.9288 | 0.9328 | 0.9287 | 0.9303 |
| Prob>F | 0.0000 | 0.0000 | 0.0000 | 0.0000 | 0.0000 |

t-Statistics in parentheses
* / ** / *** denoting statistical significance at the level of 10 / 5 / 1 per cent

# Empirical Analysis: Estimation and Results

- SWD and PART: a comparison
  - Discrepancy between stated and revealed preferences
  - We interpret this by means of the „spiral-of-silence“ theory (see Noelle-Neumann and Petersen, 2004)
    - In interviews, respondents comply with the opinion presented as majority opinion by politicians and mass media
    - This majority opinion is the EU project comprising peace, tolerance and respect
    - Thus, effects on SWD are negative, but not significant
    - This differs when people reveal their preferences in the voting booth
    - EU enlargement reduces voter participation statistically significant

# Empirical Analysis: Robustness

- Data limitations
  - Should be seen as an additional (empirical) way to approach this issue
- Small sample size
  - Original Prais-Winston Estimator
- Endogenous variable PART varies only in election years: double counting may increase significance
  - Regressions only considering election years
  - Results are robust
  - Lower t-Statistics, but still at statistically significant levels

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# Conclusions

- A number of studies explored satisfaction with democracy
- Only few of them with an eye on enlargement
- None of them from a public choice perspective
- Our paper
  - Theoretical model
    - Focus on external costs of the possible outvoted with enlargement
    - Enlargement increases frustration of being outvoted
  - Empirical analysis
    - EU enlargement tends to reduce SWD (as stated) in Germany
    - Significantly reduces voter participation (revealed)