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Article

Preferences and Institutions in European (Dis)Integration

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Abstract

In this article, we present a game-theoretical model of political (dis)integration, and the incentives voters and politicians face during integration processes. We apply the model to the European Union. Preference homogeneity and economies of scale do not suffice to explain European integration. Rather, integration decisions are taken within an institutional setting that involves politicians with interests that may diverge from those of the voters they represent. Such politicians may take integration decisions that are not in line with their voters' interests as a result. We show that voters can in some circumstances prevent integration by strategically electing representatives who are farther away from them. The model provides novel insights into the process of European (dis)integration and the voter–politician dynamics that determine it. In addition, our model offers an alternative explanation for the relative success of extremist parties in the European Union.

Keywords

European integration; European representatives; political institutions; spatial models; voters' interests

Issue

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1. Introduction

The study of the optimal size of nations and political unions has received considerable attention. Alesina and Spolaore (2003, 2005) and Alesina and Wacziarg (1998), for example, find that the optimal size of nations is the result of a tradeoff between costs that result from the heterogeneity of policy preferences and economies of scale in the provision of government services. The costs of heterogeneity reduce the optimal size of nations, whereas economies of scale increase it. As nations become larger and the policy preferences of voters diverge, the benefits they derive from common policies tend to decrease. The per capita costs of providing services, such as defense, tend to decline, however, as nations expand.

We contribute to this literature by including in our analysis the political processes and institutions that lead to (dis)integration and the preferences of the politicians

involved in them. We use the term “integration” to refer to the establishment of supranational political institutions by a set of countries with the objective to jointly set policies in a number of policy areas. We consider disintegration as the withdrawal of one or more countries from the union.

We show that voter policy preferences and economies of scale are not enough to explain (dis)integration. Integration does not occur only if voter preferences are sufficiently aligned and scale economies are sufficiently high in the policy areas under consideration. Conversely, disintegration does not necessarily occur if the opposite is true either. Rather, integration decisions are taken within an institutional setting that involves politicians with interests that may diverge from those of the voters they represent. The features of these institutions and the interests of the politicians have an impact on these decisions. In this article, we focus on this impact. In particular, we consider a simple political

process. In each country that may integrate voters first choose a political representative, who then decides on integration together with the other countries' representatives by unanimity. The representative does not need an agreement with other countries' representatives to withdraw from the union after its formation and cause its (partial) disintegration. We consider representatives who are partially motivated by the value of holding office, unlike the voters they represent. This may lead to integration decisions that are in conflict with voters' interests. A country's representative may decide to integrate even if its voters prefer not to integrate and vice versa. Voters may anticipate and in some cases prevent integration by electing politicians with policy preferences different from their own.

In the European Union, for example, Belgium tends to elect politicians who are in favor of a federal Europe. One such politician is its former prime minister, Guy Verhofstadt, who is also a former leader of the Alliance of Liberals and Democrats for Europe Group in the European Parliament (EP). Expressing views shared by most mainstream Belgian politicians he wrote in 2017:

After decades in service to the European people, I can honestly say that, at every turn, the greatest threat to the safety and prosperity of Europe is a failure to finish the great project begun in 1953, to unite the seemingly disparate nations of the continent together into one grand federal project. (Verhofstadt, 2017, pp. 8–9)

Meanwhile, five-term Hungarian Prime Minister Viktor Orbán declared in January of that same year that Europe “became enslaved to a utopia—and the name of that utopia is a supranational Europe” (Orbán, 2017, p. 6). He further stated that Europe must “abandon the illusion of federalism” and that “we are interested in a strong Hungary in a strong European Union” (Orbán, 2017, p. 6).

Such vastly different statements suggest that Belgian and Hungarian voters may have had starkly different opinions on European integration. Yet, in the 2017 Eurobarometer poll Hungarians' images of the EU were nearly as positive as those of Belgians. In particular, Hungarians gave the EU a net-positive score of 15, with the EU conjuring up a positive image for 36% of respondents and a negative image for 21% (European Commission, 2017). In turn, Belgians gave the EU a net-positive score of 17, with the EU conjuring up a positive image for 39% of respondents and a negative image for 22% (European Commission, 2017). Why, then, do Hungarian voters elect politicians with a much more negative attitude toward the EU than their own? And why do Belgian voters do the opposite? We explain why voters in some countries elect more pro-integration politicians than those in other countries, even though their attitudes toward integration are about equally positive.

Our article has important implications for policymakers and academics. Even if voters do not have a direct

say on (dis)integration through referenda, they can still affect it through their choice of representatives. Second, this article adds to our understanding of voters' choice of representatives. It shows that voters may have incentives to vote for politicians with more extreme views than their own and those of mainstream EU politicians.

2. Literature

The three most prevalent theories of (European) integration are neofunctionalism, intergovernmentalism, and postfunctionalism. Neofunctionalists, most prominently Haas (1964), argue that the initial integration in a number of functional policy areas has tended to “spill over” beyond states' control with the help of EU institutions and interest groups, and eventually undermines states' sovereignty. Neofunctionalists see integration as a gradual and self-sustaining process because it generates unanticipated problems that trigger further integration (Hooghe & Marks, 2019; Risse, 2005).

Intergovernmentalists, such as Hoffmann (1966), by contrast, argue that member states remain the principal, uniquely powerful actors in the integration process. Moravcsik (1993) contended that states are still in control of integration since unanimity in the Council is required for the approval of treaties. Intergovernmentalists arguably focus on the gatekeeping role of national governments (Tsebelis & Garrett, 2001).

Postfunctionalists, finally, challenge the rationalist-economic logic of neofunctionalism and intergovernmentalism (Hooghe & Marks, 2019). As European integration proceeded, they argue, issues related to it became more politicized and more salient in the public sphere (see also Carubba, 2001). As a result, the (national) identity of voters and the structure of the political conflict in elections and referenda play a key role in driving forward European integration. A theory of constraining dissensus rather than permissive consensus thus underlies this theory (Hooghe & Marks, 2008).

Our theory could be considered as a combination of intergovernmentalism and postfunctionalism, because in our model the national governments are the main actors who decide whether to proceed with integration (Moravcsik, 2018), and voters are cognizant of the EU and the role it plays when taking part in national elections respectively. The strategic interplay between voters and elites—and the conflicts of interests between them—is thus of primary interest in this article.

In addition to studying the impact of institutions on European integration decisions, our article contributes to the literature on voters' choices of political representatives. Specifically, our model is closely related to that presented by Kedar (2005). In her model, voters care about policy outcomes and take into account the institutional context that governs post-election bargaining. Anticipating compromise bargaining, voters may vote for parties that have more extreme preferences than they have themselves. In this article, we show that a

similar mechanism may affect decisions on European (dis)integration.

3. The Model

3.1. Policies, Actors, and Preferences

We present a spatial model of integration and policy-making. In spatial models, policies are represented as points in a policy space. Each dimension in the space corresponds to a particular policy issue, with different locations on that dimension matching different policy positions on the issue. Policymaking then consists of choosing a point in the policy space. While we apply the model to the EU, it is meant as a generic model that can also be used to analyze the formation of unions elsewhere.

For simplicity, we assume that the policy space is one-dimensional. This is a standard assumption in the literature on spatial models of EU policymaking (Van Gruisen & Crombez, 2019, 2021) and beyond (e.g., Kedar, 2005). That is, only one policy issue is considered. For example, under consideration may be whether to integrate trade policy and what trade policy to set. Different points in the policy space may then correspond to different levels of protectionism. In our model, integration does not represent a policy dimension and actors do not have preferences over integration as such. Rather, they have preferences over a substantive policy issue, such as trade, and decide whether to integrate it based on their expectations of the policies that will be set on that issue with and without integration.

There are two types of actors: voters and politicians. Voters' utilities depend on the location of the policy and its efficiency. As far as the location is concerned, we assume that voters have Euclidean preferences. They have ideal policies and prefer policies that are closer to rather than farther away from their ideal policies. For example, on trade policy, we consider actors as having ideal levels of protectionism and preferring levels that are closer to them.

As for a policy's efficiency, we assume that it is affected by economies of scale. Efficiency is higher for a larger country or union of countries. Efficiency gains in trade policy may result from an improved bargaining position in international negotiations, for example. Our way of modeling efficiency is similar to the way Hirsch and Shotts (2012) model valence. They consider political actors as caring not only about the location of policy but also about its valence. Valence refers to the quality of the policy, the extent to which it has been studied carefully and can be implemented rapidly.

In the absence of integration, policy is set at the national level n . The utility U_j^n of voter j in country k then is:

$$U_j^n(x_k^n, I_k) = -(x_j - x_k^n)^2 + E(I_k)$$

Policy x_k^n is the policy set at the national level n in country k , whereas policy x_j stands for j 's ideal policy. The function E denotes the efficiency of a policy. It is strictly increasing in country k 's population size I_k .

The utility U_j^u that voter j in country k derives if a policy is set at the union level u is:

$$U_j^u(x^u, \sum_{c \in K} I_c) = -(x_j - x^u)^2 + E\left(\sum_{c \in K} I_c\right)$$

Policy x^u is the policy set at the union level. Country c belongs to the subset K of integrating countries: $c \in K \subseteq N$, where N is the set of countries. Voters may lose utility as a result of integration because union policy may be farther away from their ideal policies than the national policy, but they gain from the efficiency of policies set at the union level.

In each country c there are z_c politicians competing in a national election. They care about the location of the policy that is set, whether it be for ideological or electoral reasons, about its efficiency, and about holding office. Like voters, they have Euclidean preferences over policy locations, and their utilities are strictly increasing in efficiency. Unlike voters, they are also motivated by the value of holding office. This motivation is thus the driver of conflicts between voters and politicians. If policy is not integrated, and thus set at the national level, the utility V_p^n of politician p in country k is:

$$V_p^n(x_k^n, I_k) = M(I_k) - (x_p - x_k^n)^2 + E(I_k)$$

The function M stands for the utility politicians derive from holding national office. It is strictly increasing in population size I_k . Policy x_p stands for politician p 's ideal policy.

The utility V_p^u politician p in country k gets if a policy is set at the union level u is:

$$V_p^u(x^u, \sum_{c \in K} I_c) = T\left(\sum_{c \in K} I_c\right) - (x_p - x^u)^2 + E\left(\sum_{c \in K} I_c\right)$$

The function T stands for the utility politicians obtain from holding higher office and is strictly increasing in the size of the union. The value of holding office reflects the importance politicians attach to the power and prestige that comes with it, whether at the national or union level. In addition, the value may include the spoils that officeholders hand out to their followers and the electoral value of incumbency.

Office can be interpreted broadly. At the national level, it may refer to the office of head-of-state or head-of-government, other ministerial or legislative positions. In our model, we focus on one officeholder. This could be a national government minister. At the union level office may include executive and legislative positions as well. In the EU, commissioners, members of the Council of the EU, members of the European Council, and members of the EP all hold offices that yield power as a result of their involvement in the formulation of policy

agendas, the legislative process, or the implementation of policies.

The value of holding office at the national level may not be equal to the value of holding office in a union of the same size, because the institutions and legislative process may differ. The functions T and M are thus distinct. At the union level, more officeholders may be involved, for example, and the value of holding a single office may be lower as a result. In the EU, national government ministers share legislative powers with the representatives of other countries in the Council, for example.

However, the value a politician attaches to holding office in the EU may also reflect the likelihood that she be elected to other offices, such as the Commission, the presidency of the European Council, and the EP. In general, the ambition to one day be a leading politician at the union level can give politicians incentives to govern responsibly at the national level (Myerson, 2006). The stability of federal systems largely depends on their set-up and institutions and the incentives they provide their politicians (Riker, 1964; Rose-Ackerman, 1981).

We assume that all politicians value office equally. Centrists and extremists thus attach the same value to office at the national as well as supranational levels. In reality, extremists arguably value supranational office relatively less, however. European integration is a project that is mostly favored by mainstream centrist politicians, whereas politicians at either end of the political spectrum tend to oppose it. This opposition may reduce the value they attach to holding office at the union level. Adams et al. (2021), for example, find empirical evidence that governing parties are more pro-EU. They thus arguably value supranational office more. We will show below that allowing for variation of officeholding values would reinforce our conclusions. Finally, we note that

extremist parties may also induce a shift of centrist parties' positions, mainly for strategic reasons. This does not affect the conclusions of our model, however.

3.2. The Sequence of Events

The sequence of events is as follows. In the first stage, each country's voters elect one politician to office, as shown in Figure 1. In the second stage, the elected politicians choose whether or not to integrate, that is, set government policy jointly with the politicians elected in other countries, or keep policymaking at the lower level. Subsequently, politicians set policy.

The first stage is the only stage in which voters play a role. In particular, in each country, they elect a politician to office. Politicians differ only from one another with respect to their policy preferences. Voters thus consider the politicians' policy preferences in elections.

Since electoral systems and national political institutions are not the main focus of our article, we simply assume that countries have democratic political systems and that the median voter gets to choose the politician he wants. Elaborating further on national electoral systems and political institutions would not yield any additional insights and would go beyond the purpose of this article. Below we focus on the countries' median voters for that reason, unless explicitly indicated differently. The median voter's choice of politician in a country may or may not be a politician with policy preferences equal to his own.

In the second stage, politicians decide whether to integrate policy, that is, set policy at a higher level. They vote "yes" or "no" on integration. A union is formed if a subset k of at least two countries decides to form a union. The countries that vote in favor of integration then form

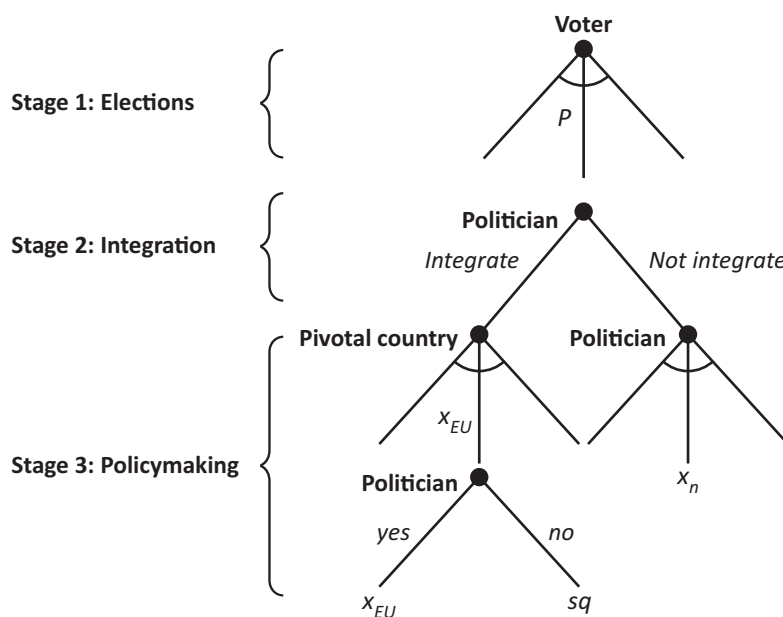


Figure 1. The sequence of events. Notes: P —choice of politician by the domestic voters; x_{EU} —policy at the EU level; x_n —policy at the national level; sq —status quo.

the union. The other countries stay out of it. If no country or one country only votes in favor of unification, no union is formed. After its formation, a politician does not need an agreement with other countries to withdraw from the union and thus (partially) disintegrate it.

Suppose that a country's elected politician decides to keep policymaking at the lower level in the second stage or is the only one who votes for integration. Then she sets policy at the national level on her own in the third stage. Suppose, by contrast, that she decides to set policy at the union level and at least one other country's elected politician does so too. Then she sets policy jointly with the politicians from the other countries that voted for unification. This happens in two steps. First, the politician who represents the relevant pivotal country makes a proposal. The voting rule used in the second step determines which countries are pivotal. Under supermajority rule, there are two pivotal countries: one for moves to the left and another for moves to the right. However, for any location of the status quo, a supermajority can be found for moves in at most one direction. So, only one pivotal country is relevant. We focus on that country. If no supermajority wants to move away from the status quo either pivotal country can be considered as relevant. Assuming that more countries and other actors could formulate proposals would complicate the model without gaining additional insights relevant to the analysis.

Next, politicians vote on the proposal. It is adopted and becomes policy throughout the union if it obtains a pre-determined share $\gamma \geq \frac{1}{2}$ of the votes. Otherwise, the status quo prevails in the countries whose elected politicians decided to integrate. For simplicity, we assume the status quo is the same in all countries. Countries may have one vote each or their vote weights may depend on their population sizes, as is the case in the EU under the qualified majority rule.

The model can be applied to disintegration as well. In the second stage, politicians then decide whether to remain in the union or leave it. If a politician decides to leave or is the only one who decides to remain, she sets policy on her own in the third stage. If she decides to remain and at least one other politician does so too, they together set policy at the union level in the third stage.

3.3. Information

We present a game-theoretical model with complete and perfect information: the political actors know the structure of the process, each other's preferences, the actions taken, and the location of the status quo. Thus we use the subgame perfect Nash equilibrium concept. We make these informational assumptions because they allow us to present a relatively simple model that yields clear insights. In reality, political actors, especially voters, may not have perfect information on the preferences of national politicians or the structure of the political process. Nonetheless, our model yields conclusions that remain valuable even if voters and politicians have only

a vague idea of others' preferences and the functioning of political institutions (for a similar approach, see Kedar, 2005).

4. The Equilibrium

Since there is perfect and complete information, the model can be solved by backward induction. As a consequence, we first consider the third stage of the integration and policymaking process.

4.1. Policymaking (Stage 3)

If policy is set at the national level, the elected politician sets policy equal to her own ideal policy, because that policy maximizes her utility. However, if policy is set at the union level, the situation is more complicated. That stage then consists of two steps. In the last step, politicians compare the proposal to the status quo. The pivotal country's politician proposes her own ideal policy in the first step. That policy is adopted if a majority γ prefers it to the status quo. Otherwise, the status quo prevails.

As a result, there are three possible policy outcomes in a country in the third stage: the ideal policy of the nationally elected politician, the ideal policy of the politician who represents the pivotal country at the union level, and the status quo. The utility of politician p if the policy is set at the national level can then be characterized as follows:

$$V_p^n(x_k^n = x_p, I_k) = M(I_k) + E(I_k)$$

Since the elected politician obtains her ideal policy, her utility consists of the utilities she derives from holding national office and policy efficiency. The median voter j 's utility, if the policy is set at the national level, is:

$$U_j^n(x_k^n = x_p, I_k) = -(x_j - x_p)^2 + E(I_k)$$

If the policy is set at the union level, by contrast, the utility of politician p is as follows:

$$V_p^u(x^u = x^*, \sum_{c \in K} I_c) = T\left(\sum_{c \in K} I_c\right) - (x_p - x^*)^2 + E\left(\sum_{c \in K} I_c\right)$$

The policy x^* denotes the policy set at the union level, whether it be the status quo or the ideal policy of the elected politician of the pivotal country. Median voter j 's utility under integration is as follows:

$$U_j^u(x^u = x^*, \sum_{c \in K} I_c) = -(x_j - x^*)^2 + E\left(\sum_{c \in K} I_c\right)$$

4.2. Integration (Stage 2)

In the second stage, politician p compares the utilities she derives in the third stage with and without integration, taking as given the integration decisions the other countries' elected politicians make. In particular, she

decides to integrate policy if and only if the following inequality holds:

$$\begin{aligned}
 V_p^u \left(x^u = x^*, \sum_{c \in K} I_c \right) &\geq V_p^n \left(x_k^n = x_p, I_k \right) \\
 \Downarrow \\
 T \left(\sum_{c \in K} I_c \right) - (x_p - x^*)^2 + E \left(\sum_{c \in K} I_c \right) &\geq M(I_k) + E(I_k) \\
 \Downarrow \\
 \underbrace{\left(T \left(\sum_{c \in K} I_c \right) - M(I_k) \right)}_{\text{office gains}} + \underbrace{\left(E \left(\sum_{c \in K} I_c \right) - E(I_k) \right)}_{\text{efficiency gains}} &\geq \underbrace{(x_p - x^*)^2}_{\text{policy loss}} \quad (1)
 \end{aligned}$$

That is, politicians approve integration if and only if the gains in the value of officeholding plus the gains in efficiency outweigh the utility loss that results from policy preference heterogeneity at the union level. Similarly, after the formation of a union a newly elected politician withdraws if this equation does not hold for her. By contrast, median voter j prefers integration under the following condition:

$$\begin{aligned}
 -(x_j - x^*)^2 + E \left(\sum_{c \in K} I_c \right) &\geq -(x_j - x_p)^2 + E(I_k) \\
 \Downarrow \\
 \underbrace{E \left(\sum_{c \in K} I_c \right) - E(I_k)}_{\text{efficiency gains}} &\geq \underbrace{(x_j - x^*)^2 - (x_j - x_p)^2}_{\text{policy loss}} \quad (2)
 \end{aligned}$$

Voter j prefers integration when the efficiency gains outweigh the loss due to policy preference heterogeneity.

4.3. Elections (Stage 1)

In the first stage, voters elect politicians to office. They take into account politicians' policy preferences, the decisions they expect politicians to make in the second stage, and the policies these decisions lead to in the third stage. They elect the politician whose actions yield them the highest utility.

If all politicians in country k make the same decision on integration in the second stage, the median voter in country k can do no better than elect the politician with policy preferences equal to his own. To see this, suppose first that all politicians decide to integrate. Then the policy outcome is equal to the status quo or the ideal policy of the politician who represents the pivotal country. The median voter in country k cannot move the outcome closer to him by voting for a politician who is farther away from him. If the pivotal country is to the left (right) of him, then he can only move the policy outcome by voting for a politician who is to the left (right) of the pivotal country, which is counter to his preferences. Suppose next that all politicians in country k decide not to integrate.

Then the median voter in country k elects the politician with policy preferences equal to his own in the first stage and obtains his own ideal policy. In equilibrium, voters thus vote for the politician with policy preferences equal to their own, if all politicians make the same integration decision.

Voters may only have incentives to elect politicians with policy preferences different from their own, if politicians with the same preferences over policy make decisions on integration in stage two that are different from what the voters want, whereas politicians with different policy preferences make the integration decision the voters want. In particular, the voters elect politicians with different policy preferences in one of two scenarios.

4.3.1. Scenario 1

The median voter wants to integrate, whereas the politician with the same policy preferences does not. Rearranging Equations 1 and 2 for $x_j = x_p$, we can see that this occurs when the following two conditions hold:

$$\begin{aligned}
 \left\{ \begin{array}{l} -(x_p - x^*)^2 + E \left(\sum_{c \in K} I_c \right) - E(I_k) < M(I_k) - T \left(\sum_{c \in K} I_c \right) \\ -(x_p - x^*)^2 + E \left(\sum_{c \in K} I_c \right) - E(I_k) \geq 0 \end{array} \right. \\
 \Downarrow \\
 \left(M(I_k) - T \left(\sum_{c \in K} I_c \right) \right) > \left(E \left(\sum_{c \in K} I_c \right) - E(I_k) \right) - (x_p - x^*)^2 \geq 0 \quad (3)
 \end{aligned}$$

That is, median voter j wants to integrate but a politician with the same policy preferences does not if the efficiency gains that result from integration outweigh the losses due to policy heterogeneity, but these net gains are not large enough to compensate for the loss in officeholding value.

In this case, the best alternative for the voter is to elect a politician with an ideal policy equal to the policy outcome at the union level: $x_p = x^*$. That politician will be the most in favor of integration because she does not suffer from policy heterogeneity, whereas the voter is indifferent between that politician and other politicians who want to integrate and have policy preferences closer to his own because they do not affect the union's policy outcome x^* .

Suppose that the voter elects such a politician. Then that politician supports integration if the efficiency gains compensate for the loss in officeholding value. From Equation 1 we obtain the following:

$$\left(E \left(\sum_{c \in K} I_c \right) - E(I_k) \right) \geq M(I_k) - T \left(\sum_{c \in K} I_c \right) \quad (4)$$

If the opposite is true, and the efficiency gains do not fully make up for the loss in officeholding value, no politician wants to integrate. In that case, it is optimal for the

median voter to elect a politician with policy preferences equal to his own, because that policy will then be implemented at the national level.

4.3.2. Scenario 2

The median voter does not want to integrate, whereas the politician with the same policy preferences does. This occurs when the opposite of Equation 3 holds, that is, if the efficiency gains that result from integration do not outweigh the losses due to policy heterogeneity, but this net loss is smaller than the gain in officeholding value.

In this case, voter j does not necessarily vote for a politician with policy preferences equal to his own either. He may want to elect a politician with different policy preferences. A politician with policy preferences closer to the policy outcome at the union level is even more in favor of integration than a politician with policy preferences equal to his own. Voting for such a politician thus does not yield a higher utility. Voting for politician q , who is farther away from the policy outcome at the union level than he is himself, may yield a higher utility, however. For this to hold the following two conditions need to be satisfied: (a) The politician does not want to integrate and (b) the policy the politician sets at the national level yields a higher utility to the voter than the integrated policy. This is shown by the following equations:

$$\left\{ \begin{array}{l} T\left(\sum_{c \in K} I_c\right) - (x_q - x^*)^2 + E\left(\sum_{c \in K} I_c\right) \leq M(I_k) + E(I_k) \quad (5a) \\ - (x_j - x_q)^2 + E(I_k) \geq - (x_j - x^*)^2 + E\left(\sum_{c \in K} I_c\right) \quad (5b) \end{array} \right.$$

For the voter, there is no point in electing a politician farther away from himself and the policy outcome at the union level than is needed to make sure that the politician votes against integration. A politician who is even farther away would yield a lower utility. The voter thus looks for the politician with the ideal policy x_q that makes her indifferent between integration and no integration. For this politician, Equation 5a is binding. Solving for x_q , we obtain the following values:

$$x_q = \left\{ \begin{array}{l} x^* + \sqrt{\left(T\left(\sum_{c \in K} I_c\right) - M(I_k)\right) + \left(E\left(\sum_{c \in K} I_c\right) - E(I_k)\right)} \quad (6a) \\ x^* - \sqrt{\left(T\left(\sum_{c \in K} I_c\right) - M(I_k)\right) + \left(E\left(\sum_{c \in K} I_c\right) - E(I_k)\right)} \quad (6b) \end{array} \right.$$

Equations 6a and 6b show the two ideal policies that make a politician indifferent between integration and no integration. If the policy outcome at the union level is to the right (left) of country k 's median voter, the median prefers to elect the politician to the left (right) of himself. Equation 6b (6a) then applies. There is no point for the

median voter to appoint a politician to the right of the policy outcome at the union level if he is to the left of it. Such a politician would either go for integration, which at best yields the same result as electing a politician with the same policy preferences as himself, or no integration and a policy that is further away than the policy outcome at the union level, which is worse than integration for the median.

The equations show that the higher the gains from holding a union office are, the farther away x_q needs to be from the policy outcome at the union level and thus the median voter in country k . Efficiency gains also increase the distance between x^* and x_q .

For a voter to go ahead and indeed choose a politician with this ideal policy x_q , and hence avoid integration, the policy that results from this election must yield a higher utility than the integrated policy would. That is, Equation 5b must hold. For a policy outcome at the union level that is to the right of the voter, $x^* > x_j > x_q$, this inequality holds under the following condition:

$$\begin{aligned} & - \left(x_j - \left(x^* - \sqrt{\left(T\left(\sum_{c \in K} I_c \right) - M(I_k) \right) + \left(E\left(\sum_{c \in K} I_c \right) - E(I_k) \right)} \right) \right)^2 \\ & \geq - (x_j - x^*)^2 + E\left(\sum_{c \in K} I_c\right) - E(I_k) \end{aligned} \quad (7)$$

Whether this condition holds depends on the integrated policy x^* , the officeholding values $T(\sum_{c \in K} I_c)$ and $M(I_k)$, and the efficiency of policies $E(\sum_{c \in K} I_c)$ and $E(I_k)$. A similar condition needs to be fulfilled for a pivotal country to the left of the voter. As the office gains from integration, $(T(\sum_{c \in K} I_c) - M(I_k))$, increase above a crucial level, there is no politician voter j prefers over a politician with an ideal policy equal to his own, and integration thus occurs.

An increase in efficiency gains from integration $E(\sum_{c \in K} I_c) - E(I_k)$ has a twofold effect. First, the higher these gains, the further a politician has to be from the policy outcome at the union level and voter j to oppose integration. This has a negative effect on the utility voter j derives from the policy the politician would set. Second, the utility voter j derives from integration increases when efficiency gains rise. This means that the politician has to be closer to the voter than when efficiency gains are low for the voter to choose her and prevent integration. These two effects reinforce themselves. They both render the election of a politician who does not want integration less advantageous for voter j . As efficiency gains increase beyond a certain level, there is no politician voter j prefers over a politician with an ideal policy equal to his own, and integration thus occurs.

Finally, as the distance between the integrated policy x^* and voter j 's ideal policy x_j declines, voter j 's utility from integration (on the right-hand side of Equation 7) rises, whereas his utility from the policy set at the national level (on the left-hand side) decreases. As the

distance drops below a crucial level, voter j prefers integration and the election of a politician with an ideal policy equal to his own.

In sum, the equilibrium strategy for country k 's median voter is to elect a politician with an ideal policy equal to his own, except in two circumstances. First, he elects a politician with an ideal policy equal to the status quo or the ideal policy of the politician who represents the pivotal country if the efficiency gains that result from integration outweigh the losses due to an increase in heterogeneity. Moreover, these net gains compensate for the loss in the officeholding value for a politician with an ideal policy equal to the policy outcome at the union level, but not for a politician with an ideal policy equal to his own. This scenario is illustrated in Figure 2 (left panel). For simplicity, the status quo is assumed to be to the left of all countries in the figure.

In Scenario 1, the median voter j wants integration, but the politician p with policy preferences equal to his own does not. Rather than voting for that politician, the voter votes for a politician with preferences equal to the pivotal politician at the union level (x_{EU}) to obtain integration. Note that there is one politician x_i between x_{EU} and x_j that is indifferent between integration and no integration. In Scenario 2, the median voter does not want integration, but the politician with similar policy preferences does. Rather than voting for that politician, the voter votes for a politician with preferences farther away from the pivotal politician at the union level (x_q) to prevent integration. This politician is indifferent between integration and no integration.

Second, he elects a politician with an ideal policy that makes the politician indifferent between integration and no integration, if the efficiency gains that result from integration do not outweigh the losses due to an increase in heterogeneity. Moreover, the gain in officeholding value compensates for this net loss for a politician with an ideal policy equal to his own, but not for a politician who is

sufficiently far away from him and the policy outcome at the union level. Finally, this politician needs to be sufficiently close to the voter. This scenario is also illustrated in Figure 2 (right panel).

Voters and politicians also have to take into account the actions of voters and politicians in other countries, because these actors' decisions affect their own utilities. The voters and politicians have optimal strategies given any subset of countries whose elected politicians choose to form a union with their country. If, for all the countries in the subset, voters elect politicians that integrate, the countries integrate. There could be multiple subsets of countries that in equilibrium could form a union, and, as a consequence, there could be multiple equilibria. Which union is established in equilibrium depends on factors that are not considered in our model, such as negotiations, bargaining power, informal rules and norms, etc. In our model, we do not study which union is formed. If, for each subset, one of the countries does not want to integrate, no integration occurs.

Similarly, when a union has been formed, voters vote for politicians with preferences equal to their own, except in two scenarios. First, voters may vote for politicians with preferences equal to the policy set at the union level, if they want to stay in the union but politicians with preferences equal to their own do not (any longer). Second, voters may vote for politicians who are farther away from them and the policy set at the union level, if they do not want to stay in the union (any longer), but politicians with preferences equal to their own do. A voting change may result from changes in policy preferences, efficiency gains, or the values of officeholding.

5. Discussion

In this section, we discuss how EU integration and recent elections in the EU can be interpreted in light of our theory.

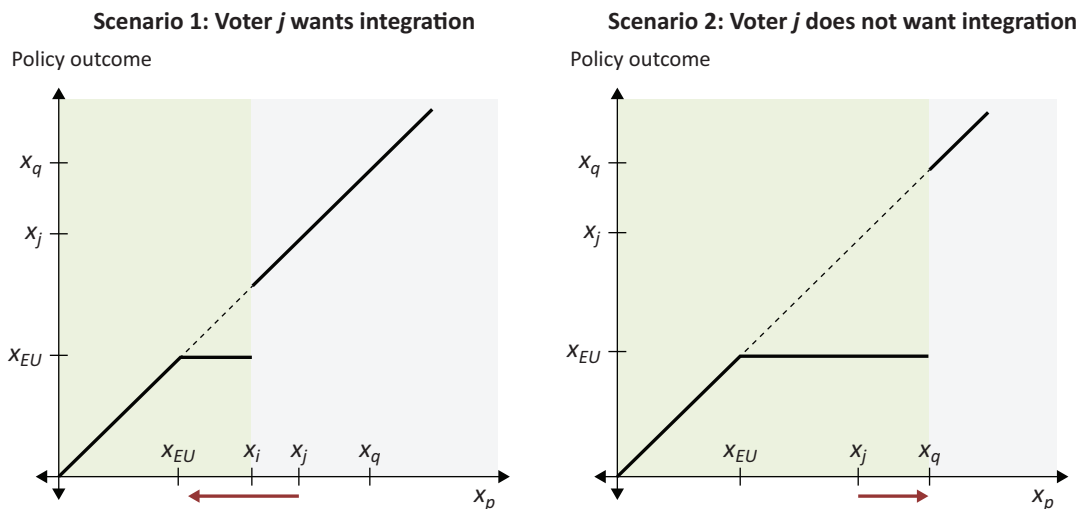


Figure 2. Stage 1: The choice of representative X_p . Note: Grey represents the set of politicians that do not prefer integration and green represents the set of politicians that do prefer integration if elected.

Since 2017, extremist parties on the left and right have gained ground in recent elections throughout the EU, even though the shift may be less pronounced and less universal than often portrayed (De Vries, 2018). This success could indicate that voters have shifted their positions on the main political issues of the day and no longer want to pursue centrist policies. Our theory offers an alternative explanation. In particular, it shows that voters may have incentives to vote for politicians with more extreme views than their own and those of mainstream EU politicians.

As we showed above in our discussion of Equation 7, voters have a higher incentive to vote for an extremist politician if the efficiency gains from integration are smaller and policy heterogeneity at the union level is higher. Over the years efficiency gains from further integration arguably have indeed decreased, whereas heterogeneity recently rose as a result of the financial and economic crisis, for example.

A series of treaties, from the Treaty of Paris (1952) to the Treaty of Lisbon (2007), transferred powers from the member states to the Union and integrated policies in ever more policy areas. Several policy areas that display clear economies of scale, such as the single market, competition policy and external trade policy, became EU responsibilities. Each individual member state is quite small compared to the EU as a whole. Even the largest member state, Germany, accounts for only 16% of the EU population. Even for Germany, there are thus considerable economies of scale that can be achieved by integrating such policies as trade and competition. The EU is in a stronger position vis-à-vis other countries in international trade negotiations than Germany would be on its own. Likewise, it is better placed to enforce competition rules with respect to large multinational companies.

As EU integration continued, however, and more responsibilities were handed over to the EU level, these included responsibilities that display much smaller economies of scale. Arguably the economies of scale that result from integrating aspects of cultural and sports policies, for example, are considerably smaller than those from integrating trade policy (Alesina & Spolaore, 2003).

Moreover, the financial crisis of 2008 and subsequent economic crises revealed or accentuated the heterogeneity between member states. Prior to the sovereign debt crisis, GDP per capita converged in the euro area, but this evolution was reversed thereafter (Bordignon et al., 2022). In member states that were net recipients of EU budget funds and member states that suffered most during the crises and received financial aid to get through them, voters arguably felt that they were not treated well by the better-off member states and moved to the left. Voters in member states that were net contributors to the EU budget and member states that paid for other member states' bailouts, by contrast, may have felt that they had to pay too much and shifted right. The financial crisis could thus be considered an external shock that increased preference heterogeneity.

The decrease in scale economies of further integration and the rise in preference heterogeneity may have led to a decline in voter enthusiasm for the EU (European Commission, 2017; Nancy, 2016). This decline may have increased the support for extremist parties that are more inclined to leave the EU and favor its disintegration. As our model shows, this does not necessarily imply that the voters of these parties are as extremist as the parties are. The voters may merely experience too much policy heterogeneity when they compare their own ideal policies to EU policy and the efficiency gains may not be sufficient to overcome this.

If politicians then place too much value on the EU office, voters may turn to the election of extremist politicians who do prefer disintegration and leaving the EU. However, as shown in our model, in the absence of political contenders that satisfy conditions 5a and 5b, too little disintegration may occur. In reality, however, politicians do not all value office equally, contrary to what we assumed in our model. Voters can then turn to extreme parties that value office less, especially office at the Union level. This presents opportunities for challenger parties that are ideologically at the extremes and value office less, to enter the political landscape, win government office, and take their country out of the Union. Allowing parties to value office differently thus reinforces our conclusions, as pointed out in Section 3.1.

In the UK, one such challenger party, UKIP, arguably represented such a threat to the ruling Conservative Party that it felt the need to call a referendum on continued EU membership. Voters thus got the opportunity to directly vote on rolling back integration and leaving the EU. They narrowly voted to leave. Not surprisingly, the UK is the member state that is the least dependent on trade with the rest of the EU and has always perceived itself as distinct from it. The economies of scale of integration were thus lower for the UK than other member states and the perceived cost of heterogeneity was high. As seen above, this increases the incentives for voters to vote for politicians with more extreme preferences than their own.

In countries that benefit a lot from economies of scale (for example open economies such as Belgium), voters may have incentives to elect politicians with policy preferences closer to the EU's pivotal countries than they are. For example, at the 2014 EP elections in Flanders, the victory of the Flemish Nationalists was less outspoken than in the national elections held on the same day. The Flemish Nationalists campaigned on a platform of economic reform but were more critical of EU integration than mainstream parties such as the Liberal Democrats and the Christian Democrats, who performed better in the EP elections than in the national elections. This may indicate that Flemish voters preferred the Nationalist's economic policies, but voted for the Liberal and Christian Democrats in greater proportions in the EP elections because EU integration was arguably more on their minds than economic policies, and because they realized

that the EU generates important economies of scale for their relatively small economy. Therefore, they did not want to set the country on a path that would lead to an exit from the EU.

Voters' perceptions of the gains of integration may vary over time, leading to changes in voting behavior. Parties may respond to these changes by repositioning themselves or altering their rhetoric. Walter (2021) shows how Brexit has deterred voters in other countries from pursuing a similar path. Martini and Walter (2023) find that the UK experience has mitigated populist parties' anti-EU rhetoric. In our model, such changes in voter preferences and perceptions make them less inclined to vote for more extreme politicians. Parties can react to that by mitigating their rhetoric.

Our theory may also explain why integration proceeded in certain policy areas but has been very modest in other areas. Consider, for example, defense policy. Even though there are considerable economies of scale in this policy area, it is not integrated in Europe. Politicians may see a national army as a way to hand out jobs, thus increasing the value of holding national office. If European armies were to be integrated, the number of soldiers would be significantly reduced. This may withhold politicians from pursuing further integration in this area.

6. Conclusions

This article builds on the literature on the size of nations but focuses on (dis)integration and how it is affected by the political process that leads to it. It addresses the question of why policymaking in certain policy areas is integrated, whereas countries are reluctant to give up sovereignty in other areas. It looks beyond the economic gains and losses that result from economies of scale and policy preference heterogeneity and considers political actors' incentives during the process of (dis)integration.

We find that the value politicians attach to higher office at the union level relative to office at the national level may induce them to implement integration even though their voters prefer no integration, and vice versa.

In particular, politicians integrate policy in spite of their voters' preferences, if they value union office sufficiently high relative to national office. Voters can then prevent integration in equilibrium by electing politicians with policy preferences farther away from the pivotal actors in the union unless politicians value union office too highly. This option becomes even more advantageous for voters if extremist politicians value union office less highly than mainstream politicians. Similarly, if a country is already in a union, voters can prevent further integration or achieve disintegration by voting for politicians with more extreme preferences, thus creating opportunities for challenger parties to enter the political landscape.

Likewise, politicians do not integrate policy even though their voters prefer it if they value national office sufficiently high relative to union office. In that case, voters may obtain integration after all in equilibrium by

electing politicians with policy preferences equal to the pivotal actors at the union level, unless politicians value national office too highly.

Our theory may explain why EU voters elect politicians to national office with more extreme policy preferences than their own if they do not want integration or prefer disintegration, but the value of holding EU office is relatively high. Similarly, it may clarify why other countries' voters elect politicians that seem more pro-EU than they are themselves.

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Conflict of Interests

The authors declare no conflict of interests.

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