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Fiscal Shackles or Unrestrained Rhetoric: Does EU Integration Constrain Social Welfare Spending?

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While the radical-right's anti-immigrant brand of Euroscepticism has been the focus of a large body of research, few authors have examined the increasingly influential Eurosceptic rhetoric among Europe's Social Democratic and Socialist political parties. These groups tend to view the EU as an agent of globalization and therefore attribute the negative social consequences of globalization to European integration. In particular, they argue that European integration forces EU member states to trim their state welfare budgets. I examine both the validity of, and motivation behind these claims. Using panel data on all current EU member states across two decades, I find no empirical justification for the arguments of Eurosceptics on the left. On average, centrist and leftist parties spend about 2 percent of GDP more on social welfare programs than their counterparts on the right independent of natural increases over time, economic performance, openness, and measures of European integration. These results indicate that, much like the Eurosceptics on the right, the concerns of leftist Eurosceptics may represent more of a political calculation than a substantive policy concern.

Euroscepticism is as old as European integration. Opponents on the right tend to focus on what they see as an existential cultural challenge posed by large influxes of Muslim immigrants. Eurosceptics on the left focus instead on the potential European integration has to constrain government spending, thus eroding the generous welfare benefits that have become the hallmark of European societies (Marks et al. 2002). For far-left and social democratic parties, the effects of Europeanization are similar to the effects of globalization—increased inequality, a regulatory race to the bottom, and ultimately a lower standard of living for the vast majority of Europeans. In other words, the exterior forces of European integration constrain the policy choices of domestic political actors.

The majority of the literature on Euroscepticism focuses on xenophobic conservative parties but pays little attention to the Socialist and Social Democratic Eurosceptics across Europe. To what extent are their fears empirically justified? Have government expenditures noticeably declined among EU member states during the accession process? If so, are these declines directly attributable to the outside pressures of EU integration, or are internal do-

mestic forces more important? The answers to these questions not only shed light on the desirability of European integration, but will also contribute to the heated debate about globalization. EU expansion and the economic, institutional, and political changes it entails present a unique opportunity to study the effects of increased monetary, economic, and political integration on the range of policy choices available to domestic political actors.

Using panel data on current EU member states across two decades, I find that the general effect of EU enlargement on levels of social welfare spending has been negligible. Specifically, controlling for measures of European integration has no effect on the ability of leftist parties to maintain generous welfare benefits. Compared to parties on the right, leftist parties spend between 0.8 percent and 3.2 percent of GDP more on social welfare programs independent of economic performance, openness, natural increases over time, and Europeanization. While there is some evidence that monetary integration has capped overall levels of expenditures, the allocation of revenues to social protection, education, health care, defense, and education seem to be determined by domestic political processes.

The paper proceeds as follows. I will first review some of the most relevant empirical and theoretical work on the determinants of public spending, outline a theoretical framework, and present a more narrow research question. I will then propose several testable implications of the theory, describe my data sources, and specify the methodology I use to test each hypothesis. Finally, I will present the empirical results and conclude.

Literature Review and Theoretical Framework

As a matter of history, public expenditures have increased dramatically and rapidly since World War II. Much of the public spending literature is an attempt to explain these increases, which appear to be consistent across industrialized countries. Figure 1 presents the most recent data on public spending levels between 1980 and 2008 among OECD countries. The OECD average social protection spending/GDP[1] ratio increases steadily before tapering off slightly in the 2000s. This is consistent with historical trends and basic intuition—citizens have consistently demanded more services and regulatory expertise as the world has grown increasingly complex and interconnected.

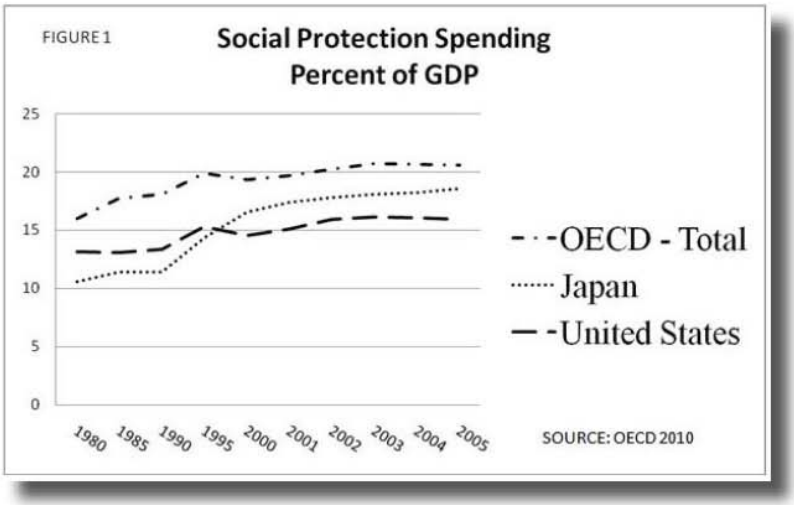
Figure 2 displays the social protection spending/GDP ratio for current EU member states, Western Europe, and Central and Eastern Europe since 1990. The results explain the leveling off of the OECD average in Figure 1, but are also fairly puzzling. Spending increases dramatically throughout the first half of the 1990s but begins to steadily decrease in 1995, and continues to decline till 2000 before leveling off through most of the decade.

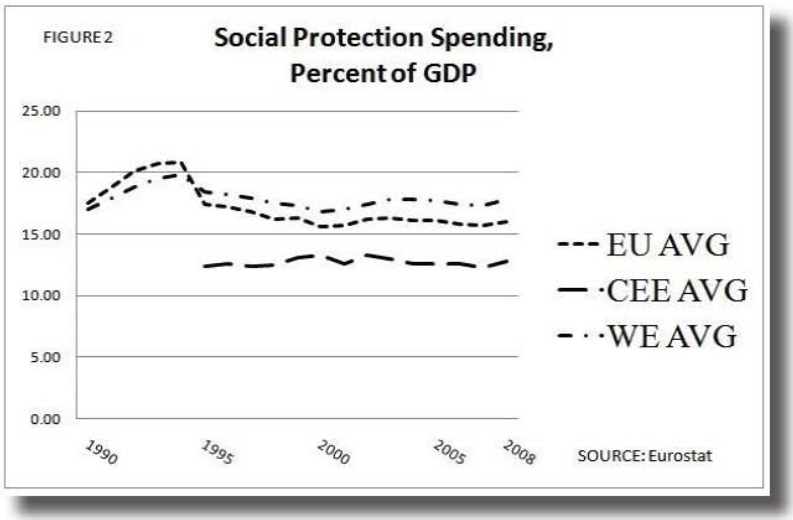
The trajectory of social protection spending in Europe diverges from the rest of the OECD countries in the early 1990s. Coincidently, EU member states signed the Maastricht Treaty in 1992, which contained the monetary and fiscal requirements states had to meet in order to join the European Monetary Union (EMU). At first glance, Figure 2 could not fit the leftist Eurosceptic story any better—integration in the early 1990s permanently reduced the level of social welfare benefits across the European Union. While industrialized countries like Japan and the United States increased their state budgets, EU member states were tightening their belts.

The full story is not so simple. There are plenty of other factors aside from the Maas-

1 Social protection spending includes old-age pensions, low-income housing subsidies, sickness and disability payments, unemployment benefits, and other subsidies to low-income families.

tricht Treaty's monetary union requirements that could have influenced Europe's recent drop in social protection spending. In the literature review that follows, I identify the most influential variables cited in the literature and make the case that pursuing EMU membership could also lead to a drop in state spending.





The literature on public expenditures and the size of the welfare state fall broadly into two categories: theoretical and empirical. Even thirty years later, Cameron's 1978 piece on public spending is still one of the most important theoretical sources on the topic. He identifies five potential causes for the rise in public expenditures in most industrialized countries during the post-war era: economic, fiscal, political, institutional, and international. I will treat each of these causes in turn, referring to more recent findings periodically. First,

Cameron posits that economic growth could be inversely related to levels of public spending. While it is generally true that a nation collectively demands more public services as it becomes more affluent, consistent economic growth allows the government to extract a constant share of the private economy to meet the demand. However, if growth is stagnant or negative, demand for services is likely to increase, and the government will have to extract an increasingly larger share of the economy to pay for public services (Cameron 1978). This implies that poor economic performance leads to increased public spending.

Second, political parties in industrialized countries have an incentive to offer payments to the largest sections of the electorate in order to maintain power, especially those parties whose power base is concentrated in lower income groups. Traditionally, leftist parties have drawn the majority of their support from these groups, so it comes as no surprise that they have generally favored expanding government budgets to deliver more social services. According to Cameron, spending trajectories in Britain change noticeably between Labour and Conservative governments, and the budgets of American federal agencies increased with Democratic control of the presidency and the Congress (1978, 1252). Adsera and Boix (2002) make similar theoretical claims. Using game theory to formally model state budgets, they find that social welfare spending depends heavily on the ideological preferences of the incumbent party, independent of international pressures.

Third, Cameron argues that those states that are most able to conceal the costs of social programs are the best equipped to increase levels of public expenditures. Because the costs and benefits of public goods are often not directly linked, politicians can only successfully provide more by making the taxes that pay for them invisible. Value added taxes and payroll taxes are the most effective (1978, 1253).

Fourth, the existence of multiple independent centers of public authority and the degree of fiscal centralization could constrain or enhance policy makers' ability to increase public spending. Institutionally, a decentralized system is ill-equipped to generate consensus on any single issue relative to more centralized systems. Careja and Emmenegger (2009) present a similar argument. The number of institutional veto points should be inversely related to public spending levels because as the number of veto points increases, it becomes increasingly difficult to pass legislation, appropriate funds, and ultimately spend them. On the other hand, strong centralized governments with fewer veto points pass legislation with relative ease, appropriate funds with less bickering, and consequently spend more than decentralized, federal systems (1978, 1252).

Finally, Cameron argues that international forces could shape the level of domestic political spending. Specifically, the degree of economic dependence on actors in other countries may make it more difficult for policy makers to stabilize macroeconomic conditions with counter-cyclical fiscal policy. Policy makers respond by eliminating the uncertainty with social insurance and other automatic stabilizers that smooth out the peaks and valleys of international business cycles (1978, 1252). Adsera and Boix (2002) make similar claims, though for different reasons. Depending on its resources and level of support, a pro free-trade political party may only be able to sustain power by offering compensation packages to those adversely affected by increased openness. Sustained financial openness over a long period of time would therefore imply increased levels of public spending (2002, 235).

Empirically, there are several key findings that are common to the majority of the literature. First, domestic politics matter. Leftist party incumbency is robustly related to higher levels of public spending across several studies (Cameron 1978; Careja and Emmenegger

2009). In general, public expenditures increase with economic contractions or stagnant growth (Cameron 1978), and openness, depending on the definition, is weakly related to increases in social welfare spending (Rodrik 1998; Careja and Emmenegger 2009; Adsera and Boix 2002; Cameron 1978). In order to examine the effects of European integration on public expenditures, it would therefore be important to control for each of these factors: financial openness, leftist party incumbency, and economic performance.

But why would EU integration constrain state budgets in the first place? The clearest answer is in the Maastricht criteria, which outlines a set of conditions each member state must meet before entering the Euro area. According to Johnson (2006), the European Central Bank has interpreted the Maastricht Treaty's conditions using the following monetary and fiscal requirements: (1) inflation rates of no more than 1.5 percent above the average of the three member states with the lowest inflation rates; (2) a public debt less than 60 percent of GDP; (3) a budget deficit below 3% of GDP; and (4) participation in ERM II for at least two years within an exchange rate band of up to ± 15 percent, but likely narrower in practice (2006, 370). Johnson interviewed scores of central bankers across the EU's newest states in Central and Eastern Europe, and found that virtually all of them were committed to strict monetary policies to control inflation. Their elected counterparts in parliament were not as committed, which led to frequent disagreements. Maintaining low inflation targets is difficult if the central government cannot break profligate spending habits, and Maastricht's fiscal criteria on overall debt and annual deficits would clearly constrain state spending. This would imply that satisfying the Maastricht criteria would do exactly what critics on the left are so suspicious of—constrain welfare state spending. Because most central bankers were committed to hitting the Maastricht exchange rate and inflation targets (Johnson 2006), I restrict my analysis to the fiscal aspects of the treaty.

In light of previous research, the best way to analyze the relationship between public spending and EU integration is to examine the effects of satisfying each Maastricht criterion while controlling for leftist party incumbency, economic performance, and openness. This restricts the scope of the study to a manageable time horizon (between 1990 and the present) and sample of countries (current EU member states).

Hypotheses, Data, and Methodology

The preceding theoretical and empirical results imply two testable hypotheses:

H1: EU member states pursuing EMU membership decrease public spending levels independent of leftist party incumbency and other relevant controls.

H2: Leftist party incumbency is robustly related to public expenditures even after controlling for the pursuit of EMU membership.

In order to parse out the causal effects of outside EU pressures and internal domestic political forces, I will estimate the following population models of public spending:

$$(1)\ Y_{it} = B_0 + \delta_1 Left_{it-1} + \beta_2 X_{it-1} + \delta_t Year + \delta_2 CEE$$

$$(2)\ Y_{it} = B_0 + \delta_1 Left_{it-1} + \beta_1 Maas_{it-1} + \beta_2 X_{it-1} + \delta_t Year + \delta_2 CEE$$

where Y_{it} is a measure of government expenditure for country *i* at time *t*, B_0 is a constant, *Left* is a dichotomous variable indicating leftist party incumbency, *X* is a vector of economic

control variables[2], δ_t*Year* represents fixed effects for each year in the sample, and CEE is a regional dummy variable for Central and Eastern European countries[3]. I lag each independent variable one period. Note that comparing the estimates of δ_1 in equations (1) and (2) is a direct test of H1 and H2. If leftist party incumbency is a significant determinant of public spending measures in both equations, the Maastricht Treaty criteria do not constrain public spending. Alternatively, if δ_1 is significant in equation (1) but not in (2), this implies that the fears of leftist Eurosceptics are justified; European integration can constrain the national welfare state.

I use five different measures of public spending: total government expenditure, social protection spending, education expenditure, defense spending, and expenditures on health as percentages of GDP. Eurostat reports values for each of these variables for all current EU members between 1994 and 2008 (2010). Measuring the dependent variable in this way is a common approach in the literature (Cameron 1978, Careja and Emmenegger 2009). To better approximate the linear model I have specified and to ease interpretation, I take the natural log of each public spending variable. Estimates of δ_1 represent the average percentage change in public spending/GDP that results from the government changing hands between parties on the right to parties on the left[4].

It is important to note that trends in the political composition of parliaments and public spending might move together over time, but that does not necessarily mean that one causes the other. In order to adjust for this potential bias, I also include the level of total expenditure lagged one period and dummy variables for each year as controls in order to account for spurious correlations over time. The coefficients on each independent variable can therefore be interpreted as the average deviation from the natural trend of public spending resulting from one-unit increases in each independent variable.

To measure financial openness and economic performance, I use net trade and FDI inflows as percentages of GDP, annual GDP growth, and GDP per capita (World Bank 2010). I measure leftist party incumbency according to the University of Berne's Comparative Political Data Set III (Armingeon et al. 2010). The authors report the annual percentage of cabinet posts held by leftist, centrist, and conservative party members, weighted by the number of days the government was in office each year. I created a dichotomous variable *Left*, which equals one if a centrist or leftist party was in power and zero otherwise[5].

Finally, to measure EU integration I use data from Eurostat and the World Bank to create two variables that measure the degree of Maastricht Treaty compliance along two dimensions: annual budget deficits and total debt. All countries under the 3 percent deficit threshold are coded zero, and countries with annual deficits in excess of 3 percent of GDP are coded according to the following simple formula: *Budget Deficit + 3 = Distance from Maastricht*. A country with a 5.3 percent budget deficit in 1995 would receive a value of

2 I control for a country's level of public expenditure in the previous year, GDP per capita lagged one period, and the percentage growth in GDP per capita from the previous year. See Appendix B for a full description of each variable.

3 CEE countries have systematically lower levels of public expenditures as a percentage of GDP compared to their Western European counterparts. There is also some concern in the literature that the centrist parties in CEE have different policy commitments than social democrats in Western Europe (see Careja and Emmenegger, 2009).

4 More specifically, the effect on the spending to GDP ratio is $100(\delta_1)$%.

5 According to the authors, 'Centrist' parties would include the UK's Labour Party and the USA's Democratic Party, which clearly have commitments to the welfare state that are not shared by their counterparts on the right. Leftist parties are social democrats and socialists.

-2.3 for that year[6]. Total government debt is coded similarly with 60 percent of GDP as the threshold. The idea is that countries might be willing to cut back welfare benefits to reach the Maastricht thresholds, but any further cuts would be idiosyncratic. In order to recover the effect the Maastricht thresholds have on leftist parties' ability to maintain spending levels, I interact leftist party incumbency with each Maastricht control variable, creating two variables that measure the degree of compliance while leftist parties have control of parliament. The coefficients on each interaction term therefore represent the effect of the degree of Maastricht compliance on public spending *during periods of leftist party incumbency*.

There are two possible results that would vindicate leftist Eurosceptics: (1) leftist incumbency is not related to public expenditures after controlling for Maastricht Treaty satisfaction, and (2) the coefficient on each Maastricht interaction term is statistically significant and negative. This would indicate that, on average, Social Democrats and Socialists have to curb welfare spending as they approach Maastricht thresholds[7].

Results

Table 1 (see page 30) reports the results from regressions on total public expenditure with and without the Maastricht treaty controls. As expected, the coefficient on leftist party incumbency is statistically and substantively significant ($p < 0.01$) in the first estimate. On average, and controlling for openness and economic performance, moving a government from conservative hands to leftist party control increases the ratio of total public expenditure to GDP by 1.7 percent. To put these numbers in context, the average GDP for EU countries in 2007 was roughly $600 billion. This would amount to spending increases of $10 billion annually, independent of previous spending levels and natural increases over time. Also note that the adjusted r-squared is 0.904, meaning the model explains more than 90% of the variation in total public spending to GDP ratios.

After controlling for Maastricht treaty compliance, the estimated effect decreases to only 0.3 percent, and it is no longer statistically distinguishable from zero. In addition, the Maastricht Deficit interaction term is statistically significant and negative. At first glance, this result seems to suggest that the grievances of leftist Eurosceptics are justified. Political parties committed to higher levels of government spending lose their ability to deliver benefits to their constituencies as their countries approach Maastricht Treaty fiscal thresholds.

The results on levels of social protection, education, defense, and health expenditures paint a more nuanced picture. Table 2 (see page 31) reports the estimated effects on both social protection and health care spending as percentages of GDP.

6 This measure does not take into account when member states joined the EU. I make the simplifying assumption that aggressive moves towards the Maastricht thresholds would only show up in anticipation of, or after, EU membership. For example, countries in CEE and Scandinavia joined the EU halfway through my time horizon of interest. However, it seems unlikely that aggressive steps to trim budget deficits and debt levels would be taken systematically across new EU member states without some external motivation. Moreover, the causal impact on public expenditures would be the same regardless of whether fiscal strategies changed in anticipation of accession or after EU membership was already secured.

7 Interpreting interaction terms can be difficult. Methodologically, both the Maastricht compliance variables and the interaction terms must be included in each regression. The correct interpretation is to add the coefficients of the interaction term and its components together. To simplify presentation, I report only the interaction terms in the results section, but the reported effects in the text take the full model into account. Full results are available in Appendix A.

Table 1

Dependant Variable:	Total Expenditure	
	(1)	(2)
Lagged Gov. Expenditure	**.0179** (.00085)	**.0205** (.00048)
Leftist Party Incumbency	**.0172** (.0059)	.0029 (.0061)
Net Trade/GDP	**-.0002** (.0001)	-.0001 (.00007)
FDI Inflows/GDP	-.0000 (.0001)	.0001 (.00005)
GDP Annual Growth	**-.0061** (.0014)	**-.0062** (.0014)
GDP Percapita	.0000 (.00000)	**-.0001** (.00003)
(Maastricht Deficit) x (Leftist Incumbency)		**-.0107** (.0034)
(Maastricht Debt) x (Leftist Incumbency)		-.0001 (.0001)
Constant	**3.00** (.03)	**2.91** (.02)
Regional Dummies	Yes	Yes
Time Fixed Effects	Yes	Yes
Adjusted R^2	.907	.924
N	355	306

Notes: Heteroskedasticity-robust standard errors are given below each coefficient in parentheses. Bolded coefficients are significant at the .05 level or below. Each independent variable is lagged one period.

Table 2

Dependent Variable:	Social Protection		Health Care	
	(1)	(2)	(3)	(4)
Lagged Gov. Expenditure	**.056**	**.058**	**.179**	**.180**
	(.0014)	(.0014)	(.007)	(.008)
Leftist Party Incumbency	**.0198**	**.0207**	.0002	-.0005
	(.0063)	(.0063)	(.010)	(.013)
Net Trade/GDP	**-.0003**	**-.0002**	.00003	.00002
	(.0001)	(.0001)	(.0001)	(.0001)
FDI Inflows/GDP	**.0003**	**.0003**	-.0001	-.0001
	(.0001)	(.0001)	(.0001)	(.0001)
GDP Annual Growth	**-.013**	**-.012**	.0006	.0021
	(.0023)	(.0024)	(.0021)	(.0027)
GDP Percapita	.0000	.0000	.0000	.0000
	(.00000)	(.00000)	(.00000)	(.00000)
(Maastricht Deficit) x (Leftist Incumbency)		-.0026		.0054
		(.0045)		(.0066)
(Maastricht Deficit) x (Leftist Incumbency)		-.0006		-.0005
		(.00037)		(.0006)
Constant	**1.89**	**1.85**	**.69**	**.67**
	(.032)	(.034)	(.04)	(.04)
Regional Dummies	Yes	Yes	Yes	Yes
Time Fixed Effects	Yes	Yes	Yes	Yes
Adjusted R^2	.957	.960	.886	.886
N	308	278	325	285

Notes: Heteroskedasticity-robust standard errors are given below each coefficient in parentheses. Bolded coefficients are significant at the .05 level or below. Each independent variable is lagged one period.

Note that the leftist incumbency coefficient is statistically significant in both social protection regressions, and that the Maastricht compliance interaction terms are not significant in either set of spending models. The estimates indicate that on average, moving from a conservative government to a centrist/leftist government increases the social protection spending/GDP ratio by about 2 percent. This would increase the average EU member state level of social protection spending from 17 percent to 17.34 percent. While this effect may not appear meaningful at first glance, it amounts to an increase of about $2.04 billion in housing subsidies, pensions, and transfers to low income families[8]. The interaction terms in the social protection regressions indicate that levels of spending are not sensitive to the degree of Maastricht compliance during periods when Social Democrats, Socialists, and other parties on the left have control of the government. That is, countries that have a majority of leftist parties in their parliaments and are in compliance with Maastricht's fiscal criteria have spending levels no different from countries with leftist parliaments that are not in compliance. This result holds in the health expenditure regressions, and indicates that while Maastricht compliance might cap the overall level of public spending, the allocation of available funds is determined by domestic political processes, not Brussels technocrats.

If Maastricht compliance affects the overall level of public expenditures but not social welfare spending, it stands to reason that leftist parties must trim some components of their state budgets in lieu of social protection and health expenditures. Table 3 examines this proposition in more detail, reporting results for the same model used in the two previous tables, but substituting defense and education expenditures as the dependent variables. The results for education expenditures mirror those of health spending; leftist controlled compliant states appear to spend just as much on education as non-compliant leftist states. The defense spending estimates are a bit more puzzling. The coefficients for leftist party incumbency are statistically significant and appear quite large in each regression. The point estimates for the effect of leftist party control of parliament on levels of defense spending are about 4.5 percent, which is more than twice as large as the social protection coefficients.

Upon closer examination however, the effect is not as large as it may seem at first glance. First, the average ratio of defense spending to GDP among EU member states was 1.4 percent in 2007. Increasing this ratio by 4.5 percent moves the average member state from spending 1.4 percent of its GDP on defense to 1.463 percent. Substantively, this amounts to increasing defense spending from an EU average level of $8.4 billion to $8.77 billion. This effect is less than one-fifth of the leftist effect on social protection spending. I have also not included any controls for European involvement in the wars in Iraq and Afghanistan, which steadily increased throughout the 2000s. Coincidently, the proportion of EU member states controlled by leftist parties also increased during the same time period. In 2004 for example, 44 percent of EU member states had leftist majorities in their parliaments. By 2006 the percentage had increased to 63 percent[9]. Including a measure of each EU member state's military commitment to the Iraq and Afghanistan wars in the defense spending regressions would certainly attenuate the estimated effect, but it is still surprising to find no evidence that leftist parties roll back defense spending in favor of social welfare spending.

Restricting the analysis to the time period in the sample that precedes the 9/11 attacks

8 The average EU member state had a GDP of about $600 billion and the social protection spending/GDP was 17%. Increasing this ratio by 2 percent yields 17.34 %, which moves the level of spending from $102 billion to $104.04 billion.

9 Author's own calculation based on University of Bern's Comparative Political Dataset III

yields more intuitive results, and I report them below in Table 4. The coefficient on leftist party incumbency decreases from 0.045 to -0.035 and is no longer statistically significant. In addition, the Maastricht interaction variables have large negative coefficients, and are now statistically significant (P<0.05). Using only the observations before 2001 decreases the sample size from 285 to just 69. This inflates the standard errors of each coefficient and makes it more difficult to distinguish the estimated effects from zero, which may explain why the leftist incumbency coefficient matches the magnitude of the social protection and total expenditure findings, but is not statistically distinguishable from zero.

Table 3

Dependent Variable:	Defense Expenditure		Education Expenditure	
	(1)	(2)	(3)	(4)
Lagged Gov. Expenditure	**.485**	**.503**	**.190**	**.189**
	(.035)	(.048)	(.0037)	(.0011)
Leftist Party Incumbency	**.048**	**.043**	.0001	-.0001
	(.019)	(.021)	(.0066)	(.0008)
Net Trade/GDP	**-.0013**	**-.0012**	.0001	.0001
	(.0004)	(.0004)	(.0001)	(.0009)
FDI Inflows/GDP	**-.0018**	**-.0017**	-.00003	-.00002
	(.0005)	(.0005)	(.00010)	(.00007)
GDP Annual Growth	**-.010**	**-.014**	.0017	-.0014
	(.005)	(.006)	(.0018)	(.0021)
GDP Percapita	**-.00001**	**-.00001**	.0000	.0000
	(.00000)	(.00000)	(.00000)	(.00000)
(Maastricht Deficit) x (Leftist Incumbency)		-.0053	--	-.0001
		(.0135)		(.0060)
(Maastricht Deficit) x (Leftist Incumbency)		-.0012	--	-.0003
		(.0016)		(.0062)
Constant	**-.20**	-.18	**.60**	**.63**
	(.08)	(.11)	(.02)	(.03)
Regional Dummies	Yes	Yes	Yes	Yes
Time Fixed Effects	Yes	Yes	Yes	Yes
Adjusted R^2	.857	.845	.938	.939
N	325	285	325	285

Notes: Heteroskedasticity-robust standard errors are given below each coefficient in parentheses. Bolded coefficients are significant at the .05 level or below. Each independent variable is lagged one period.

With these caveats in mind, the point estimates confirm the results from the regressions on total and social protection expenditures. The Maastricht fiscal interaction terms are about -0.025, which implies that leftist governments decrease the defense spending/GDP ratio by 2.5 percent for every percentage-point move towards the Maastricht fiscal thresholds. In real terms, an EU member state that cuts defense spending to reduce a 5 percent budget deficit would decrease its defense spending/GDP ratio by about 5 percent (2 × -2.5), from 1.4 percent of GDP to 1.33 percent of GDP. Substantively, that amounts to a decrease in defense spending from $8.4 billion to $7.98 billion, a decline of more than $400 million[10].

Table 4 - Defense Spending between 1990 and 2000

Dependent Variable:	Defense Expenditure
	(1)
Lagged Government Expenditure	**.603** (.022)
Leftist Party Incumbency	-.035 (.038)
Net Trade/GDP	-.0002 (.0005)
FDI Inflows/GDP	-.0055 (.0055)
GDP Annual Growth	**-.016** (.008)
GDP Percapita	.0000 (.0000)
(Maastricht Deficit) x (Leftist Incumbency)	**-.026** (.012)
(Maastricht Deficit) x (Left Incumbency)	**-.024** (.012)
Constant	**-.494** (.114)
Regional Dummies	Yes
Time Fixed Effects	Yes
Adjusted R^2	.932
N	69

Notes: Heteroskedasticity-robust standard errors are given below each coefficient in parentheses. Bolded coefficients are significant at the .05 level or below. Each independent variable is lagged one period.

10 This effect is relative to conservative governments. The overall Maastricht effect is smaller. See the appendix for full results.

The results for total expenditures and spending on defense, social protection, health, and education paint a clear picture. The fiscal constraints of the Maastricht Treaty may have capped overall levels of government spending to some extent, but there is no effect on the allocation of government resources to specific programs. This implies that the concerns of leftist Eurosceptics may therefore be more of a political calculation than a substantive policy concern, a proposition I explore in more detail in the next section.

Conclusion

As the European integration experiment continues, the voices of Eurosceptics from both ends of the ideological spectrum are likely to get louder, if not more numerous. Assuaging their concerns is likely to be an important part of winning over the European public in support of further integration. While the concerns of Eurosceptics on the right are the topic of another paper, I have demonstrated that the grievances on the left may not be justifiable empirically. Social Democrats antagonistic to European integration have long argued that the EU is a liberalizing agent. The closer countries move toward Brussels, the further away they will find themselves from the post-war social contract that has come to characterize European society. The most powerful EU-level effect on domestic budgets, and therefore the most promising vindicator of leftist skeptics concerns, is probably the Maastricht Treaty criteria for European Monetary Union. Controlling for those criteria that affect domestic fiscal policies most directly, it does not appear that leftist parties have lost their ability to extend generous welfare state benefits to their constituents. In other words, maintaining budget deficits below 3 percent of GDP might slow the growth of total public expenditures, but the allocation of public revenues between defense, education, social protection, and education seems to be determined by domestic political processes.

If the fiscal requirements of Maastricht do not significantly constrain the policy options of domestic political actors, the relevant question is why politicians on the left are using Eurosceptic rhetoric. One potential explanation is that the European left is searching for a way to reassemble its electoral base after some recent setbacks. Since 2005, Social Democrats and Socialists across Europe have seen their share of parliamentary seats diminish. Germany's Social Democratic Party saw an 11 percent decline between 2005 and 2009. The French Socialist Party's parliamentary seats are down 12 percent from 5 years ago, and French President Nicolas Sarkozy's conservative UMP party has increased its appeal among low-skilled workers, a demographic that traditionally voted Socialist. Gordon Brown's embattled Labour Party is on the verge of losing power, polling lower than it has in decades, and the Portuguese Socialists lost 26 seats in the 2009 elections (Nordsieck 2010). Clearly the biggest problem for these parties is persistent unemployment and an unfavorable economic climate resulting from the financial crisis. Many Social Democrats and Socialists had the misfortune of being in power between 2007 and 2009, so their losses are not particularly surprising.

What is surprising is that the French conservatives have managed to stay in power despite similar economic constraints. Some argue that the UMP has been successful in part because they have been able to siphon votes away from Jean-Marie Le Pen's National Front Party, which is unapologetically anti-immigration, anti-European, and has also traditionally drawn its support from low-skilled, middle-income workers that traditionally supported the Socialists (Berezin 2006, 270). While the National Front's primary grievance is a perceived cultural threat from Muslim immigrants, Le Pen has railed against the out sourcing of French jobs to Central and Eastern Europe, blaming European integration for

France's persistently high unemployment rate (Berezin 2006, 272). This claim resonates with a majority of the French public; in 2005 after France voted against the Lisbon Treaty in a national referendum, the European Commission reported that the fear of unemployment was the primary reason for respondents' "no" votes (Berezin 2006, 273). Attacking further European integration as an assault on 'social Europe' could draw middle-income voters back into the Socialist Party's fold.

In the Netherlands, there is some evidence this has already taken place. The Dutch Social Democratic Party (PvdA) received just 15.1 percent of the vote in 2002, its lowest recorded vote share since WW II. However, under the care of its outspoken Eurosceptic leader Wouter Bos, the PvdA currently leads all other Dutch political parties in the public opinion polls, just in front of the right-wing Eurosceptic Party for Freedom (PVV) (Dutch Political Report 2010). Bos has been critical of what he perceives as the EU's dogmatic adherence to opening markets for goods, services, people and capital despite the adverse social consequences. After losing a quarter of his party's seats to conservative and leftist populists in 2006, Bos delivered a speech at the annual gathering of progressive European party leaders held in London and outlined a plan for future electoral success on the center-left. He warned that the forces of globalization and European integration "affect social democrats more profoundly than any other political grouping. [They] reduce the effectiveness of the kind of policies we favour [sic]. [They] affect the cohesion that is our life blood. And [they] affect the traditional constituents that remain so important to us because they are the ones who feel threatened, who may become uncertain, cynical, populist, or worse." (Bos 2008, 2). To meet these challenges, Bos argued that Social Democrats and Labour parties should "become less academic and more populist," catering to the demands of low and middle-income voters that had deserted them (Bos 2008, 3).

These brief examples, while anecdotal and unsystematic, suggest that parties on both the center-left and the center-right have successfully adopted Eurosceptic under currents usually expressed only at the extreme ends of the ideological spectrum. The context of Bos' remarks indicates that Social Democrats across Europe are aware of the Dutch Labour Party's recent success, and the experience of the French Socialist Party demonstrates that the challenges Bos identifies are not unique to the Netherlands. If European integration does not actually limit the choices of domestic political actors, and I have presented some evidence that it does not, then the concerns of Eurosceptic leftist leaders may be nothing more than a political calculation designed to recapture the middle-income voters that have recently flocked to anti-immigration parties on the right. Whether the political posturing will take place across Europe or whether an economic recovery will render such a strategy unnecessary remains to be seen.

Appendix A

Table 1

Dependant Variable:	Total Expenditure	
	(1)	(2)
Lagged Gov. Expenditure	**.0182**	**.0205**
	(.0008)	(.00048)
Leftist Party Incumbency	**.0182**	.0029
	(.0057)	(.0061)
Net Trade/GDP	**-.0002**	-.0001
	(.0001)	(.00007)
FDI Inflows/GDP	-.0000	.0001
	(.0001)	(.00005)
GDP Annual Growth	**-.0057**	**-.0062**
	(.0014)	(.0014)
GDP Percapita	.0000	**-.0001**
	(.00000)	(.00003)
Maastricht Deficit		**.015**
		(.003)
Maastricht Debt		**-.0006**
		(.0002)
(Maastricht Deficit) x (Leftist Incumbency)		**-.0107**
		(.0034)
(Maastricht Debt) x (Leftist Incumbency)		-.0001
		(.0001)
Constant	**2.99**	**2.91**
	(.03)	(.02)
Regional Dummies	Yes	Yes
Time Fixed Effects	Yes	Yes
Adjusted R^2	.907	.924
N	355	306

Table 2

Dependent Variable:	Social Protection		Health Care	
	(1)	(2)	(3)	(4)
Lagged Gov. Expenditure	**.056**	**.058**	**.179**	**.180**
	(.0014)	(.0014)	(.007)	(.008)
Leftist Party Incumbency	**.0198**	**.0207**	.0002	-.0005
	(.0063)	(.0063)	(.010)	(.013)
Net Trade/GDP	**-.0003**	**-.0002**	.00003	.00002
	(.0001)	(.0001)	(.0001)	(.0001)
FDI Inflows/GDP	**.0003**	**.0003**	-.0001	-.0001
	(.0001)	(.0001)	(.0001)	(.0001)
GDP Annual Growth	**-.013**	**-.012**	.0006	.0021
	(.0023)	(.0024)	(.0021)	(.0027)
GDP Percapita	.0000	.0000	.0000	.0000
	(.00000)	(.00000)	(.00000)	(.00000)
Maastricht Deficit		-.005		-.0083
		(.004)		(.0060)
Maastricht Debt		**-.0008**		-.000
		(.0003)		(.000)
(Maastricht Deficit) x (Leftist Incumbency)		-.0026		.0054
		(.0045)		(.0066)
(Maastricht Debt) x (Leftist Incumbency)		-.0006		-.0005
		(.00037)		(.0006)
Constant	**1.89**	**1.85**	**.69**	**.67**
	(.032)	(.034)	(.04)	(.04)
Regional Dummies	Yes	Yes	Yes	Yes
Time Fixed Effects	Yes	Yes	Yes	Yes
Adjusted R^2	.957	.960	.886	.886
N	308	278	325	285

Table 3

Dependent Variable:	Defense Expenditure		Education Expenditure	
	(1)	(2)	(3)	(4)
Lagged Gov. Expenditure	**.485**	**.503**	**.190**	**.189**
	(.035)	(.048)	(.0037)	(.0011)
Leftist Party Incumbency	**.048**	**.043**	.0001	-.0001
	(.019)	(.021)	(.0066)	(.0008)
Net Trade/GDP	**-.0013**	**-.0012**	.0001	.0001
	(.0004)	(.0004)	(.0001)	(.0009)
FDI Inflows/GDP	**-.0018**	**-.0017**	-.00003	-.00002
	(.0005)	(.0005)	(.00010)	(.00007)
GDP Annual Growth	**-.010**	**-.014**	.0017	-.0014
	(.005)	(.006)	(.0018)	(.0021)
GDP Percapita	**-.00001**	**-.00001**	.0000	.0000
	(.00000)	(.00000)	(.00000)	(.00000)
Maastricht Deficit		-.005		.0085
		(.013)		(.0044)
Maastricht Debt		.001		.0007
		(.001)		(.0005)
(Maastricht Deficit) x (Leftist Incumbency)		.022	--	-.0001
		(.015)		(.0060)
(Maastricht Debt) x (Leftist Incumbency)		-.0012	--	-.0003
		(.0016)		(.0062)
Constant	**-.20**	-.18	**.60**	**.63**
	(.08)	(.11)	(.02)	(.03)
Regional Dummies	Yes	Yes	Yes	Yes
Time Fixed Effects	Yes	Yes	Yes	Yes
Adjusted R^2	.857	.845	.938	.939
N	325	285	325	285

Table 4 - Defense Spending between 1990 and 2000

Dependent Variable:	Defense Expenditure
	(1)
Lagged Government Expenditure	**.603** (.022)
Leftist Party Incumbency	-.035 (.038)
Net Trade/GDP	-.0002 (.0005)
FDI Inflows/GDP	-.0055 (.0055)
GDP Annual Growth	**-.016** (.008)
GDP Percapita	.0000 (.0000)
Maastricht Deficit	**.021** (.008)
Maastricht Debt	**.023** (.011)
(Maastricht Deficit) x (Leftist Incumbency)	**-.026** (.012)
(Maastricht Debt) x (Left Incumbency)	**-.024** (.012)
Constant	**-.494** (.114)
Regional Dummies	Yes
Time Fixed Effects	Yes
Adjusted R^2	.932
N	69

Appendix B

Data Set Descriptive Statistics			
Variable	**Units, Source**	**Mean**	**Standard Dev.**
Total Public Spending	% of GDP, Eurostat	45.74	7.47
Social Protection Spending	% of GDP, Eurostat	16.40	4.42
Health Spending	% of GDP, Eurostat	5.71	1.31
Education Spending	% of GDP, Eurostat	5.45	1.16
Defense Spending	% of GDP, Eurostat	1.59	.69
Leftisti Party Incumbency	0 - 1, University of Bem, CPDS III	.546	.49
Net trade	% of GDP, WDI	95.77	46.69
Net FDI Inflows	% of GDP, WDI	8.76	40.46
GDP Per Capita Growth	Annual % growth, WDI	2.22	4.24
GDP Per Capita	Current USD, WDI	20292.73	16556.45
Annual Budget Deficits	% of GDP, Eurostat	-1.58	3.92
Government Gross Debt	% of GDP, Eurostat	49.16	28.40
GDP	Current USD, WDI	395 Billion	641 Billion
Central/Eastern Europe Dummy Variable			
The following countries are coded "1" and all other EU member states not listed are coded "0": Bulgaria, Cyprus, Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Romania, Slovenia			
Reported means and standard deviations are for the entire data set, which covers 27 countries between 1990 and 2008. The EU member state averages used for calculating substantive effects in the paper are from 2007.			

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