

# PRICY PERCEPTIONS: CAN THE ECONOMY PREDICT EUROSCEPTICISM?

KRISTINA TRANAKIEVA & WILLEM OOSTERVELD

**In a time of Brexit and growing populism in Europe, economic conditions are never too far from the conversation. Whether it is unemployment or economic stagnation, attributing these to the E.U. is often only a finger point away. Indeed, economic crises have been shown to be associated with rises in Euroscepticism.<sup>1</sup> In this snapshot, we explain why this occurs, and argue that, rather than only considering economic performance indicators, it is also important to consider the extent to which people actually perceive various economic conditions.**

## BRIEF INTRODUCTION TO EUROSCEPTICISM

Euroscepticism is a broad term that can be used to mean a range of things, including on the one hand, an attitude in support of E.U. disintegration, and on the other, a scepticism of particular E.U. policies or the workings of the system.<sup>2</sup> In this snapshot, this term will be used to refer to negative sentiment towards the E.U. and European integration held by populations in the member states.

Some sources of Euroscepticism are structural, and others are short-term.<sup>3</sup> The structural category includes national resistance to the E.U.'s structure or projects, as well as the "E.U.'s incapacity to generate identity and massive support."<sup>4</sup> Economic crises fall in the short-term category, along with populism, as well as media and political discourses.<sup>5</sup> Sources can also be characterized as 'soft' and 'hard' factors.<sup>6</sup> Soft factors such as fear or hostility towards foreign cultures have been highlighted in recent debate, but the relevance of hard factors, for example, economic indicators,

have been shown to be relevant ever since the founding of the E.U.<sup>7</sup>

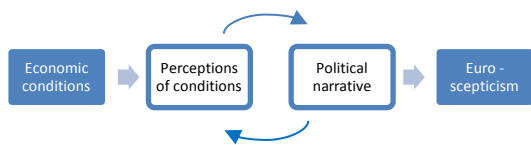
## ECONOMIC CONDITIONS, LEGITIMACY, AND EUROSCEPTICISM

One reason why negative economic conditions lead to Euroscepticism is that the E.U. is 'output legitimized,' meaning it was originally created to serve a positive economic purpose, hence underperformance creates doubt about not just its policies, but also its institutional legitimacy.<sup>8</sup> E.U. policies may be directly blamed. For example, democratic legitimacy has been shown to be eroded by economic adjustment policies when implemented in Eurozone countries.<sup>9</sup> Policies of austerity and devaluation can be seen as impositions from the outside, and thus lessen the E.U.'s democratic legitimacy.<sup>10</sup> People in countries such as Greece and Italy, which have had to implement such policies, show greater institutional scepticism in general.<sup>11</sup>

Even if E.U. policies are not directly involved, national conditions can still indirectly manifest Euroscepticism. Negative economic conditions, for example inequality, are known to be linked to the legitimacy of the political system and its democratic principles.<sup>12</sup> These are distributional concerns, and systems which are deemed to be unfair receive lower support.<sup>13</sup> Indeed, multiple studies have found that greater income inequality within a country is associated with less support for public institutions as well as less support for democracy.<sup>14</sup> Accompanied by the effects of globalization and the modernization of economies, economic grievances become too large for

governments to take responsibility for, and become fertile ground for nationalism and populist discourse which often deflects the blame for these problems to the E.U.<sup>15</sup> Economic distresses such as these are shown to be correlated with the electoral success of hard-line Eurosceptic parties.<sup>16</sup>

Overall, there are two interlinking variables that need to be present for economic conditions to lead to Euroscepticism: a corresponding narrative, and a perception of the economic change.



While we emphasize perceptions, narratives also matter: “narratives enhance the collective perception of social reality.”<sup>17</sup> They also matter because the connection between economic conditions and the E.U. is rife with misattributions regarding the cause of the conditions.<sup>18</sup> A recent study found that negative expectations for the financial future are correlated with Euroscepticism in Western Europe, but the effect is sometimes opposite in Eastern Europe, where European financial integration is viewed more as an opportunity than as a threat.<sup>19</sup> Deteriorating economic conditions in other member states can also be a source of Euroscepticism, as there are perceived potential spillover effects.<sup>20</sup> Political discourse is vital in apportioning the blame, and also for shaping current perceptions of the state of the economy. The perceptions addressed can also be seen, to some extent, as independent from narratives, as people have multiple sources of information regarding economic conditions, and perceive them differently based on factors such as level of education or news consumption.<sup>21</sup>

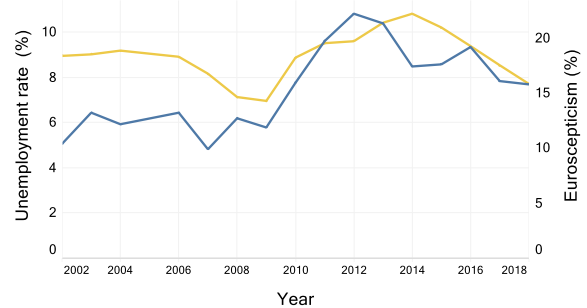
### THE PERCEPTIBLE CONDITIONS

Economic perceptions are key because without them, there is no change in the system to drive a crisis of legitimacy. People’s perceptions of the state of the national economy and their financial expectations have often been found to be a more accurate predictor of Euroscepticism than economic variables (unemployment, GDP, etc.) themselves.<sup>22</sup> An important reason for this is that people cannot always accurately perceive the actual state of the economy.<sup>23</sup> On a European

level, overall faster than average growth has not been matched with increased E.U. support, which some analysts attribute to the “time it takes for better conditions to filter through to voters,” and for perceptible changes, such as the unemployment rate, to take place.<sup>24</sup>

Previous research often found that some economic variables are significant predictors of Euroscepticism while others are not. For example, multiple studies that tested for the effects of GDP, unemployment, and inflation on attitudes towards European integration, found only inflation to be significant.<sup>25</sup> It is likely that some variables are more likely to be accurately perceived by people than others, and thus are more often shown to be significantly correlated to Euroscepticism. This is chiefly because of how the consequences of these factors are felt by individuals or households. Inflation is one such variable, as prices are relatively accessible. Longer term or more abstract variables such as GDP can be less perceptible. In fact, this is exactly what a survey on Dutch households’ perceptions of economic factors found<sup>26</sup> – that when comparing public perceptions on inflation and economic growth, perceptions of inflation were more accurate, because economic growth can be abstract, and “in their daily routine individuals are far more intensely and frequently confronted with price information and price developments.”<sup>27</sup> While the Netherlands has faced rapid economic growth in recent years, many individuals have been rather more aware of the negative aspects of the economy - the decrease of purchasing power due to higher inflation.<sup>28</sup> Rising inflation is a perceivable economic condition that can impact Euroscepticism.

Unemployment Rate and Euroscepticism in the E.U.



Data from ILOSTAT and Eurobarometer.

- Euroscepticism (% negative responses to image of E.U.)
- Unemployment rate (%)

Figure 1 – Unemployment and Euroscepticism are related, especially in recent years.

Like inflation, unemployment can be important for perceptions of the economy. In Figure 1, the trend for Euroscepticism shadows unemployment.<sup>29</sup> Unemployment has been shown by some studies to have an effect on Euroscepticism across the E.U.<sup>30</sup> While the unemployment rate can be abstract, it is often discussed in the media, and can be self-affirmed by individuals easily or anecdotally (eg. the neighbor that just lost her job), as opposed to GDP growth which requires a broader outlook on the state of the economy.

### POWER IN PERCEPTIONS

To conclude, for the sake of analyzing Euroscepticism, the objective state of the economy is of importance only to the extent that people perceive it. A quick downturn in economic conditions to which the public is sensitive, such as inflation or unemployment, can lead to more Euroscepticism than indicators of a long-run economic stagnation (although these factors are related). In all, the public narrative of economic

conditions matters (see Turkey's stance against negative economic information<sup>31</sup>), which is why the power to control economic perceptions, especially in the age of social media, is vital to political outcomes.

### FURTHER READING

Müller, Henrik, Giuseppe Porcaro, and Gerret von Nordheim. "Tales from a crisis: diverging narratives of the euro area." *Bruegel*, Feb. 2018. Via [link](#)

Christensen, Céline, Peter van Els, and Maarten van Rooij. "Dutch households' perceptions of economic growth and inflation." *De Economist* 154, no. 2 (2006): 277-294.

## ABOUT

In order to expand upon the detailed reports that HCSS publishes, our Podcasts and Snapshots tackle current issues in global security. HCSS conducts its activities independently and in collaboration with its large network of affiliated experts. Our products are diverse: full-fledged reports, issue briefs, quick topic reports, and commentaries in the media. These products often consist of strategic surveys, innovative policy recommendations, trend and scenario analyses, risk assessments, geopolitical and regional security analyses, conflict analyses, operational evaluations and identifications of lessons learned. HCSS is also a platform for the exchange of ideas and development of new concepts and strategic insights.

<sup>1</sup> See Nicoli, Francesco. "Hard-line Euroscepticism and the Eurocrisis..." and others cited throughout this paper.

<sup>2</sup> Nicoli, Francesco. "Hard-line Euroscepticism and the Eurocrisis: Evidence from a Panel Study of 108 Elections Across Europe." *JCMS: Journal of Common Market Studies* 55, no. 2 (2017): 312-331.

<sup>3</sup> Juliette Alibert. "Euroscepticism: the root causes", *Heinrich Boll Foundation: European Union*. October 2015. [https://eu.boell.org/sites/default/files/euroscepticism\\_the\\_root\\_causes\\_and\\_how\\_to\\_address\\_them.pdf](https://eu.boell.org/sites/default/files/euroscepticism_the_root_causes_and_how_to_address_them.pdf)

<sup>4</sup> Ibid.

<sup>5</sup> Ibid.

<sup>6</sup> van Klingeren, Marijn, Hajo G. Boomgaarden, and Claes H. De Vreese. "Going soft or staying soft: have identity factors become more important than economic rationale when explaining euroscepticism?." *Journal of European Integration* 35, no. 6 (2013): 689-704.

<sup>7</sup> Ibid.

<sup>8</sup> Nicoli, Francesco. "Hard-line Euroscepticism and the Eurocrisis: Evidence from a Panel Study of 108 Elections Across Europe." *JCMS: Journal of Common Market Studies* 55, no. 2 (2017): 312-331.

<sup>9</sup> Armingeon, Klaus, and Kai Guthmann. "Democracy in crisis? The declining support for national democracy in European countries, 2007–2011." *European Journal of Political Research* 53, no. 3 (2014): 423-442.

<sup>10</sup> Ibid.

<sup>11</sup> Ibid.

<sup>12</sup> Kuhn, Theresa, Erika van Elsas, Armen Hakhverdian, and Wouter van der Brug. "An ever wider gap in an ever closer union: Rising inequalities and euroscepticism in 12 West European democracies, 1975–2009." *Socio-Economic Review* 14, no. 1 (2014): 27-45.

<sup>13</sup> Kuhn, Theresa, Erika van Elsas, Armen Hakhverdian, and Wouter van der Brug. "An ever wider gap in an ever closer union: Rising inequalities and euroscepticism in 12 West European democracies, 1975–2009." *Socio-Economic Review* 14, no. 1 (2014): 27-45.

<sup>14</sup> Anderson and Singer (2008) and Anderson (2012) referenced in Kuhn, et al.

<sup>15</sup> Kuhn et al., 2014. "An ever wider gap in an ever closer union...." 31.

<sup>16</sup> Nicoli, 2017. "Hard-line Euroscepticism and the Eurocrisis..."

<sup>17</sup> Müller, Henrik, Giuseppe Porcaro, and Gerret von Nordheim. "Tales from a crisis: diverging narratives of the euro area." *Bruegel*, Feb. 2018.

<sup>18</sup> Ibid., 7.

<sup>19</sup> Ritzen, Jo, Klaus Zimmermann, and Caroline Wehner. "Euroscepticism in the crisis: More mood than economy." IZA Institute of Labor Economics - Discussion Paper (2013).

<sup>20</sup> Ioannou, Demosthenes, Jean-François Jamet, and Johannes Kleibl. "Spillovers and Euroscepticism." European Central Bank - Working Paper, (2015). <https://www.ecb.europa.eu/pub/pdf/scpwps/ecbwp1815.en.pdf?6c3e7590c980bd6f51f0ce6a8e745490>

<sup>21</sup> Christensen, Céline, Peter van Els, and Maarten van Rooij. "Dutch households' perceptions of economic growth and inflation." *De Economist* 154, no. 2 (2006): 277-294.

<sup>22</sup> Gabel, Matthew, and Guy D. Whitten. "Economic conditions, economic perceptions, and public support for European integration." *Political Behavior* 19, no. 1 (1997); See also Ritzen (2013).

<sup>23</sup> Ibid.; See also:

Desilver, Drew. People's views of their national economies don't always square with data. *Pew Research Center*. 27 June 2017.

<http://www.pewresearch.org/fact-tank/2017/06/27/peoples-views-of-their-national-economies-dont-always-square-with-data/>

<sup>24</sup> Trecek, Johanna. "Psst, Europe's economy is doing well." *Politico*. 2 Feb 2017. <https://www.politico.eu/article/psst-europes-economy-is-doing-well/>

<sup>25</sup> Eichenberg and Dalton (1993), Gabel and Whitten (1997); See also Ritzen et al. (2013) and van Klingeren et al. (2013) and others.

<sup>26</sup> Christensen et al, 2006. "Dutch Households' perceptions of economic growth and inflation."

<sup>27</sup> Ibid.

<sup>28</sup> Marika Stellinga and Philip de Witt Wijnen. "Waarom merkt de burger zo weinig van de forse groei?" NRC. 19 Sep 2017.

<https://www.nrc.nl/nieuws/2017/09/19/waarom-merkt-de-burger-zo-weinig-van-de-forse-groei-13088292-a1574057>

<sup>29</sup> Euroscepticism is Eurobarometer question: "In general, does the European Union conjure up for you a very positive, fairly positive, neutral, fairly negative or very negative image?" Results of this survey are given in percent, where we take the 'very negative' and 'fairly negative' answers together as Euroscepticism.

<sup>30</sup> Ritzen, et al., 2018. "Euroscepticism in the crisis..."

<sup>31</sup> 13 Aug, 2018. *Reuters*. "Erdogan Vows Action Against Economic Terrorists Over Lira Plunge." <https://www.reuters.com/article/us-turkey-currency-security/erdogan-vows-action-against-economic-terrorists-over-lira-plunge-idUSKBN1KY1R9>