Biting its Own Tail?:
Party Realignment, Euroskepticism, and Political Constrainment Stemming from European Integration's Neoliberal Trajectory

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1. Introduction

As economic integration within the European Union has strengthened over time, expanding from a single market designed to facilitate the free flow of goods, capital, and labor to the complex, multi-level regional governance institution that it resembles today, the distributional outcomes that its policy decisions entail have simultaneously become more pertinent. Consequently, the politics surrounding such choices have become increasingly contested as the general public, especially since the onset of the Eurozone crisis, has become more aware of the degree to which EU-level decisions have palpable effects on their lives. Stemming from this, in the following paper, I will set out to examine the political implications of this dynamic, exploring and evaluating the connections between economic integration and the growing constrainment of EU policy stemming from the discontent that has become apparent with the rise of euroskeptical parties on both the political left and right in member states throughout the EU.

More specifically, I will investigate the emerging political outcomes that the creation of persistent winners and losers stemming from economic integration has generated. Engaging with the current academic literature surrounding the political economy of European integration, I will make the case first, that economic integration has had a generally neoliberal trajectory, resulting in labor market liberalization and diminished state spending, evidenced by strong empirical data, and causally linked to integration through admittedly less agreed upon explanations related to neoliberalism's ideological hegemony, least-common-denominator bargaining, and the rise of negative integration through law. I will then demonstrate that this has had substantial distributional effects, the primary outcome being rising income inequality, by exploring a range of well-supported and consistent cross-national and time series studies which attribute such widening disparities to the labor market liberalization and reductions in government spending identified in the previous section. Finally, as a result of these distributional outcomes, I will show that significant political realignment has occurred, with party preference becoming increasingly predicated on individuals' positioning along both a traditional socio-economic dimension related to redistribution, as well as a new socio-cultural dimension related to cultural attitude. This, I will observe, has resulted in euroskeptical challenger parties emerging, mediated by the macroeconomic context of each country, with the potential to markedly constrain further economic integration as public support has continued to grow more instrumental in imbuing the European Union with the democratic legitimacy it needs to continue to develop and expand. The literature relied on to develop this claim, I will argue, is strong in relation to its observations towards party realignment and the emergence of Euroskepticism, but could become even more convincing by further exploring in what scenarios such discontent is most likely to translate into real restriction of EU policy options.

In accordance with this general structure then, in the sections that follow I will first analyze how and why European economic integration has favored the proliferation of neoliberal outcomes. Next, I will evaluate the ways in which this trend toward neoliberalism has created persistent winners and losers on international and domestic levels. Finally, I will examine the current and future political implications stemming from such distributional outcomes before offering a short conclusion summarizing the central findings from my investigation and identifying potential avenues for future study.

2. A Neoliberal Trajectory

The ideology of neoliberalism, which emerged in the West following the decline of the consensus of Keynesian economic theory throughout the 1970s and ’80s (Magnus-Ryner, 2022), can best be understood, and will be operationalized throughout this paper, as the revival of ideas and policy associated with, among other factors, laissez-faire economics, globalization, privatization, market rationality, and a general belief in the importance of reducing government spending and easing regulations (Mitchell, 2006). Applying this ideology to the context of policy accompanying the economic integration of member states in the European Union over the last couple of decades, numerous scholars have found evidence in support of the claim that such integration has produced distinctly neoliberal outcomes, leading to labor market liberalization and reductions in government spending as a result of neoliberalism’s ideological hegemony, least-common-denominator bargaining among states, and the prevalence of negative integration through law.

Concerning the liberalization of the labor market to begin, a number of contemporary studies have first investigated how labor unions have weakened over time as a product of economic intregration. Baccaro & Howell (2011), utilizing indicators from 15 advanced, mostly western European countries between 1974 and 2005, has found strong evidence in support of such a claim, observing that there has been a general decline in union density over time, while Vachon, Wallace, & Hyde (2016), relying on indicators from 18 capitalist democracies between 1981 and 2010, has uncovered similarly negative effects of continued integration on unionization. In part stemming from this observed weakening of labor unions, substantial decentralization of collective bargaining systems has also been examined by numerous academics such as Baccarro & Howell (2011), who, in the same study, identified subsequent declines in centralized collective bargaining as labor unions diminished, as well as Hermann (2014), who, studying the policy responses of 11 EU member states following the Eurozone crisis, similarly found evidence that within each country examined, regardless of variation in historical bargaining patterns, at least some form of decentralization was implemented, be it through more direct measures to decentralize, weaken, or intervene in collective bargaining processes or more indirect actions such as through weakening trade unions. Identifying yet another channel in which labor market liberalization has made itself evident, Herman (2014) further explored in his study the countless reforms member states have taken to induce cost competitiveness through internal devaluation following the Eurozone crisis, as enforced by institutions within the EU such as the European Commission, as well as the increased emphasis placed on labor flexibility by states, which Mitchell (2006), highlighting evidence from European Commission run education and training programs designed for first and second generation immigrants, argues accentuate the development of mobile and flexible skills as important development outcomes and therefore demonstrates that a newfound preference for flexibilization is evident not only in the policy choices of individual countries but also in the “institutional philosophy” of the EU itself. Finally, Wagner & Lillie (2014), utilizing construction projects undergone at one of the critical institutions of the European Union itself, the European Central Bank, as a case study, have described how territorial deregulation of the labor market has created feedback loops inducing downward spirals of deregulation, and thus should also be viewed as a typically neoliberal outcome.

Outside of the labor market, the area in which the neoliberal trajectory of economic integration has had its most substantial impact is in applying pressure for member states to reduce government spending, as Hermann (2014), among many others, has additionally observed, uncovering how states have cut spending through reductions in public sector employment via job and wage cuts, as well as through policy designed to decreased spending on pensions by raising retirement ages and implementing pension freezes, among other policies.

To evaluate why economic integration has taken this predominantly neoliberal form and resulted in the above-described outcomes, scholars have turned to a number of explanations. Hermann (2014), as well as Lehndorff (2012), both argue that the neoliberal tilt of integration can simply be traced back to its ideological hegemony as the preeminent strain of economic theory during the last 40-50 years, and conclude that critical institutions within the EU, such as the European Central Bank and the European Commission, as well as outside the EU, such as the IMF and World Bank, that played a crucial role in determining the shape of European integration, have simply been influenced by neoliberalism's ideological dominance. In contrast, Streek (2013) makes the case that, in a manner reminiscent of the "joint decision trap", nation-states in the EU have consistently been unable to reach consensus on economic and monetary union as a result of a lack of a substantive intersubjective European identity, and thus, in an intergovernmental fashion, have had to repeatedly settle on "least common denominator" outcomes that have been quintessentially neoliberal in nature. Finally, in part building off of this claim, Scharpf (2010) suggests that the diminished capacity of states to reach a consensus on legislation to harmonize national regulations and rules ("positive integration") due to member states' diverse preferences and interests, as well as the high level of unanimity required, has led to economic integration primarily taking place through the removal of regulatory barriers ("negative integration") by institutions such as the European Court of Justice, and has consequently produced more neoliberal outcomes.

In critically engaging then with the plethora of studies that have been discussed in this section, I will argue that the investigations identified which have empirically explored the outcomes of integration in terms of labor market liberalization and reductions in state spending have been thoroughly convincing in establishing general trends consistent across both time, measuring effects before and after the Eurozone crisis, and place, analyzing patterns in both LME and CME contexts. However, I must additionally capitulate that the various studies discussed, which have sought to explain the causal mechanisms underpinning such transformations, a much more difficult and murky proposition it must be noted, likely require further exploration and greater consensus to be reached in evaluating the scopes of impact which the various factors have resulted in, as well as whether such explanations can be seen as working in tandem, on in isolation to produce such neoliberal effects.

3. The Creation of Persistent Winners and Losers

Building off of this, one of the most glaring results of the neoliberal trajectory of economic integration has been the creation of persistent "winners" and "losers" both across and within member states. This has culminated most prominently in rising income inequality throughout the EU, as has been highlighted by countless studies, such as that conducted by Beckfield (2006) among others, which, analyzing data from 12 EU countries from 1973-1997, demonstrated that a positive causal link exists between European integration and income inequality. To explain this consistent growth in income inequality that has accompanied European integration, scholars have identified numerous potential explanatory channels.

One such pathway that has been explored is how labor market liberalization has contributed to the rising inequality that has been observed, benefitting workers with higher skill levels that are better positioned to take advantage of the expanded labor markets while hurting lower-skilled workers. Alderson & Nielsen (2002), relying on observations from 16 OECD countries from 1967-1992, investigated this dynamic in relation to the previously identified decline in centralized bargaining, positing that a negative relationship exists between declining bargaining centralization and growing household income inequality. Going into even further detail, both Hassel (2014) and Thelen (2012), exploring the recent dynamics of the German labor market, have investigated how the phenomenon of labor market dualization, referring to the segmentation of bargaining techniques and benefits between a shrinking, often industrial core which still utilizes traditional centralized bargaining coordination and receives its subsequent perks in terms of job security and stability, and a growing periphery exposed to decentralized market coordination and its potentially negative consequences, has exacerbated distributional outcomes between the two groups. Finally, in relation to the decline in labor union strength, Freeman (1991), analyzing OECD countries across the 1980s, argues that a significant percentage of the variation in income inequality across the countries can be attributed to differences in unionization levels, with countries experiencing higher levels of de-unionization subsequently experiencing greater increases in inequality.

Moving on, other studies have linked income inequality to the previously discussed shrinking of the welfare state. Both Alderson & Nielsen (2002), in the same study, as well as Kenworthy (1999), utilizing data from 15 industrialized nations from 1960-1991, have made this particular case, arguing that declines in welfare spending, independently of other factors, help to explain significance growth in income inequality across states as governments have provided less and less cushion against the open market.

Finally, numerous studies have linked rising inequality at least in part to the process of financial liberalization that has accompanied economic integration. Braun (2020), exploring a range of economic data related to the ECB and financial markets, has noted how, despite widely being considered among the most instrumental drivers of the Eurozone crisis, financial institutions have disproportionately benefited from increased integration, due to the liberalization of capital markets, as well as "infrastructural entanglement" with the European Central Bank, which relies on financial market mechanisms to achieve their policy goals, thus creating distinct leverage for financial interests to manipulate ECB policy in their favor.

Asteriou, Dimelis & Moudatsou (2014), utilizing indicators from all 27 EU member states since 1995 have made a similar case, arguing that related factors such as capital account openness were among the driving factors of rising income inequality over that time period. Going even further, Barradas (2019), using data from all 27 EU countries from 1995-2013, has simultaneously observed that as finance has thrived, there has been a general decline in the labor share (wage compensation for employees as a percent of the total GDP) in EU countries driven in part by the proliferation of corporate governance models based on shareholder value.

Evaluating the strength of these various findings, I believe that the sheer amount of cross-national and time series data that has been observed in the European Union as the previously identified processes of labor market liberalization and reductions in government spending, as well as financial liberalization, have gone underway, make for a persuasive argument, while the conceptual channels through which these various processes are linked have also been shown to be persuasive and logically sound.

4. The Political Implications

Finally, stemming from the creation of such polarizing distributional outcomes as a result of European economic integration's neoliberal tilt, in which "winner" and "loser" status have been delineated in the liberalized labor market by skill and educational level and accentuated further by financial liberalization and declines in government spending, substantial political implications have been observed by many researchers in the field of European political economy

To begin, numerous scholars have explored the emerging multi-dimensional reconfiguration of party preference along both the more traditional socio-economic axis pertaining to attitudes towards redistributive policy, as well as along an increasingly salient socio-cultural axis related to ideological progressivism. Hooghe & Marks (2009), were among the earliest to explore the growing relevance of this new cultural dimension, drawing on a broad array of data and previous research to better understand how individuals' identity has become more instrumental in shaping party preference and arguing that it has become increasingly influential over time. Building off of these findings, Muller & Regan (2021), combining both survey data since 1973 and Irish election studies from 2002-2020, as well as Hakhverdian et al (2013), utilizing Eurobarometer data from 12 member states from 1973-2010, have found support for the claim that education has become a critical determinant of social-cultural preference, while also highlighting the fact that income and wealth remain important factors in explaining positioning on the socio-economic axis.

In translating these multi-dimensional predictors for domestic party preference to support for the European Union and further economic integration, a number of studies have found that similar determinants can be used to explain variation in approval levels of these institutions and ideas. Kreisi (2008), studying the transformation of political systems in six European nations over the last three decades, has argued that those lacking the "convertible resources" that higher education might afford them, have been unable to benefit from open borders, and as such have been more likely to be skeptical of integration, calling for protectionist measures to shield themselves from further harm. Gabel & Palmer (1995), assessing Eurobarometer data from 1973-1989, came to a similar conclusion, contending that well-educated citizens with greater “human capital” have been more optimistic about their chances in a broadened labor market, while Herzog & Tucker (2010), drawing on a large set of interviews from 10 post-communist member states from 1991-2003, observed that, independent of a number of sociodemographic characteristics, “economic winners” have been more likely to support EU membership across both time and space.

Advancing this understanding that domestic party preference has become realigned along both socio-cultural and socio-economic dimensions and that the determinants of each, income and education respectively, can both be additionally used to predict attitudes towards the project of European integration, with the less educated, as well as the less economically prosperous generally tending to be more “Eurosceptical”, a number of scholars have set out to further explore what explains variation in both political party and success rates among the challenger parties representing such skeptical individuals. In relation to their left-right nature, the primary factor that has been identified as mediating the party of challengers has been the domestic macroeconomic context, as Garry & Tilley (2009), leveraging election data for 22 member states from 2004-2009, have suggested by demonstrating how the salience of socio-cultural factors is often much greater in countries that are economically prosperous and net contributors to distributive economic transfers, as both outcomes are likely to trigger xenophobic responses informed by citizens perception of exclusive vs inclusive identity, while socio-economic factors remain more important drivers of euroskeptical party mobilization in less prosperous member states in the absence of such economic drivers. This can be combined with findings from De Vries & Edwards (2009), who, utilizing survey data from 14 European nations from 2002-2004, uncovered evidence that euroskeptical parties on the far-right cue voters and subsequently benefit when identity-based cultural dimensions are emphasized while those on the far-left mobilize support and experience success when more economically oriented arguments are highlighted. Furthermore, shedding light on why challenger parties across the political spectrum have experienced a growth in popularity recently, Park & Shin (2019), drawing on evidence from 31 OECD countries from 1980-2010, have, in part, connected rising discontent surrounding mainstream parties to the decline in welfare benefits across European states, arguing that reductions in the “cushioning” offered by the welfare state have made voters feel the consequences of economic downturns more severely, thus making them more likely to blame mainstream political parties for such negative performance. At the same time, they also argue that as “clarity of responsibility” related to economic decisions made by the EU has grown, especially since the Eurozone crisis, voters have been subsequently more likely to punish incumbent parties for any negative economic activity, thus, broadly benefitting euroskeptical challengers.

Finally, at the same time that such parties have benefited from the increasing polarization between those that have gained from the neoliberal nature of economic integration, and those that have been disadvantaged, the politics surrounding the European Union have shifted away from the elite-dominated “permissive consensus” that defined its early decades (Haas, 1958), towards a more “constraining dissensus”(Hooghe & Marks, 2009), marked by increasing public contestation of policy making. Hobolt & de Vries (2016), analyzing European survey data across a number of decades, have observed such dynamics taking place. They argue that public scrutiny of the European Union has increased at the very same time that such institutions have become more reliant on public support to establish legitimacy, a claim they exemplify by pointing to the politicization of economic integration in domestic elections, potentially impacting European level governance via the Council of the European Union and the European Council, as well as to the growing shift towards more direct democracy in decision-making, evidenced by the recent uptick in referendums, many of which have led to rejections of proposals for further integration despite broad support among the higher educated and economically elite. Hobolt (2016), as well as Hopkin (2017), both specifically investigating Brexit as a case study, have echoed these sentiments, suggesting that although the dynamics that underpinned Britain's decision to leave the EU were likely particularly extreme, it was by no means a random occurrence and that similar currents of dissatisfaction can likely be found in most other member states. This discontent, they warn, although will likely not lead to decisions to leave the Union, could very well seriously constrain its policy options, as well as its democratic legitimacy if the current neoliberal trajectory of integration creating ever more division between its winners and losers, is not substantially interrupted and amended.

Assessing the persuasiveness of these findings, I believe that the observations and theoretical explanations surrounding how and why discontent among those who have benefited less from economic integration has arisen and been cued by political parties on the left and right depending on the domestic context is particularly cogent, evidenced through a number of strong, panel driven investigations that reach similar conclusions. However, building off of this, I think that although current research has done a good job of conceptualizing and teasing out how these processes could lead to pathways for further integration becoming constrained, the academic literature could benefit further from even more exploration into which political scenarios this might be more or less likely to occur in as well as the types of steps the EU might be able to take to avoid such a fate.

5. Conclusion

Throughout this paper, I have sought to examine the current and future political implications of European economic integration. To do so, I have synthesized various studies from the current academic literature, arguing first, using evidence of mixed convincingness, that economic integration in Europe has tended to have a neoliberal tilt, leading to, among other outcomes, reductions in labor unions and welfare state capacity, decentralized wage bargaining, and a focus on flexibilization in the labor market as a result of neoliberalism's ideological hegemony in key institutions, intergovernmental bargaining, and negative integration through law. Subsequently, on the back of relatively strong findings from contemporary research, I explored how these neoliberal policies have created substantial distributional effects, primarily manifesting themselves through rising income inequality. Finally, I investigated, relying again on literature that I believe could benefit from further exploration, how, as a result of policy creating persistent winners and losers, political party preferences have become realigned along both a traditional economic axis, as well as an increasingly salient cultural dimension, which, dependent on the domestic macroeconomic and socio-political context, has led to the rise of challenger parties more skeptical in their support for further European Integration, and created the potential for the constrainment of democratically legitimacy policy choices that the EU can utilize to achieve their goal of a fully integrated Europe.

These findings, though certainly not representing the totality of positions that have been taken in the current literature on this topic, nevertheless represent a path that is very possible to imagine coming to fruition. Consequently, if institutions within the European Union want to continue along the path of further union, even more theoretical and empirical investigation into how integration has facilitated rising inequality and subsequently fostered euroskeptical parties is needed. What's more, studies examining how policies designed to reduce the tendency of integration to create inequality and Euroscepticism can be successfully implemented and supported by public opinion are also required to improve understanding surrounding not only why inequality and political discontent are both growing, but how such issues can be effectively and democratically addressed.

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