Keeping the euro at any cost? Explaining preferences for euro membership in Greece

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Puzzle

Eurozone crisis has been incredibly harsh on citizens in crisis countries... yet support for the common currency, the euro, remains strong.

Subjective income loss since beginning of crisis
Greece, December 2015

Public opinion about the euro
Eurobarometer, 2009-2016
Research Questions

1. Why do voters in Eurozone crisis countries support staying in the Eurozone?

2. Is there a tipping point at which more austerity could unravel this support?
Why do people in the Eurozone want to keep the Euro? Possible Explanations

- **Material interests**
  - Those benefitting from fixed exchange rates want to keep the euro.
  - Those hurt by austerity want to leave the euro.
  - Those thinking that leaving the euro will leave them economically worse off want to keep the euro.

- **National identity/general attitude towards European integration**
  - Those viewing EU integration positively want to keep the euro.
  - Those worried that leaving EMU means leaving the EU want to keep the euro.

- **Institutional constraints**
  - Those believing that EMU constrains room to maneuver of national policymakers in a positive way want to keep the euro.

- **Uncertainty associated with exit**
  - Those worried about the uncertainty associated with a eurozone exit want to keep the euro.
Research Design

Case study of Greece
- Country most negatively affected by the Eurozone crisis
- Has been close to a eurozone exit, issue is salient and not just a theoretical option.

Original survey data from three survey waves
- Collected over 2015:
  - July (just before referendum), N=989
  - September (before parliamentary elections), N=1018
  - December (after implementation of first MoU measures), N=1050
- December-wave specifically designed to tap different explanations for euro support
- Survey experiment on Austerity-Grexit tradeoff in July and December surveys
Support for the Euro

1. Personally, which of the following do you think is best for Greece’s future?
   • Stay in the euro
   • Adopt national currency

2. If could choose, which of the following would you prefer?
   • Keep the euro and stay in the EU
   • Leave the euro and leave the EU
   • Leave both the euro and the EU
Reasons for staying in the eurozone

- Greece should stay in the euro
- Grexit would significantly reduce my income
- Grexit would mean less austerity
- In long-run my income will be more stable if Greece keeps...
- Strong pre-crisis growth shows that euro is good
- Euro means Greece is part of Europe's heart
- Grexit is beginning of end for Greek EU membership
- Greek gov would not implement reforms w/o EU pressure
- Being in EMU forces Greek politicians to act responsibly
- Stay b/c noone knows what would happen if Greece left euro

Percent strongly disagreeing with statement  Percent strongly agreeing with statement
Explanatory Power
Beta coefficients of perceptions about euro

Logit models
DV:
- Keep Euro (1), Adopt national currency (0)

Controls:
- Age
- Gender
- Education
- urban/rural
- govmt. evaluation
- party voted in the September 2015 election
Results II
Using euro-unrelated questions

Marginal effects on likelihood of support for the euro

- PersonalIncomeLoss_inCrisis
- National_Identity
- EurUnification_GoneTooFar
- LeftRight_Placement
- EUinstit_BetterThanGreekOnes

Note: Control variables include age, education, gender, income and dummies for rural, public employment, private employment, pensioner, unemployed.
How does austerity affect support for the euro?

Staying in the eurozone comes at the price of austerity.

➢ Is there a tipping point where Greeks start preferring „Grexit“ over austerity?

Past research suggests that a growing awareness of the austerity-Grexit tradeoff should lower support for the euro.

Evidence:
- Development over time
- Experimental Evidence
- Vulnerability profiles and preferences
The Greek bailout referendum in July 2015 makes clear that eurozone membership comes at the price of austerity.

As this realization sinks in, support for the euro declines considerably.
Survey Experiment

Survey experiment designed to examine how voters respond when explicitly confronted with the Austerity-Grexit tradeoff (July and December waves).

Control group:
- “Personally, which of the following do you think is best for Greece’s future?”

Treatment 1:
- “Observers say that staying in the euro requires more pension cuts and tax increases for the next months. Personally, which of the following do you think is best for Greece’s future?”

Treatment 2:
- “Observers say that staying in the euro requires more pension cuts and tax increases for the next 4-5 years. Personally, which of the following do you think is best for Greece’s future?”

Answer categories: “Stay in the euro” / “adopt a national currency.”
Experimental Evidence

Experiment on Austerity-Grexit Trade-Off

- July
- December

95% confidence intervals
A majority of Greeks is very vulnerable to both austerity and Grexit.

- Crisis resolution very difficult: any strategy will hurt.
Vulnerability profiles and preferences

I. Euro: % wanting to keep euro

II. Austerity: Approval of MoU

Only vulnerable to Grexit
- Preference for euro plus austerity (internal adjustment).

Only vulnerable to austerity
- Preference for a national currency and less austerity (external adjustment).

Vulnerable to both
- Unrealistic preferences: keep the euro without austerity.

Vulnerability profiles: vulnerable to...

Note: Preference to 'keep the euro and stay in EU'

Note: 1= fully disagree with direction of MoU, 5= fully agree
Conclusion

• High support for the euro is less due to enthusiasm for the common currency but fears about the uncertain and material consequences of leaving EMU.

• Strong support for the euro has made it possible (and legitimate?) for national policymakers to implement unprecedented austerity.

• As the austerity-EMU exit trade-off becomes more transparent and as the costs of austerity rise, support for the euro declines.
  ➢ Possibility that there is a tipping point after which public starts preferring eurozone exit.
  ➢ Risk that Eurozone crisis leads to collapse rather than institutional deepening.

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