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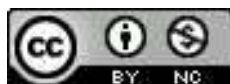
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Keeping the euro at any cost? Explaining attitudes toward the euro-austerity trade-off in Greece

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Abstract

Despite years of crisis, the euro has enjoyed strong popular support across the Eurozone periphery. In light of the high costs of internal devaluation strategies, this begs the question why the public has remained in favor of the common currency. In this paper, we propose a theoretical mechanism that accounts for both voters' pocketbook preferences and their sociotropic assessments over the noisy trade-offs associated with the outcomes of euro membership and euro exit. Using original survey data from three consecutive survey waves in Greece (conducted in July, September, and December 2015 respectively), we analyze the attitudes of Greek voters toward the euro in an environment of acute uncertainty, austerity, high unemployment, and economic recession. First, we juxtapose our uncertainty mechanism of popular euro attitudes against other explanations put forward in the literature and find strong support for our argument. Second, we conduct a survey experiment to tap into attitudes toward the euro-austerity trade-off and find that as uncertainty over policy outcomes diminishes, framing effects abate in significance, especially among those who voted No in the July 2015 referendum. Finally, we derive distinct sets of euro preferences for different "vulnerability profiles". Over time, as the trade-offs of euro membership become more pronounced, we find a marked fall in euro support between July and December 2015.

Keywords: euro; EMU; Greece; Eurozone crisis; uncertainty; voter attitudes; trade-offs; survey data; survey experiment

Introduction

The euro crisis wreaked havoc across the peripheral countries of the Eurozone. Economic output plummeted and poverty and unemployment rates – especially youth unemployment – rose to persistently very high levels in all of the crisis-ridden countries. Throughout the Eurozone debt crisis, Europeans became more negative about the European Union (EU), felt less trust toward EU institutions, and expressed more pessimism about the future of the EU (e.g., Armingeon and Guthmann, 2014; Frieden and Forster, 2017). Despite this growing Euroskepticism and the contentious nature of monetary policy, however, one hallmark of European integration proved remarkably resilient, the euro, as aggregate support for the common currency remained high and stable across the Eurozone throughout the crisis period. Before the crisis started, an average of 68% of a sample of Eurozone respondents supported the Economic and Monetary Union (EMU), with that number dropping by only two percentage points throughout the duration of the crisis (2009-2015), even in those countries immediately and strongly affected by the crisis.¹ At its peak, in the spring of 2012, average support for the EMU in Cyprus, Greece, Ireland, Italy, Portugal, and Spain ran at 62% across these crisis-ridden countries (Eurobarometer, 2012).

At first glance, this consistently strong support for the euro appears rather surprising, particularly when one considers that many pundits attributed both the onset and the long duration of the crisis to the flaws (or ‘birth defects’) in the design of the EMU (see, e.g., Copelovitch et al., 2016; De Grauwe, 2016). The absence of external adjustment mechanisms, that is the inability of Eurozone members to devalue their currency within the Eurozone, forced countries with large current account deficits to rely on the painful strategy of ‘internal devaluation’. This entailed the implementation of harsh austerity measures and structural reforms designed to reduce domestic prices and increase external competitiveness (Shambaugh, 2012). The crisis-ridden countries of the Eurozone periphery had to undertake a much higher level of fiscal adjustment compared to the rest of the Exchange Rate Mechanism (ERM) zone (Frieden and Walter, 2017). These internal adjustment measures came at remarkably high short-term economic and social costs as countries such as Greece, Spain, and Portugal witnessed a disproportionate increase in unemployment rates compared to the rest of the Eurozone.

The willingness of these democratic governments to slash expenditures, raise taxes, and implement painful reforms in line with their membership of the Eurozone flies in the face of some previous research on fixed exchange rates, which shows that democracies tend to prefer the policy autonomy to tackle domestic economic problems over exchange-rate stability

(Bearce and Hallerberg, 2011). The most straightforward explanation is that giving up the euro has in fact been on aggregate even less popular than the austerity path chosen instead (Walter, 2016; Walter et al., 2020). Yet, this begs the question of how people assess the relative costs of *internal* (i.e., austerity and structural reforms) and *external* (i.e., currency volatility) balance-of-payments adjustment strategies, especially when those costs tend to be very high in expectation but also very noisy as in the case of most crisis-ridden countries of the Eurozone. Therefore, to understand aggregate trends in the overall level of support for the euro in the midst of a balance-of-payments (debt) crisis, one needs to explain how voters in crisis-ridden countries form their attitudes toward the common currency in light of this two-sided uncertainty over the inherent trade-offs of Eurozone membership and exit.

To that end, this article explicitly focuses on popular attitudes toward the trade-offs surrounding the choice between remaining and leaving the Eurozone, specifically considering the regime transition costs and the uncertainty surrounding any alternatives to the euro as the *status quo* currency regime. We propose a theoretical mechanism that accounts for both voters' *static policy preferences* and their *dynamic sociotropic assessments* over the trade-offs associated with the outcomes of euro membership and euro exit. Empirically, we leverage original survey data collected over three waves between July and December 2015 in Greece, a country that experienced the deepest recession during the Eurozone debt crisis and one where the possibility of a euro exit ceased to be simply a theoretical possibility.

Our study builds upon previous work on euro attitudes in two ways. First, it extends the findings of the recent literature that looks into how Europeans perceive the link between euro membership and austerity as the price for staying in the common currency. Evidence from Spain (Fernández-Albertos and Kuo, 2016) and Italy (Franchino, 2014) so far suggests that most voters want to 'have their cake and eat it', i.e., they want to keep the euro and get rid of austerity. But, given that this scenario is politically infeasible, the question arises whether support for the euro decreases as people gradually update their beliefs and increasingly recognize the link between fiscal austerity and euro membership in the face of acute balance-of-payments imbalances. We address this question by studying popular attitudes toward this trade-off and the choice between strategies of internal and external devaluation in a context in which these questions were highly salient and explicit. Second, our work can be seen as the mirror image of a recent strand of the related literature looking at the determinants of domestic support among donor states, such as Germany, for international fiscal transfers, such as the Greek bailout programs (Bechtel et al. 2014; Schneider and Slantchev, 2018; Walter et al. 2020). Here, we complement the findings of this body of work by looking at the recipient side.

Determinants of popular attitudes toward the euro

While the pre-crisis strand of this literature focused on voter preferences for the abandonment of national currencies and the adoption of the euro (see, e.g., Banducci et al., 2009; Hobolt and Leblond, 2009), more recent work has sought to explain why public support for the euro remained remarkably strong during the crisis even though support for the EU as such and trust in EU institutions declined considerably (e.g., Frieden, 2016; Hobolt and Wrátil, 2015; Roth et al., 2016). Existing work has identified a number of determinants of individual attitudes toward the euro.

One of the most important determinants of euro support – and exchange rate preferences more generally – are material interests. These often take the form of *pocketbook* considerations in the sense that those who anticipate greater financial losses as a result of exchange-rate volatility are more likely to favor the common currency (Frieden, 1991). Generally, individuals who work in tradable sectors (Jupille and Leblang, 2007) or have higher levels of human capital and financial assets (Gabel and Hix, 2005) have been found to be more supportive of the euro as they tend to benefit more from monetary integration. In addition to individual economic concerns, *sociotropic* assessments over macroeconomic aggregates also play a role (Banducci et al., 2009; Hobolt and Leblond, 2009).

Material interests have been shown to influence individual attitudes toward the euro also during the crisis. For example, in terms of pocketbook material factors, Spanish mortgage holders and high-income earners were found to view keeping the euro more favorably than reverting back to the national currency (Fernández-Albertos and Kuo, 2016). Likewise, during the Greek bailout referendum of July 2015, high-income earners, who had been hurt relatively less from austerity, and pensioners, who felt most vulnerable to the erosion of the real value of their pensions under a devalued national currency, were found to be much more likely to vote in favor of the proposed bailout package in order to mitigate the risk of a Greek euro exit ('Grexit'). By contrast, the *No* option was the more popular choice among the younger cohorts that were less invested in the euro and had been hurt particularly hard by austerity (Walter et al., 2018) and in regions that had been hit particularly hard by the crisis (Xezonakis and Hartmann, 2020). On the other hand, sociotropic attitudinal factors have been reflected in the findings that higher unemployment rates became associated with lower net support for the euro during the crisis, whereas this relationship did not exist before (Roth et al., 2016).

A second important set of predictors of public support for the euro (Banducci et al., 2009) or the rejection of monetary integration (Kuhn and Stoeckel, 2014) are non-economic

factors, such as national identity, general attitudes toward European integration, and left-right ideology (Hobolt and Leblond, 2009; Banducci et al., 2009). Since the EMU is an important part of the European integration project, it is logical to expect that people's EU perceptions tend to be associated with their euro attitudes. This should be further pronounced during times of severe economic crisis because leaving the Eurozone (as opposed to not joining) is often regarded as a first step toward the exit from the EU as a whole.

A third set of explanations focuses on the political (institutional) benefits of belonging to the euro insofar as EMU – as well as the EU more generally – generates an institutional framework that constrains governments' macroeconomic 'room to maneuver' and 'ties the hands' of politicians. In that regard, fixed exchange rates can serve as commitment devices that allow national monetary authorities to borrow monetary credibility (Broz and Frieden, 2001). In line with this explanation, support for monetary integration joining the euro has been higher in countries with lower levels of quality of government and trust in their national institutions (Sánchez-Cuenca, 2000). This can explain the traditionally high levels of enthusiasm for EMU (and the EU more generally) among countries in Southern and Eastern Europe, where mistrust of national politicians has been more widespread. This line of research also suggests that despite the resilient level of support for the euro, the crisis has changed how Europeans view the common currency: while euro attitudes were closely linked to overall EU attitudes before the crisis, this relationship has weakened ever since, and material considerations have become more prominent predictor of support for the common currency (Hobolt and Wratil, 2015; Roth et al., 2016).

Explaining attitudes toward the euro-austerity trade-off

While the general findings of the literature on euro attitudes are still relevant to crisis-afflicted countries, recent empirical studies have focused more explicitly on the inherent trade-offs of euro membership in the context of the Eurozone crisis (Frieden and Walter, 2017; Walter et al., 2020). For example, Fernández-Albertos and Kuo (2016) find that Spanish support for the euro was significantly lower among respondents who had been negatively affected by the crisis on a personal level even if they might have been willing to accept spending cuts. Likewise, a conjoint analysis revealed Italians to be on average highly opposed to leaving the euro but also unwilling to support any policies needed to sustain the common currency, including fiscal consolidation or the transfer of more budgetary and fiscal competences to the EU level

(Franchino, 2014). At the same time, Franchino and Segatti (2017) find that high-income Italians, fully cognizant of the euro-austerity nexus, were more willing to pay in order to keep the euro. A study about Greece reveals similarly contradictory responses, with objection to austerity operating in parallel with support for the euro (Clements et al., 2014).

The empirical findings of this literature on the trade-offs of the euro appear inconclusive, however, so long as one does not account for the regime transition costs or the uncertainty surrounding any alternatives to the euro as the *status quo* currency regime. We, therefore, propose a theoretical mechanism that accounts for the role of uncertainty over both the terms of euro membership and the consequences of a Eurozone exit, and derives individual expectations and material interests in regard to both the euro (*status quo*) and a national currency regime (*reversion outcome*). Combining Kahneman and Tversky's (1979) prospect theory of preferences under uncertainty and de Vries' (2018) benchmarking theory of Euroskepticism, we argue that at any given time voter attitudes toward the euro will be determined by the relative costs and benefits of all plausible currency policy options as perceived with respect to some reference point.

We build on recent work about the role of economic considerations about the euro in the context of the debt crisis. Hobolt and Wratil (2015) argue that the institutionalization of austerity has increased the costs of euro membership for many citizens, hence making voters' cost-benefit analyses more relevant than before in terms of explaining whether they want monetary integration or not. Taking this insight one step further, we argue that the crisis has made voters consider the alternatives to EMU membership in a more pragmatic and explicit way (de Vries, 2018). The asymmetric impact of the crisis may have also changed the intensity of the economic calculus of some voters as the more pressing *short-term* material concerns that arise in the context of a financial crisis are likely to prevail over any *long-term* identity considerations. Under such circumstances, it seems that the euro's best ally is the *status quo* bias (or endowment effect in prospect-theoretic terms) against the unknown counterfactual of exiting the Eurozone – as further reinforced by the framing narratives of partisan elites. Uncertainty over the consequences of a unilateral exit from the euro – or a Eurozone breakup more generally – can be framed in such a way that makes people more prone to cling to the *status quo* (Hobolt and Leblond, 2013), especially when they are skeptical about the ability of their own country to produce a better outcome outside the EMU (de Vries, 2018).

Our theoretical account of voter attitudes toward the euro within a crisis environment is two-pronged as it amounts to an interaction between sociotropic voter assessments and pocketbook policy preferences over the uncertain trade-offs of Eurozone membership and exit.

First, we assume that voters form their *sociotropic assessments* of aggregate policy outcomes in an environment of (two-sided) policy uncertainty. On the one hand, there is uncertainty over the scope and the ineluctability of the trade-offs associated with euro membership. To what extent and for how long do crisis-afflicted countries need to adjust (fiscally and structurally) within the EMU? On the other hand, voters accept the premise that any other form of euro exit would not effectively amount to the *status quo ante*, i.e., the policy environment before the adoption of the euro, but to a highly uncertain state of affairs with substantial transition costs.

In accordance with Kahneman and Tversky's (1979) prospect theory, this (two-sided) uncertainty lends itself to potential framing effects in terms of 'loss aversion', 'endowment effects', and the manipulation of 'reference points'. Since losses hurt more than gains feel good (loss aversion), voters will be subject to partisan attempts at manipulating the reference point of such policy 'gamble' and framing any alternative to the euro (such as reverting to the national currency) as either being entirely in the domain of net gains or losses. In fact, Walter et al. (2018) show that, in the context of the Greek bailout referendum of July 2015, *Yes* and *No* voters – where each group was subject to a different set of partisan cues and narratives – held wildly diverging expectations about the consequences of a non-cooperative outcome: On average, *Yes* voters expected a *No* vote to lead to a very costly Grexit, while *No* voters thought it would enhance the government's negotiating clout and bring about a more favorable outcome in the bailout negotiations. This is exactly why the Euroskeptic government of SYRIZA (short for Coalition of the Radical Left) tried to frame its renegotiation strategy and the referendum vote as though the country had nothing to lose (pure net gains), while the pro-European opposition parties tried to frame the vote as one where there was everything to lose (pure net losses). However, the beliefs held by both sides were affected by the costly signals – such as the bank closures and capital controls – of foreign actors and policymakers about the EU's resolve not to accommodate a non-cooperative vote. In fact, a number of studies underscore the importance of such 'consequences frames' and individual expectations about the consequences of certain decisions in the context of referendums and other major policy decisions on European integration (Hobolt, 2009; Grynberg et al., 2019).

Therefore, under conditions of (two-sided) uncertainty where both the *status quo* of Eurozone membership coupled with internal devaluation and the alternative balance-of-payments adjustment strategy of monetary autonomy coupled with external devaluation take the form of a risky gamble, voters' assessments over the expected outcomes of such major policy decisions will be influenced by framing effects and partisan cues. Typically, such beliefs will mirror the partisan narratives of their preferred party of choice. The elites will frame the

reference point of the *status quo* or the alternative policy in such a way that loss aversion and endowment effects will shift voter assessments in their favor. At the same time, any chain of events that resolves the uncertainty surrounding one of the policy alternatives will make it less susceptible to misrepresentation. We summarize this argument about the effects of uncertainty on euro-related voter assessments in the following hypothesis:

H1a: All else equal, the higher the perceived level of uncertainty attached to the outcomes of staying in (austerity) or exiting the Eurozone (currency volatility and fiscal adjustment), the more susceptible voters' sociotropic assessments over policy outcomes will be to framing effects.

H1b: All else equal, uncertainty (loss) aversion is expected to favor the more certain option.

Second, we seek to derive voters' *policy preferences* toward the euro in a crisis context as a function of the anticipated *pocketbook* effects of different crisis adjustment mechanisms on their personal income, i.e., their 'vulnerability profile' (Walter, 2013, 2016; Walter et al., 2020). Past research has shown that the costs of *internal* (austerity) and *external* devaluation (currency volatility) are not distributed equally across social groups and that the relative costs of adjustment matter a great deal in influencing individuals' preferences over different crisis resolution strategies (Walter, 2013, 2016). The preferred option is clear for those hurt only by one type of adjustment: Those vulnerable only to austerity but not to currency risk will prefer an external devaluation strategy (viz., euro exit), and *vice versa*. However, the preferences of those vulnerable to both are less clear-cut as they find themselves between a rock and a hard place: No matter how the government tries to resolve the crisis, they will be negatively affected. It is these types of voters who are most susceptible to framing, loss aversion, and endowment effects as their assessment of the reference point will determine whether they form their expectations of future outcomes mostly in the domain of net gains or losses. As the uncertainty over the effects of different crisis resolution mechanisms starts to get resolved, their preference will become less fickle and start to crystallize one way or the other. This second component of our theoretical mechanism is summarized in the following hypothesis:

H2a: Voters mostly vulnerable to the effects of external devaluation (namely, currency risk) are expected to support the euro.

H2b: Voters most vulnerable to the effects of internal devaluation (namely, austerity) are expected to favor a national currency alternative.

H2c: Voters who consider themselves vulnerable to the effects of both adjustment mechanisms are expected to have the ficklest preferences and thus to be the most susceptible to framing, loss aversion, and endowment effects.

Crisis resolution in countries where a majority of voters exhibit mixed vulnerability profiles tends to be particularly painful and politically costly, often giving rise to political turmoil and public protests. This might explain why policymakers in such contexts will often strive to avoid any serious reforms for as long as possible. Moreover, when politicians cannot avoid implementing reforms often imposed as conditions for the disbursement of financial support, they usually design these reform packages in ways that shield their own core voters and target those who are politically least influential (Walter, 2013, 2016).

Greek attitudes toward the euro during the debt crisis

To test our argument, we leverage original survey data from Greece, the country that was hit the hardest by the Eurozone debt crisis. Between 2009 and 2014, the country saw its GDP drop by more than 25%, a figure that exceeds even those found during the Great Depression (Stiglitz, 2016). A vast fiscal consolidation program that entailed a painful set of reforms and austerity measures (Hübscher et al., 2018) resulted in a sharp reduction of the government's budget deficit by 11 percentage points and eventually brought it below the 3% Stability and Growth Pact (SGP) threshold by 2014. At the same time, unemployment escalated from approximately 10% in 2009 to almost 25% in 2013 (see the Online appendix). Our own survey data suggest that by December 2015 almost 80% of our respondents report having lost at least 20% of their income over the course of the crisis, with a good 25% of them reporting income losses of over 50%. Nonetheless, even in Greece, a majority of respondents have remained committed to the euro throughout the crisis. Although support has dropped markedly, almost two-thirds of Greeks still continue to view the euro favorably according to the 2019 Eurobarometer survey.

The Greek case allows us to study popular attitudes toward the euro-austerity trade-off in an environment where the scenario of a euro exit (Grexit) was a realistic and credible alternative to the *status quo* and where the terms of such an exit were avowedly discussed and

negotiated as a fallback option to a third Greek bailout agreement. Our data come from three original, nationwide, which we fielded in cooperation with the University of Macedonia's Research Institute of Applied Social and Economic Studies in Thessaloniki (Greece) between July and December 2015.² The first survey, comprising 989 respondents, took place on July 4, 2015, just one day before the Greek bailout referendum. The second survey of 1018 respondents was fielded on September 7 and 8, 2015, less than two weeks before the September 20 Greek parliamentary election and less than two months after Prime Minister Tsipras' post-referendum 'U-turn' and his signing of a third austerity-laden bailout agreement on July 12, 2015. Finally, the third survey was launched between December 2 and 6, 2015, by which time renewed austerity measures and reforms had already been implemented as a condition for the receipt of the first tranche of the bailout funds and the first program review had already taken place.

Our three public opinion surveys thus cover a phase in the Greek crisis during which the euro-austerity trade-off became increasingly acute and salient (July-December 2015). In January 2015, Alexis Tsipras and his populist left-wing party of SYRIZA won the elections on a platform that promised to end austerity while keeping Greece in the euro. True to its promise, the government started to engage in a protracted renegotiation of the terms of the Greek bailout program with the country's creditors represented by the 'Troika' of international and European institutions. When these negotiations failed to bear fruit in terms of any meaningful debt relief and/or easing of austerity, Tsipras resorted to calling a referendum on the creditors' latest bailout proposal in the hope of leveraging a direct democratic mandate into a better deal with less austerity for Greece. At the time, hopes ran high in Greece that a vote against the existing bailout proposal would indeed achieve that goal. Even though many observers and policymakers in Greece and abroad warned that a vote against the package would lead to Grexit, a majority of voters actually believed that a *No* vote would in fact enhance Greece's bargaining position without jeopardizing its membership of the EMU (Walter et al., 2018).

Initially, therefore, the incumbent government took advantage of the uncertainty and lack of transparency surrounding the negotiations in order to frame the reference point of euro membership as compatible with an easing of austerity (*H1a*), thus eliciting the support of not just those affected by the currency risk of Grexit but also most of those vulnerable to both austerity and currency risk (*H2*). In light of this widespread belief, it is not surprising that support for the euro was strong among the Greek public on the eve of the bailout referendum. Figure 1 below shows that in the run-up to the referendum, on July 4, three quarters of our respondents stated that if they could choose, they would want to keep the euro and stay in the EU. Given the most favorable framing provided by the incumbent government, 75% arguably

represented the soft *upper* bound of the pro-euro and pro-EU constituency in the context of the Greek debt crisis, 21% represented the soft *lower* bound of the anti-euro constituency (with 7% likely comprising the Europhobic extremes of the ideological spectrum).

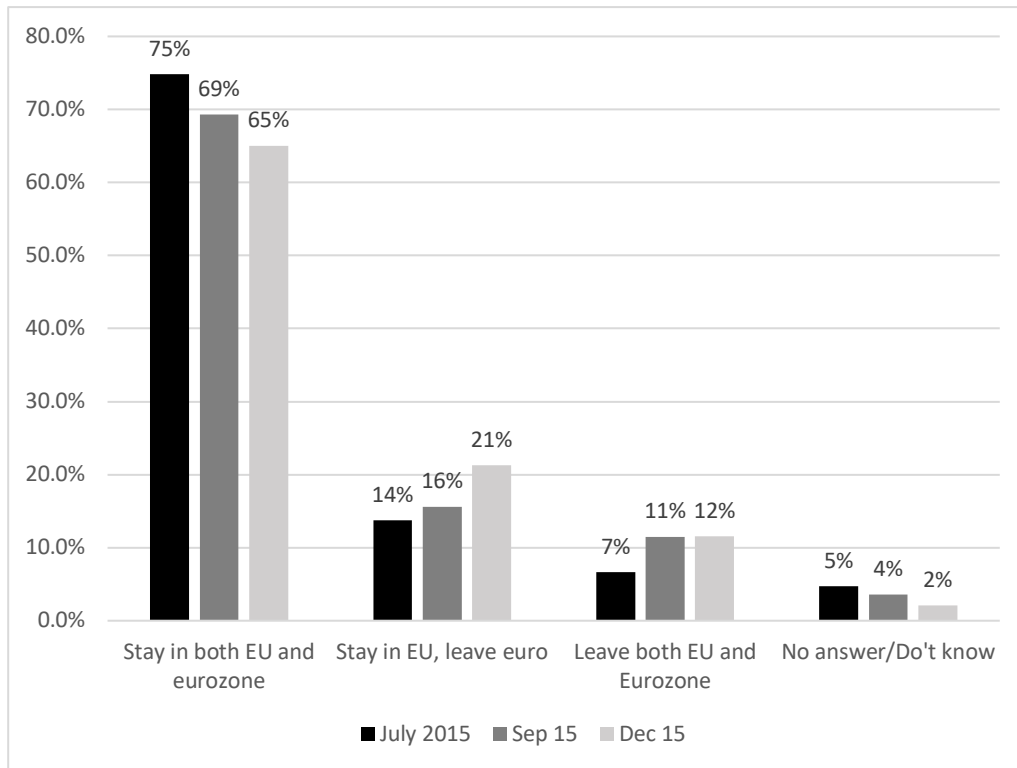


Figure 1: Popular attitudes toward EMU and EU membership (July-December 2015).

Over the following months this support fell considerably. This is hardly surprising as in the immediate aftermath of the referendum it became increasingly clear that there was in fact an explicit trade-off between austerity and euro membership. In the post-referendum negotiations Greece had to agree to a third bailout package that continued to include painful austerity measures and structural reforms. The alternative to accepting these terms was Greece’s exit from the Eurozone (as outlined in the German staff document that leaked a day before the agreement was signed) and a more accurate assessment of its effects was also coming to light. Faced with this rough awakening to the harsh exigencies of euro membership, by December 2015 support for the euro had declined by 10 percentage points even though a clear majority of our survey respondents (65%) – representing the soft lower bound of the pro-euro constituency – continued to support EMU membership.³ This suggests that as the euro-austerity link became more pronounced, the *status quo* outcome shifted, and the euro became more unpopular. In

other words, as the two-sided uncertainty over the noisy trade-offs of euro membership (reference point) and the implications of Grexit started to get resolved, public opinion became less fickle, less vulnerable to framing effects (*H1a*), and more polarized across the two sides of the debate. Voter attitudes started to crystallize in favor of one currency policy alternative or another (especially among those with less clear-cut euro preferences) as people got to form more accurate assessments and consistent preferences. Then, as the Greek economy began to stabilize and recover, and once Greece officially exited the program in August 2018, support for the euro started to rebound (Eurobarometer, 2019).

What role did uncertainty-related concerns play relative to the more traditional determinants of euro-related attitudes? To examine this question, we present aggregate measures of attitudinal correlates of support for the euro using information from the December 2015 survey, which consisted of a questionnaire tailored to examine the underlying sources of euro support, i.e., the perceived benefits of staying in the Eurozone. The survey included a list of Likert-scale items (from 1 – fully disagree – to 5 – fully agree –) designed to tap into the different drivers of euro attitudes.⁴

To capture material interests in the form of pocketbook considerations, we asked our respondents whether they expected a significant reduction in their personal income (*Less Income*) and whether they expected less austerity if Greece were to leave the euro (*Less Austerity*). Moreover, they were asked to assess the long-term financial impact of Grexit through the following item: ‘In the long-run, my income will be more stable if Greece stays in the Eurozone’ (*Stability*). To tease out identity explanations, we asked respondents whether they thought that being part of the Eurozone meant that Greece was also in the heart of Europe (*Heart Europe*). We capture perceptions about the link between EMU and EU membership by asking them whether leaving the euro would signify the beginning of the country’s exit from the EU (*End EU*). Institutional explanations are gauged through the following two statements: ‘Without pressure from the European institutions, the Greek government would not be implementing any reforms’ (*Reform*) and ‘Being part of the Eurozone forces Greek policymakers to act more responsibly’ (*More Responsible*). Finally, we included two sociotropic measures of retrospective and prospective economic assessments: ‘The fact that Greece grew strongly in the years following the introduction of the euro shows that the euro is good for Greece’ (*Past Growth*) and ‘Keeping the euro is best for Greece because no one knows what would happen if Greece left the euro’ (*Uncertainty*). This last item allows us to gauge the extent to which respondents were concerned about uncertainty surrounding the consequences

of Grexit. We turn all of the above item variables into dummy variables that take the value of one if only if the respondent agreed or strongly agreed with the provided statement.

Figure 2 provides an overview of responses to the different statements about the euro from our December 2015 survey. It shows that some statements were shared by a large group of respondents, and especially those expressing concerns about what Grexit would mean for respondents' personal income, the future of Greece's EU membership, and that Greek governments would not implement the necessary reforms without pressure from European institutions. Interestingly, these concerns seem to come hand-in-hand with widespread agreement with the statement that Greece should never have joined the euro. Together with the strong support for the statement that Greece should keep the euro given the uncertainty associated with other options, all this would suggest that respondents were aware that Grexit would not mean a return to the *status quo ante*.

At the same time, other statements are much more contested. Only 15% of Greeks thought that there would be less austerity if the country were to exit from the Eurozone, whereas almost half of our respondents believed that to be false. Optimistic respondents come mostly from the extreme left or right, i.e., those who voted for ANEL (nationalists), Golden Dawn (extreme right), or KKE (communists) in the September 2015 election.⁵ Likewise, less than 40% of our respondents fully agreed with the statements about the symbolic benefits of being part of the European core and the attribution of the earlier economic boom to euro membership.

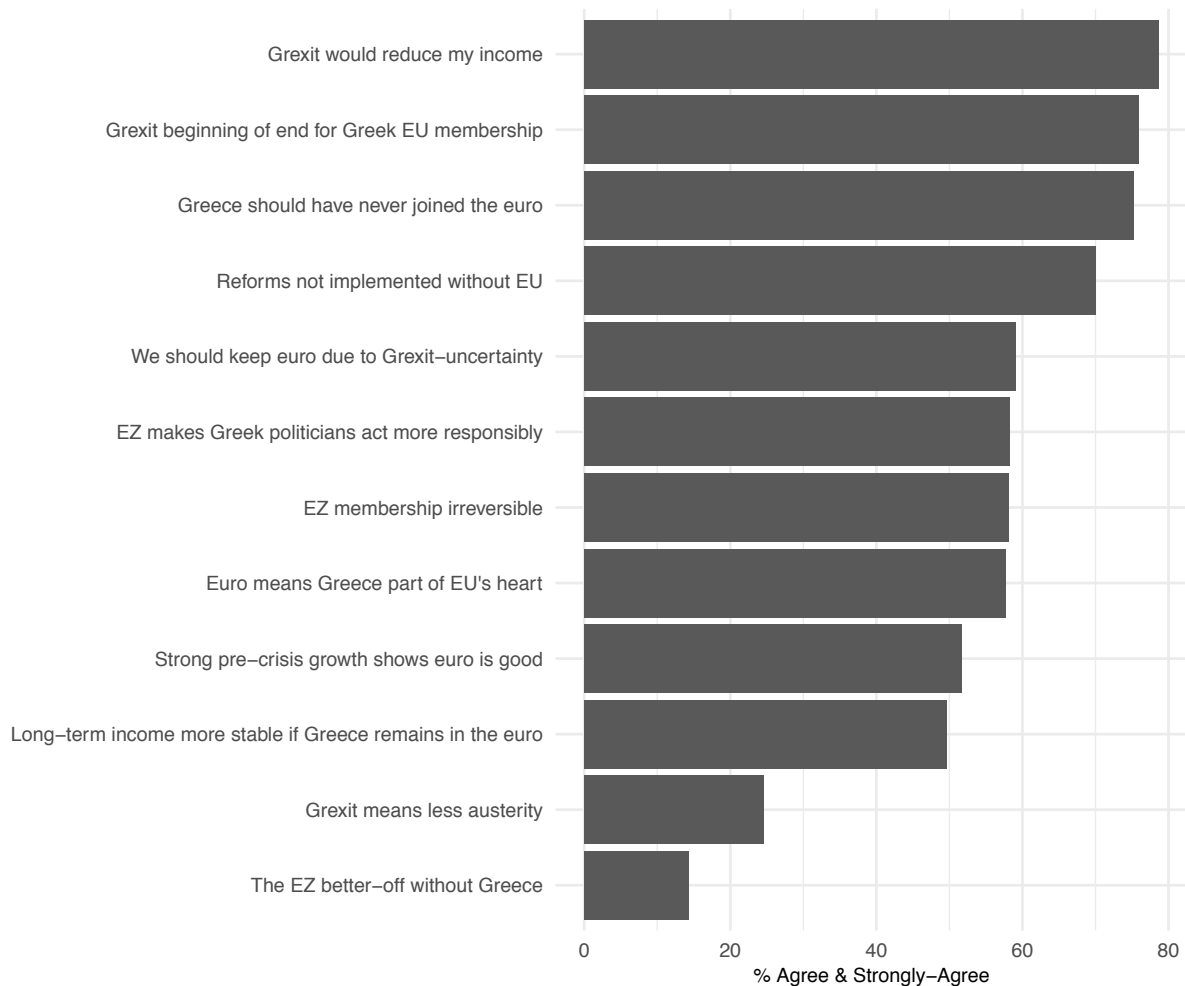


Figure 2: Shares of respondents agreeing with statements about the euro (December 2015).

Empirical analysis

To examine Greek crisis-period attitudes toward the euro more systematically, we proceed in two steps. We first compare the association between different euro-related attitudinal correlates – with a particular focus on the role of uncertainty – and support for continued Greek membership of the EMU. Second, we leverage experimental evidence about the euro-austerity trade-off to test for framing effects (*H1*) and the effect of vulnerability profiles on euro preferences (*H2*).

Uncertainty aversion and other attitudinal correlates of euro support

Our first set of analyses examines the link between attitudes toward the euro and uncertainty over the related trade-offs vis-à-vis other potential determinants of euro support. The dependent variable is a dichotomous variable based on our respondents' answer to the question about what they thought was best for Greece's future. It takes the value of 1 for those saying that Greece should stay in the euro and 0 for those who answered that Greece should revert to its national currency or those who did not know / did not answer (DK/NA). Each model includes one of the attitudinal correlates mentioned above – recoded as dummy variables and standardized to allow for comparison across models – alongside a set of controls, including age, gender, education, urban vs. rural, and party voted in the September 2015 election (all variables are fully detailed in the Online appendix).

Figure 3 plots the coefficients from these linear probability models. We find that most of the explanatory mechanisms outlined above are statistically significant on their own and can partially explain support for the euro. However, when compared to each other, some of the traditional factors appear less relevant in explaining individual support for the euro than general retrospective and prospective sociotropic assessments and especially uncertainty concerns about how Greece would perform outside of the Eurozone (*Uncertainty*). For example, the argument that Greece needs the pressure of European institutions in order to act responsibly (*More Responsible*) or implement the necessary reforms (*Reform*) turns out to be a weaker predictor of euro support than its prominence within Greek public discourse would suggest. By contrast, uncertainty- or loss-aversion considerations and the belief that Greece would potentially face severe adversities outside of the Eurozone appear among the most salient factors driving support for the euro, which is in line with our argument (*HI*). In addition, the other three most relevant variables toward explaining popular support for the euro are the *retrospective* assessment that past growth rates in Greece showed that the country had benefited from the introduction of the euro (positive effect) and the two *prospective* perceptions that incomes would be more stable within the Eurozone (positive effect) or that Grexit would imply less austerity (negative effect). In other words, perceptions of uncertainty and expectations about the outcomes of alternative currency regimes do really matter.

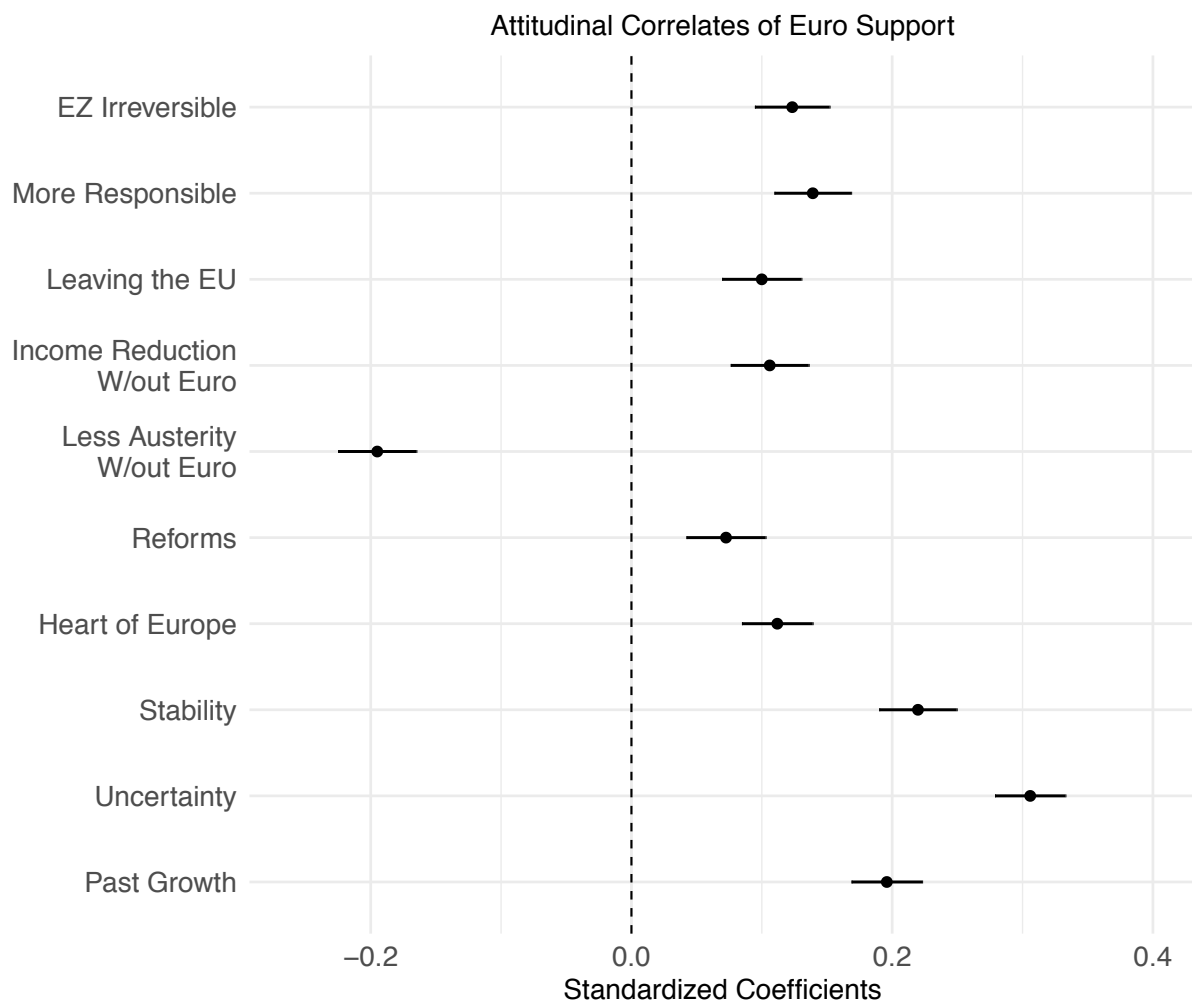


Figure 3: Correlates of support for the euro (December 2015).

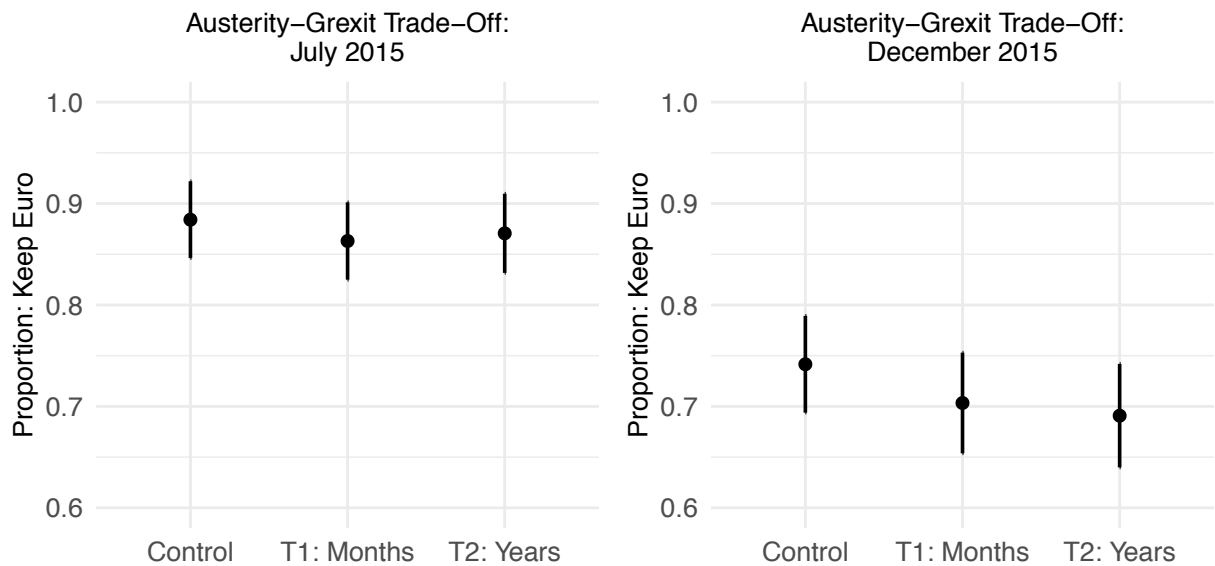
Note: Linear probability models with robust standard errors of preferences to stay in the euro. To better grasp differences in relative magnitude, all indicators have been recoded as dichotomous variables taking the value of 1 if only if respondents agreed or strongly agreed with the question and 0 otherwise. Then, each binary indicator has been standardized and used as predictor of attitudes toward the euro.

Framing the euro-austerity trade-off in a survey experiment

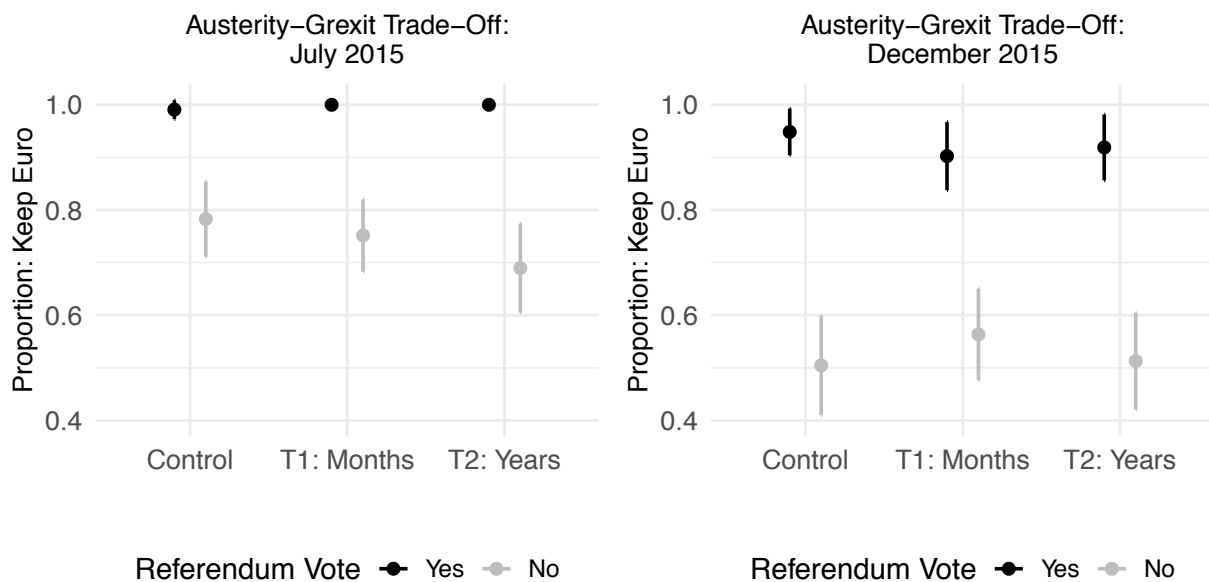
We ran a survey experiment in the July and December survey waves designed to examine how voters would respond when explicitly confronted with the euro-austerity trade-off. For this purpose, we randomly assigned respondents to three groups. The control group was asked, ‘Personally, which of the following do you think is best for Greece’s future?’, with staying in the euro, adopting a national currency, and DK/DA as the answer options. In the two treatment groups we added framing cues stating that continued Eurozone membership required more austerity and varied the time horizon for those austerity measures. Specifically, the first (second) treatment T1 (T2) reads, ‘Observers say that staying in the euro requires more pension

cuts and tax increases for the next months (four to five years). Personally, which of the following do you think is best for Greece's future?'

Figure 4 shows the results of the survey experiment for the July and the December waves, while the Online appendix presents the full regression results.⁶ We test for both average and heterogeneous treatment effects by vote (or simply vote intention in the July wave) in the July 2015 referendum upon removing DK/NA respondents from our sample to avoid contaminating our results. In line with Walter et al. (2018), we assume that while *Yes* voters had fully internalized the euro-austerity trade-off *ex ante* – expecting that a *No* vote would lead to Grexit –, the majority of *No* voters remained unconvinced holding the prior beliefs that a *No* vote would enhance the country's negotiating position and thus end up relaxing the euro-austerity constraint.⁷ Therefore, any framing treatments in the July experiment should mostly have affected *No* voters. Overall, we find an average decrease in euro support across both survey waves among respondents who received the negative framing cue that the cost of keeping the euro would be either months (T1) or four to five years (T2) of austerity. Although the average effects illustrated in Figure 4a are statistically insignificant, the heterogeneous treatment effects among *No* voters illustrated in Figure 4b are found to be negative and significant at the 10% level in the July referendum, while those among *Yes* voters are very small and statistically insignificant –, which is in line with *H1* (see the Online appendix). In other words, by framing the reference point of euro membership more negatively in terms of the costs of austerity (net losses), we shifted respondents' sociotropic assessments of policy outcomes and thereby their attitudes toward the euro.



(a) Average effects



(b) Heterogeneous effects by referendum vote (intention)

Figure 4: Survey experiment about the euro-austerity trade-off (July and December 2015).

There are also some interesting differences, however, between the results from the July and the December waves. Most importantly, in line with the intertemporal evidence presented above, we find that overall support for the euro was significantly lower in December 2015 than right before the referendum in July 2015 across the control and both treatment groups. Yet,

although the average treatments have the expected negative effect in all cases, only the strong treatment T2 (in years) among *No* voters in the July wave has a statistically significant effect on their euro preferences. In fact, the weak treatment T1 (in months) seems to increase support for the euro among *No* voters in the December survey experiment as the prompting statement may be upgrading their prior beliefs about the duration of austerity. This finding is very much in line with *H1a*, according to which framing effects should only matter in an environment of uncertainty over the noisy trade-offs of euro membership or exit. As the euro-austerity link became more pronounced and the potential outcomes of Grexit more apparent during the second half of 2015 in Greece, a simple framing experiment proved to be too weak to influence preferences on this highly salient and widely discussed topic.⁸ Moreover, voter preferences in this case are naturally conditioned by expectations about the counterfactual repercussions of a Eurozone exit.

Individual vulnerability profiles and euro preferences

In a final empirical test, we use the survey data from the December wave to map the vulnerability profiles of Greek voters and thereby derive policy preferences over the choice of staying in the euro or adopting a national currency. To construct these profiles, we rely on two questions asking respondents to assess how their personal income would be affected by (a) the agreed reforms stipulated in the Memorandum of Understanding (MoU) of the third bailout package (i.e., further austerity) and (b) Grexit (i.e., currency devaluation). Respondents who fully agreed with the statement that either of these policy paths would lead to ‘a significant reduction in [their] personal income’ are coded as very vulnerable to the respective balance-of-payments adjustment strategies of internal and external devaluation. By combining these answers, we code the vulnerability profiles of all our respondents.

Figure 5 maps below these vulnerability profiles and shows that, according to their subjective assessment, the majority of Greeks considered themselves very vulnerable to both further austerity and Grexit. Almost half of all respondents (47%) fall into that category.⁹ On the other hand, there are some respondents who viewed themselves as not vulnerable to either of the two adjustment mechanisms (14%) or only vulnerable to one of them (21% only vulnerable to austerity but not Grexit and 18% only vulnerable to Grexit but not austerity).¹⁰ Arguably, the aggregate vulnerability profile of a country is a function of its economic openness and the relative size of the its tradable and financial sectors. In our case, a large part of the Greek population was not just vulnerable to currency volatility but also to the lack of fiscal and monetary instruments of macroeconomic stabilization.

We examine whether different vulnerability profiles correlate with different policy preferences and assessments. In particular, we focus on two sets of preferences – namely, support for the euro and approval of the MoU containing the austerity measures –, and assessments – namely, whether Grexit would entail less austerity and whether austerity would be fully implemented. Support for the euro is operationalized as a dummy variable (with one denoting preference for keeping the euro and zero for leaving the euro), while the other three variables are coded on a scale of 1 (fully disagree) to 5 (fully agree). We run ordinary least squares (OLS) regression models with the aforementioned covariates and plot the predicted values in Figure 6.

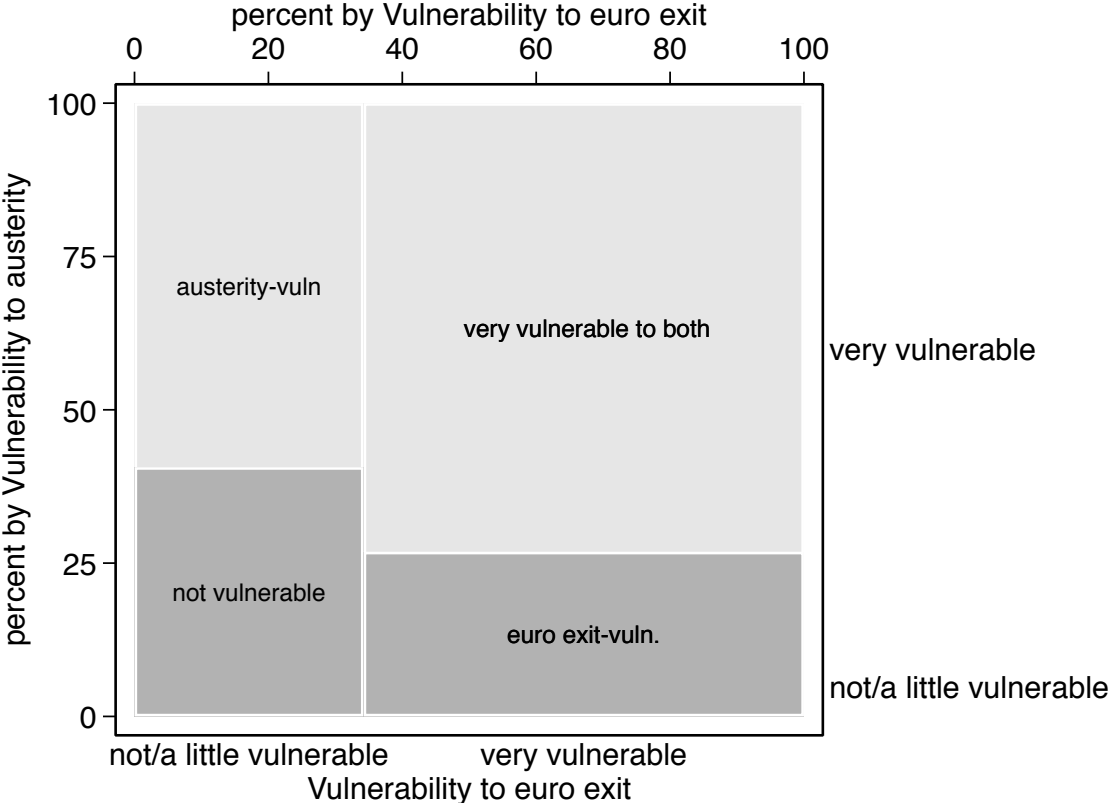


Figure 5: Individual vulnerability profiles of Greek respondents (December 2015).

Note: Respondents fully agreeing with the statement ‘I expect a significant reduction in my personal income if Greece fully implements the reforms agreed on in the memorandum’ are coded as very vulnerable to austerity, while those fully agreeing with the statement ‘I expect a significant reduction in my personal income if Greece leaves the euro’ are coded as very vulnerable to euro exit (Grexit).

As predicted in H2, different vulnerability profiles are associated with distinct policy preferences and expectations. Most noteworthy is that the policy preferences of those coded as vulnerable to both austerity and Grexit tend to be incompatible. Figure 6a shows that they want

to keep the euro but also oppose the austerity measures of the third bailout package (Figure 6b). In other words, they either were oblivious to or consciously rejected the inevitable connection between the euro and fiscal austerity. At the same time, on average they appear to be rather disillusioned and pessimistic over whether Grexit would imply less austerity (Figure 6c) and relatively convinced that Tsipras would in fact implement the austerity measures agreed with the Troika (Figure 6d). This very much conforms to our theoretical mechanism as the resolution of uncertainty by the time of the December 2015 survey wave made this class of voters less gullible or susceptible to partisan framing (*H1a* and *H2*). By that time, these voters had formed more stable policy preferences and sociotropic assessments over outcomes, some of them consciously and openly expressing a preference for Grexit, which explains the drop in euro support from 75% in July to 65% in December (see Figure 1).

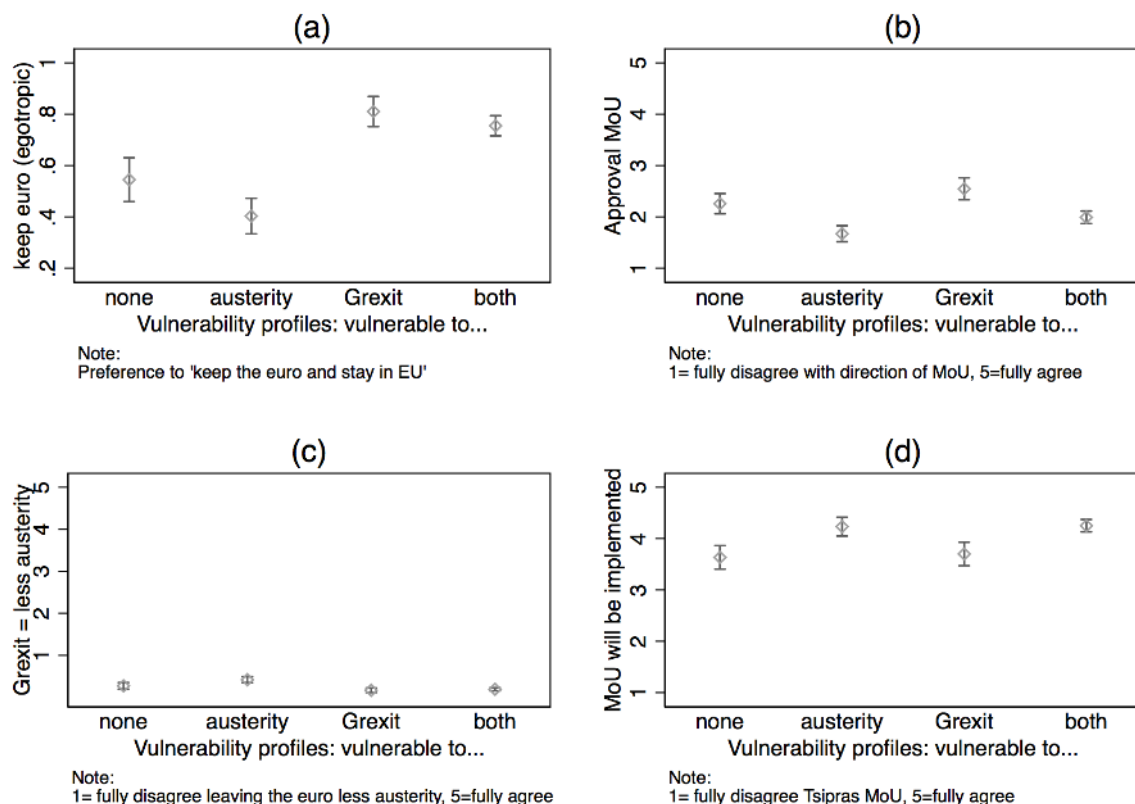


Figure 6: Vulnerability profiles, policy preferences, and expectations (December 2015).

By contrast, those vulnerable to only one adjustment strategy (austerity or Grexit) tend to exhibit more consistent policy preferences over time and appear less susceptible to

uncertainty framing effects, thus forming the core of their respective (pro- or anti-euro) policy constituencies. All in all, Figures 5 and 6 show one reason why crisis resolution was so arduous and slow in Greece: with almost half of the population very vulnerable to either type of adjustment, serious reform was likely to remain hugely unpopular and politically costly.

Conclusions

Although doomsayers predicted the demise of the euro during the Eurozone crisis, the common currency has proven remarkably resilient. Neither piecemeal reforms nor harsh austerity measures in the crisis-ridden countries have led to the breakup of the Eurozone or the unilateral exit of any single member. The consistently strong support for the euro among voters throughout the Eurozone has played a key role in that regard by allowing governments to implement austerity policies that conventional political economy accounts regard as politically very costly (Hübscher et al., 2018; Walter et al., 2020). This suggests that maintaining public support for the common currency is a key requirement for the cohesion of the EMU.

In this article, we have sought to investigate Eurozone citizens' attitudes toward the euro in a crisis context and whether overall support could unravel at some point. We have theorized popular attitudes toward the euro as the interaction between sociotropic assessments of the uncertain outcomes of alternative currency regimes (e.g., euro membership vs. national currency) and policy preferences derived from personal vulnerability profiles to the various crisis resolution mechanisms. Empirically, we have focused on the case of Greece, the country that suffered the most during the crisis.

Overall, our work explains why European political elites have been able so far to commit to painful fiscal austerity and structural reforms. Strong public support for the euro – generated through a negative framing of uncertainty under monetary alternatives – has given them a clear mandate to do everything necessary to stay in the common currency. This finding is relevant to the debate about the democratic legitimacy of the imposed austerity policies, which several authors find lacking (e.g., Armingeon and Guthmann, 2014). By contrast, our research suggests that the internal adjustment path chosen may in fact have enjoyed strong democratic legitimacy given that exit from the euro as an alternative to austerity was so deeply unpopular among large swathes of the European electorates.

The question about the sustainability of euro support in Greece also carries a lot of policy relevance as it is directly related to the probability of a Eurozone breakup. Arguably, the

Greek crisis experience has been much harsher and more complicated than normal since the standard policy tools in response to similar debt and balance-of-payments crises, i.e., external devaluation and to a lesser degree debt default, are generally not available in the context of a currency union (e.g., Frieden and Walter, 2017; Stiglitz, 2016). The main reasons why a country like Greece might have opted for the path of internal devaluation are that (1) the costs of leaving the Eurozone were perceived to be excessively high for any member of the common currency (Eichengreen, 2010), (2) the likelihood of a domino effect both with respect to the cohesion of EMU and the EU as a whole was considered to be quite high, and (3) public support for the euro remained rather strong. But with the costs of austerity-driven adjustment within the EMU mounting even further for the Greek economy in the short-to-medium run, one would surmise that there might have been a breaking point, beyond which, all else equal, the costs of staying in the Eurozone would outweigh the costs of leaving (O'Rourke and Taylor, 2013). Since public opinion will largely determine the political costs of any such choice, understanding how voters view the trade-offs of alternative monetary arrangements is key to gauging the risk of a Eurozone breakup.

The Greek case also has wider implications about the stability of European integration. Our results suggest that the opposition to euro exit could change when the costs of austerity or the costs of giving up monetary policy autonomy more generally become too high. Although political elites and publics across Europe so far have been overwhelmingly supportive of euro membership in all EMU member states, it is not inconceivable that preferences could change in a way that makes a unilateral exit from the Eurozone a distinct possibility. When the euro was created, it was clear to many – including politicians – that crises were likely to occur and would create huge pressures to push European integration forward. Yet, once the price for doing so becomes prohibitively high and once voters and elites start to evaluate the uncertainty associated with leaving as not much higher than that associated with staying in the Eurozone, a sudden collapse in public support for euro membership will enter the realm of possibility.

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¹ See the Online appendix. Note that enthusiasm for the common currency decreased considerably more in countries outside of the Eurozone.

² See details of the surveys in the Appendix.

³ At that point, 33% favored some form of Grexit (soft upper bound of the anti-euro constituency), while the remainder is 'don't know' (DK) or 'no answer' (NA).

⁴ The Online appendix provides more details about each of these statements.

⁵ Surprisingly, only 15% of SYRIZA voters fully agreed with this statement, which is the same proportion as in the general population. This perhaps means that SYRIZA's efforts to justify the government's final agreement the creditors' demands were successful in shaping the public's perception of it as the best of all alternatives.

⁶ The Online appendix presents the balance tests for the experiment with respect to vote choice in the previous election (January or September 2015).

⁷ As we do not have vulnerability data from the July survey or a panel of respondents between July and December, we use the referendum vote as the best possible proxy for voters who had not internalized the euro-austerity trade-off.

⁸ In other words, we suspect that the results of our December 2015 survey experiment suffer from pre-treatment effects.

⁹ If we include those who somewhat agreed that each policy would lead to significant income losses for them, almost two-thirds of respondents (65%) exhibited this vulnerability profile.

¹⁰ The respective numbers for the broader definition of vulnerabilities are 6% (to none), 15% (only to austerity), and 14% (only to Grexit).