

Attitudes Towards Institutional Reforms For The Euro Area

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“How much of a fiscal union for the EMU”

Banco de Espana, Madrid, 2017-05-18

- Ongoing debate about institutional architecture of EMU
- Many proposals suggest a fiscal union based on *centralised control of fiscal and economic policy* and *joint liability for public debt*
- Alternative view: *Credibility of no bailout provisions* and *effective market discipline* need to be re-enforced
- Research questions:
 - ▶ Which reform proposals get sufficient political support among voters?
 - ▶ How elastic do voters change their attitudes when provided with arguments in favor or against specific proposals?

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Preview of results:

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 - ▶ Respondents provided with 'moral hazard' / 'permanent transfers' arguments more negative than control group
- Sovereign insolvency mechanism
 - ▶ 48% of respondents in favour, only 20% dislike the idea
 - ▶ Respondents provided with 'self-fulfilling prophecy' / 'rising risk premia' arguments less positive than control group

- Several papers on
 - ▶ EMU-UI: Andor 2014, Dullien 2014, Brandolini et al. 2016, Dolls et al. 2016, CEPS 2017, Abraham et al. 2017, ...
 - ▶ Sovereign insolvency mechanisms: Krueger 2002, Gros and Mayer 2010, Gianviti et al. 2010, Fuest et al. 2015, ...

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- Effect of randomized information treatments on subjects' preferences for redistribution
 - ▶ Kuklinski et al. 2003, Sides 2011, Cruces et al. 2013, Kuziemko et al. 2015, Alesina et al. 2015, ...

- German Internet Panel GIP (since 2012)
 - ▶ longitudinal survey; roughly 3,000 households
 - ▶ conducted by Collaborative Research Center "Political Economy of Reforms" (SFB 884) at U Mannheim
 - ▶ representative for German population age 16 to 75
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- Methodology: online experiments
 - ▶ respondents randomly split into treatment and control groups
 - ▶ any differential assessment can be interpreted as the causal effect of the treatment

Introductory text: (for all subjects)

“A proposal to make the euro area more resilient in times of economic crises is the introduction of a common unemployment insurance system. The goal is to support especially those member of the euro area that suffer from a strong increase in unemployment due to adverse labor market conditions. Such a system would imply that unemployment benefits are partly paid by a fund at the euro area level that all member states have to contribute to.

There are different opinions with respect to the introduction of a common unemployment insurance system for the euro area.”

*“The **proponents** say:*

“A common unemployment insurance system for the euro area would help to better absorb future economic crises in the Eurozone and would stabilize the currency union as a whole. All member states would benefit from such a system.””

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Respondents randomly split into 3 groups:

1st group: “Permanent Transfers” treatment

*“The **opponents** say:*

“A common unemployment insurance system in the euro area would lead to permanent transfers between the member states. Countries with low unemployment would have to permanently pay transfers to countries with high unemployment.””

2nd group: “Moral hazard” treatment

*“The **opponents** say:*

“With a common unemployment insurance system in the euro area, countries that face high unemployment don’t have incentives to improve their labor market conditions anymore as unemployment benefits are paid by the other member states.””

2nd group: “Moral hazard” treatment

*“The **opponents** say:*

“With a common unemployment insurance system in the euro area, countries that face high unemployment don’t have incentives to improve their labor market conditions anymore as unemployment benefits are paid by the other member states.””

3rd group = control group:

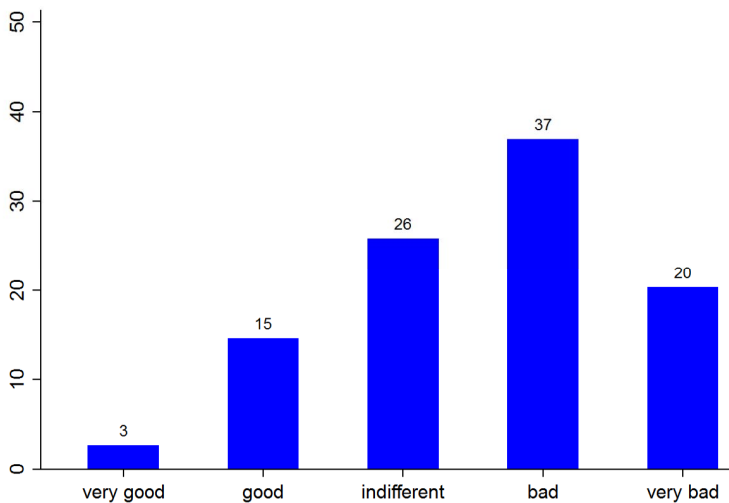
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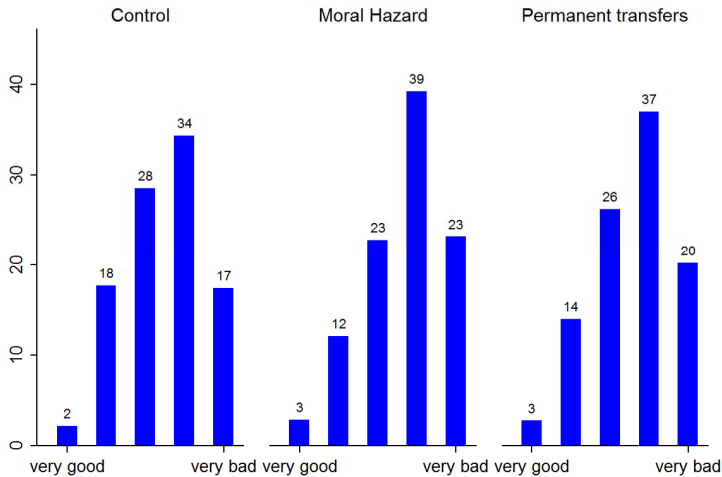
“The introduction of a common unemployment insurance system in the euro area has disadvantages in many respects.””

All respondents are asked the following question
(scale from 1 (very good) to 5 (very bad)):

“How do you like the proposal of a common unemployment insurance system for the euro area?”

Results - EMU UI





	Against	Indifferent	In favor
Treatment: Permanent Transfers	6.84*** (1.33)	-2.71*** (0.58)	-4.13*** (0.76)
Treatment: Moral Hazard	11.27*** (1.29)	-4.74*** (0.63)	-6.53*** (0.69)
HH income: 2500 to 5000	3.24** (1.49)	-1.21** (0.59)	-2.03** (0.91)
HH income: > 5000	10.41*** (3.66)	-4.33** (1.74)	-6.08*** (1.93)
Alternative for Germany (AfD)	22.37*** (1.89)	-10.64*** (1.09)	-11.73*** (0.86)
Liberal Democrats (FDP)	10.96*** (2.52)	-4.59*** (1.20)	-6.37*** (1.33)
Christian Democrats (CDU/CSU)	18.33*** (1.82)	-8.37*** (0.99)	-9.96*** (0.88)
Social Democrats (SPD)	10.92*** (2.09)	-4.57*** (0.99)	-6.35*** (1.11)
Green Party	5.73** (2.38)	-2.23** (1.01)	-3.50** (1.38)
EU Support	-5.95*** (0.70)	2.09*** (0.25)	3.86*** (0.47)
Altruism	-1.69*** (0.35)	0.60*** (0.13)	1.09*** (0.23)
Demographics, Region, and Education	☑	☑	☑

Introductory text: (for all subjects)

“Another proposal to make the euro area more resilient in times of economic crises is the introduction of a sovereign insolvency procedure. Such a procedure would stop the current situation that the taxpayers of other member states are liable for the public debt of the insolvent member state. Instead, private investors who have bought government bonds of the insolvent member state would be liable.

There are different opinions with respect to the introduction of a sovereign insolvency procedure for euro area member states.”

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“A sovereign insolvency procedure would reinforce market discipline with private investors bearing the losses related to EU Member States insolvency. This would spare tax payers from the cost of unsustainable public debt.””

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Respondents randomly split into 3 groups:

1st group: “Self-fulfilling Prophecy” treatment

*“The **opponents** say:*

“A sovereign insolvency procedure can be counter-productive by intensifying crises in the Eurozone as financial markets can anticipate national governments financing problems, thus triggering an actual insolvency.””

2nd group: “Rising risk premia” treatment

*“The **opponents** say:*

“A sovereign insolvency procedure amplifies the differences in the financing conditions between euro area member states. Member states whose government bonds are considered as safe benefit at the expense of other member states which are heavily indebted.””

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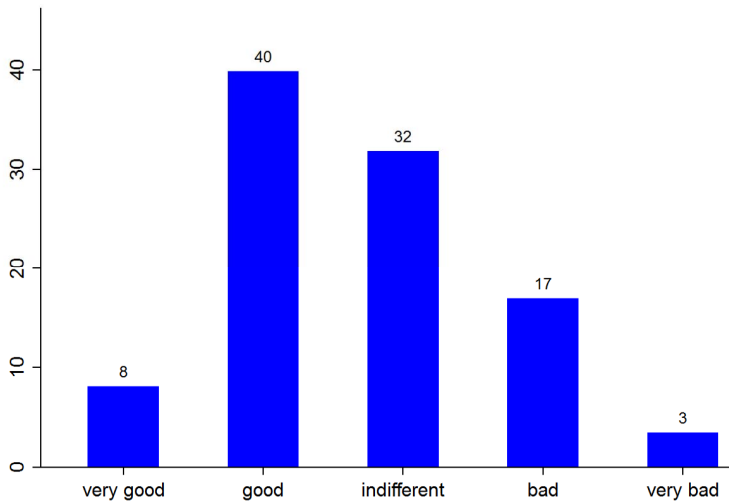
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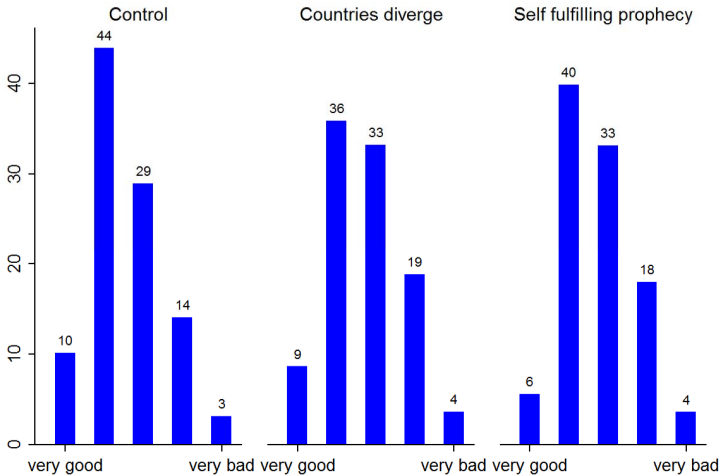
“The introduction of a sovereign insolvency procedure has disadvantages in many respects.””

All respondents are asked the following question
(scale from 1 (very good) to 5 (very bad)):

“How do you like the proposal of a sovereign insolvency procedure for the member states of the euro area?”

Results - Sovereign Insolvency Mechanism





	Against	Indifferent	In favor
Treatment: Self-fulfilling prophecy	4.70*** (1.10)	2.10*** (0.37)	-6.80*** (1.46)
Treatment: Risk premia	6.37*** (1.13)	2.58*** (0.31)	-8.95*** (1.41)
HH income: 2500 to 5000	-3.28*** (0.88)	-2.25*** (0.71)	5.54*** (1.58)
HH income: > 5000	-11.66*** (1.41)	-12.33*** (2.37)	23.99*** (3.74)
Alternative for Germany (AfD)	0.24 (1.77)	0.13 (1.00)	-0.37 (2.76)
Liberal Democrats (FDP)	3.25 (2.24)	1.58 (0.89)	-4.82 (3.13)
Christian Democrats (CDU/CSU)	6.00*** (1.91)	2.49*** (0.53)	-8.49*** (2.43)
Social Democrats (SPD)	5.97*** (1.91)	2.48*** (0.54)	-8.45*** (2.43)
Green Party	1.34 (1.78)	0.72 (0.89)	-2.06 (2.67)
EU Support	-3.23*** (0.45)	-1.85*** (0.25)	5.08*** (0.69)
Altruism	-0.36 (0.24)	-0.21 (0.14)	0.57 (0.38)
Demographics, Region, and Education	✓	✓	✓

- Low willingness among German voters to accept
 - ▶ fiscal risk-sharing
 - ▶ joint liability for public debt→ Risk reduction before risk sharing?
- Subjects' attitudes somewhat elastic; compared to the control group
 - ▶ “Moral hazard” (“Permanent transfers”) treatment raises the rejection rate by 11 (7) percentage points
 - ▶ “Rising risk premia” (“Self-fulfilling prophecy”) treatment reduces the approval rate by 9 (7) percentage points
- Online experiments can inform policy-makers about critical design choices to gain broader political support

Further experiments:

- with extended country coverage
- additional treatments
- that elicit support for
 - ▶ ‘reform packages’, e.g. fiscal insurance combined with sovereign insolvency mechanism ([Dolls et al. 2016](#))
 - ▶ ‘ESBies’ ([Brunnermeier et al. 2017](#)) / Eurobonds / ‘Accountability bonds’ ([Fuest et al. 2016](#))
 - ▶ Eurozone budget / finance minister / assembly
 - ▶ European Monetary Fund, ...

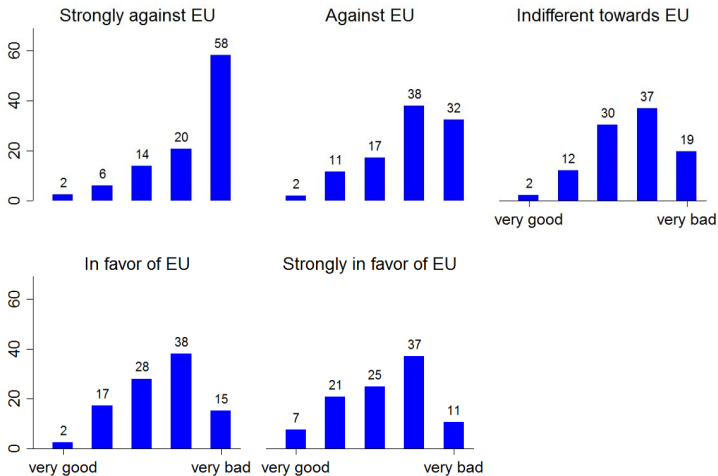
Thank you for your attention!

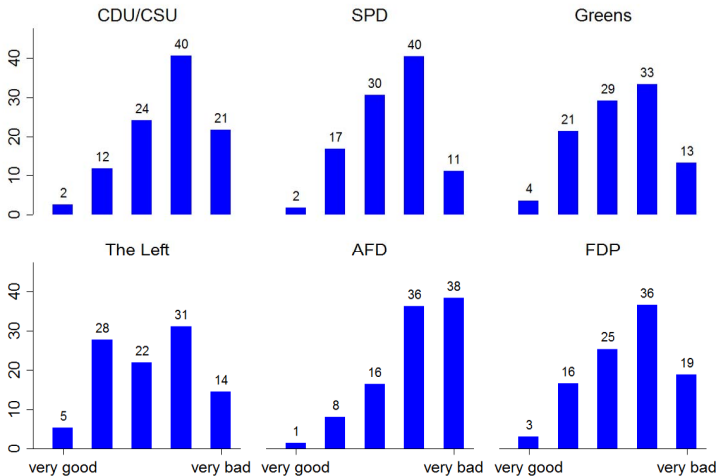
Comments or questions?

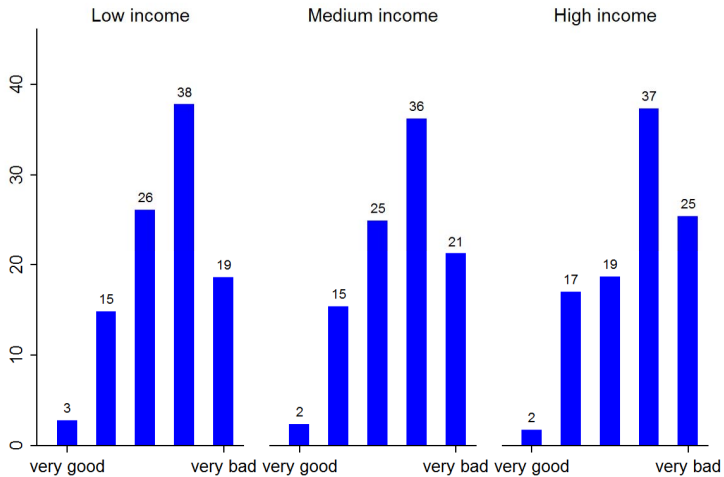
dolls@zew.de

Appendix

	(1)	(2)	(3)	(4)
Treatment: Permanent Transfers	0.205** (0.0959)	0.233** (0.108)	0.275** (0.109)	0.307*** (0.112)
Treatment: Moral Hazard	0.387*** (0.0971)	0.374*** (0.109)	0.391*** (0.110)	0.419*** (0.112)
HH income: 2500 to 5000	0.107 (0.105)	0.160 (0.117)	0.144 (0.119)	0.170 (0.122)
HH income: > 5000	0.284 (0.279)	0.356 (0.278)	0.464 (0.286)	0.556* (0.297)
Alternative for Germany (AfD)		1.389*** (0.212)	1.053*** (0.209)	1.032*** (0.214)
Liberal Democrats (FDP)		0.410* (0.230)	0.463** (0.223)	0.454** (0.228)
Christian Democrats (CDU/CSU)		0.674*** (0.192)	0.814*** (0.187)	0.819*** (0.190)
Social Democrats (SPD)		0.294 (0.187)	0.422** (0.182)	0.396** (0.185)
Green Party		0.0631 (0.203)	0.164 (0.199)	0.213 (0.203)
EU Support			-0.396*** (0.057)	-0.371*** (0.059)
Altruism				-0.072** (0.030)
Demographics, Region, and Education	☑	☑	☑	☑
N	2161	1733	1720	1646







	(1)	(2)	(3)	(4)
Treatment: Self-fulfilling prophecy	0.341*** (0.0990)	0.294*** (0.110)	0.302*** (0.111)	0.339*** (0.113)
Treatment: Risk premia	0.398*** (0.104)	0.349*** (0.116)	0.354*** (0.116)	0.367*** (0.118)
HH income: 2500 to 5000	-0.254** (0.112)	-0.247** (0.125)	-0.245* (0.126)	-0.225* (0.129)
HH income: > 5000	-0.910*** (0.279)	-0.904*** (0.282)	-0.920*** (0.288)	-0.997*** (0.283)
Alternative for Germany (AfD)		0.0134 (0.226)	-0.168 (0.231)	-0.147 (0.233)
Liberal Democrats (FDP)		0.0448 (0.236)	0.100 (0.238)	0.127 (0.239)
Christian Democrats (CDU/CSU)		0.258 (0.183)	0.351* (0.184)	0.327* (0.187)
Social Democrats (SPD)		0.314* (0.181)	0.373** (0.182)	0.344* (0.184)
Green Party		-0.0258 (0.193)	0.0596 (0.194)	0.0670 (0.198)
EU Support			-0.214*** (0.059)	-0.192*** (0.061)
Altruism				-0.030 (0.029)
Demographics, Region, and Education	☑	☑	☑	☑
N	2020	1644	1635	1566

