The Euro, Economic Interests and Multi-level Governance: Examining Support for the Common Currency*

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Abstract: Support for a common currency and the European Monetary Union signifies that European citizens are willing to transfer power form the nation-state to the European Union. This willingness to give up sovereignty has important implications for the further integration and development of the EU. We examine how support for the euro reflects a multi-level governance perspective of European integration. Are citizens less likely to support a common currency when their own national currency is strong? Our findings suggest that to some extent the effects of the multi-level governance perspective are conditioned by general attitudes toward European integration and that other economic interests are also conditioned by factors such as occupational status.

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Introduction

The recent defeat of the Danish referendum on the question of the euro raises concerns about continued public support for a common European currency and perhaps further integration itself. Denmark's rejection of the euro occurred at a time when the euro was weakening against other currencies. Support for a common currency and the European Monetary Union signifies that European citizens are willing to transfer power form the nation-state to the European Union. This willingness to give up sovereignty has important implications for the further integration and development of the EU. Researchers have emphasized the importance of economic self-interest and evaluations of the performance of the national government in structuring support for European integration. Most of the research on this question has until recently focused on diffuse support for abstract concepts and ideas. With the implementation of the common currency we are now in a position to examine how well these theories explain support for a specific policy. Using Euro-barometer data from 1991 to 2000, we examine support for the common currency before and after its introduction. We examine how well various explanations account for individual and country level variations in support for the euro (from both within and outside of the euro zone). Using a multi-level model, we also examine how economic factors such as exchange rates and inflation influence the individual level explanations.

Explaining Support for the Euro

Among the dominant theories used to explain public opinion toward European integration is the assumption that economic self-interest plays a major role in structuring support. Research shows a strong link between self-interest and support for the EU. In particular, those in occupations or those with the skills who are able to economically benefit from integration are more supportive than those in occupations that are adversely affected by integration (Gabel 1998a, Gabel 1998b). For example, farmers are expected to be more supportive of the EU because of the Common Agricultural Policy. Earlier research also shows that an individual's level of EU support is positively related to the economic benefits derived by his or her country and by the individual (Gabel and Palmer 1995, see also Anderson and Reichert 1996). In other words, socio-tropic and pocketbook concerns influence attitudes toward the EU. If economic considerations are an important determinant of diffuse support, they should matter more for specific economic policies such as the common currency. Looking specifically at support for the euro, Gabel (2001) finds that support increases as a citizen's occupation becomes more sensitive to EU exports. Public debt also has a positive effect on support for the euro; as the debt increases (decreases), support increases (decreases). However, Gabel finds that those working in the public sector are not any more sensitive to the effects of public debt. Additionally, Gärtner (1997) concludes that public attitudes toward the euro reflect rational calculation of costs and benefits because support for the euro is influenced by high inflation and accumulated debt.

While these findings suggest that citizens are economically self-interested, other studies have found that citizens typically lack the information to realize what is in their economic self interest (Janssen 1991; Anderson 1998). Rather than being economically self-interested, citizens may form attitudes about the EU (and the euro) on the basis of how they feel about their own political system, political parties, and government. The argument, termed the "multi-level governance" perspective (Kaltenthaler and Anderson 2000), is that individuals will be more supportive of decision making at the European level when they perceive that the outcome at that level will be more favorable than at the national level (Sanchez-Cuenca 2000). The economic benefits or utilitarian theory relies on self-interested explanations of political attitudes and suggests that citizens are more likely to support integration if the net benefit to the national economy or their own pocketbook (Gabel 1998 and Eichenberg and Dalton 1993). The multi-level governance perspective contends that support for European integration depends not on utilitarian calculations of costs and benefits but rather on national identity, political culture and attitudes toward incumbent government. From this perspective, whether or not individuals are willing to transfer policy authority to a supra-national government depends on the how the citizen views the relationship between domestic and European politics. Those who have weak national identities, have positive experiences with European institutions and think poorly of domestic political institutions are more likely to want to transfer policy authority to the supra-national level.

In a sense, European citizens are able to shop around for the level of government which will yield the best outcome. If the national government is performing poorly, European citizens will favor decision making at the EU level. Sanchez-Cuenca (2000) finds that support for integration is highest when citizens feel the national government is performing poorly and the European level is performing well. In terms of specific policies, Banducci and Laugesen (2001) find that those who are satisfied with the health care system in their own country are less likely to want health policy to be handled at the European level. However, this effect is partly dependent on state funding for health care. Among citizens who are satisfied with health care in their own country, individuals who must pay out of their pocket for health care are more likely to want health policy handled at the EU level. In examining public support for the European common currency, which is perhaps one of the most salient issues in the transfer of policy authority to the supra-national government, Kaltenthaler and Anderson (2000) find that indicators of the state of the national economy such as inflation history and unemployment are significant indicators of support for the euro such that higher inflation and unemployment increase support for the euro. However, those countries that have been nation states longer, have had more time to develop a national identity, are less supportive of a common currency.

We build on Kaltenthaler and Anderson's (2000) and Gabel's (2001) studies examining public support for the euro by expanding the range of years studied and using individual level data merged with contextual data on the economy. We also expand on their work by looking at the effects of changes in national exchange rates. Drawing on the theory of multi-level governance, we hypothesize that individuals will be less supportive of a common currency if their own national currency is performing well. Strong exchange rates are likely to be accompanied by positive news coverage which has been known to influence opinions about European integration (Semetko and Valkenburg 2000) and more specifically the euro (Norris 2000). In addition, in countries where austerity measures have been adopted in order to meet the required convergence criteria on budget deficits and overall government debt to join the euro-zone, there will be less support for the common currency. Recent research has shown that these austerity measures are partly responsible for the left-turn in Western European elections (see Bohrer and Tan 2000). We also hypothesize that general support for the integration project will also have some influence on support for a common currency. However, the relationship between general support for the EU and a specific policy will be mediated by the strength of the national currency. In other words, among individuals who are enthusiastic about the EU, those from countries with strong currencies will be less supportive than those from countries with weak currencies. Therefore, we are taking into account how the context shapes individual attitudes.

When we make an argument about contextual effects, we are saying that an individual is influenced by interactions with other people in a shared setting or structural characteristics of that shared setting. According to Przeworski, "[T]he construction of contextual theories involves formulating hypotheses concerning the impact of the social environment on individual behavior and deducing consequences of these hypotheses..." (1974,p. 28). In other words, an attempt is made to identify important characteristics of an individuals environment and to model how they may shape individual behavior. The social or political context has long been thought to have an influence on attitudes and behavior. Early voting behavior literature recognized the importance of the partisan composition of the neighborhood as a behavioral influence (Berelson, Lazarsfeld and McPhee 1954). In some cases the context may be measured by aggregating characteristics of individuals within the shared context. In this paper, we use measures of currency and economic performance as "holistic" indicators (Ragin 1999) of the economic context.

The economic context is important to explanations of public support for the euro given the dramatic impact of the convergence criteria of EMU on economic performance in most EMU countries. In other words, austerity measures and exchange rate commitments (both prior to 1999 and after the launch of the euro) affected the economic context in each member states. For example, inflation rates have dramatically slowed as a result of the convergence criteria. Exchange rate fluctuations have been both dramatic (the 1992-93 period), relatively stable (1995-1999), and worrisome (the depreciation of the euro since January 1999). All of these variables will thus provide a changing economic context through which the public views the euro project.

Data and Methods

We examine the time period from 1991 until 2000 which allows us to look at change in opinion from the Maastricht treaty until the introduction of the euro. The history of the EMU and Maastricht negotiating process are by now well known to most analysts (Dyson 1994). Our focus is on the changing dynamics in the post-Maastricht period: including the exchange rate turmoil of 1992-93, the expansion of the EU to 15 member states in 1995, ongoing referendums in Denmark (1992, 93 and again in 2000), treaty revisions (Amsterdam), renewed negotiations on the conditions of EMU (the Stability and Growth Pact of 1997), the launch of the euro (1999), and Britain's on-again, off-again relationship with the EU and the euro project. In short, the impact of the changing dynamics of the EU and euro project during this time period provide a fertile ground for examining the varying effects of our chosen variables.

We pool data from Euro-barometers conducted in the first part of the year (February - May) in each of the 10 years.[1] In the analysis Northern Ireland has been dropped. Data from Austria, Finland and Sweden are limited to the years since joining the EU except for Finland where opinions were measured in both 1993 and 1994. In order to measure support for the common currency, we use a question that asks whether respondents are for or against a common currency.[2] There has been slight changes in the wording of the question. In 1991 and 1992, the question asks whether respondents would be in favor or not in favor of "a single currency replacing the different currencies of the Member States in five or six years time." From 1993 to 1996 the question asks if respondents if they are for or against the following: "There should be a European Monetary Union with one single currency replacing by 1999 the national currency and all other national currencies of the Member States." In 1997, the question asks whether respondents are for or against the following: "There should be one single currency, the euro, replacing the national currency and all other national currencies of the members states of the European Union." There was a slight change in 1998 and used in the following years where "should be" used in the 1997 question is changed to "has to be". We doubt that changes in question wording contributed significantly to shifts in aggregate opinion as the shifts demonstrated below to not occur when question wording changes occurred

As independent variables at the individual level we use indicators of occupation and education to control for the economic benefits hypothesis. We also use age to control for the effects of generational replacement. We also control for the effects of gender. Our measure of general support for the EU is based on the question asking respondents whether the EU is a good thing. The questions and coding are given in the appendix. In general, to ease interpretation, we have constructed dummy variables from these indicators.

As economic indicators we use the change in GDP, the inflation rate, change in debt and the exchange rate. The change in GDP, inflation rate and the change in debt are fairly straight forward but our measure of the exchange rate needs further explanation. We construct a measure of the value of the currency using the change in the value of national currency against the U.S. dollar from the base year of 1989. As the value of the currency increases against the U.S. dollar the value of our indicator of the exchange rate also increases. Values above 1 indicate the currency is gaining from its 1989 level while values below 1 indicate it is losing ground from its 1989 level.

Aggregate Shifts in Support for the euro

Figure 1 compares the level of support for the common currency from 1990 to 2000 for each of the member states of the European Union. Support for the common currency is relatively stable over time in more than half the countries in the European Union. Among the original six members, Italy is consistently the strongest supporter with about nine out of ten in favor of the common currency. Support in Germany, however, is much more volatile ranging from a high of 67 percent in the early 1990s to a low of 34 in 1993 when debate over European integration intensified in the wake of the Maastricht Treaty (due in large part the exchange rate turmoil of 1992-93 and the dawning realization among most Germans that the government had committed Germany to the sacrifice of the Deutsche Mark for the euro). Among the other original members, support is somewhat more stable ranging from 60 to 80 percent. Between 1997 and 1998 support rises by about ten percent in all six countries. Ireland is consistently a strong supporter while support in Great Britain and Denmark has fluctuated from a high in 1991 of 66 and

55 percent to a low of 26 and 30 percent respectively. Support in both countries has trended together with Britain being somewhat more supportive than Denmark. In 1998, the two counties diverge as Danish support strengthens somewhat while British support falls to its lowest level in 2000. Greece and Spain display levels of support consistent with Ireland and Belgium while support in Portugal is somewhat lower in the mid 1990s. The newest members are among the most skeptical though support has risen substantially between 1997 and 1998 which follows similar increases observed in most of the other countries. Of these countries, Austria has the highest support while Sweden, which is outside the euro zone, has the lowest. One possible reason for the shift is the change in question wording. However, the biggest change in question wording occurred between 1996 and 1997 so any shift due to a change in the wording should be between 1996 and 1997.

Overall considerable variation exists across countries with those counties outside the euro zone being the most skeptical of the common currency followed by Finland, Austria, and Germany. Despite their differences, the over time trends suggest that support among the members of the EU responds to similar events with a withdrawal of support occurring in the early 1990s and a renewal of support in the late 1990s.

(Figure 1 here)

The Impact of Exchange Rates

As an initial examination of the potential for exchange rates to influence support for the euro we examine whether the tone of media coverage is affected by changes in the value of the euro (measured at the time by the value of the ECU). We might expect a weaker euro to be accompanied by more negative news which in turn should influence public opinion. To test this hypothesis, we rely on data measuring the tone of coverage toward the European Monetary Union (EMU) collected by *Monitoring Euromedia* (see Norris 2000, 322-327). These data consist of newspaper stories about the EU between February 1995 to September 1997. A random selection of half of these articles were coded for the direction in terms of evaluative tone from the perspective of the EMU. The codes range from very negative (-2) to very positive (+2). We use the average monthly tone across the 15 EU member states. A correlation between the change in the monthly value of the euro (relative to the dollar) and the tone of coverage reveals a positive relationship (r=.36). As the ECU weakens, tone of the EMU becomes more negative. This finding provides an explanation of how public opinion may be influenced by economic factors. Although citizens may not pay direct attention to fluctuating exchange rates (or other economic indicators), they may nonetheless be influenced by media coverage. Norris (2000, 200-201) examines the impact of this coverage on support for the EMU and finds a strong and significant relationship. As coverage becomes more negative, support for the EMU decreases.

To further examine the link between exchange rates and public opinion we investigate whether changes in the value of national currencies influence support for the common currency. We anticipate that the value of national currency will influence support; stronger currency should be associated with weaker preference for the common currency. As an initial test of this hypothesis we examine the relationship between *changes* in the value of the Deutsch Mark and the British Pound relative to the dollar. Since our time series begins in 1990 we compare the current mean value to the mean value in 1989. The value of the Deutsch Mark has fluctuated considerably throughout the 1990s rising to 1.4 times its value by the mid 1990s and dropping to .82 percent in 2000. In contrast, the British Pound has remained within a tighter band with a low of .90 in the early 1990s to a high of 1.06 in 1994.

Figure 2 shows a clear relationship between changes in the value of the exchange rate and support for common currency in both Germany and Great Britain. In Great Britain the fit is noticeably better, with changes in exchange rates explaining 33 percent of the variance in support. The slope of the regression line is also steeper indicating that a ten percent increase in the value of the pound decreases support by 11.5 percent. In Germany, a ten percent change in the value of the Deutsch Mark would be expected to decrease support by 5.7 percent. The scatter plot reveals that in both countries, 1991 is an outlier with stronger support than what would be predicted by the regression line. The primary explanation for the strong support for the common currency in 1990/91 was largely due to the euphoria surrounding German unification tied to the overall commitment among Germans to European integration in general. The full impact and realization of the Kohl government's commitments to Maastricht were not known among the general public. Omitting 1991 has the effect of improving the fit for Germany and strengthening the relationship but weakens the fit and the slope in Great Britain.

(Figure 2 here)

Multivariate Analysis

In order to examine the effect of the economic variables on public support for the common currency, we use a model which combines the individual level variables with the economic indicators. Because we have pooled data with contextual variables an appropriate method of estimated would require adjusting the standard errors to account for the fact that the economic indicators only vary across countries and years (n=114) while the individual variables vary across all individuals (a sample size of over 140,000). For this preliminary analysis we have opted to use logistic regression with uncorrected standard errors but with dummy variables for each year and country (see Stimson 1986; Sayrs 1989). An baseline model without interactions was tested and then two models with interactions. The second model tests and interaction between the change in debt and labor force participation while the third model tests an interaction between general attitudes toward the EU and exchange rates.

The results for the three models are presented in Table 1. We would like to address three main points about the results. First, the results from the individual level variables suggest that economic interests do play an interest in support. Second, the economic variables suggest that citizens are more willing to give up sovereignty over the currency when it or the economy in general is not performing well. Third, not all citizens are influenced by the economic indicators in the same way. We will discuss each of these points in further detail below.

(Table 1 here)

First, our results do support the hypothesis that attitudes toward the euro are influenced by individual considerations about costs and benefits, at least as we have measured them in this paper. As Gabel (1998) found, we find that those who have the skills necessary to benefit from integration and a common currency are more likely to support it. However, farmers are no more supportive of the common currency than the residual category of white collar workers. Those with higher education levels, who are professionals or who are still studying are more supportive of the common currency. On the other hand, those with low levels of education or who are in manual occupations are less supportive. There is little support for the hypothesis of generational replacement. Age has no significant effect on support for the common currency. Ideology also has no significant effect except for those who did not identify themselves on the left-right scale. Those who did not identify themselves ideology are less supportive. Gender, on the other hand, has a rather large effect on support for the euro, even after controlling for general attitudes toward the EU. Women are only three-fourth's as likely as men to support the common currency.

Second, all of the economic variables work in the expected direction. Regarding inflation, our results replicate those studies using aggregate data (Gärtner 1997, Kalthenthaler and Anderson 1998) and individual data (Gabel 2001). As inflation increases, support for the euro also increases. As the GDP increases, support for the euro declines. The change in the exchange rate show a similar relationship; as the national currency strengthens from the base year of 1989, support for the euro declines. These results support the hypothesis generated from the multi-level governance perspective. European citizens are willing to shop around and transfer policy authority to a supra-national government when the national government does not appear to be performing well.

We also find support for the "squeeze" effect of austerity policies. We use a slightly different measure of public debt than Gabel (2001) and Gärtner (1997). Gärtner (1997) is interested in how "loose" fiscal policy influence supports and suggests that citizens prefer "tight" policy that limits deficits and debt. Because we are interested in measuring how the "squeeze" of austerity measures influence support, we use the change in debt. Our results show that as debt increases, meaning less squeeze, support for the euro also increases. This results also means that as the "squeeze" gets tighter and the debt decreases, support for the euro also decreases. Both Gabel (2001) and Gärtner (1997) find that as debt (as percent of GDP) increases support for the euro increases. Even though the results our similar, our interpretations differ slightly.

Our interpretation of the effect of change in debt is related to out third point about the interactive effects. We suggest that the effect of change in debt should be interpreted in terms of the "squeeze" effect. As further support for this interpretation, we test an interaction between change in debt and occupational status. If there is a "squeeze" effect, we would expect it to be felt most acutely among those citizens who are likely to benefit from increased state spending, namely those who are not participants in the labor force (retired and unemployed). Looking at the coefficient for the interaction between change in debt and not in labor force, we see that the effect of the change in debt is greater for those not in the labor force. This effect is illustrated in Figure 3. From the figure, we can see that those not in the labor force are significantly less likely to support the euro when there is a decrease in the debt. On the other hand, they are more likely to support the euro when there is a shift toward greater spending and debt.

The second interaction in the third model tests whether or not the effect of general attitudes toward the EU are conditioned by exchange rates. The main effects of the exchange rate show that when the currency is strong increase for the euro decreases. Also, those more supportive of the EU in general are more supportive of the euro. However, general attitudes toward the euro have a weaker effect on support for the euro when the currency is strong. This effect is illustrated in Figure 4. When the currency is very strong, those who are not supportive of the EU are significantly less likely to support the euro than those who think the EU is a good thing. Both of these interaction effects shows that economic interests and contextual effects vary across groups of individuals.

(Figures 3 and 4 here)

Conclusion

The analysis presented in the paper builds on the previous work of Gärtner (1997), Kaltenthaler and Anderson (1998) and Gabel (2001) in attempting to examine how the multi-level governance perspective explains public opinion toward the common currency. Rather than assuming the attitudes toward the EU and its policies are the products of national politics, the multilevel-governance perspective integrates attitudes toward national policies as well as toward EU policies. We find evidence to suggest that citizens are will to hand over sovereignty of the national currency to the supra-national level when the currency is not performing well. However, the strength of this effect depends somewhat on prior commitments to European integration. The analysis in this paper also points to the importance of allowing interactions between individual and contextual variables. The assumption that contextual indicators have a uniform effect across the population is not justified.

Appendix

Question Wording and Coding

Support for a Common Currency:

1997 - 2000 "There should be (has to be) one single currency, the euro, replacing the (NATIONAL CURRENCY) and all other national currencies of the Member States of the European Union." 1 "For" 0"Against"

1993 - 1996 "There should be a European Monetary Union with one single currency replacing by 1999 the (NATIONAL CURRENCY) and all other national currencies of the Member States of the European Community."1 "For" 0"Against"

1991 - 1992 "Within this European Economic and Monetary Union, a single common currency replacing the different currencies of the Member States in five or six years time" 1 "Support" 2"Do not support"

Support for EU:

"Generally speaking, do you think that (OUR COUNTRY'S) membership of the European Union is ...?" 1"Good thing" 0"Neither good or bad" or "Bad thing"

Economic Indicators:

Change in GDP, Inflation and Debt: Structural indicators taken from the Eurostat webpage: http://www.europa.eu.int/comm/eurostat.

Exchange rates: Taken from Policy Analysis Computing & Information Facility Commerce, University of British Columbia, Vancouver, Canada. http://pacific.commerce.ubc.ca/

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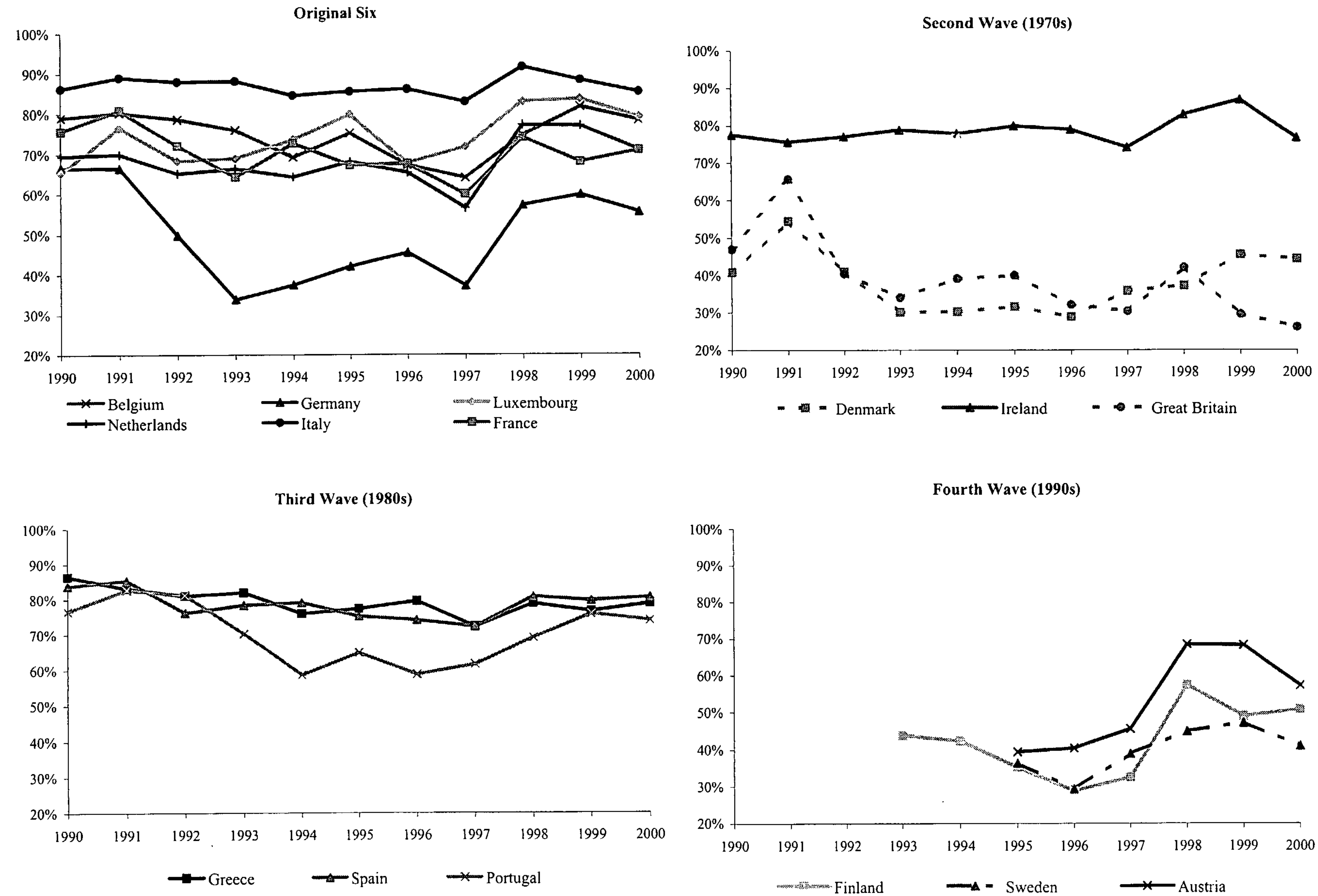
[1] At the time of writing, we were not yet able to obtain the 1999 April-May Euro-barometer so we have substituted EB52 from November-October 1999.

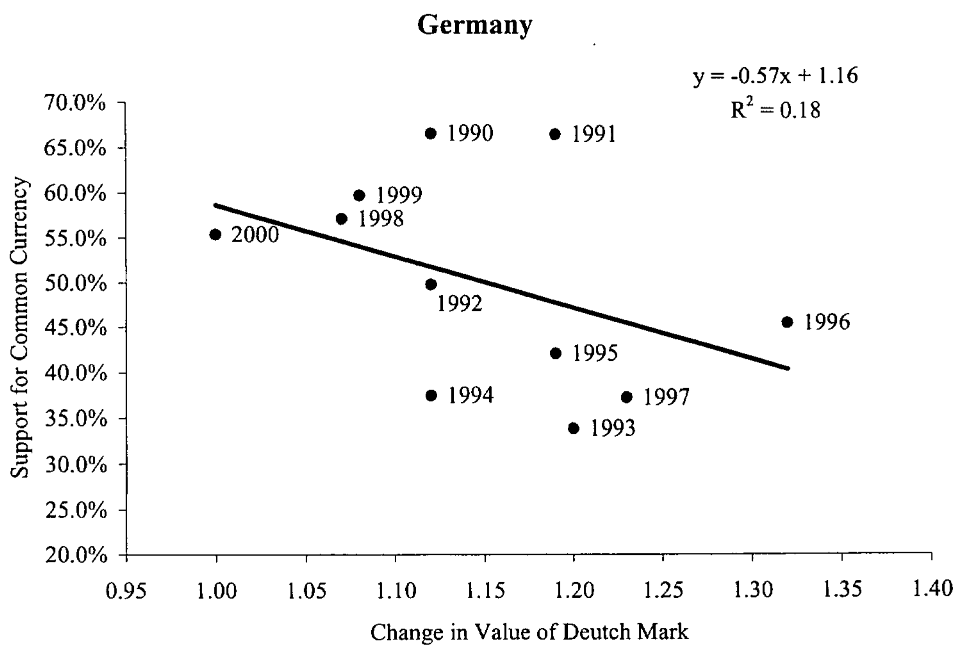
[2] An additional Euro-barometer question that could be used to measure support for the common currency is about the responsibility for currency: "Some people believe that certain areas of policy should be decided by the (NATIONAL) government, while other areas of policy should be decided jointly within the European Union. Which of the following areas of policy do you think should be decided by the (NATIONAL) government, and which should be decided jointly within the European Union?" Currency is one policy area listed. We have not analyzed this question for this paper as the support question more directly measures attitudes toward the common currency. However, the responsibility question does address the multi-level governance perspective and will be used in further analysis for this project.

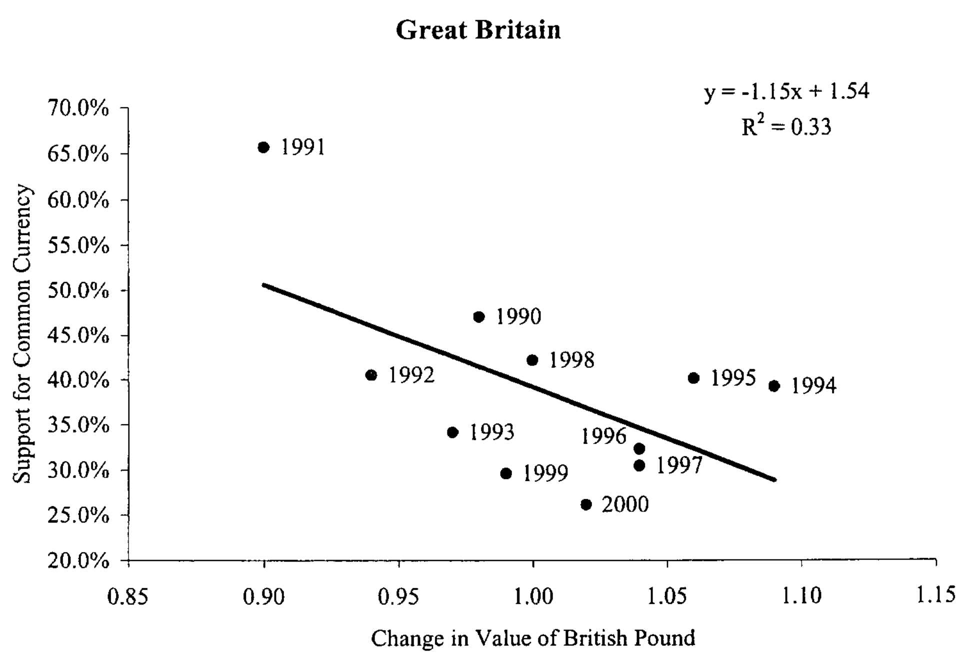
Figure 1: Support for Common Currency Over Time (1990-2000)



Note: Dashed line indicates members that are outside of the euro zone
Source: Eurobarometer 34 (1990), 35 (1991), 37 (1992), 39 (1993), 41 (1994), 43.1 (1995), 44.2 (1996), 47.1 (1997), 49 (1998), 53 (2000)

Figure 2: Relationship between Exchange Rate and Support for Common Currency





Source for exchange rates: http://pacific.commerce.ubc.ca/xr/data.html

Table 1. Modeling Support for the Euro: Individual and Contextual Effects: Logistic Regression Estimates

	Model 1		Model 2		Model 3	
	b	s.e.	b	s.e.	b	s.e.
EU is a good thing	1.62 **	0.02	1.62 **	0.02	1.40 **	0.09
Farmer	-0.02	0.06	-0.02	0.06	-0.02	0.06
Professional	0.13 **	0.03	0.13 **	0.03	0.13 **	0.03
Manual	-0.05 *	0.03	-0.05 *	0.03	-0.05 *	0.03
Not in Labour Force	-0.05 **	0.02	-0.05 **	0.02	-0.05 **	0.02
Keep Home	0.07 **	0.03	0.09 **	0.03	0.07 **	0.03
Low Education	-0.19 **	0.02	-0.19 **	0.02	-0.19 **	0.02
Hi Education	0.12 **	0.02	0.11 **	0.02	0.11 **	0.02
Student	0.17 **	0.04	0.17 **	0.04	0.16 **	0.04
Female	-0.30 **	0.02	-0.30 **	0.02	-0.30 **	0.02
Age	0.01	0.01	0.01	0.01	0.01	0.01
Left	-0.02	0.02	-0.02	0.02	-0.02	0.02
Right	-0.02	0.02	-0.02	0.02	-0.01	0.02
Don't Know Ideology	-0.11 **	0.02	-0.11 **	0.02	-0.11 **	0.02
Change in GDP	-0.06 **	0.01	-0.06 **	0.01	-0.06 **	0.01
Inflation	0.03 **	0.01	0.03 **	0.01	0.03 **	0.01
Exchange Rate	-0.57 **	0.14	-0.55 **	0.14	-0.69 **	0.15
Change in Debt	0.78 **	0.20	0.49 **	0.22	0.80 **	0.20
Not in Labour Force * Debt Change			0.73 **	0.23		
EU is a good thing * Exchange Rate					0.21 *	0.09
Constant	-0.27 **	0.15	-0.28 **	0.15	-0.15 **	0.16
N	142647		142647		142647	
Nagelkerke R Square	0.33		0.33		0.33	

*p > .05; ** p < .01

Note: The least-squares dummy approach is used to estimate the models; they are estimated with dummy variables representing each country (UK is the comparison category) and each year (1991 is the comparison category). Luxembourg is dropped from the analysis. The comparison categories for the dummy variables are medium education, center ideology and white collar worker.

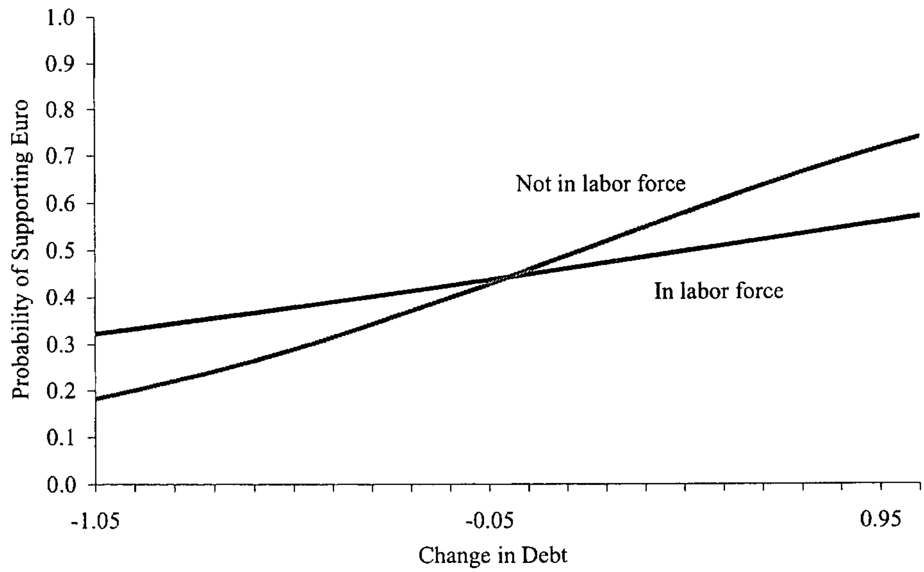


Figure 3. Probability of supporting Euro by debt and participation in labor force

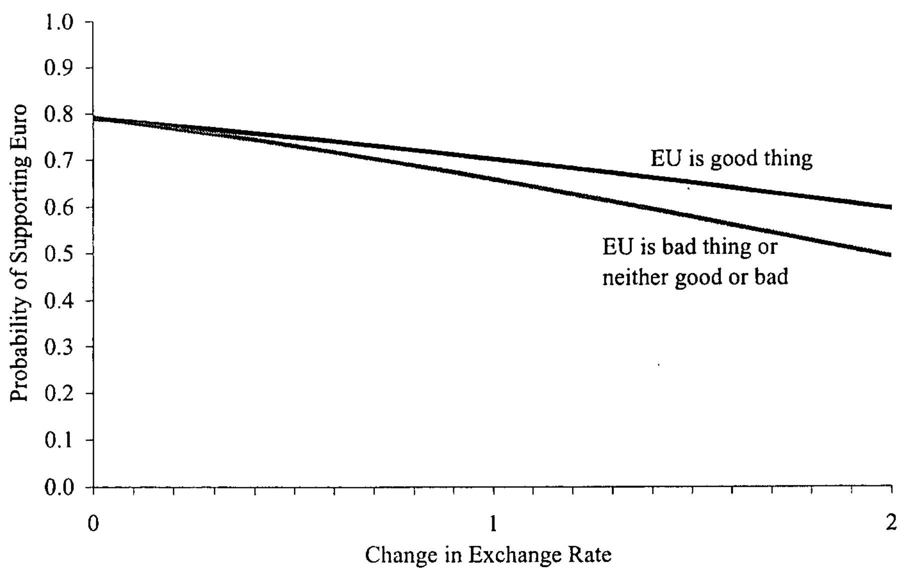


Figure 4. Probability of supporting Euro by exchange rate and support for EU