The Effect of Economic Adjustment on Support for Democracy in Europe

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Support for Democracy: The Divide of Europe

Comparing citizens’ attitudes before and during the Euro-crisis, we observe two patterns of change and stability:

- countries where democratic support remains more or less stable
- countries strongly affected by externally imposed economic adjustment programs, where a majority of citizens becomes ‘detached’ from democracy (movement into lower-left quadrant)

By cutting loose the Eurozone’s periphery from the rest of Europe in terms of democratic legitimacy, the Euro has divided the union, instead of uniting it as foreseen by its architects.

Analyzing Typical Cases: Greece and Latvia

Using the synthetic control method, we compare actual trends in democratic support with counterfactual scenarios:

- Latvia (ID and synthetic Latvia)
- Greece (EMU, ID vs. synthetic Greece (EMU, no ID))

Left graph: Actual detachment in Greece has grown to almost 50 percentage points higher than in a hypothetical country similar to Greece, which pursued no internal devaluation.

Right graph: Detachment in Latvia did not rise as could have been expected from the extent of internal devaluation pursued there (synthetic Latvia). This can be explained by the fact that Latvia voluntarily opted for those policies outside of the Eurozone, which has preserved both input legitimacy and democratic support.

Results of the TSCS Regression Analysis

Rising detachment in the Eurozone’s periphery can to a considerable degree be attributed to externally imposed economic adjustments:

Changes in unit labor costs (proxy for internal devaluation) have no effect on detachment outside the Eurozone, but a large effect within the Eurozone.

Data

26 Eurobarometer surveys from 2002-2014 in 28 EU member states, based on four items:

- Satisfaction with the way democracy works in [country] / the EU
- Trust in the national parliament / in the EU

Methods

Descriptive analysis based on four attitude types (‘approving’, ‘nationalist’, ‘escapist’ and ‘detached’).

Time-series cross-section regression analysis. Dependent variable: changes in the share of the ‘detached’ (i.e., negative orientations towards both the national and the European level).

Synthetic control method to compare four typical cases: Latvia and Sweden (non-Eurozone), Germany and Greece (Eurozone).

Research Question

What are the consequences of economic adjustment programs during the Euro-crisis for the attitudes of citizens towards their democratic political system both at the national and European level?

Argument & Hypothesis

The Euro-crisis can be interpreted as the outcome of institutionally heterogeneous countries entering a currency union that was ill-equipped to prevent its members from diverging economically. More crucially, in terms of crisis response, Eurozone membership limits policy choices for the countries now struggling with balance-of-payments deficits:

- External (exchange-rate) devaluation is not possible
- what remains is internal devaluation, i.e. reducing wages & prices

Internal devaluation leads to problems of democratic legitimacy:

- Internal devaluation policies are recessionary in the short-term and imply considerable social costs -> loss of output legitimacy
- Democracy is about choice, but the only option left for deficit countries is internal devaluation, i.e. reducing wages & prices

For their lack of democratic legitimacy, the economic adjustment programs imposed on deficit countries result in an erosion of support for democracy. We test the following hypothesis:

The stronger an internal devaluation imposed upon a country, the larger is the increase in the share of detached citizens.

Our argument implies that by forcefully determining policy responses in deficit countries, the Euro itself divides the peoples of Europe with respect to their attitudes towards their democratic political system.