

# The reputation of the euro and the ECB: interlinked or disconnected?

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*Views expressed in this paper are those of the authors, which do not necessarily represent the views, decisions or policies of the European Central Bank and should not be reported as such.*

**Abstract:** *The financial and sovereign debt crisis has brought issues of European economic and monetary integration to the fore of political debates at European and national level. The present paper explores the consequences of these developments at the public opinion level, tracing the evolution of popular support for European economic and monetary union (EMU) along two central dimensions, namely: popular support for the euro as the most visible outcome of economic and monetary integration at EU level; and public confidence in the ECB as the institution tasked with setting monetary policy and safeguarding the stability of the single European currency. Focussing on the individual-level relationship between institutional trust in the ECB on the one hand and support for the single European currency on the other, the paper explores the following research questions: How has citizens' support for the euro and popular trust in the ECB evolved since the start of the financial and sovereign debt crisis? How is support for the euro related to trust in the ECB at the individual level and which types of EMU-sceptics and supporters can we distinguish among the EU population? Which are the underlying causes of support for the euro and trust in the ECB, how are they related and how have they developed over the course of the crisis? Drawing on data from the Eurobarometer surveys, the empirical analysis traces the evolution of public support for the euro and confidence in the ECB among citizens in euro area Member States, exploring parallels and differences in the two dimensions of support for monetary integration over the course of the crisis. A second step of the analysis develops a typology of EMU-sceptics and supporters, distinguishing between groups of citizens supportive of both the euro and the ECB, those supporting either the currency or the institution, and those supporting neither. In a third step, we explore the socio-demographic and political correlates of different forms of EMU-scepticism and support, demonstrating that EMU-scepticism takes different forms, draws on different sources and holds different implications for European economic and monetary integration.*

# ***The reputation of the euro and the ECB: interlinked or disconnected?***

## **1. Introduction**

The financial and sovereign debt crisis has brought issues of European economic and monetary integration to the fore of political debates at European and national level. The present paper explores the consequences of these developments at the public opinion level, tracing the evolution of popular support for European economic and monetary union (EMU) along two central dimensions, namely: *popular support for the euro* as the most visible outcome of economic and monetary integration at EU level; and *public confidence in the ECB* as the institution tasked with setting monetary policy for the euro area and safeguarding the stability of the single European currency.

Public trust in the currency as well as in the central bank behind it appear indispensable for the smooth functioning and long-term stability of the currency union. In a climate of low public trust in the stability of the currency, bank runs and inflation fears become more likely, undermining the effectiveness of monetary policy and ultimately the legitimacy of the central bank. Vice versa, central banks rely on the public's trust in them to steer inflation expectations to fulfil their mandate of maintaining price stability. Furthermore, in the case of the euro, popular support for the common currency is seen as a test case for citizens' willingness to transfer core powers of the national state to the European level (see e.g. Banducci et al 2003; Kaltenthaler and Anderson 2001).

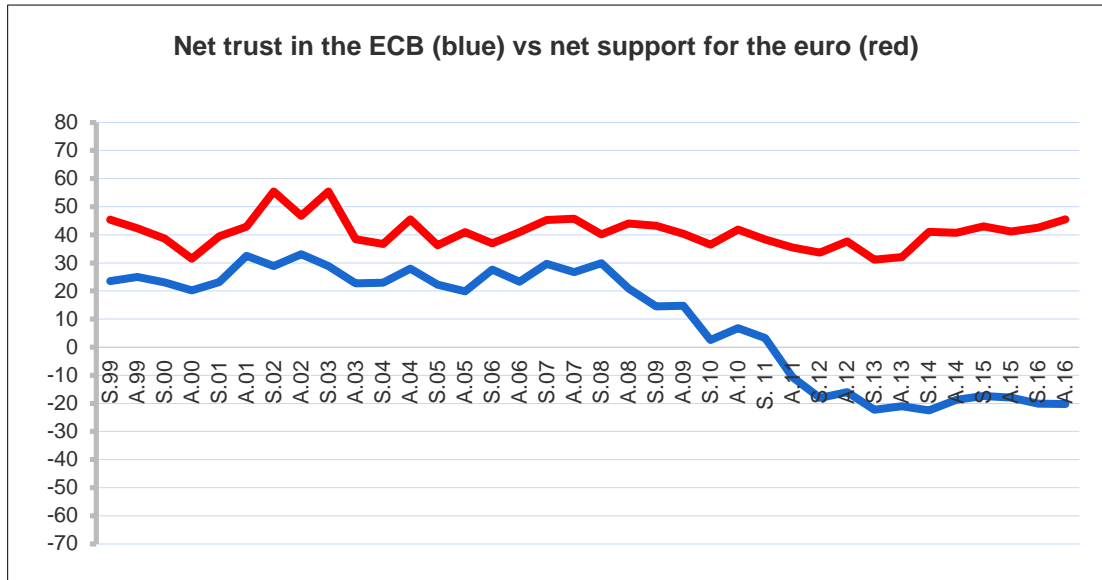
While the euro and the ECB are inextricably linked at the institutional level, public opinion towards the two has followed divergent trends over the course of the financial and economic crisis: Public support for the euro has remained stable at high levels even at the height of the crisis. In contrast, public trust in the ECB has seen a significant decline in the crisis (cf. Figure 1; see also the descriptive results in e.g. Hobolt and Leblond 2014; Roth et al 2014, 2016).

What drives this divergence between euro support and ECB trust at the individual level? Who are the citizens supporting the common currency but having lost confidence in the ECB as the institution behind the euro? Which are the drivers of support for the euro and trust in the ECB, how are they related and how have they developed over the course of the crisis?

To answer these questions, the present paper develops a typology of EMU-sceptics and supporters based on different combinations of support for the euro and ECB trust. It conceptualised support for the euro as essentially value based whereas trust in the ECB reflects satisfaction with the institutions and policies of EMU and hence is largely dependent on performance evaluations and short-term outputs of EMU. Based on this conceptualisation, the paper argues that underlying the divergent trends in public opinion are differences in the perception of the ECB on the one hand and the euro on the other in a logic of sticks and carrots. Due to the increased salience and politicisation of the ECB and its policy measures in the crisis, citizens are likely to have a negative perception of the ECB and its policy measures— be it for its participation in the troika or due to low interest rates seen as burdening savers (“sticks”). The euro, on the other hand, appears to be still widely perceived as a desirable public good and

symbol of European integration that has provided a political bond even in times of crisis (“carrots”).

**Figure 1:** Evolution of support for the euro and trust in the ECB in the euro area, 1999-2016



**Note:** *Question wording:*

*Support for the euro* “What is your opinion on each of the following statements? Please tell me for each statement, whether you are for it or against it: A European economic and monetary union with one single currency, the euro.”

*Trust in the ECB:* “Please tell me if you tend to trust or tend not to trust these European institutions: The European Central Bank.”:

*Operationalisation:*

*Net support for the euro:* % for single currency minus % against single currency;

*Net trust in the ECB=* % “tend to trust ECB” minus % of respondents “tend not to trust”;

**Source:** Eurobarometer surveys, own calculations

The present analysis presents a novel contribution to public opinion research on EU integration and support for monetary and economic integration specifically by focussing on the interlinkages between two dimensions of support for EMU. EU public opinion research so far has largely concentrated on *either* support for the euro *or* public trust in the ECB. However given that the euro and the ECB are inextricably linked at the institutional level, the two dimensions ought to be examined in parallel as different combinations of the two hold different implications for European economic and monetary union (EMU), ranging from demands for improvement of the current governance framework vs. a halt to or even break-up of EMU and the euro as the common currency.

The remainder of the paper is structured as follows. A first section spells out the importance of public trust in the central bank and support for the currency for the functioning of monetary union and briefly reviews the state of research in this regard. A second section develops a typology of EMU-sceptics and supporters, distinguishing between groups of citizens supportive of both the euro and the ECB, those supporting either the currency or the institution, and those supporting

neither, and derives hypotheses regarding the determinants of different types of EMU-scepticism and EMU-support. Drawing on data from the Eurobarometer surveys, the ensuing empirical analysis proceeds in three steps, tracing first the evolution of public support for the euro and confidence in the ECB from 2004-2015, exploring parallels and differences in the two dimensions of support for monetary integration over the course of the crisis; second, it examines the prevalence of different types of EMU-sceptics and supporters in the EU general public and at Member State level; third, we explore the socio-demographic and political correlates of different forms of EMU-scepticism and support.

The paper concludes that despite a loss of public confidence in the institutions of EMU in the aftermath of the crisis, citizens still are in favour of the project of a common currency per se, with those supporting the euro, but lacking trust in the ECB forming the relatively largest group among euro area citizens in spring 2016. Empirically, support for the euro is mainly correlated with feelings of European identity and support for the idea of European integration whereas trust in the ECB is largely performance-based and depends foremost on citizens' satisfaction with EU crisis measures and the generalised performance of the EU system, less so on citizens' economic outlooks. In principle, trust in EMU institutions should thus be able to recover if EMU and the EU more generally are able to deliver policies perceived as benefitting ordinary citizens; however, there is a risk of negative spill-overs from negative experiences with the outputs of European economic governance to support for the project of economic and monetary union more generally, especially in Member States experiencing prolonged economic downturns and where confidence in political institutions was low already at the start of the crisis.

## **2. The relevance of public trust in the ECB and support for the euro for the stability of EMU**

Public support for the euro and trust in the ECB as the institution tasked with safeguarding the euro are seen as crucial for the smooth functioning and sustainability of EMU (Roth et al 2016) and a test case for citizens' willingness to transfer core powers of the nation state to European institutions (Banducci et al. 2003; Kaltenthaler and Anderson 2001, Kuhn and Stoeckel 2014).

### ***The role of trust in the currency and central banks***

For a currency union to be stable over time, the public needs to have confidence in both the currency and the central bank as the institution mandated with safeguarding the value of the currency. A currency and the central bank behind it are not only linked institutionally, but mutually depend on people's trust. If people no longer have confidence in the stability of a currency, bank runs and inflation fears become more likely, hampering the smooth functioning and effectiveness of monetary policy and ultimately the legitimacy of the central bank. Vice versa, central banks rely to a large extent on steering public inflation expectations to fulfil their mandate, requiring a basic public understanding of economic and financial matters and a high level of trust in the central bank (see e.g. Carroll 2003; Carvalho and Nechio 2014; Easaw et al. 2010; Ehrmann et al. 2013).

When trust in the central bank to fulfil its mandate declines, inflation expectations risk becoming de-anchored, undermining the effectiveness of the central bank's monetary policy measures. Moreover, a lack of public trust makes the central bank more vulnerable to political pressure as politicians have a greater incentive to make critical comments (Ehrmann and Fratzscher 2011).

### ***Support for the euro and the ECB and the long-term stability of EMU***

Public support appears even more important in the case of EMU as it provides the necessary legitimacy for supranational governance in an area that traditionally is a core competence of the nation state, namely to conduct its own monetary policy. In this perspective, public support for the euro and trust in the ECB are crucial for the long-term viability of the European monetary union (Roth et al 2016). While in the national context, the sustainability of a currency is mostly taken for granted, EMU as a union of sovereign states must ultimately also rely on a 'sense of common purpose' (De Grauwe 2016, p.140) or shared sense of a 'communality of destiny' (Baldwin and Wyplosz 2015) that provides a political bond among members of the monetary union beyond standard economic arguments. Such a political bond appears even more important in times of crisis when membership in the euro area has increasingly been framed and perceived as creating winners and losers and the ECB's expansionary monetary policy has been criticised as benefitting Southern European euro area member states at the expense of savers and pensioners in the North (see e.g. findings in Picard 2015). More generally, popular support for European monetary unification and the euro is considered a test case for citizens' willingness to transfer core national competences to the European level and the potential for further EU integration (Banducci et al. 2003; Kaltenthaler and Anderson 2001, Kuhn and Stoeckel 2014). Such willingness for further integration appears even more essential in the case of EMU as many commenters see the long-term success of EMU depend on progress on political union and further competence-sharing in fiscal and economic policy at European level (see e.g. de Grauwe 2016, Scharpf 2015).

### **3. Conceptualising EMU support**

While public support for the euro and trust in the ECB are both necessary for the functioning and viability of EMU, conceptually, they represent distinct orientations as they are directed at different objects of support – the euro on the one hand and the ECB on the other – and with different implications for the long-term stability of EMU. To conceptualise these orientations, we draw on Easton's concept of political support (Easton 1965, 1975) and adapt it to the EMU governance framework.<sup>1</sup>

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<sup>1</sup> Easton's concept of political support has been previously adapted to the political system of the EU, but not the EMU framework specifically. For an adaptation to the EU, see e.g. Fuchs (2003), Weßels (2007).

### ***Easton's concept of political support***

Easton differentiates between orientations towards three hierarchically ordered objects of support – the political authorities, the political regime and the political community – and two modes of orientations towards these objects - specific and diffuse support (cf. Figure 2). Political authorities refer to the occupants of authority roles as well as the institutions of which they are part (Easton 1975, p. 438). The regime is characterized by its political values, norms, and structure. The political community refers to the group of persons bound together by a political division of labour (Easton, 1965, p.177). As regards the different modes of orientations, specific support refers to evaluations of the perceived output and performance of the political authorities and the regime. Diffuse support, in contrast, is based on evaluations of what an object is or represents, not what it does (Easton 1975, p.437). As a result, diffuse support is expected to be more stable over time and more resistant to unsatisfactory outputs and performance in the short term while specific support should be more volatile to discontent with the current output and performance. In the same vein, diffuse support is considered essential for the persistence of a regime over time and especially in times of crisis when short-term outputs and performance will likely be negative. In other words, the more a regime can build on diffuse support, the more resilient it will be in a crisis while a regime depending predominantly on specific support linked to positive results.

**Figure 2:** Easton's concept of political support

#### *Orientations towards political objects*

<b>Modes of orientation</b>	<b>Political objects</b>		
	Authorities	Regime	Community
Specific	X		
Diffuse	X	X	X

**Source:** Compilation based on Easton 1965, 1975.

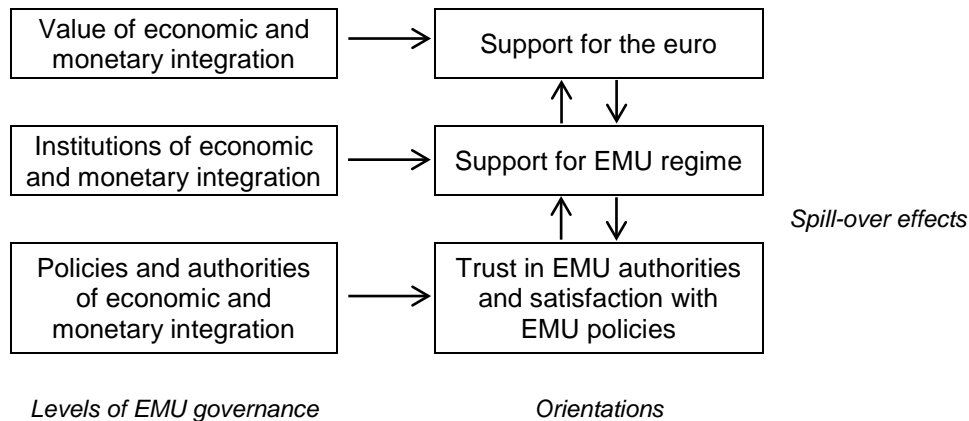
### ***The concept of political support adapted to EMU***

While EMU first and foremost aims at the greater integration of EU economies via more coordination of economic and fiscal policies, a common monetary policy and a single currency, it has been presented as a political project from the start. The governance structure of EMU is embedded in the overall political system of the EU, with member state governments and EU institutions being the main actors sharing competences for economic policy. Against this background, it seems justified to apply the concept of political support also to EMU. Accordingly, we can think of the European economic and monetary union with the euro as the single currency as the regime – it provides the structure for economic governance in the euro area and

represents the value of economic integration and close cooperation between euro area Member States. The ECB as the monetary authority for the euro area and the institution mandated with safeguarding the value of the euro represents one of the main EMU authorities besides national governments, the EU Council in euro area composition (Eurogroup) and the Commission.<sup>2</sup> The relevant community would be community of euro area citizens, which is not analysed in the context of the present paper and will not be discussed further here.

In line with Easton's proposition of hierarchically ordered objects of support (authorities, regime, community) and his suggestion that political regimes themselves are characterized by their underlying values, norms, as well as structures, we can differentiate between different levels and orientations of EMU governance (cf. Figure 3). At the top level, we find the value of economic and monetary integration as such that is underlying the EMU regime, with support for the idea of a currency union and the single currency as the corresponding orientation. The second, intermediate level of EMU governance is embodied by the institutional structure of European economic integration, which is reflected in orientations towards the EMU regime as such at the attitudinal level. Finally, policies and authorities of economic and monetary integration form the third level of EMU governance, reflected in orientations towards EMU policies and trust in EMU institutions at the attitudinal level.

**Figure 3:** Levels and orientations of EMU governance



**Source:** Own compilation

Easton expects that support for the authorities will be more specific in kind and based on positive experiences with the authorities' output and performance. In contrast, he conceptualises support for the regime as mainly diffuse support based on the values incorporated by the regime. Easton further anticipates spill-overs, both from specific to diffuse support and from experiences with the

<sup>2</sup> Other EMU authorities would be the Eurogroup President, which are not analysed here, and to lesser extent the European Parliament, especially its Committee on Economic and Monetary Affairs (ECON).

authorities to orientations towards the regime. Thus, positive experiences with the outputs and performance of the authorities over a longer time period should result in diffuse – or generalised – support, first of the authorities and ultimately also of the regime. Vice versa, it can be expected that discontent with outputs and performance over a longer time period will not only depress specific support, but ultimately also transform into generalised discontent, with spill-overs from generalised discontent with the authorities to discontent with the regime as such (Easton 1965, 1975; Weßels 2007).

Adapted to the EMU context, this implies that *support for the ECB* should be more closely related to concrete outputs and performance evaluations. The most concrete output and obvious yardstick for assessing the ECB's performance is the inflation rate as a measure of price stability, the ECB's primary objective according to the Treaty. However, in the course of the crisis, ECB was characterised in the mass media as one of the key actors in charge of addressing the economic crisis (see e.g. findings in Picard 2015); what is more, as part of the troika that designed and reviewed macroeconomic adjustment programmes in countries receiving conditional financial assistance, the ECB took on tasks beyond its price stability mandate. Finally, the ECB's low interest rate policy and unconventional policy measures taken in the aftermath of the crisis led to a further politicisation of the ECB and its policies. Against this background, it can be assumed that citizens not only became more aware of the ECB in the course of the crisis<sup>3</sup>, but that they also perceived the ECB's task and responsibilities as going beyond the mandate of price stability and will take general macroeconomic developments as well as the bank's role in crisis management into account when evaluating its performance.

*Support for the euro* on the other hand should be more diffuse in kind and, therefore, more resistant to negative performance evaluations of EMU, at least in the short term. The expectation is that citizens support the euro for its own sake and therefore support for the euro will be less volatile to economic developments in the crisis. Nonetheless, in line with Easton's assumption of spill-overs from the authorities to the regime, there is a risk of long-term dissatisfaction with the outputs of EMU becoming entrenched and gradually eroding also support for the euro at the regime level. Such an erosion of support for the euro would imply greater risks for the long-term stability of EMU as it would signal an erosion of trust in the regime of European economic governance and the value of economic integration per se among citizens in the euro area Member States that may be exploited by Eurosceptic or anti-euro political actors.

Regarding the development of support for the ECB and support for the euro over the course of the crisis, we would expect that the economic downturn in the crisis first led to a decline in

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<sup>3</sup> In effect, survey data from the Eurobarometer show a notable increase in public awareness of the ECB during the crisis years. The share of respondents who say they have "heard about" the ECB increased from 70% in 1999 to 85% in 2015, with most of that increase stemming from the crisis years



support for the ECB, which should be more closely related to short-term economic performance and outputs than support for the euro. Over time, however, and especially in those countries experiencing low economic growth and high unemployment over an extended period of time like Greece or Spain, we may expect that dissatisfaction with the economic outputs of the regime becomes entrenched and suppresses also support for the single currency as such.

**Types of support for EMU and their implications for European economic integration**

Having conceptualised public support for the euro and trust in the ECB, we can cross-table the two orientations to derive a fourfold typology of (lack of) support for EMU (cf. Figure 4): The first group of citizens neither supports the euro nor trusts the ECB (EMU-sceptics); the second group supports the euro, but does not trust the ECB (euro-supporters); the third group does not support the euro, but trusts the ECB (ECB-supporters); and the fourth group supports the euro and trusts the ECB (EMU-supporters).

**Figure 4:** Typology of EMU-support

*Types of EMU-support and EMU-scepticism*

		Support for the EMU and the euro	
		<i>Against</i>	<i>For</i>
Trust in the ECB	<i>Tend to trust</i>	euro-sceptics	EMU-supporters
	<i>Tend not to trust</i>	EMU-sceptics	ECB-sceptics

**Source:** Own compilation

The different types of EMU-support and -scepticism hold different implications for European economic and monetary integration and the long-term stability of EMU. In view of the stability of EMU over time, the first group appears the most critical as they support neither the ECB as representing the EMU authorities nor the regime of the single currency as such. As a result, these citizens may be more open to follow anti-euro or generally Eurosceptic voices calling for a break-up of the euro area. The second group is the most critical from an ECB perspective as these citizens appear to question the legitimacy of the ECB and its policies, which may make the central bank more vulnerable to political pressures, even if citizens in this group still support a common currency. The third group, similarly to the first, lacks support for the regime of the single currency and hence may be open to anti-euro voices, although continued trust in the ECB may provide a buffer against attempts to break-up the currency union. Finally, the fourth group is the type that is

most conducive to the long term sustainability of EMU from a theoretical perspective: these citizens support both the euro as such and the ECB as the monetary authority behind it.

The following section will provide descriptive empirical evidence of the distribution of citizens across the four types and the developments in these groups over the course of the crisis, both in the euro area aggregate and at Member State level.

#### **4. Levels and development of EMU support in and after the crisis**

The present section examines trends in the strength of the different types of EMU-supporters and –sceptics based on survey data from the bi-annual Standard Eurobarometer surveys<sup>4</sup>. To assess respondents’ support for the single currency, we use the question “What is your opinion on each of the following statements? Please tell me for each statement, whether you are for it or against it: A European economic and monetary union with one single currency, the euro.” To assess respondents’ support for the ECB, we use the question “Please tell me if you tend to trust or tend not to trust these European institutions: The European Central Bank.” Both questions are regularly included in the Eurobarometer, allowing us to track support for EMU over an extended time period and compare developments before and after the economic and financial crisis. Figure 5 provides a snapshot of the distribution of respondents across the four types of EMU-support and EMU-scepticism in the euro area and at member state level in spring 2016. **Support for EMU in the euro area**

Starting with the euro area aggregate, we see that prior to the crisis, a relative majority of around 40% of euro area citizens fell into the EMU-supporters group, expressing both support for the single currency and trust in the ECB (turquoise line in Figure 6). This group shrinks starting with the onset of the financial and economic crisis in 2008/2009 and until 2016 when its size stabilises again, but at substantially lower levels (28% in spring 2016). However, it appears that citizens mainly lost confidence in the ECB, but did not necessarily turn against the project of a common currency per se, as evidenced by the growing number of those still supporting the euro, but lacking trust in the ECB, which is now the relatively largest group (30% of respondents fall into this group in spring 2016; see red line in Figure 6). Still, since the crisis, we also observe an increase in the number of citizens who support neither the euro nor the ECB (violet line in Figure 6). In spring 2016, this group includes close to 20% of euro area citizens, meaning that about a fifth of the population in the euro area seems to lack the more fundamental kind of regime support required in view of the long-term sustainability of EMU. The fourth group, i.e. citizens supporting

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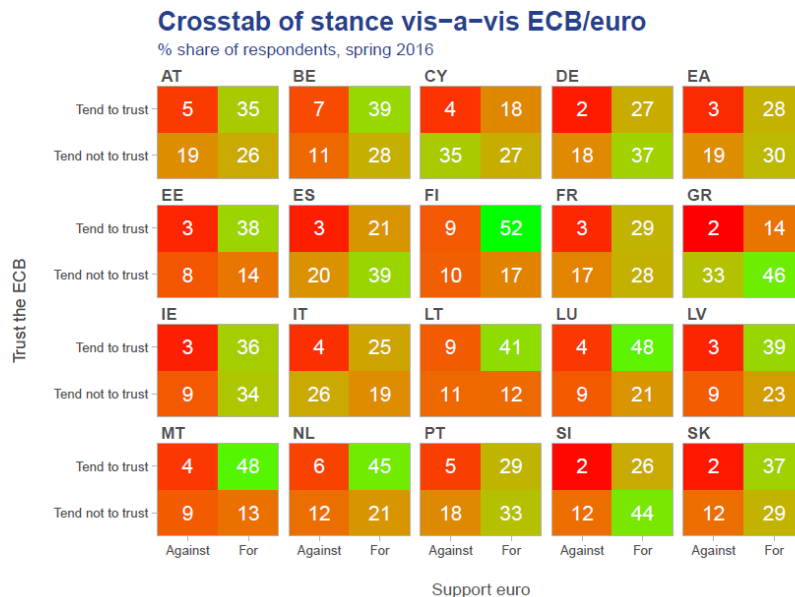
<sup>4</sup>Conducted on behalf of the European Commission, Eurobarometer (EB) surveys are representative samples of the populations of the EU member states aged 15 and over, with each survey consisting of approximately 1000 face-to-face interviews per country. Standard EB surveys are conducted at least twice a year, including attitudes towards European unification, institutions, and policies; measurements for general socio-political orientations; and respondent and household demographics.

the ECB but not the euro (green line in Figure 6), is negligibly small across the euro area (less than 5% of respondents).

Overall, the empirical evidence so far confirms the theoretical expectations whereby support for the euro should be more resistant to the negative experiences of the crisis while trust in the ECB should be more performance-related and therefore more likely to decline over the course of the economic and financial crisis. Nonetheless, as the financial and economic crisis wore on, there seem to have been some spill-overs from negative experiences with the outputs of European economic governance to support for the project of economic and monetary union more generally, as evidenced by the growing number of respondents neither trusting the ECB nor supporting the euro between 2009 and 2012. This trend seems to have stopped in recent years as the economy has been recovering, although the number of euro area citizens who qualify as EMU-sceptics is still substantially higher than before the onset of the financial and economic crisis.

**Figure 6** shows levels and development of the four groups of EMU-supporters and EMU-sceptics from 1995 to 2016, both for the euro area aggregate (EA) and individual member states.

**Figure 5:** EMU-support in spring 2016



**Source:** ECB staff calculation based on Standard Eurobarometer no. 85 from spring 2016

<sup>5</sup> Or the respective year of accession to the euro area for Member States that adopted the common currency after 1999.

### ***Support for EMU in the euro area***

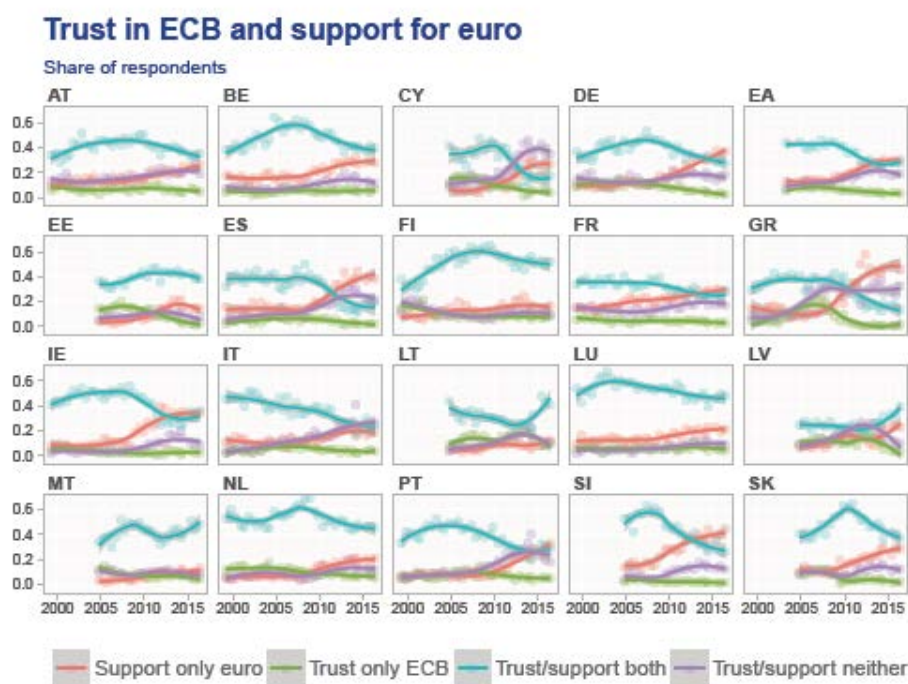
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Overall, the empirical evidence so far confirms the theoretical expectations whereby support for the euro should be more resistant to the negative experiences of the crisis while trust in the ECB should be more performance-related and therefore more likely to decline over the course of the economic and financial crisis. Nonetheless, as the financial and economic crisis wore on, there seem to have been some spill-overs from negative experiences with the outputs of European economic governance to support for the project of economic and monetary union more generally, as evidenced by the growing number of respondents neither trusting the ECB nor supporting the euro between 2009 and 2012. This trend seems to have stopped in recent years as the economy has been recovering, although the number of euro area citizens who qualify as EMU-sceptics is still substantially higher than before the onset of the financial and economic crisis.

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<sup>6</sup> It should be noted that the Eurobarometer does not provide panel data, but cross-sectional data at different time points. Accordingly, the present analysis describes changes in the levels of trust and support in the euro area aggregate and at member state level, not inferences about changes in individual attitudes over time.

**Figure 6:** Levels and development of EMU-support, 1999-2016



Source: Eurobarometer, ECB staff calculations

### ***Patterns of EMU-support at the Member State level***

At the same time, the development of EMU-support in the euro area aggregate masks important divergence at the country level, with individual member states showing very different trends compared to the euro area as a whole. Three main groups of countries can be distinguished: a first group of mainly north-western European countries and some of the more recent euro area member states (FI, BE, LU, NL, as well as MT, LT, EE and to a lesser degree AT and SK) where a majority of respondents continue to support the euro and trust the ECB; a second group of countries where the largest group are now those respondents who continue to support the euro, but no longer trust the ECB – these appear to be mainly the countries that were most affected by the economic and financial crisis, either by experiencing severe economic downturns (GR, ES, IE, SI, PT) or as main guarantors of credits to countries receiving financial assistance via the EFSF/ESM (DE). Finally, in a third group of Southern European countries (IT, CY), the largest group are now those respondents who neither support the euro nor trust the ECB.

### ***Explaining divergences in EMU-support at the Member State level – a tale of sticks and carrots?***

How can we explain the country-specific patterns? One general rationale underlying the divergent trends at Member State level may be differences between countries in the national publics'

perception of the ECB and the euro in a logic of sticks and carrots. That is, in a number of countries, negative perceptions of the ECB and its policies (“sticks”) appear to dominate, likely related to the ECB’s role in the crisis in these countries. In contrast, the euro still seems to be widely perceived as a desirable public good (“carrots”), even in the presence of widespread distrust in the ECB as the monetary authority behind it. This interpretation also fits with the concept of political support which would predict support for the ECB to be more output-based (and decline if and when the ECB’s actions are perceived as having negative effects) whereas the euro should be supported for its own sake – for what it ‘is and represents, not what it does’ in Easton’s terms – a public good and an embodiment of the value of European cooperation.

### **No Stick, all carrots**

The first group of countries (FI, BE, LU, NL, MT, LT, EE, AT, SK) all weathered the crisis relatively well while also being less exposed as guarantors via the EFSF or the ESM. In the Baltic countries, the observed uptick in support for the euro and/or trust in the ECB may also be explained by the changeover to the euro and the related communication campaign that had a positive impact on the perception of the euro. Hence, in these countries, the ECB likely was not perceived as taking on a punishing role in the crisis while the benefits of the euro – in particular for small open economies – prevailed.

### **Stick and carrot**

The second group of countries includes on the one hand most of the countries that experienced the worst economic downturn in the crisis (GR, ES, IE, SI, PT) and, for some, had to enter macroeconomic adjustment programmes and, on the other hand, Germany, which gave the largest guarantees under the EFSF/ESM. While in the programme countries, the ECB was heavily criticised for its participation in the troika, in Germany, the ECB’s policy measures in the aftermath of the crisis, low interest rates in particular, are widely considered as unduly punishing German savers and pensioners.

Against this background, the growing divergence between ECB trust and support for the euro in this second group of countries may be explained by a “stick & carrot” perception of the ECB on the one hand and the euro on the other. In this perspective, the ECB worked as a stick – first and foremost in Greece and other countries undergoing macroeconomic adjustment programmes where the ECB was seen as imposing austerity measures as part of the Troika. But also in Germany, the ECB has come under pressure as its policy measures in the aftermath of the crisis and low interest rates in particular are seen as unfairly punishing ordinary savers and pensioners in Germany to the advantage of the Southern European Member States. These problems only grow as the economic recovery in the euro area becomes more heterogeneous. As a result, the ECB’s monetary policy is increasingly seen as suffering from a ‘one size fits none’ problem while the perceived conflicts between core and periphery (and between Germany and the Southern

European countries in particular) as well as between savers and borrowers intensify, suppressing trust in the ECB.

At the same time, respondents in these countries continue to show relatively high support for the euro, independently of – or despite – their views about the ECB. Presumably, respondents in these countries still perceive the euro as providing tangible material and immaterial benefits (“carrots”), both to them individually and collectively to their country and the European community. In effect, in all of these countries, substantive majorities believe that generally speaking, the euro is a good thing for their country and even more believe it is a good thing for the EU.<sup>7</sup> Likewise, substantial numbers of citizens appear to see the euro as a symbol of European integration: in effect, these countries display some of the highest shares of respondents mentioning the euro when asked about what the EU means to them personally.<sup>8</sup> Thus, it seems that for many citizens in these countries, the euro is a value that is supported for its own sake, independently of the concrete economic outputs of EMU and therefore less susceptible to short-term economic developments than institutional trust in the ECB.

While the continuously high support for the euro in these countries should provide a buffer against political entrepreneurs advocating an exit from the euro area, the ECB has become more under pressure recently, with mainstream politicians openly questioning not only its policy measures, but also its independence, particularly in Germany.

### **All Stick, no carrot**

Italy and Cyprus as the third group of countries display the most worrying developments in view of the long-term stability and functioning of monetary union, as citizens appear to have lost trust both in the ECB and the euro as the common currency. In both countries, the largest group of respondents are now the EMU-sceptics, trusting neither the ECB nor supporting the euro (35% of respondents in Cyprus and 26% of respondents in Italy). Both countries experienced severe economic downturns and subdued economic growth and high unemployment over an extended time period following the financial and economic crisis. While Cyprus entered an economic adjustment programme in 2013, in both countries structural weaknesses remain and the recovery has been modest, with still high levels of unemployment especially in Cyprus. It appears that in these countries, the prolonged economic downturn and the perceived negative experience with European economic governance not only have suppressed trust in the ECB, but have spilled over to support for the euro. In the logic of sticks and carrots, while trust in the ECB has declined in the crisis, the euro is no longer perceived as a carrot either, at least not for their own country. In effect, in both countries, majorities now believe that the euro is a bad thing for their country while

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<sup>7</sup> See Flash Eurobarometer no. 446 on the euro area from December 2016.

<sup>8</sup> See Standard Eurobarometer no. 86 from November 2016.

it is still considered a good thing for the EU.<sup>9</sup> Likewise, we observe a heightened politicisation of EU integration issues in these countries, with negative views of the EU and EU institutions dominating in the mass media (for Italy, see e.g. Di Mauro 2014; for Cyprus, see e.g. Katsourides 2016).

What is more, in both Italy and to a lesser extent Cyprus, the financial and economic crisis unfolded against a background of already elevated dissatisfaction with the workings of the political system and widespread pessimism about the national economic situation. To illustrate, Eurobarometer trend files show that in Italy, ever since the 1990s a (relative) majority has been dissatisfied with the way national democracy works while the share of respondents expecting their life to be 'better' in the year to come has been declining already from 2002 onwards. In Cyprus, ever since 2005, majorities believed the national economic and employment situation to be bad and possible worse in the following year. In Italy, already in 2004, (relative) majorities thought their home country was doing worse economically than the average EU country. In contrast, in Austria, Germany and the Netherlands, the majority view was always that their country was doing better than the EU average.

This generalised loss of trust in the political system to deliver risks providing a futile ground for anti-establishment and eurosceptic or anti-euro political forces that have the potential to also push mainstream political parties towards more critical position vis-à-vis the EU and other euro area member states.<sup>10</sup> This has been visible for instance in Italy with the rise of the Movimento 5 Stelle and the more confrontational rhetoric of former Prime Minister Renzi vis-à-vis his European partners and the EU institutions.

Having explored the development of EMU-support in the euro area and country aggregate, the following section will turn to the analysis of EMU-support at the individual level.

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<sup>9</sup> See Flash Eurobarometer no. 446 on the euro area from December 2016.

<sup>10</sup> For evidence on the response of mainstream and extreme political parties to the growth in Eurosceptic attitudes in the general public, see e.g. De Sio et al (2016), Pirro and van Kessel (2017) and Rohrschneider and Whitefield (2016)



## 5. Explaining EMU support

The present paper contributes to the literature on public opinion towards European economic and monetary integration in two regards: First, while EU public opinion research so far has largely concentrated on *either* support for the euro *or* public trust in the ECB, the present analysis explores individual support for the euro and trust in the ECB jointly based on the theoretical assumption that both support for the currency and the central bank behind it will be necessary for the long-term viability of EMU and the links between the euro and the ECB at the institutional level. Second, it extends the analysis of the determinants of support for the euro and trust in the ECB by assessing the impact of political and economic orientations on EMU support. Existing research on trust in the ECB in particular has largely focused on the influence of socio-demographic characteristics on trust. However, given the heightened salience and politicisation of the ECB in the course of the crisis, it appears warranted to explore whether citizens' economic and political evaluations also affect trust in the central bank and support for EMU more generally. In line with the theoretical considerations regarding EMU support outlined above, economic and political orientations included in the analysis will primarily refer to performance evaluations of the EU as well as citizens' assessment of the economic situation.

### ***State of research on determinants of support for the euro and trust in the ECB***

Existing research on public support for EMU has largely relied on well-known theories of EU support to explain citizens' attitudes towards the common currency, in particular utilitarian and identity-based approaches. In line with utilitarian approaches, citizens from countries that benefit economically, or are perceived to benefit economically, from EU membership have been found to be more supportive of the euro (Banducci et al. 2003, 2009; Hobolt and Leblond 2014; Kaltenthaler and Anderson 2001). Moreover, support for EMU has been found to be higher if the euro is stronger (Banducci et al. 2009). Also support for the introduction of the euro in non-EA Member States is higher when the euro is stronger (Hobolt and Leblond 2009). In a similar vein, economic evaluations influence trust in the ECB as respondents who favourably judge the situation of the European economy<sup>11</sup> and/or their personal financial situation have been found to be more likely to trust the ECB. Furthermore, respondents appear to trust the ECB more if they expect the economy to get better in the future (Farvaque et al. 2012).

In line with identity-based approaches, research on referenda the euro in Denmark and Sweden has found 'identity concerns' to have played a greater role than 'pocketbook calculations' (Jupille and Leblang 2007), with citizens perceiving the EU as a threat to national sovereignty and

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<sup>11</sup> Respondents' judgment the European economy is more important than their judgment of the national economy, which has no significant influence on trust in the ECB (Kaltenthaler et al. 2010). This is in line with the finding that economic developments in other Member States affect levels of euroscepticism domestically (Ioannou, Jamet and Kleibl 2015).

democracy being more likely to vote against the euro's adoption (see also Hobolt and Leblond 2009). While identity factors so far have not been explored in relation to trust in the ECB, there is some empirical evidence that (national) political considerations also affect confidence in the central bank: respondents who feel their voice counts in the EU, believe their country's interests are represented in the EU and are satisfied with the way democracy works in the EU have been found to be more likely to trust the ECB (Kaltenthaler et al. 2010). Unsurprisingly, trust in the ECB is further correlated with trust in other EU institutions<sup>12</sup>, generalised support for the EU as well as overall institutional trust (Ehrmann et al. 2013; Hayo and Neuenkirch 2014).

Analyses of support for European economic governance over the course of the crisis are inconclusive: Kuhn and Stoeckel (2014) find that both utilitarian considerations and national identity mattered for support for European economic integration during the crisis; in contrast, Hobolt (2014) provides evidence that national identity has become less relevant in shaping an individual's support for EMU while evaluations of the benefits of EU membership of the EU's institutional capacity have become more important for support for EMU. Similarly, Hobolt and Wratil (2015) find the influence of national identity to become less relevant for respondents' support for the euro in the financial crisis.

Overall, previous research on support for the euro has taken economic and political orientations more into account than analyses of trust in the ECB. The latter have largely focussed on the socio-demographic correlates of trust, showing that better educated and high-skilled individuals, those in higher income groups and respondents living in urban areas are more likely to trust the ECB whereas being unemployed or retired reduces trust in the ECB (Bursian and Fürth 2013, Ehrmann et al. 2013, Farvaque et al. 2012, Hayo and Neuenkirch 2014, Kaltenthaler et al. 2010). Concerning political leanings, trust is lower for respondents at the extreme left and right of the political spectrum; among other respondents, those with a centre-right political orientation are more likely to trust the ECB than those on the centre-left (Bursian and Fürth 2013, Ehrmann et al. 2013, Farvaque et al. 2012).

### ***Explaining EMU-support - theoretical expectations***

Rather than focusing on either support for the euro or trust in the ECB as the dependent variable, the present analysis focusses on the interlinkages between two dimensions of support for EMU and analyses support for the euro and the ECB jointly. To this end, the following empirical analysis will focus in a first step on explaining support for the euro and trust in the ECB in separate analyses to explore the relative strength of different explanatory factors on each dimension of EMU support. In a second step, we will analyse support for the currency and trust in

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<sup>12</sup> The strong correlations between trust in different EU institutions may at least partly result from the design of the Eurobarometer survey, which groups together questions on trust in European institutions, and on which the larger part of research on ECB trust is based.

the central bank jointly, exploring why euro area citizens fall into one of the four categories of the typology EMU-support and –scepticism. Drawing on the previous theoretical considerations and the descriptive results to far, a number of theoretical expectations can be formulated.

The results of the descriptive analysis of ECB trust and support for the euro in the euro area aggregate and at member state level provided some preliminary support for the conceptualization of support for the euro as more diffuse and value-based and trust in the ECB as more specific and output-based. In effect, euro area citizens appear to apply different standards to support for the euro and trust in the ECB in a logic of sticks and carrots whereby trust in the ECB declined in the crisis, presumably as a result of ECB (and more general EU) policies being perceived as punishing, while support for the euro remained at high levels throughout the crisis years, presumably because citizens continue to be in favour of the goal of closer integration and a single currency, despite their dissatisfaction with the current outputs of EMU.

In line with these conceptual consideration and descriptive findings, the general expectation regarding individual EMU-support is that trust in the ECB will be affected more by performance evaluations while support for the euro should depend more on adherence to values underlying EU integration (H1)..

*H1: Trust in the ECB is predominantly affected by performance evaluations whereas support for the euro is related predominantly to support for fundamental values of EU integration.*

This general hypothesis can be further refined taking into account different dimensions of performance and EU integration values likely to affect support for the common currency and the central bank.

As regards performance evaluations likely to affect ECB trust, we expect citizens' outlooks on the economy as well as their evaluations of the general and crisis-related performance of the European level to influence their views of the ECB. The ECB is one of the central actors in European economic governance and regularly comments on macroeconomic developments in the euro area. Even if the ECB's mandate is limited to price stability, it can be assumed that citizens link the ECB to the general state of the economy and not only to the inflation rate as a yardstick for price stability, the primary objective of the ECB's monetary policy; accordingly, citizens' perception of the wider macroeconomic environment should also influence their trust in the ECB. Presumably, respondents thereby will take into account both the state of the European and the national economy as well as their own financial situation. This assumption is in line with previous analyses showing that respondents' perception of the state of the European economy as well as their personal financial situation both influence trust in the ECB (Farvaque et al. 2012).

*H2: The less satisfied citizens are with the state of the economy, the less likely they are to trust the ECB.*

Beyond economic outlooks, we expect that ECB trust depends on citizens' generalised evaluations of the EU's performance and not only on their evaluations of the ECB's performance with regard to its core tasks in monetary policy. In effect, the ECB has gained salience since the crisis due to its close involvement in EU crisis management and has often been portrayed as one of the key actors at EU level for addressing the economic crisis (see e.g. findings in Picard 2015). At the same time, given the complexity of the EU's institutional set-up, citizens often display a poor understanding of EU policy-making processes and the role of the different EU institutions therein. Against this background, it can be assumed that citizens not only take into account the ECB's performance, but their satisfaction with the EU's performance more generally when asked to rate their confidence in the ECB. This is in line with the previous findings whereby trust in other EU institutions positively affects trust in the ECB (see Ehrmann et al. 2013; Hayo and Neuenkirch 2014).

*H3a: The less satisfied citizens are with the EU's overall performance, the less likely they are to trust the ECB.*

More specifically, citizens' assessment of the EU's and the ECB's performance in addressing the economic and financial crisis should be relevant for trust in the ECB.

*H3b: The less satisfied citizens are with the EU's performance in the crisis, the less likely they are to trust the ECB.*

With regard to values expected to affect support for the euro, we expect that those who are in favour of the idea of European integration in general – independent of material benefits of EU membership or concrete outputs – will also be supportive of the common currency. Likewise, those expressing affective support for the European level in the form of European attachments or a European identity should also be more supportive.

*H4: The more citizens adhere to the idea of EU integration and feel a sense of belonging to Europe, the more likely they are to support the single currency.*

In terms of citizens' likelihood to fall into one of the four categories of EMU-support and –scepticism, those citizens who are both satisfied with the outputs and performance of the ECB and the EU more generally and supportive of EU values should be more likely to fall into the group of EMU-supporters; those citizens who are dissatisfied with EU/ECB performance and outputs but supportive of EU values should be more likely to fall into the group of euro-supporters; those satisfied with EU/ECB performance but critical of EU values should fall into the group of ECB-supporters; and those both dissatisfied with EU/ECB outputs and performance and critical of EU values should be most likely to fall into the group of EMU-sceptics.

## 6. Empirical analysis of EMU support

### *Data, methods of analysis and operationalisation*

The explanatory analysis proceeds in two steps: In a first step, we estimate logistic regression models for trust in the ECB and support for the euro separately, regressing trust in the ECB and support for the euro on the same set of explanatory variables. This allows us to track potentially divergent effects of performance evaluations and EU values on ECB trust and support for the euro in line with our theoretical considerations. In a second step, we estimate a multinomial regression model of EMU-support, with the typology of EMU-supporters and –sceptics as the dependent variable, to assess the factors underlying different combinations of ECB trust and support for the euro. All estimations are based on survey data from Eurobarometer wave 79.3 (May 2013), which has the advantage of including items on all relevant performance dimensions as well as on EU integration values in addition to indicators of trust in the ECB and support for the euro as the relevant dependent variables.

The dependent variables in the first set of logistic regression models are thus the (dichotomised) items for trust in the ECB and support for the euro. Turning to the operationalisation of performance evaluations as the first set of independent variables, we capture respondents' outlooks on the economy by their assessment of the current situation of the national economy, the European economy as well as their own financial situation. Furthermore, we include an item on respondents' assessment of the situation of the national economy compared to the average EU country. Respondents' evaluations of the EU's performance is measured first by generalised performance evaluations as measured by respondents' overall trust in the European Union and their views whether things are going in the right direction in the EU. Furthermore, we include respondents' assessment of their country's overall benefit of EU membership as captured by views on whether their country's interests are respected in the EU and whether their country would be better off in the future outside the EU. Satisfaction with who democracy works in the EU is included as a measure of the EU's democratic performance. In addition to measures of EU generalised and democratic performance, we include a number of items measuring respondents' perceptions of the EU's performance in the crisis. As a measure of generalised crisis performance, we include an item on whether respondents see the EU as the most effective actor to combat the economic and financial crisis. To capture the effect of specific policy measures taken in the crisis, we include respondents' views on a battery of items assessing whether the EU is responsible for austerity in Europe; will emerge fairer from the crisis; is making the financial sector pay its fair share; helps protect its citizens.

Turning to respondents' support for the idea of EU integration, we include a measure for exclusive national identity as well as for respondents' preferred speed of building Europe,

whereby exclusive national identity is expected to depress support while a preference for a higher speed of EU integration should have positive effects.

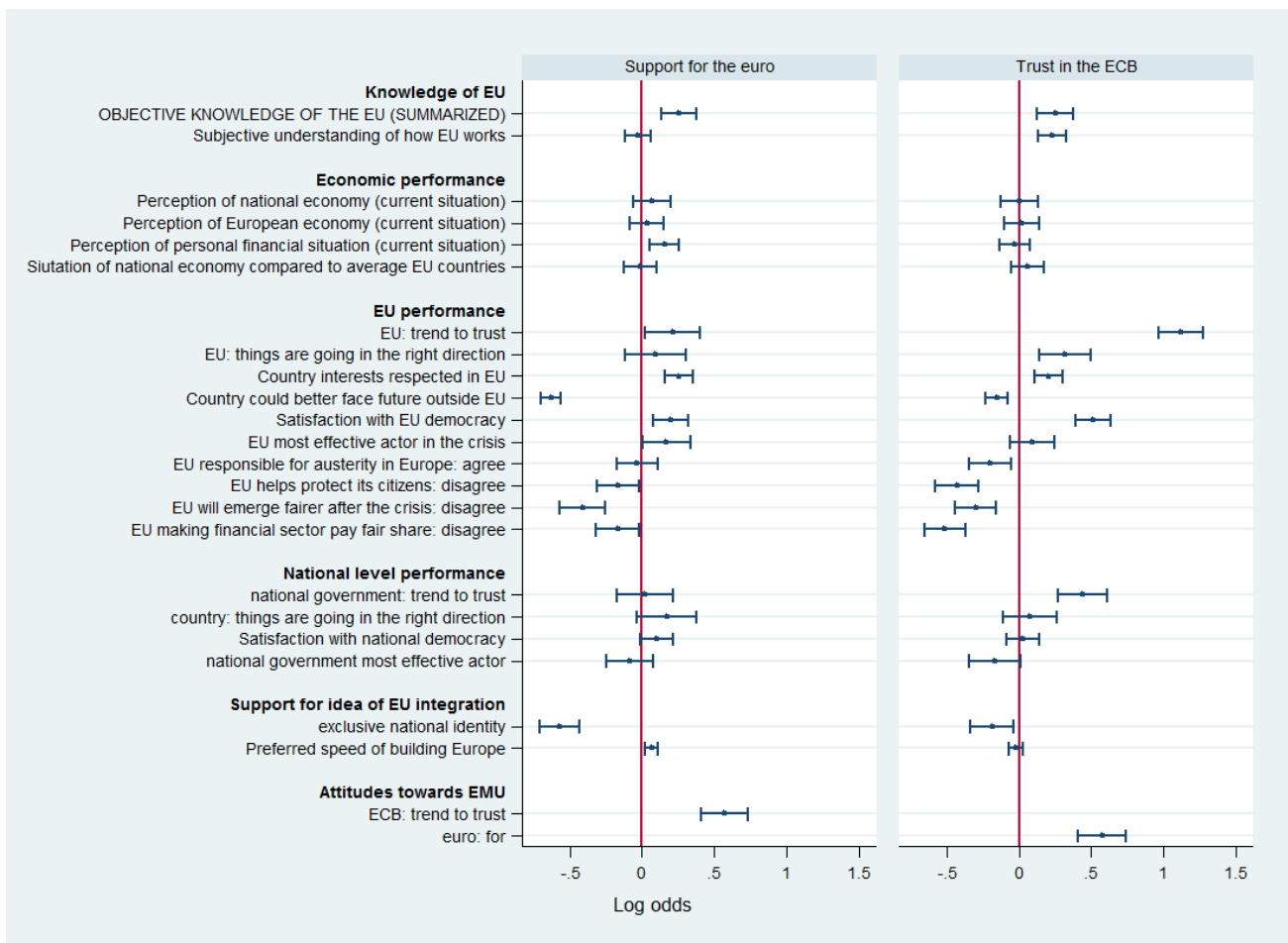
Finally, we include support for the euro in the model of ECB trust and vice versa trust in the ECB in the model of support for the euro to assess their respective influence.

As control variables, we include measures of respondents' subjective and objective understanding of EU politics which have been shown to positively affect trust in the ECB in previous analyses; furthermore, we control for performance of national institutions by including trust in the national government and direction in which things are going in the country as measures of generalised performance; satisfaction with the national democracy as measure of democratic performance; and evaluations of the national government as most effective actor in the economic and financial crisis as measure of crisis performance of the national level. Finally, we control for respondents' sociodemographic background (age, education, occupation) and include country dummies to control for the national context.

### ***Explaining support for the euro and trust in the ECB***

Figure 7 displays estimation results for logistic regressions of trust in the ECB and support for the euro respectively. Overall, our general theoretical expectation (H1) whereby trust in the ECB is largely performance-based whereas support for the euro depends more on support for the idea of EU integration as such is largely supported. However, we find no substantial effects of respondents' assessments of the economic situation on either dimension of EMU support (H2). In effect, respondents' views on EMU appear to be affected largely by their views of the EU and EU policies rather than their perception of the economic situation. As expected, respondents' perceptions of the EU's performance – in general terms as well as in terms of democratic performance and with regard to EU action in the crisis – have more important effects on trust in the ECB than on support for the euro, providing support for hypotheses 3a and 3b formulated above. Vice versa, support for the euro correlates strongly with respondents' feelings of identity and to lesser extent with support for building Europe more quickly, supporting hypothesis 4. Moreover, respondents' agreement that their country would be better off outside the EU as well as negative views on fairness in the EU after the crisis – have stronger effects on support for the euro than ECB trust.

**Figure 7:** Estimates of support for the euro and trust in the ECB (log odds)



**Note:** Graph displays logistic regression coefficients with 95% confidence intervals. Dependent variable are “support for the euro”(for =1; against =0; left-hand panel) and “trust in the ECB”(tend to trust=1; tend not to trust=0; right-hand panel). Control variables included in both models, but not shown are respondents’ sociodemographic characteristics (age, education, occupation) and country dummies.

**Source:** Eurobarometer no. 79.3, own calculations.

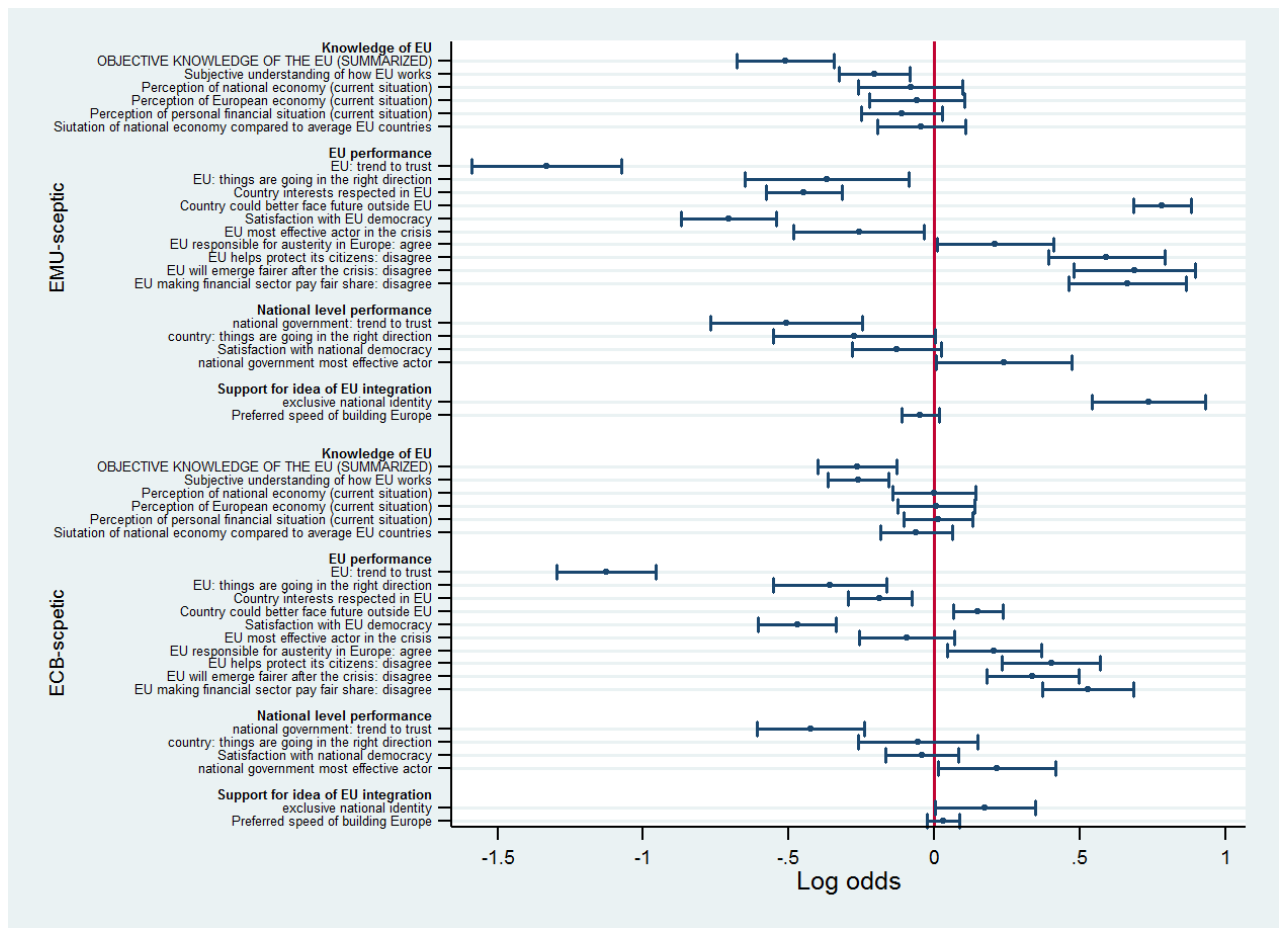
Among the control variables, respondents’ understanding of EU politics has the expected positive effect on ECB trust; in line with previous research on institutional trust at national and EU level, we find trust in national governments to increase trust in the ECB. Finally, sociodemographic characteristics have no significant effect on either dimension of EMU support (not shown; see appendix for full model). Among the country dummies, we find respondents from Malta to express significantly less support for the euro whereas respondents from Slovakia and Slovenia are significantly more supportive of the single currency than French respondents as the reference category; likewise, Cypriot respondents are significantly less likely to trust the ECB while Dutch and Luxemburg respondents trust the ECB significantly more than the French reference group (not shown).

Overall, the results so far support our theoretical considerations whereby support for the euro reflects a value dimension of EMU support whereas trust in the ECB reflects support for EMU authorities and policies that correlates more closely with assessments of EU performance rather than support for the idea of EU integration as such.

### Explaining types of EMU support

Turning to the explanation of different types of EMU-supporters and –sceptics, Figure 8 displays the results of a multinomial regression analysis of the typology of EMU support. Respondents supporting both the euro and the ECB are the reference group; results for euro-sceptic respondents, i.e. those supporting the ECB but not the single currency, are not displayed.

Figure 8: Estimates of types of EMU support



**Note:** Graph displays coefficients from a multinomial logistic regression of the typology of EMU-support with 95% confidence intervals. Dependent variable is EMU-support (EMU sceptic=0; euro-sceptic=1; ECB-sceptic=2; EMU supporter=3). EMU supporter is the base outcome. Coefficients for category “euro-sceptic” not shown. Control variables included in the model, but not shown are respondents’ sociodemographic characteristics (age, education, occupation) and country dummies.

into the group of ECB-sceptics, all other things equal (bottom half of Figure 8). If negative



performance evaluations are further coupled with strong attachments to the national level (exclusive national identity) and the feeling that the country would be better placed to face the future outside the EU, respondents are more likely to fall into the group of those supporting neither the ECB nor the single currency (EMU-sceptics; top half of Figure 8).

## **7. Conclusion**

This paper set out from the observation that while the euro and the ECB are inextricably linked at the institutional level, public opinion towards the two has followed divergent trends over the course of the financial and economic crisis, asking about the drivers of this divergence.

Theoretically, it conceptualised support for the euro and trust in the ECB as orientations towards different levels of EMU governance, which, in consequence, should also depend on different sources. As a form of diffuse support for European economic and monetary and the idea of a currency union as such, support for the euro should be more resistant to short-term negative outputs and experiences such as the financial and economic crisis and depend more on support for the general values of European cooperation rather than on citizens' evaluations of the EU's and the ECB's performance in the crisis. Trust in the ECB, in contrast, was conceptualised as a form of specific support for EMU authorities that is more volatile in times of crisis and largely dependent on citizens' satisfaction with EU performance.

The empirical analysis largely supported these theoretical considerations, showing that despite a loss of public confidence in the institutions of EMU in the aftermath of the crisis, citizens still are in favour of the project of a common currency per se. Country-specific patterns in support for the euro and ECB trust can be related to differences in national publics' perception of the ECB and the euro in a logic of sticks and carrots. While in countries most severely affected by the crisis, negative perceptions of the ECB and its policies ("sticks") appear to dominate likely related to the ECB's role in the crisis in these countries, the euro still seems to be widely perceived as a desirable public good ("carrots"), even in the presence of widespread distrust in the ECB as the monetary authority behind it. Support for the euro is positively correlated with feelings of European identity and support for the idea of European integration whereas trust in the ECB is largely performance-based and depends foremost on citizens' satisfaction with EU crisis measures and the generalised performance of the EU system, less so on citizens' economic outlooks.

In principle, trust in EMU institutions should thus be able to recover if EMU and the EU more generally are able to deliver policies perceived as benefitting ordinary citizens; however, there is a risk of negative spill-overs from negative experiences with the outputs of European economic governance to support for the project of economic and monetary union more generally, especially in Member States experiencing prolonged economic downturns and where confidence in political institutions was low already at the start of the crisis.

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# Annex

## Full model of support for the euro and trust in the ECB

