German voters and Eurobonds

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A recent MPIfG survey shows: When given an opportunity to consider all aspects of the matter, German citizens are willing to agree to forms of debt mutualization to keep the Eurozone intact.

Ten years after the Greek crisis, the Covid-19 pandemic is the biggest challenge to Europe’s economies since the Great Depression. According to the OECD, GDP is on course to shrink by 20 to 25 percent in many countries. Although the coronavirus is a "symmetric" shock that affects all countries simultaneously, its fiscal impact is asymmetric. Countries such as Germany and the Netherlands have greater fiscal space to respond, while countries like Italy and Spain are unable to increase their public debts without their bond yields spiking.

The Eurozone has a shock absorber for such situations, the European Stability Mechanism (ESM). According to the playbook from the Eurozone crisis, Italy and Spain should first negotiate a program with the ESM, receiving loans conditional on budget cuts and structural reforms. If the ESM loans prove insufficient, the European Central Bank (ECB) will then buy as many bonds as international financial markets want to sell, thus calming the markets down. Although in the current circumstances an ESM program may come without conditions, it is likely that conditionality will be added afterwards due to the increased levels of public debt.

Unsurprisingly, the Italian and Spanish governments have balked at the prospect of being subject to ESM conditionality because they remember how the European "rescue" strangled Greece over many years. This is why nine Eurozone countries and many economists have argued for the mutualization of European debt to give the worst hit countries additional fiscal space.

The idea of introducing "Eurobonds" (or in their most recent incarnation, "Coronabonds") was repeatedly floated in the past, but always met with fierce opposition from Northern countries. In particular, German politicians have often argued that they can't agree to Eurobonds because their voters are strongly opposed to them.

But is this true? The lack of solidarity shown in the EU’s response to the coronavirus may dramatically alter the assessment of the cost of remaining in the Euro for Italian voters, to the point that they could seriously consider leaving it if things don't change. Do German voters really not realize this?

To answer this question, we fielded a large survey experiment in Germany with 4,500 respondents in the past few days. Individuals received different types of information based on random assignment. A basic scenario in which Italy is hit by a financial crisis and is considering exiting the Euro was enriched by additional information that might alter the interpretation of events.

Some individuals were told that Italy's motivation for increasing its public deficit was the need to respond to the corona crisis, a health emergency beyond the country's control. In some cases individuals were informed that Italy's exit from the Euro may cause its collapse, endangering the competitiveness of Germany's export industry. Other individuals were alerted to the costs the German economy may have to incur if some form of debt mutualization becomes necessary to keep Italy in the Euro.

After presenting the scenarios, we asked respondents what the German government should do in response to the crisis if Italy refuses the previously trodden path of pushing through austerity measures in exchange for rescue programs. They could choose to prevent Italy's exit from the Euro or facilitate it.

The results suggest that German voters strongly prefer preventing Italy's exit from the Euro. In the absence of further information, there is a relative majority in this direction. Informing individuals about the cost of Italexit for Germany has the greatest effect and creates a clear absolute majority. When combined with highlighting the effect of the coronavirus, nearly 60 percent of Germans want Italy to remain in the Euro. Mentioning the cost of debt mutualization for Germany has a smaller effect in the opposite direction.

We furthermore asked respondents which of two scenarios they preferred: Germany and other European governments do not agree to debt mutualization, and Italy exits the Euro; or Germany and other European governments agree to debt mutualization, and Italy remains in the Euro.

Given that both scenarios are costly to Germany, public opinion is divided on this question. Without additional information, a relative majority of about 40 percent chooses Italexit, but more than 20 percent are uncertain. Being exposed to the various pieces of information has smaller effects in this case, indicating a lower degree of malleability of preferences. However, mentioning the costs of Italexit has a greater impact than mentioning the costs of introducing Eurobonds. When all pieces of information are considered, almost 50 percent of German voters are in favor of Eurobonds and less than 35 percent are opposed.

All in all, the results suggest that German public opinion is more open to the idea of debt mutualization than German politicians make it out to be. For the German electorate, the preference for debt mutualization is mostly a matter of self-interest: they want to avoid the costs of Italexit for Germany. Solidarity with Italy's plight plays a smaller, albeit non-negligible role.

As such, it seems that German voters are willing to consider joint liability if it is required for keeping the Euro. Is there a credible threat of exit? Data from another parallel experiment, which we conducted in Italy at the same time, suggest that the Italian electorate has indeed reached the point where Italexit becomes a serious option. German political leaders would do well to worry more about the political consequences of the current crisis in Italy than in Germany.

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