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**Democracy without Choice:  
Citizens' Perceptions of government's autonomy during the Eurozone  
crisis<sup>§</sup>**

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**Abstract**

*In this paper we argue that citizens take into account the degree of government's political autonomy to implement particular policies when expressing their views on satisfaction with democracy (SWD) but, in order to do so, they need to perceive it. When citizens directly observe the external constraints that reduce their government's autonomy, then variations in levels of regime satisfaction may no longer be exclusively about government performance, as widely argued by political economists, but also about democratic choice. Our argument develops after comparing the existing scenarios in the Eurozone before and after the Great Recession. Citizens only began to perceive their own lack of choice to decide between policy alternatives when the sovereign debt crisis broke out in May 2010, the date of the first Greek bailout. It is then when citizens started to update their beliefs about the functioning of democracy as a system in which alternative policies can be adopted as bailout deals were signed between national governments from the Euro periphery and the Troika. This updating process towards the way democracy works explains the increasing gap in the levels of SWD between bailed-out economies and the rest of countries in the Eurozone. We find empirical confirmation for this claim after analysing Eurobarometer surveys from 2002 to 2014 and using a two-step difference-in-difference analysis that combines individual and aggregate data.*

**Keywords:** *Democracy; Euro crisis; Responsiveness; Counter-majoritarian Institutions; Satisfaction with Democracy; Political learning.*

## Introduction

In this paper we aim to give the theory of democratic choice a chance. Our objective is to show that citizens truly care about the autonomy of governments to be responsive to their preferences or, to put it differently, we expect citizens to react critically when governments are unresponsive because their policy autonomy is compromised. We assess this statement by looking at how citizens' satisfaction with the way democracy works (SWD) is affected when national governments' degree of autonomy is compromised by external impositions. Citizens hold certain prior beliefs about the degree to which governments are free to be responsive to their preferences. Such beliefs about governments' degree of autonomy, however, are not constant across time but change when exposed to new information through a process of Bayesian updating (Gerber and Green 1998, Bartels 2002, Bullock 2009, Dinas 2013). We argue that the bail-out decisions of the so-called *Troika* (the IMF, the European Commission and the European Central Bank) in Cyprus, Greece, Ireland, and Portugal, as well as the partial interventions in Spain and Italy, were events that transformed citizens' prior beliefs about the policy autonomy of national governments inside the Eurozone. The resulting posterior belief was that governments were not free to be responsive to their citizens and consequently elections served no longer as mechanisms to bring about policy change. The main implication of this theory is that variations in levels of SWD are produced not *exclusively* by variations in government's economic performance but *also* by variations in democratic choice.

Most scholars in political science would agree with the statement that democracy is about choice. Even the so-called minimalist conceptions of democracy would make no objection to this: "Only voting that facilitates popular choice is democratic" (Riker 1982: 5). In the absence of choice between programmatic alternatives, voting only serves to "ratify choices made elsewhere" (Przeworski 2010: 117). The very logic of electoral competition encourages parties to offer alternative platforms at election time in the hope of maximising their votes. Even if the structure of competition is such that parties appeal to the median voter, the logic of voting generally impedes that party platforms are completely identical (Downs 1957: 41).

Choice in democracy does not deal exclusively with citizens and elections; elected governments must also be autonomous to act upon their mandate by choosing among alternative policy paths. According to democratic theory, if the constraints on national governments' autonomy were such that elected governments would apply the same policies irrespective of their electoral promises then voting would no longer be an act of selecting among difference choices (Maravall 2013, Mair 2013). Elections, however, are believed to be an appropriate enough mechanism to ensure that elected officials, out of fear of the next election, will "restrain from deploying the force of government against citizens to make them support unpopular policies that officials believe necessary" (Riker 1982:9). Governments' autonomy and democratic mandates can, however, be at odds with each other. Governments always face a trade-off between responsiveness to the preferences of their own citizens and responsibility towards previously acquired commitments, such as international treaties or

financial obligations (Kydland and Prescott 1977, Held 1995, Garrett 1998, Mair 2011, Rodrik 2011, Friedman 2012, Stiglitz 2012).

We know little about how losses in government's autonomy to act on its democratic mandate affect citizens' attitudes towards the way democracy works. From a normative point of view, citizens should find the usurpation of democratically elected governments' autonomy illegitimate and, therefore, undemocratic. However, citizens do not seem to act as democratic theory would expect them to. For example, governments' loss of policy autonomy was present since the establishment of the European Monetary Union (EMU) and yet Eurozone citizens only felt dissatisfied with the functioning of democracy after the economic and financial crisis hit Europe in 2008 (Jones 2009). During the preceding period of economic boom, satisfaction with democracy actually grew under a context where restrictive fiscal and monetary rules existed for everyone.

If citizens truly relied on democratic normative standards when judging the functioning of extant democracies, they would not find democratic satisfaction in the fact that national governments have less, not more, policy autonomy inside EMU. Allegedly, the fact that they do implies that citizens do not care about government's autonomy and democratic choice as long as things are going well for them. This is precisely how political economy arguments explain satisfaction with democracy despite losses in national governments' autonomy; namely, as a consequence of good economic performance. Citizens do not pay attention to how much autonomy and choice they have at home, as long as they enjoy high levels of economic growth, low unemployment and wealth redistribution (Scharpf 1997, Scharpf 1999).

Our alternative explanation based on political learning is also consistent with the observation that, prior to the 2008 financial and economic crisis, citizens were satisfied with national democracy even though national governments had suffered losses of autonomy as a result of the monetary union. Our theory explains this puzzle as follows. Citizens' prior belief about the degree of their respective national government's autonomy did not change just after joining the European monetary union (EMU). More concretely, before Greece's first bailout loan in May 2010, citizens living within the EMU did not perceive the degree to which their governments had lost policy autonomy for three interrelated reasons. Firstly, EU fiscal rules, like those imposed by the Stability and Growth Pact, were weakly enforced providing large room to deviant governments to respond to their electoral interests at home. Secondly, most of the economies that joined the Euro lived an expansive economic cycle before 2008, when it was impossible to test the robustness of the new monetary institutions in the event of a crisis (De Grauwe 2010). The institutional shortcomings of the Euro had been theorized openly in the press<sup>1</sup> or at academic levels (De Grauwe 2006, 2010), but had never been empirically

tested given that Europe had lived in relative economic stability since the adoption of the currency. Last, but not least, financial markets were on the side of the Euro and did not act as an external financial enforcer of EMU rules. International financial markets' pressure was still absent.

Citizens' beliefs about governments' autonomy to be responsive to their mandates did not change between 2002 and 2010 because no objective fact occurred in this period that made an update of beliefs necessary. Citizens only perceived their own lack of choice to decide between policy alternatives when a series of "information shocks" (most notably, the bailouts and partial interventions of Eurozone peripheral countries) led them to update their prior political beliefs. National governments of the Eurozone periphery, under pressure by speculative financial markets and with their hands tied by the monetary union, were forced to choose responsibility over responsiveness, turning against their democratic mandates in order to avoid disaster.

Our argument goes beyond the conclusions put forward by Polavieja (2013) by locating the origin of high levels of dissatisfaction with democracy not on the combined effect of bad economic performance and *objective* lack of government's policy autonomy but, instead, on the citizens' *perception* of this constrained autonomy through a process of political learning. In this respect, we build on Armingeon and Guthmann (2014) and Armingeon et al. (2015) explanatory models, based on citizens' perceptions of lack of national governments' autonomy. These authors theorise and test, as we do, that citizens care about democratic choice and that they perceived the absence of choice during the Great Recession. However, they cannot explain why SWD, for example, grew in countries like Germany, also subject to losses in government's autonomy. If citizens care about autonomy, and Germany is a member of EMU, why are German citizens satisfied with the way democracy works in their country? Armingeon and Guthmann (2014) and Armingeon et al. (2015) fail to provide an explanation that connects democratic choice with the differences in SWD across Eurozone countries. We propose that this causal mechanism is political learning.

Our theoretical claims find empirical confirmation after analysing variations in the level of SWD in Eurobarometer surveys conducted between 2002 and 2014. We first provide qualitative evidence to illustrate our mechanisms at work and then we use a two-step statistical analysis that combines individual and aggregate data. Individually we estimate the correlates of SWD for all respondents in each country. At the aggregate level, we use our individual-level predictions to conduct a series of difference-in-difference analyses only in countries that belong to the Eurozone, where fiscal and monetary rules are held constant.

In the following sections, we first develop a theoretical model and then we test it empirically using both individual and aggregated data. Finally we offer some concluding remarks.

### **Political economy and democratic choice**

Until recently, democratic choice was not part of political economy explanations to understand cross-country variations in levels of SWD. Starting with Polavieja (2013), however, increasing research is being done that incorporates democratic choice as a factor that, combined with economic performance, affects satisfaction with democracy (Armingeon and Guthman 2014, Cordero and Montero 2014, Armingeon et al. 2015).

Polavieja (2013) shows how the constrained autonomy of Eurozone governments has a negative impact on SWD. Using the combined effect of GDP contraction between 2004 and 2010 and EMU membership as the main causal mechanisms, he shows that the direct impact of the recession on SWD differs by membership in the EMU. His analysis concludes that the larger the GDP contraction between 2004 and 2010 inside the Eurozone, the deeper the fall in SWD. This finding, however, is not observed outside the Eurozone, where levels of SWD remain relatively stable irrespective of the size of GDP contraction (Polavieja 2013: 296). We agree with the interpretation put forward by Polavieja (2013) as a plausible explanation for this finding. According to Polavieja's interpretation, citizens perceive the incapacity of their governments to combat the deep economic recession and this is why economic performance and SWD are more strongly correlated inside EMU than outside it. Our objective in this paper is to take this interpretation further both theoretically and empirically.

In order to do this, we build on Armingeon and Guthman (2014) and Armingeon et al. (2015), who have also tried to isolate the effect that the absence of democratic choice has on SWD within the context of the Great Recession. Armingeon and Guthman (2014) look at the extent to which a constrained democracy accounts for decreasing levels in SWD (Armingeon and Guthman 2014: 424). Their answer is that the erosion of SWD is due not only to the economic crisis but also to the accompanying loss of governmental autonomy. Always according to their analysis, the loss of governmental autonomy is objectively reflected in IMF conditionality and, more importantly, subjectively perceived by the citizens via mass media. However, the statistical results of their model show that the strength of the IMF conditionality variable does not provide strong support for their argument. The relevant coefficient is either not significant or mildly significant (10%) after controlling for economic variables such as austerity (Armingeon and Guthman 2014: 434).

Armingeon et al. (2015) start with a discussion of input and output democratic legitimacy, the former being the realm of choice and the latter being the domain of economic performance. They defend that a legitimacy loss in either of them, choice or performance, will likely bring

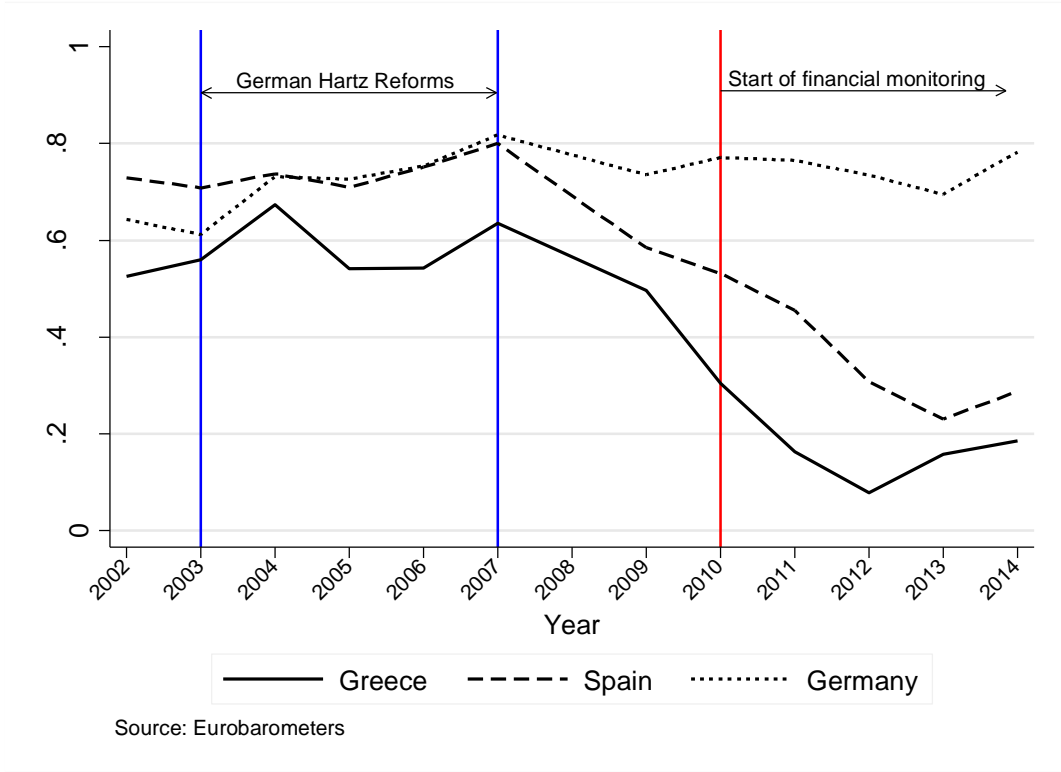
about erosion in democratic support. We agree with this and build from it, focusing the rest of our paper on one element of input legitimacy: the level of autonomy of national governments to respond to the preferences of citizens. Where we disagree with Armingeon et al. (2015) is, again, in the causal mechanism that connects the objective loss of autonomy by national governments with citizens' perceptions of it. This will be better understood if we look at the way these authors proceed empirically.

Armingeon et al. (2015: 13) use an interaction between EMU membership and the annual change in nominal unit labour costs (ULC), which is a way of measuring the degree of internal devaluation suffered by Eurozone countries during the crisis. The hypothesis being tested is that a Eurozone country that goes through a process of internal devaluation will suffer a considerable erosion of democratic support as a result of a combined loss of output (i.e. a reduction in wages) and input (i.e. a reduction in democratic choice) legitimacy whereas a country outside EMU will suffer a loss of output legitimacy, but input legitimacy will be intact and, therefore, the erosion of democratic support will not be as large. This interaction, however, does not really capture what the authors claim, namely the compounded loss of input and output legitimacy. The interaction is just showing that SWD diminishes as a result of internal devaluation policies to a greater extent among Eurozone countries than among countries outside EMU, an argument that goes much in line with Polavieja's analysis (2013) but not beyond it because it does not address the different levels of SWD found among EMU countries. These differences, in our view, are the result of citizens' perceptions about how much autonomy their national governments truly have and citizens' perceptions, in turn, are formed through a process of political learning that does not take place everywhere inside the Eurozone but only in some countries.

Armingeon et al. (2015) use EMU membership as a proxy for Eurozone citizens' perception of the loss of national government autonomy. However, the empirical evidence shows that EMU membership cannot be treated as a proxy measure of citizens' perceptions. It is easy to see why if we look at Germany between 2003 and 2007, when the so-called Hartz reforms took place. During this period, the ruling SPD implemented the Agenda 2000 program that envisaged a series of economic policies in order to increase the country's level of competitiveness. A key action in this package was the Hartz reforms which completely altered the functioning of the German labour market. The implementation of this new regulation brought a *de-facto* internal devaluation in the wages that generated great inequality among salaries (OECD 2009). As Figure 1 shows, during this period, the probability of being satisfied with the way democracy works in Germany actually increased, inconsistent with the expectations of Armingeon et al.'s hypothesis for an EMU country. A deeper internal devaluation was also observed in both Greece and Spain between 2010 and 2014. On this occasion, however, SWD plummeted in these two countries in clear contrast with Germany between 2003 and 2007. The only difference between the German internal devaluation and

the one that took place in Greece and Spain is not related to their final outcome – an increase in the levels of inequality – but rather to the origin of the decision: German internal devaluation was part of a policy adopted by democratically elected German politicians whereas the Greek and Spanish devaluations were imposed by external unelected institutions (the so-called Troika).

Figure 1 – Evolution of satisfaction with democracy in Spain, Germany and Greece between 2002 and 2014.



According to our proposed explanatory mechanism, SWD increased because internal devaluation was the result of a decision taken by the German government with the support of a majority of German citizens. The decision was in line with EMU rules, but the fact remains that it was a popular and freely adopted decision of the German government. In other words, what we are trying to say is that Germany, an EMU member tied by EMU rules, went through a process of self-inflicted austerity that actually improved SWD. Therefore, the variable EMU membership cannot capture the real loss of national governments’ autonomy as *objectively* experienced by governments and as *subjectively* perceived by citizens. As a consequence, when national governments’ preferences are aligned with EMU rules, as in the German case, citizens do not need to update their beliefs about their government’s level of autonomy to be responsive to its citizens. By contrast, when national preferences are not aligned with EMU rules, as happened, for instance, in the signature of a Memorandum of Understanding (MoU) setting up the conditions to accept a financial bailout, the *objective* lack of autonomy that national governments really have is openly disclosed. It is at this point that citizens learn and

update their beliefs. This happened in Greece and Spain (Figure 1), as well as in the other bailed-out countries, but not in Germany.

Whether democratic choice is an essential component of citizens' understandings of democracy is still an open question, since there is a scarcity of individual data with which to test it. For this reason, we need to rely on proxies. The Sixth Round of the European Social Survey contains several items that address this topic in some detail (Ferrin and Kriesi 2016). According to the ESS data, citizens value that a) parties offer clear alternative platforms during elections and, b) that rascals who do not do a good job are kicked out of office. Moreover, when citizens are confronted with a situation in which the government wants to do one thing and the majority of the people prefers another, a large majority of European respondents (66%) believes that in a democracy the government should change its plan in order to be responsive to the preferences of the people. Only 17% think that the government should stick to its plan regardless of the popular will (see Table B1 in the Appendix). Choice is therefore a fundamental attribute of democracy, both at election time and afterwards. Accountability is another.

Moreover, if our argument about the importance of choice for citizens were to be corroborated by reality, we should see that the preference for responsiveness is strong everywhere, not just in the bailed-out countries. Data from Round 6 of the European Social Survey<sup>2</sup> confirm this expectation. There is only one country in which respondents give priority to the government's criterion over the preferences of the people in case of disagreement: Denmark. Everywhere else, a majority of citizens considers that in the presence of disagreement between the government and the people, priority should be given to what the majority of the people think. These majorities are as high as 79% in Spain or 75% in Germany. At the same time, we would also expect worse evaluations of the existing levels of responsiveness in bailed-out countries than in countries that have not been intervened and whose preferences are better aligned with EMU rules. This expectation is also partially confirmed by the Round 6 ESS data (see Table B2 in the Appendix). The perceived level of government's responsiveness in a particular country is measured along a scale that goes from "government never responsive" (value 0) to "government always responsive" (value 10). Bailed-out countries show lower scores (i.e. more negative evaluations of responsiveness) than core Euro countries with pro-austerity publics, with the only exception of Germany, where respondents evaluate negatively the level of responsiveness of the German government.

## **The political learning of democratic choice: testable hypotheses**

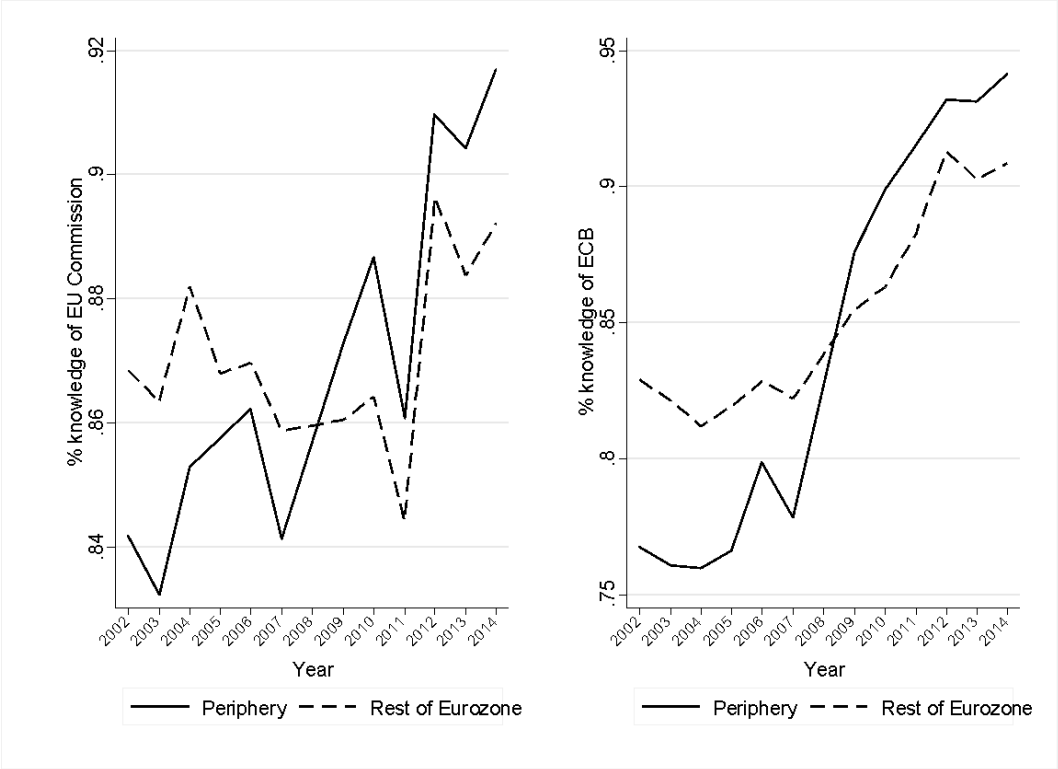
Political surveys in Europe do not ask respondents their opinion about the level of autonomy that their respective national governments have to be responsive to the majoritarian preferences of society. Therefore, we cannot measure it directly. However, we can rely on existing research about Bayesian political learning to define a plausible causal mechanism linking democratic choice to satisfaction with democracy that can then be tested. We know from the literature on Bayesian learning that citizens update prior political beliefs when exposed to new information (Gerber and Green 1998, Bartels 2002, Bullock 2009). In fact, Bayesian approaches are increasingly used as a normative standard "by which to judge reactions to political information" (Bullock 2009: 1123)<sup>3</sup>. Bayesian learning has been applied by public opinion scholars to study evaluations of politicians and governments as well as public opinion change in reaction to concrete political events (Dinas 2013).

To our knowledge, however, there is no research about political learning in relation with the levels of democratic choice over policy. Therefore, and for lack of better information, we will assume that citizens hold a prior belief about the degree to which their national governments are autonomous to choose among policy alternatives in their countries, if only because we know that they value democratic choice from a normative point of view (Ferrin and Kriesi 2016). In the absence of contradicting evidence, these prior beliefs are likely to be normally distributed around the median belief. The median belief is that governments are ultimately free to comply with their democratic mandates and when they fail to do so they are held accountable to their voters. This existing distribution of beliefs, on the other hand, will change if some new political information emerges concerning the degree of democratic choice and, with it, its median belief will change too.

In our view, the economic interventions of the Troika in Greece, Ireland, Portugal, and Cyprus, as well as the partial interventions in Spain and Italy, were events that transformed citizens' prior beliefs about the autonomy of national governments inside the Eurozone. The resulting posterior median belief was that governments were not free to be responsive to their citizens and, as a consequence, elections could not bring about policy change. As information providers, these events were of such magnitude (both in terms of quantity and quality of information) that we will consider them "information shocks" (Dinas 2013). This is not a far-fetched proposition. It is a well-known fact that in periods of crisis people follow political information more closely and are open to look for new ways of understanding personal and collective interest than in periods of relative stability (Matakos and Xefteris 2015).

If our classification of the external intervention events in the Eurozone periphery as "information shocks" has any validity, we should be able to see that citizens were more generally informed about the European Union in the years after the outbreak of the crisis than in the preceding period. Indeed this is what Eurobarometer data show, as reflected in Figure 2. Citizens' level of *objective* knowledge (i.e., information) about the European Central Bank and the European Commission<sup>4</sup> increased after the outbreak of the crisis. More importantly for our argument, citizens from the Eurozone periphery surpassed citizens from the rest of the Eurozone in their knowledge about European institutions at that very moment too. This means that the citizens more hardly hit by the debt crisis were those who increased their level of information the most. It is therefore not implausible to conclude that voters were paying a lot of attention to events at the time when the bail-outs hit their respective countries and that, as a result of this new information, they updated their political beliefs about democratic choice in their countries.

Figure 2: Knowledge of European institutions in Eurozone countries.



Troika interventions only happened in a few countries within the Eurozone (concretely, in Cyprus, Greece, Ireland, Italy, Portugal and Spain) and, therefore, only citizens from these countries had reasons to update their beliefs. This is not to deny that citizens from non-intervened countries might also update their beliefs as a result of what is happening to their neighbours<sup>5</sup>, but we expect this to happen to a much lesser degree. If our hypothesis is

confirmed, we should expect that the belief updating happens progressively as the different bail-outs are observed.

### **Data and method**

We empirically test our argument by using both individual and aggregate data. The individual data come from the Eurobarometer surveys. We have created a dataset using all Eurobarometers that asked about satisfaction with democracy at the national level from 2002 to 2014<sup>6</sup>. The sample size is 152,196 individuals from 13 European countries that joined the Eurozone between 1999 and 2002<sup>7</sup>. Following the convention used in previous studies (Armingeon and Guthmann 2014, Armingeon, et al. 2015), our dependent variable is binary where 1 indicates satisfaction with democracy and 0, dissatisfaction<sup>8</sup>. About 58.8% of the sample declares some level of satisfaction with the way democracy works in their country of origin but, more importantly, levels of SWD vary greatly across countries and years.

The empirical strategy that we follow is a two-step regression approach (Jusko and Shively 2005, Polavieja 2013). This is an adequate method to deal with individual data clustered in countries that also has a time-series structure (Gelman 2005). Thus, we can take into account the temporal dimension as well as the impact of specific national factors in the evolution of SWD. In the first step, we apply logit models using pooled individual data to calculate the predicted probability of an individual being satisfied with democracy for each country and year of interest. This predicted probabilities are calculated from 2002 to 2014 and, according to our theory, they should reflect the effects of the updating of beliefs regarding the functioning of democracy. In the second step, we use these predicted probabilities as the dependent variable in a new dataset that includes members of the Eurozone since 2002<sup>9</sup>. In this second dataset the unit of analysis is country-year and the number of observations is 154.

### **Stage one: Individual analysis**

We begin our empirical analysis by using individual data to calculate a first-step logit regression model. As explained above, we use the logit coefficients to estimate the following probability ( $\widehat{SWD}$ )

$$\Pr(SWD = 1|X) = \widehat{SWD}_{c,t} = \frac{1}{1 + e^{-(\beta_0 + \beta_i X_{i,c,t})}}$$

Where  $X$  is a vector containing the set of explanatory variables and subscripts  $i$ ,  $c$  and  $t$  refer to individual  $i$  in country  $c$  and year  $t$  respectively. The predicted probability of SWD is calculated keeping the relevant explanatory variables at their means.

As Polavieja (2013) shows, SWD can be explained at the individual level by analysing variables reflecting individual's socioeconomic attributes like education or occupation. Some studies include other control variables like satisfaction with the economy or assessment of national economy (Anderson and Guillory 1997, Blais and Gelineau 2007, Armingeon and Guthmann 2014, Cordero and Simón 2015). Since it is unclear the direction of the causality regarding these variables and our dependent variable, we prefer to keep them out of the analysis to avoid any possible source of endogeneity<sup>10</sup>. In particular, we estimate predicted probabilities from the following model:

$$\widehat{SWD}_{c,t} = \beta_0 + \beta_1 Educ_{i,c,t} + \beta_2 Occup_{i,c,t} + \beta_3 Age_{i,c,t} + \beta_4 Sex_{i,c,t} + \vartheta_c + \tau_t + u_{i,c,t},$$

Where *Education* is measured using the age in which the respondent finished her studies<sup>11</sup>. *Occupation* uses the EB's own occupation scale and has 8 categories<sup>12</sup>. The regressions also use Gender and Age as independent variables<sup>13</sup>. Finally, we also control for country fixed effects and time trends. Table 1 shows the estimated coefficients for the different models.

Table 1 – Individual factors explaining satisfaction with democracy in the Eurozone countries (2002-2014)

VARIABLES	Base Model	Country FE	Country + Year FE
Education: 15 years	0.468*** (0.0267)	-0.0775*** (0.0291)	-0.0476 (0.0293)
Education: 16 years	0.431*** (0.0240)	-0.0956*** (0.0263)	-0.0544** (0.0265)
Education: 17 years	0.539*** (0.0263)	-0.0226 (0.0285)	0.0164 (0.0288)
Education: 18 years	0.426*** (0.0214)	0.0185 (0.0234)	0.0785*** (0.0236)
Education: 19 years	0.519*** (0.0265)	0.0789*** (0.0288)	0.139*** (0.0290)
Education: 20 years	0.638*** (0.0302)	0.133*** (0.0324)	0.193*** (0.0326)
Education: 21 years	0.868*** (0.0332)	0.257*** (0.0353)	0.322*** (0.0357)
Education: 22+ years	0.786*** (0.0222)	0.252*** (0.0246)	0.304*** (0.0249)
Education: Still studying	0.173 (0.128)	-0.315** (0.137)	-0.374*** (0.144)
Occupation: Managers	0.423*** (0.0271)	0.223*** (0.0284)	0.213*** (0.0286)
Occupation: Other White collars	0.152*** (0.0251)	0.0694*** (0.0262)	0.0685*** (0.0263)
Occupation: Manual workers	0.0944*** (0.0225)	-0.101*** (0.0238)	-0.0995*** (0.0238)
Occupation: House persons	0.173*** (0.0271)	0.0367 (0.0283)	0.00528 (0.0284)
Occupation: Unemployed	-0.555*** (0.0274)	-0.665*** (0.0286)	-0.596*** (0.0289)
Occupation: Retired	0.0851*** (0.0254)	-0.0830*** (0.0268)	-0.0838*** (0.0269)
Occupation: Students	0.755*** (0.130)	0.586*** (0.139)	0.737*** (0.146)
Female	-0.0767*** (0.0125)	-0.0771*** (0.0129)	-0.0777*** (0.0130)
Age	0.00526*** (0.000563)	0.000522 (0.000591)	0.00188*** (0.000597)
Constant	-0.430*** (0.0374)	0.186*** (0.0459)	0.163*** (0.0497)
Observations	122,993	122,993	122,993

Robust standard errors in parentheses

\*\*\* p<0.01, \*\* p<0.05, \* p<0.1

The three models in Table 1 show a high level of consistency between the direction and statistical significance of the coefficients<sup>14</sup>. Model 3 shows the estimated results considering both country and year fixed effects. Predicted probabilities using this model show that SWD decreased between 2007 – before the crisis – and 2014 – after the crisis – for all levels of education. However, the probability of being satisfied with democracy is significantly smaller among citizens with less education and people who are still studying, holding all other variables at their means. A similar picture is seen when predicted probabilities are calculated for each occupation. Overall, levels of SWD decreased in 2014 compared with 2007 for all the categories included in this variable. However, some occupations are more resilient to the effects of the crisis than others. The comparison between Managers and Unemployed individuals between 2007 and 2014 provides a useful illustration here. Individuals holding a managerial occupation had a probability of being satisfied with democracy of 70% in 2007 while such probability decreased to 57% in 2014. For an unemployed individual the same probability was 53% in 2007 and 38% in 2014.

In the particular time frame analysed here, these coefficients reflect how economic policies used during the financial crisis may have hit citizens differently. Highly educated people with managerial jobs have suffered the harshness of the crisis less than low-skilled unemployed workers or those who are already retired. For these social groups, voting can become an important political tool to replace governments delivering policies which may have negative effects on their lives.

### **Stage two: Country-level analysis**

To test our main hypothesis, the second stage of our empirical strategy involves a cross-country, cross-year analysis of SWD. As explained above, a Troika direct intervention on a Eurozone country<sup>15</sup> becomes an "information shock" that citizens observe and use to produce a belief update. This is exactly the effect that we aim to isolate in this part of the analysis. To do so, we perform a series of difference-in-difference analyses following the waves of "information shocks" that took place between 2010 and 2013 and comparing the effects of each previous diff-in-diff test with the next. To do so, we split the sample of countries into two groups depending on whether a given country has been under a Troika intervention or not. The idea of a diff-in-diff analysis is, precisely, to estimate if the difference in change of SWD for these two groups of countries differs substantially before and after citizens have been exposed to the "information shock" (Angrist and Pischke 2008, 2014). To do that, we first estimate SWD in countries that were not monitored by the Troika both before and after a particular "information shock" is observed.

$$\delta_1 = E(SWD|Shock = 0, Exposure = 0) - E(SWD|Shock = 0, Exposure = 1)$$

Second, we estimate the same values for countries that were exposed to an “information shock”,

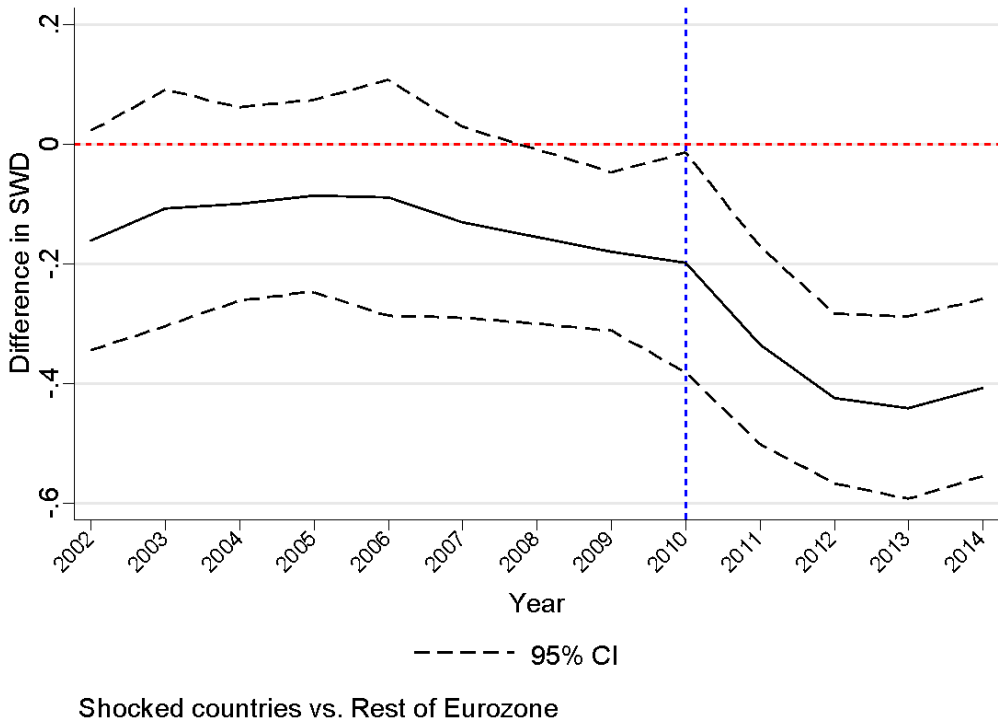
$$\delta_2 = E(SWD|Shock = 1, Exposure = 0) - E(SWD|Shock = 1, Exposure = 1)$$

Finally, we estimate the difference of these values:

$$\delta_{dd} = \delta_1 - \delta_2$$

We expect the second difference,  $\delta_2$ , to be much larger than the first difference,  $\delta_1$ , resulting in a negative diff-in-diff coefficient. Figure 3 illustrates this idea. The solid line shows the result of comparing the mean of SWD in countries that received information shocks and those that did not. Between 2002 and 2007, the differences in SWD between these two groups of countries were statistically the same. Only after 2009<sup>16</sup> are such differences statistically different from zero. However, it is in 2010 when a sharp decrease is observed between countries receiving an information shock and the rest of the Eurozone.

Figure 3 – Mean test of SWD between “Shocked” countries and the rest of the Eurozone



To estimate the diff-in-diff analysis, we use the following general model:

$$\widehat{SWD}_{c,t} = \beta_0 + \gamma_1 Shock_c + \gamma_2 Exposure_t + \delta_{dd} Shock_c * Exposure_t + \beta_1 Deficit_{c,t} + \beta_2 SWD_{c,t-1} + \omega_c + \varphi_t + \varepsilon_{c,t}$$

Where *Shock* is a binary variable indicating that a given country *c* has suffered an intervention by the Troika. According to our theory, these scenarios trigger an “information shock” used by citizens to update their beliefs on the functioning of democracy. *Exposure* is a binary variable indicating whether year *t* marks the moment in which the countries were exposed to the effect of “information shock”. To test our theory, we use three different values of *Exposure*, one for each of the years in which one or more information shocks took place: 2010, 2011 and 2012<sup>17</sup>. In each of these years, citizens from different countries were exposed to “information shocks” as a consequence of their countries being intervened by European institutions. If our theory is correct we should observe a sustained negative and significant coefficient in the interaction term of these two variables during the periods in which the treatment is applied. In other words, the gap in SWD between the two groups of countries should be significantly large every time an information shock is observed, and should increase as information shocks accumulate.

To make sure that the effect of the "information shocks" is isolated, we include a series of control variables. Firstly, *Deficit* is a control variable indicating the level of fiscal deficit as percentage of GDP in country *c* in year *t*<sup>18</sup>. Secondly, we also include the lagged value of SWD for each country to control for the effect of previous satisfaction on current perceptions of SWD. Finally, our model also controls for time trends operationalised as the interaction between country,  $\omega$ , and year,  $\varphi$ , values<sup>19</sup>. We expect this interaction to absorb all the country- and time-specific combined variation observed within countries and years. Finally, errors are robust to control for heteroscedasticity. Table 2 summarises the descriptive information of these variables.

Table 2 – Satisfaction with democracy, level of fiscal deficit and income in Eurozone countries (2002-2014)

Monitored Countries	SWD				Deficit				Income			
	Mean	SD	Min	Max	Mean	SD	Min	Max	Mean	SD	Min	Max
2002	0.52	0.2	0.31	0.73	-1.77	1.64	-3.3	-0.3	2.16	1.26	1.05	3.41
2003	0.53	0.19	0.32	0.73	-3.06	3.37	-7.8	0.7	1.66	2.26	-1	3.95
2004	0.62	0.15	0.4	0.81	-3.48	3.78	-8.8	1.4	2.9	1.38	1.44	4.74
2005	0.59	0.13	0.42	0.74	-2.71	3.41	-6.2	1.3	2.8	2.74	0.55	0.663
2006	0.6	0.17	0.31	0.79	-1.63	3.57	-5.9	2.8	1.73	1.74	-0.14	3.97
2007	0.6	0.17	0.38	0.8	-0.95	3.6	-6.7	3.2	2.64	2.25	1.21	6.39
2009	0.53	0.08	0.42	0.62	-10.1	4.11	-15.2	-5.3	0.99	1.92	-1.86	3.43
2010	0.45	0.12	0.28	0.58	-12.18	10.32	-32.3	-4.2	-3.3	4.25	-10.5	0.7
2011	0.37	0.14	0.16	0.59	-8.13	3.25	-12.5	-3.5	-4.24	4.03	-10.56	-0.56
2012	0.27	0.13	0.07	0.48	-6.95	2.64	-10.4	-3	-5.17	3.05	-9.75	-1.15
2013	0.25	0.13	0.12	0.51	-6.26	3.27	-12.4	-2.9	-2.18	2.5	-6.56	-0.49
2014	0.3	0.12	0.18	0.55	-5.41	2.32	-8.9	-3	-0.07	1.08	-1.6	1.24
Rest Eurozone	SWD				Deficit				Income			
	Mean	SD	Min	Max	Mean	SD	Min	Max	Mean	SD	Min	Max
2002	0.68	0.08	0.58	0.79	-0.55	2.91	-3.9	4.1	1.17	0.148	-0.46	3.02
2003	0.63	0.11	0.45	0.79	-1.68	2.39	-4.2	2.4	1.15	1.34	-0.35	3.41
2004	0.72	0.1	0.58	0.85	-1.82	2.39	-4.8	2.2	1.41	1.53	0.02	3.93
2005	0.67	0.12	0.48	0.83	-1.31	2.22	-3.4	2.6	1.21	1.31	-0.08	3.65
2006	0.69	0.15	0.45	0.84	-0.1	2.29	-2.5	3.9	2.25	0.79	0.99	3.27
2007	0.73	0.08	0.61	0.81	0.85	2.78	-2.5	5.1	2.06	0.92	0.4	2.99
2009	0.71	0.12	0.53	0.91	-4.21	2.26	-7.2	-0.5	1.04	0.89	-0.09	1.89
2010	0.65	0.16	0.41	0.88	-3.92	1.96	-6.8	-0.5	0.48	1.26	-0.95	2.36
2011	0.71	0.12	0.52	0.88	-2.51	2.08	-5.1	0.5	0.44	0.61	-0.5	1.03
2012	0.69	0.1	0.57	0.86	-2.42	1.96	-4.8	0.2	0.27	0.98	-1.08	1.79
2013	0.69	0.11	0.47	0.8	-1.8	1.67	-4.1	0.7	-0.29	0.79	-1.51	0.6
2014	0.71	0.11	0.52	0.86	-1.01	2.69	-3.9	3.3	0.71	0.82	-0.76	1.49



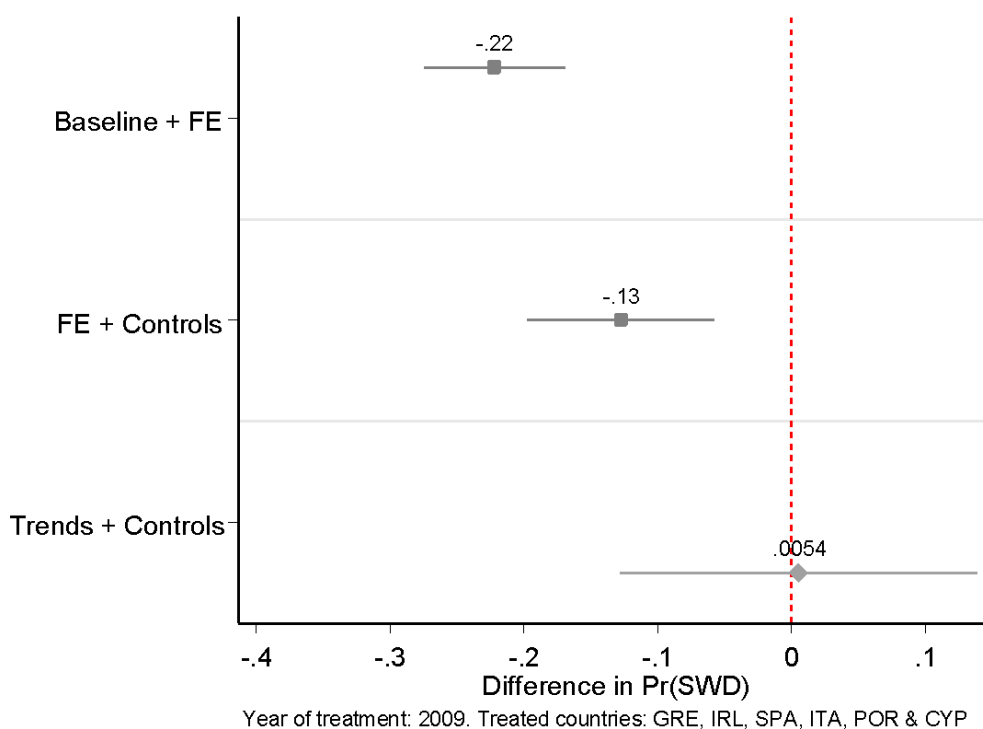
### **SWD in a context of economic crisis.**

Previous work on explaining public attitudes like SWD have given significant weight to the importance of the economy (Norris 1999, Waldron-Moore 1999). In fact, Figure 3 above suggests a clear relationship between economic downturn and SWD. There is ample evidence suggesting that the 2008 financial crisis had an impact on voters (Bellucci 2014, Bellucci, et al. 2012, Lewis-Beck and Nadeau 2012) and some authors have also referred to the impact of austerity measures to explain current cross-country variations of SWD (Polavieja 2013, Armingeon and Guthmann 2014, Freire, et al. 2014, Cordero and Simón 2015).

Both our theoretical framework and our data, however, do not support this hypothesis in its entirety. Theoretically, the economic policies in response to the 2008 financial crisis cannot explain, by and of themselves, the increasing gap existing between countries that were financially intervened and countries that were not. Austerity packages were adopted by the German and Dutch governments and SWD, although affected, did not plummet. The difference between Germany and the Netherlands, on the one hand, and intervened countries, on the other, is that austerity was not only harsher and clearly failing to produce results among the latter, but also imposed by European institutions; in Germany and the Netherlands, on the other hand, it was self-imposed. Our data clearly reject the hypothesis that economic conditions already existing in 2009 are the key drivers of the decreasing level of SWD. To show this we set the year of *Exposure* in our model at 2009<sup>20</sup>.

Figure 4 shows the diff-in-diff coefficients calculated using the diff-in-diff model explained above<sup>21</sup>. The first value in the upper region of the figure corresponds to a model containing fixed effects; the second value in the middle adds the controls. The coefficients are negative and statistically significant. However, when time trends are introduced and the model controls for all idiosyncratic particularities within countries and between years the effect disappears completely (third value in the lower right region of the figure). For us, this is an indication that although the crisis was, already in 2009, eroding citizens' SWD, as expected by the political economy thesis, it was not sufficient to explain the emerging gap between intervened countries and the rest of the Eurozone.

Figure 4 – The effect of the crisis in SWD (year of treatment: 2009)



### Troika interventions as information shocks

The key argument of this article is that citizens in countries whose economies were intervened by supra-national institutions underwent a process of political learning through belief updating about the way democracy works. As explained above, such process of learning was triggered by information shocks.

The first "information shock" that triggered a belief update was the Memorandum of Understanding signed by the Greek government with the Troika on 3rd May, 2010, that tied its hands for years to come. At this point, only Greek citizens updated their beliefs and learnt from the information shock. The Greek crisis, however, soon spread across the rest of the most fragile Eurozone economies. Ireland and Portugal were the next to fall. Ireland signed the Memorandum of Understanding with the Troika a few months after Greece, on 28th November, 2010. It was followed by Portugal on 3rd May, 2011. These two bailouts are the second and third "information shocks", pushing larger number of citizens to update their beliefs.

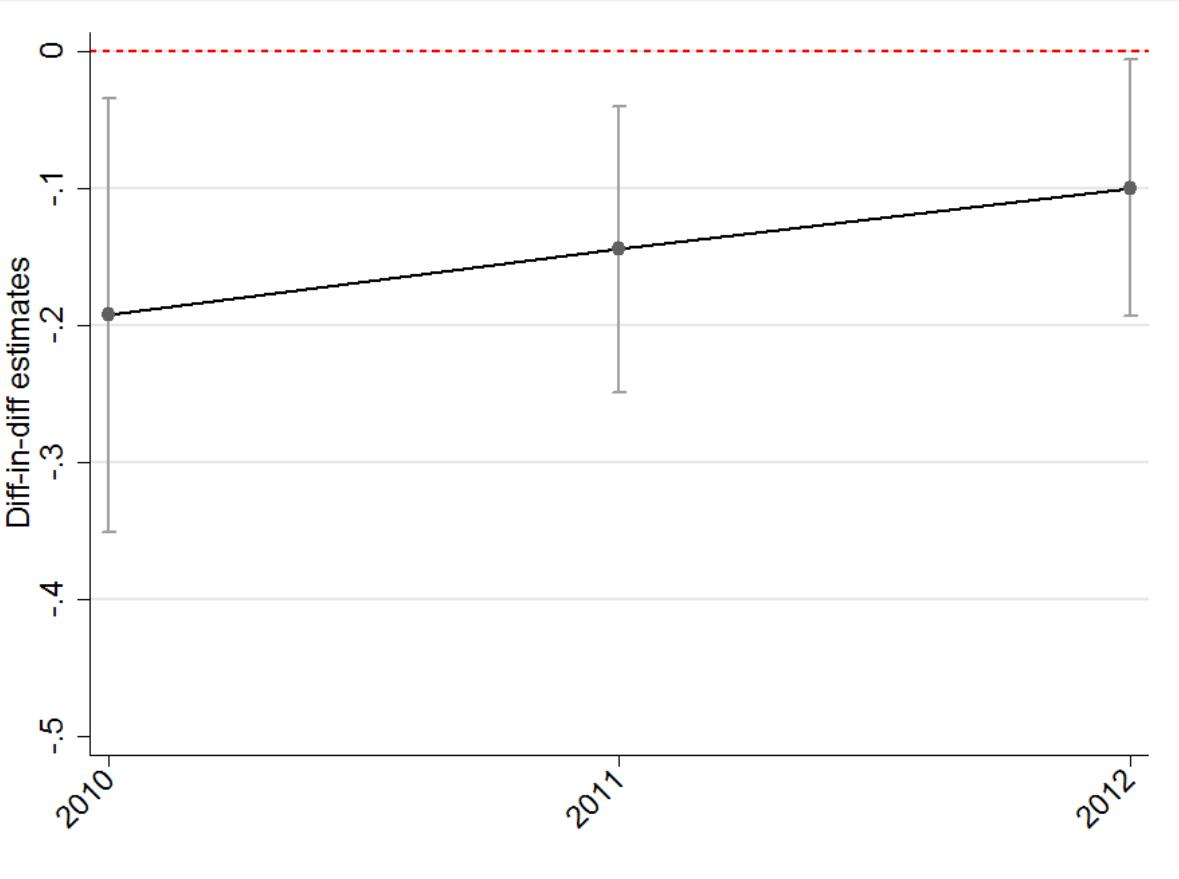
We consider the ECB interventions in Spain and Italy in May 2011 to be "information shocks" too. They were the result of forceful impositions from European institutions, even if they did not imply signing a MoU with the Troika. The ECB offered to save Italy and Spain

from a fiscal meltdown if they agreed to follow the ECB instructions and apply austerity policies. In return, the ECB would alleviate the pressure of international markets by a massive purchase of Italian and Spanish bonds in the secondary market. On 12-13 May, 2011, the Prime Minister of Spain announced in parliament a policy switch towards austerity that would cost him his political career and his party, the Socialist Party, the government. Immediately after, on May 13<sup>th</sup>, 2011, the ECB made a massive purchase of Spanish and Italian bonds in the secondary market that put a stop to international markets' attacks on their sovereign debt. On 2 September 2011, a constitutional reform was approved by the incumbent party, PSOE, with the support of the main opposition party, Popular Party, which fixed a budget deficit limit of 0.4% of GDP and a budget debt maximum of 60% of GDP for all Spanish public administrations. A few days later, on 14 September, 2011, the Italian Senate approved the law on a balanced budget. Unlike Spain, however, the Italian lower chamber rejected the law on 10 October 2011, triggering an institutional crisis that only ended with the formation of an externally-imposed technocratic government, headed by Mario Monti (Belucci, 2014).

Greece needed a second bail-out package in 2011 and Spain also requested financial assistance to bailout its banking system, signing a MoU with the Troika, on 15th November, 2012. The last country to sign a MoU with the Troika was Cyprus, on March 16<sup>th</sup>, 2013. The MoUs replaced party manifestos as the roadmaps of policy. These documents set out in great detail the conditions that each of these countries needed to meet as part of their financial assistance. In many respects, the MoUs were contracts that bounded future elected governments. If countries did not abide by these agreements they would not get the money they needed to keep their economies and their states afloat. Citizens from intervened countries voted in elections but did not get to choose among alternative economic policies because economic policy had already been determined by the MoU contract<sup>22</sup>.

Figure 5 shows the diff-in-diff coefficients and their 95% confidence intervals estimated in a sequential way as countries of the Eurozone periphery were being intervened one after another. The 2010 model only includes Greece as the country receiving the information shock, since the Eurobarometer's fieldwork took place at the end of May 2010 and, therefore, only Greece had been bailed-out at that point (Ireland signed the MoU in November 2010). The next model uses 2011 as the year of the treatment since it includes those countries bailed-out up until the time when the Eurobarometer's fieldwork took place<sup>23</sup>. Finally, the model using the year 2012 as the treatment (i.e. "information shock") includes the same countries as in year 2011 since only Spain requested a bail-out in 2012 to face the financial situation of the Spanish banking sector<sup>24</sup>.

Figure 5 – Diff-in-diff coefficients



The values plotted in Figure 5 show strong empirical support for the main claim of this article. The difference in the levels of SWD between countries exposed to information shocks as a consequence of European intervention and countries not receiving such treatment is always negative and statistically significant. These coefficients are controlled for previous levels of satisfaction with democracy, the level of existing deficit in their country and also for country fixed-effects and time trends. All are conditions that impose a high level of restrictions in the model and that try to isolate the effect of information shocks from other potential confounders.

### Robustness tests

We run a series of robustness tests to evaluate the consistency of our main findings. The first test assumes that there is some level of information spillover once Greece signed the MoU in May 2010. The logic is the following: after the signature of the MoU not only Greek citizens updated their beliefs about the functioning of democracy but also citizens from countries affected by major structural economic problems (Armingeon and Guthmann 2014). The Greek bailed-out was broadly discussed and commented in newspapers and became a topic of debate in the Eurozone during that period. If this spillover hypothesis is true a different analysis should be conducted. Instead of using a sequential treatment as the one described in Figure 5, now the year of treatment is 2010, and the two groups are the non-intervened Eurozone countries, on the one hand, and all the intervened Eurozone countries, on the other.

Model 1 in Table 3 shows the various diff-in-diff coefficients when all intervened countries are treated<sup>25</sup>. The coefficients show that it is only after 2011 when the difference is statistically significant. As previously mentioned, by that year most of the countries had either signed a MoU (Greece, Ireland and Portugal) or had their economies indirectly but explicitly intervened by EU institutions (Italy and Spain). Model 2 excludes Greece from the analysis and, again, the differences are statistically significant after 2011. Finally, model 3 includes only Greece in the treatment, eliminating Portugal, Ireland, Spain and Italy. The coefficient is statistically significant in 2010, the year in which Greece signed the first MoU. It is also significant in 2011 when Greece signed its second MoU. The results of these three models suggest that no information spillover occurred and that, just as our theory predicts, citizens updated their beliefs about the functioning of democracy just when they observed the consequences of the Troika intervention in their own countries.

Table 3 – Robustness tests: Diff-in-diff estimates

	Model 1 Spill-over	Model 2 No GRE	Model 3 Only GRE	Model 4 Income
Diff-in-diff estimates				
2010	-0.06 (-0.05)	-0.03 (0.05)	-0.238** (0.100)	-0.163*** (0.032)
2011	-0.168*** (0.05)	-0.161*** (0.05)	-0.242*** <sup>26</sup> (0.123)	-0.154** (0.06)
2012	-0.117** (0.04)	-0.144*** (0.04)	-0.052 (0.129)	-0.136*** (0.04)
FE Trends	YES	YES	YES	YES

Finally, Model 4 adds a new control variable to the analysis, disposable income. This variable comes from the OCDE and refers to the annual growth rate (%) of household disposable income between 2002 and 2014<sup>27</sup>. Model 4 is limited only to countries that belong to this

organisation, thus excluding Cyprus from the analysis. Luxembourg is also excluded from the analysis due to data availability. Adding this new variable imposes another restriction to the model by controlling for the socio-economic conditions of citizens. The coefficients in Table 3 show the expected direction and significance, thereby providing further support to our theory.

Our last robustness test uses the original categories of the SWD variable as coded by the Eurobarometers. If our theory and data are correct, a changed specification of the dependent variable that returns it to its original categories should not alter our results. Using an ordered logit model, we re-estimated the model and we calculated the predicted probabilities of those being “fairly satisfied” with the way democracy works. The reasons why we focus on this particular category are that a) it represents the largest category in the original SWD variable and that b) if both our theory and data are correct, we should observe a similar pattern when analysing this variable, i.e., we should expect a significant gap in the values of this category depending on whether a country signed a MoU or not. The results are shown in Table A3 in the Appendix and confirm the findings obtained with our original dichotomous specification of the dependent variable<sup>28</sup>.

### **Concluding Remarks**

In this paper we analyse how losses in government’s autonomy to act on its democratic mandate affect citizens' attitudes towards the way democracy works. To explore this question we have focused on the evolution of SWD in the countries that were part of the Eurozone from its inception in 2001. The Eurozone financial and debt crisis provides a critical test for the study of citizens' attitudes towards the absence of democratic choice. The question is intriguing given the sharp decrease in the levels of satisfaction with democracy in countries that were rather enthusiastic with the European project to begin with. In line with previous research, our results show that bad economic outcomes downgrade the levels of satisfaction with democracy across countries. However, bad economic performance does not suffice alone to explain the collapse of SWD in some countries within the Eurozone and not in others.

Our argument links changes in levels of SWD with the availability of policy choices that is assumed to exist in a democracy. When citizens observe that democracy is a system in which parties lose elections but winners are unwilling or unable to implement alternative policies to those that were rejected at the ballot box, then satisfaction with democracy decreases. This, we show, is the main mechanism explaining the sharp fall in levels of satisfaction with democracy across several Eurozone countries during the Great Recession. One of the many negative externalities of this crisis has been to show the fragility of some institutional designs that had been economically outperforming in the years before the crisis. In this context, as the financial crisis became a currency crisis within the Eurozone, these countries faced serious

financial challenges that forced them to require financial assistance programs. It was the acceptance of the conditions of such programs what served as an information release mechanism to citizens in these countries; voters soon found out that voting was no longer about choosing since the room to decide on domestic policies was curtailed by the impositions of the bailout conditions.

The findings of this research go in line with the theoretical trilemma put forward by Rodrik (2011) and according to which nation-states cannot enjoy simultaneously high levels of globalisation, national democracy and state sovereignty. Increasingly the solution out of this trilemma is globalisation and state sovereignty at the expense of national democracy. It also agrees with some previous research on the potential pitfalls of the institutional design of the Eurozone, in particular the lack of further political integration (De Grauwe 2013).

Whether a democracy without choices but with popular support is really a democracy or not is open for debate. What is sure, however, is that a democracy with neither choices nor popular support is open for tumult and instability. The performance of democracies is based on both procedures and results. When procedures (i.e., regular competitive elections and choice) guarantee voters the change of policies that they may find ineffective, then procedures and policy change reinforce one another as sources of regime adhesion. However, if procedures do not serve as a mechanism to produce the policy change preferred by the majority, then democracy will be eroded on both fronts, as procedures and as content.

### **Additional material**

Additional analyses cited in this article are available in the Online Appendix file to be found at the EJPR website.

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## Appendix

Table A1 – Diff-in-Diff analysis in 2009

VARIABLES	2009		
	Baseline	Baseline + Controls	Trend
Diff-in-Diff	-0.222*** (0.0268)	-0.127*** (0.0352)	0.00542 (0.0674)
Shock	0.0706* (0.0357)	0.0341 (0.0377)	66.88*** (23.55)
2009	0.00614 (0.0327)	0.0596** (0.0235)	-0.0498 (0.0423)
Deficit		0.00168 (0.00233)	0.000972 (0.00172)
SWD_t1		0.532*** (0.117)	0.291** (0.114)
Constant	0.530*** (0.0282)	0.218*** (0.0698)	-4.241 (12.35)
FE	YES	YES	NO
FE Trend	NO	NO	YES
Observations	154	141	141
R-squared	0.842	0.894	0.895

Robust standard errors in parentheses

\*\*\* p<0.01, \*\* p<0.05, \* p<0.1

Table A2 – Diff in diff results for sequential treatment

VARIABLES	2010			2011			2012		
	Baseline	Baseline+Controls	Trend	Baseline	Baseline+Controls	Trend	Baseline	Baseline+Controls	Trend
Diff-in-Diff	-0.303*** (0.0373)	-0.166*** (0.0578)	-0.192** (0.0799)	-0.225*** (0.0304)	-0.126*** (0.0355)	-0.144*** (0.0528)	-0.222*** (0.0347)	-0.103*** (0.0357)	-0.0993** (0.0473)
Shock	-0.0229 (0.0272)	0.0193 (0.0410)	31.10 (21.60)	-0.162*** (0.0291)	-0.0628 (0.0395)	-11.60 (17.99)	-0.182*** (0.0265)	-0.0726* (0.0411)	1.553 (16.25)
2010	-0.0660* (0.0387)	0.0254 (0.0236)	-0.0638** (0.0282)						
2011				-0.000730 (0.0349)	0.0537** (0.0238)	-0.0122 (0.0388)			
2012							-0.00283 (0.0357)	0.0483* (0.0244)	-0.0284 (0.0275)
Deficit		0.00595 (0.00360)	0.00197 (0.00166)		0.00531** (0.00263)	0.00531*** (0.00151)		0.00565* (0.00310)	0.00568*** (0.00199)
SWD_t1		0.565*** (0.128)	0.188* (0.0986)		0.500*** (0.124)	0.125 (0.102)		0.530*** (0.138)	0.137 (0.101)
Constant	0.565*** (0.0266)	0.235*** (0.0829)	-6.725 (10.10)	0.545*** (0.0260)	0.258*** (0.0765)	5.559 (10.72)	0.553*** (0.0256)	0.249*** (0.0852)	2.704 (8.861)
Fixed Effecs	YES	YES	NO	YES	YES	NO	YES	YES	NO
FE Trends	NO	NO	YES	NO	NO	YES	NO	NO	YES
Observations	154	141	141	154	141	141	154	141	141
R-squared	0.802	0.886	0.906	0.833	0.892	0.907	0.819	0.884	0.904

Robust standard errors in parentheses

\*\*\* p&lt;0.01, \*\* p&lt;0.05, \* p&lt;0.1

Table A3 – Diff-in-Diff results for category “Fairly Satisfied with the way democracy works”

VARIABLES	2010			2011			2012		
	Baseline	Baseline+Controls	Trend	Baseline	Baseline+Controls	Trend	Baseline	Baseline+Controls	Trend
Diff-in-Diff	-0.212*** (0.0250)	-0.126*** (0.0322)	-0.135** (0.0534)	-0.159*** (0.0227)	-0.0882*** (0.0230)	-0.0827** (0.0352)	-0.158*** (0.0263)	-0.0815*** (0.0262)	-0.0660* (0.0333)
Shock	-0.0979*** (0.0184)	-0.0216 (0.0291)	16.24 (13.51)	-0.174*** (0.0236)	-0.0836** (0.0345)	-5.873 (13.91)	-0.188*** (0.0214)	-0.0863** (0.0345)	0.236 (12.86)
2010	-0.0486* (0.0267)	-0.000661 (0.0209)	-0.0339* (0.0188)						
2011				-0.00247 (0.0259)	0.0163 (0.0214)	-0.0283 (0.0185)			
2012							-0.00328 (0.0265)	0.0164 (0.0220)	-0.0333** (0.0151)
Deficit		0.00527** (0.00265)	0.000792 (0.00111)		0.00482** (0.00205)	0.00293*** (0.000997)		0.00509** (0.00232)	0.00334** (0.00129)
SWD_t1		0.516*** (0.0854)	0.226*** (0.0854)		0.438*** (0.0885)	0.124 (0.0881)		0.467*** (0.0955)	0.114 (0.0964)
Constant	0.513*** (0.0195)	0.264*** (0.0547)	1.487 (8.383)	0.498*** (0.0197)	0.295*** (0.0531)	3.437 (7.982)	0.504*** (0.0191)	0.285*** (0.0570)	3.404 (7.611)
Fixed Effecs	YES	YES	NO	YES	YES	NO	YES	YES	NO
FE Trends	NO	NO	YES	NO	NO	YES	NO	NO	YES
Observations	154	141	141	154	141	141	154	141	141
R-squared	0.835	0.900	0.922	0.860	0.903	0.927	0.850	0.900	0.925

Robust standard errors in parentheses

\*\*\* p<0.01, \*\* p<0.05, \* p<0.1

Table B1: Citizens' preferences - responsiveness versus responsibility  
(European Social Survey, Round 6, 2013)

"Sometimes the government disagrees with what most people think is best for the country. Which one of the statements on this card describes what you think is best for democracy in general?"	Frequency	Percent
"The government should change its planned policies in response to what most people think."	35977	65.8
"The government should stick to its planned policies regardless of what most people think."	9298	17.01
"It depends on the circumstances."	6607	12.08
Refusal	100	0.18
Don't know	2633	4.82
No answer	58	0.11
Total	54673	100

Table B2: Evaluation of level of responsiveness in respondent's country  
(European Social Survey, Round 6, 2013)

	<= 5 (0-10 scale)	Mean	SD
Cyprus	55.2	4.1	2.6
Spain	70.2	3	2.6
Ireland	49	4.4	2.4
Italy	65	3.5	2.5
Portugal	68.5	3.4	3.4
Germany	62.9	4	2.6
Denmark	24.1	5.7	2.1
Finland	39	5	2
Netherlands	38.4	5.1	2

Note: 0-10 scale, from never responsive to always responsive

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<sup>1</sup> See for example, *The Economist* 9.4.1998.

<sup>2</sup> Fieldwork for this survey was carried out between the end of 2012 and the beginning of 2013, two years into the bail-outs and with the economic recession still at large.

<sup>3</sup> Even if many critics find these models wanting due to the fact that people have partisan and ideological biases that forestall a truly Bayesian belief updating, Bullock (2009) has demonstrated that the presence of partisan bias is compatible with Bayesian learning.

<sup>4</sup> The exact questions are as follows: "Have you heard of the European Commission?", "Have you heard of the European Central Bank?" The questions, therefore, measure *objective* knowledge: whether the respondent knows about the *existence* of these institutions.

<sup>5</sup> In this respect, we expect some countries outside the intervened group to have more amenable citizens to belief updating than others as a result of past political experience. France, for example, already had the experience of being forced into line during the second half of the 1980s, when the Mitterrand government was constraint into a monetary policy that was compatible with the prevailing European orthodoxy (Moss 1998, Allen 2005).

<sup>6</sup> The list of Eurobarometers (EB) used in our dataset is the following: EB58.1, EB60.1, EB62, EB63.4, EB65.2, EB68.2, EB72.4, EB73.4, EB76.3, EB78.1, EB80.1, EB81.4.

<sup>7</sup> We also include Cyprus who joined the Eurozone in 2008. See fn 9 below.

<sup>8</sup> The original EB question has four categories: "Very satisfied", "Fairly satisfied" "Not very satisfied" and "Not at all satisfied". Since we are just interested in explaining temporal cross-country variation of levels of SWD, a

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binary variable is better suited for our analysis (see also Armigeon and Guthmann 2014). This decision is further justified by the distribution of the original SWD variable whereby about 80% of the cases are concentrated in the categories “Fairly satisfied” and “Not very satisfied”.

<sup>9</sup>The reason for doing this is to have a group of countries with a sufficiently large time span where the Eurozone rules have applied and been held constant. The countries considered joined the Eurozone between 1999 and 2002: France, Belgium, Netherlands, Germany, Italy, Luxembourg, Ireland, Greece, Spain, Portugal, Finland and Austria. To further test our hypotheses we also include Cyprus, which joined the Eurozone in 2008. The rationale behind this is that Cyprus was bailed-out in 2013. This is also the logic behind the exclusion of Malta, Slovenia and Slovakia. In any case, the analysis does not change if these three countries are included. These results are available in the Online Appendix.

<sup>10</sup> The EBs used in this analysis do not include the question “Satisfaction with Economy”. Instead, they include a question asking the respondents to indicate their views on the economy. Such variable has three categories: Better, Worse and Same. We decided to exclude this variable from the individual analysis to reduce the level of endogeneity. It is unclear the direction of the causality between SWD and expectations on the economy. It could be argued that expectations on the economy do actually explain SWD but it could also be argued the other way round. If that is the case, the coefficients would be biased and would contaminate our analysis. We analysed this issue by running an auxiliary regression (ordinal logit) using expectations on the economy as the dependent variable and SWD as an independent variable, keeping all other variables as controls. In such model, SWD is strongly significant and the direction of the coefficients is the one we would expect. More satisfaction with democracy increases the probability of having better economic expectations (SWD=0.03\*\*\*). The Online Appendix includes further information about these auxiliary models.

<sup>11</sup> This variable is also categorical and has 10 values: “Up to 14 years” (base), “15 years”, “16 years”, “17 years”, “18 years”, “19 years”, “20 years”, “21 years”, “22 years and older” and “Still studying”.

<sup>12</sup> The base category is “Self-employed” followed by “Managers”, “Other White collars”, “Manual workers”, “House person”, “Unemployed”, “Retired” and “Student”.

<sup>13</sup> The models displayed here do not include ideology as a control variable. This is because ideology was not included in all the EB analysed here. We have, however, run the same regressions including ideology for the EB which included such variable and the results are essentially the same than the one reported here.

<sup>14</sup> We also used the weights generated by the EB with similar results.

<sup>15</sup> Let us recall that a Troika intervention is defined as either the signature of a MoU (Greece and Ireland in 2010, Portugal in 2011, and Cyprus in 2013), the signature of a partial MoU (Spain in 2012) or an explicit threat from the ECB to let the country under attack by financial markets fall unless it implements an austerity package (Spain and Italy in 2011).

<sup>16</sup> Eurobarometers did not ask about SWD in 2008.

<sup>17</sup> Cyprus signed a MoU in 2013 but this year is excluded from the analysis given that the series ends in 2014.

<sup>18</sup> Data comes from Eurostat and it indicates the general government deficit (-) and surplus (+).

<sup>19</sup> Angrist and Pischke (2014) indicate that this interaction is required when the data has a pooled cross-country time-series structure like this one.

<sup>20</sup> Data from 2009 comes from EB 72.4, which was conducted between October and November 2009. Using data from the last term of 2009 enhances the logic to use 2009. Unfortunately, the Eurobarometers did not ask about SWD in October-November 2008.

<sup>21</sup> Table A2 in the Appendix shows all information regarding this model.

<sup>22</sup> The Prime Minister of Spain, Mariano Rajoy, bluntly admitted that: “We Spaniards cannot choose, we do not have the freedom to do so”. See interview in Spanish newspaper “EL PAIS” on 11.7.2012.

<sup>23</sup> Countries include Portugal, Greece, Spain and Italy. We also include Ireland since the MoU was signed at the end of 2010.

<sup>24</sup> The Appendix shows the table containing all the details of these models.

<sup>25</sup> Full models are available upon request.

<sup>26</sup> Actual statistical significance is  $p > 0.054$

<sup>27</sup> Data can be accessed at <https://data.oecd.org/hha/household-disposable-income.htm>.

<sup>28</sup> We also re-estimated the models using the category “not very satisfied” with the way democracy works. This table can be seen in the Online Appendix.