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Voter Reactions Towards EMU: Did Foreign Trade Sensitivity Matter?

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Abstract

How did German voters in the general election in October 1998 react to the European Council's unanimous decision on May, 2 1998 to adopt a single currency beginning with January, 1st 1999? The aim of our study is to empirically analyze the sensitivity of the German electorate towards this crucial step of European integration. Specifically, we want to determine in a mover/stayer model whether this decision had an impact on the reelection chances of the responsible government? Contrary to previous studies, our focus is on voter reactions as a function of their attitudes towards exchange rate regime change. Nevertheless, we also consider the factors explaining the approval/disapproval of exchange regime change by endogenizing the former in our simultaneous model. Our theoretical starting point is the hypothesis on the differential incidence of EMU on different socio-economic segments –as put forward f.ex. by Frieden – that we integrate in a punishment model of voting. With regard to our empirical results the conclusions are diverse: The voters' refusal of EMU did not contribute in a statistically significant way to the punishment of the German government when we control for generic party loyalty. The hypothesis of an expected differential incidence of EMU in terms of export dependency cannot be confirmed by our model. However, both the refusal of EMU and the punishment of the government have statistically significant unobserved factors in common, pointing to the fact that – due to the high informational requirements – attitudes towards EMU have been rather the result of diffuse ideosyncratic sentiments correlated with the overall dissatisfaction of the performance of the former government.

Introduction*

Will voter reactions towards the stances of German politicians to give up their currency have an impact on the general election of 1998? German pollsters refused to even think about such a question: They believed – like politicians of the main parties - that the reluctance of public opinion would finally not translate into voters' decisions. Therefore, respective survey questions have not been implemented in the national election survey.

At first glance, this may run counter to standard electoral research insights where opinion poll results are considered to mirror public opinion and to constitute quasi-referenda (cf. Page/Shapiro 1991, Hinckley 1992: xvi). However, peoples' attitudes on foreign, international and supranational processes, especially in the domain of security policies have often proven to be of minor relevance due to the high informational requirements. Therefore, several authors have argued that the impact of these attitudes to be quantité negligeable. In general, it was supposed that voters have even less information on non-national policies and that their respective attitudes are even less stable[1]. Furthermore, it has been argued that attitudes toward non-national policies are mainly determined by elites' offerings[2].

Aldrich/Sullivan/Borgida (1989) cast doubt on these empirically non-grounded conjectures. Based on socialpsychological approaches they show, that the saliency of foreign policy issues and the 'accessibility' and 'availability' of the respective attitudes are not time-invariant but depend on specific conditions. In their causal-analytical examination of the US NES 1980 and 1984, they found that 'issue voting' exists also in the context of foreign political issues, and that in 1984, foreign policy issues show an even higher impact on the voting decision than domestic issues.

Aldrich/Sullivan/Borgida derive the general result that, the higher the campaign induced 'accessibility' of foreign policy attitudes and the higher the polarization between competing candidates, the higher the impact of foreign and security policy attitudes on voting decisions (Aldrich/Sullivan/Borgida 1989: 135).

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1 For a review of the relevant literature cf. Aldrich/Sullivan/Borgida 1989, Niedermayer/Sinnott 1995.

2 This view has been taken in an earlier study by Rosenau (1961). For an alternative position with regard to the classic question: 'which comes first, the chicken or the egg' see Schneider/Weitsman 1996.

These findings have been confirmed by Page/Shapiro (1991) who show that US public opinion reacted in a coherent and plausible way to the elites' foreign (ch. 5, pp.172-220) and security policies (ch. 6, pp. 221-284) and partly even intitiated the elites positioning. In general, they found no evidence for a predominance of non-attitudes in this sector. As the direction of causality is concerned, Hinckley (1992) discovers a strong interdependence between elite positioning and voter preferences even in foreign policy decision making and therefore refuses the image of a unidirectional flow of information.

Given these empirical insights, we want to know whether German voters' attitudes on EMU have had an impact on voting decisions and how these attitudes can be endogenized. Specifically, in mover-stayer analysis we will test whether former government voters chose 'exit' in a statistically signficant way due to their refusal of EMU. In the following, we first screen the empirical literature on voter attitudes towards European integration in general as well as towards EMU. Next, we refer to hypotheses put forward by Frieden and Garrett in several articles where they postulate a differential incidence of EMU based on its distributional consequences. Then we deliver results of our own survey where we coded the export dependency of the voter according to his sectoral affiliation. Finally, we draw several conclusions from these results.

Attitudes Towards European Integration and EMU: A Selective Review

Recently, the investigation of attitudes towards European Integration experienced an enormous boom.

Within the ‘Beliefs in Government’ project, the volume edited by Niedermayer/Sinnott (1995) focuses on ‘Public Opinion and Internationalized Governance’. The editors refer to the ever increasing internationalization of governance: “The aim is to specify if, when, and how, public opinion might be expected to play a role, and what elements of public opinion are the most likely to have an impact on the legitimacy of internationalized governance” (Sinnott 1995: 1). Locating their analyses within the context of the Political Culture approach, they focus on the aspect of the legitimitacy of European integration. Niedermayer (1995) delineates trends of support for EU integration in member states. He finds that the process of a decreasing support did not only start with the Danish referendum on June, 2 1992, but already during automn 1991, i.e. constitutes indeed an effect of the politisation during the negotiations leading to the Maastricht treaty as adopted on February , 7, 1992 (Niedermayer 1995: 67 ff)[3]. However, based on Eurobarometer surveys, he is able to show that different negotiation issues led to diametrically different reactions of the public opinion: Whereas the goal of a common foreign and security policy has been approved, in the case of a common currency area the European public opinion has been highly reluctant from the beginning. (Niedermayer 1995: 71).

Recent indepth studies confirm that European public opinion(s) react in a noticeable manner to economic factors. Eichenberg/Dalton 1994 show in their diachronic aggregate data analysis that aggregate support of integration correlates with the national economic situation, especially with the development of inflation as well as with the international economic situation, and here especially with the exportat ratio within the EU. Newer studies focus on individual level relationships (Gabel/Palmer 1995, Gabel/Whitten 1997, Gabel 1998a, b, 1999). In an empirical test of contending approaches, Gabel shows that it is utilitarian reasons that have the strongest impact on individuals' stated support for European integration. Individuals with higher human capital are interpreted as expecting a higher utility from integration due to market liberalization. Anderson (1998) formulates doubts on the economic determination thesis: He argues that people lack the necessary information about integration. Therefore, their support should be heavily mediated and filtered by domestic parties and governments as can be seen in their consistent reactions. His empirical results confirm these hypotheses.

Gabel (1998) already pointed to the possible problems induced by EMU that governments would face given the high sensitivity of the public opinion towards European economic conditions. This assessment is shared by Frieden et al. (1998) where the authors come to the conclusion that "the final challenge will be selling monetary integration to the electorate. This is perhaps the most difficult of all" (Frieden/Jones/Torres 1997: 299). However, there are only three empirical studies that try to empirically explain public opinion support for EMU.

Gärtner (1997) bases his analyses on Eurobarometer and tests hypotheses by using aggregated figures on EMU support within 14 (!) member states[4] in 1995. Starting hypothesis of his public choice analysis (in the tradition of the public support function approach) is that "If public sentiments toward the Euro are to be conisered rational, they should reflect the net gains the country may reasonably expect from a move to the single currency. Differences in

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[3] Cf. Als Laursen/Vanhoonacker 1994 for a detailed analysis of this decrease of the 'permissive consensus' after Maastricht.

[4] Luxembourg is excluded.

acceptance must then be due to differences in anticipated gains" (Gärtner 1997: 490). Assuming individuals' utility functions are defined over inflation and income he specifies respective OLS regressions. According to the author, the results confirm the rationality of the public: An expansionary path of inflation and indebtedness is followed by a higher percentage of approval of a single currency. However, the rationality of disapproval seems to be unclear, as these countries show at the same time an inconsistently high approval of the ECB. Gärtner concludes that EMU reluctants are less informed as compared to EMU approvers.

Using a more reliable data set, Kaltenthaler/Anderson (1998) provide a multi-level analysis where they pool Eurobarometer 1994-1997 and combine them with attributes on the national level, like the degree of central bank indpendence, the length of EU and EMS membership, governing party positions on European integration and inflation. Following Andersons' (1998) argument, they claim that beside self-interest " ...some of the variation in attitudes toward the common currency can be explained by the role member state governments play in the integration process. Because of the important role domestic political elites play in explaining the EU to frequently ill-informed citizens (Wessels 1995), countries with more pro-European governments also should display higher levels of support for a common monetary policy" (1998:9). The analysis confirms the results of Gärtner, now modelled as contextual effects. The simultaneous model shows again significant effects for the human capital endowment of individuals, i.e. high skilled individuals have a higher expected utility from a common currency. Also included are egocentric and sociotropic measures on the economic future of one's country: Whereas sociotropic measures proved to be significantly different from zero in explaining the support for a common currency, the contrary applies to egocentric measure. In general, Kaltentahler/Andersons study is an interesting approach that confirms by now well-known results also for the approval of the adoption of a common currency.

Gabel (1999) takes up the distributional approach put forward especially by Frieden (1991) that - like Gärtner (1997) asks 'cui bono': attitudes towards EMU are supposed to be the result of the expected distributional consequences of EMU. Relying on Eurobarmeter survey data from 1993-4 he differentiates between public and private sector and at the same time takes into account the trade sensitivity of the private sector when predicting attitudes towards EMU. The results partly confirm the hypotheses as derived by the distributional approach:

> "…the interaction of trade sensitivity and industrial employment indicates that, as expected, support for EMU increases with the sensitivity of an industrial employee's national sector to EU exports. Second, the interaction of public employment and public debt indicates, contrary to expectations, that support among public employees is not related to the size of their public debt as a % of GDP. Third the interaction of nationlaized industrial employment and public debt indicates, contrary to expectations, that support among employees of nationalized industries is not related to the size of their public debt as a % of GDP." (Gabel (1999: 16)

Concluding this selective survey, we resume that there is only a small literature on the effects of EMU on the public opinion in general and on voter reactions in specific. Gärtner provides a microfoundation for voters' disapproval of EMU and gives standard macroeconomic criteria for the specification of individuals utility function. However, he does not consider other consequences of the adoption of EMU that may run counter to his assumed reactions of public opinion: Countries that had an expansionary path of inflation and indebtedness would not get the benefits of EMU free of charge. As made clear again by the pact on stability and growth –primarily initiated by the German ministry of finance after being confronted with heavy reluctance of the German public opinion towards the Maastricht treaty- these countries have to expect the burden of fiscal and monetary discipline. Gabel (1998 a, b) gives further criteria for self-interest or utilitarian approaches. F.ex. he argues that highly skilled, highly educated individuals should expect higher benefits from integration. However, endowment with human capital is always favorable in situations of social change. Theoretically more appealing is the approach followed by Gabel (1999). Again, as trade sensitivity is concerned, the author has to rely on overall measures for the private industry. The main problem with the surveyed studies above is that they try hard to convince the reader that opinion and attitudes on EU had a real impact on EU governance as well as on domestic reelection chances. However, there is not a single study that explicitly analyzes the actual influence on domestic elections[5], much less a simultaneous determination of such attitudes and their impact on domestic governments' reelection chances. This is what we want to do in the following.

Voter Reactions Towards Exchange Rate Regime: The Frieden-Hypothesis

In order to analyze voter reactions towards exchange rate regime change and simultaneously to endogeneize their attitudes towards EMU we need a theory of the expected consequences of exchange rate regime change. Here we rely on political-economy models formerly applied to the study of endogenous trade policy[6] and now extended with regard to exchange rate regime changes as implied by ERM and EMU. These approaches focus on the interests of domestic actors according to the the intranational distribution of costs and benefits of international cooperation in order to predict societal segments' preferences for and against it.

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5 To be fair: there are numerous studies on election to the EP, there are also several studies on referendum on EU issues.

There are different views how to appropriately define relevant segments with homogenous policy reactions. Milner (1988) f.ex. derives firms' preferences for protection by their export dependency and their multinationality. In the tradition of the Stolper-Samuelson theorem, Rogowski (1989) suggests particular sectors of the economy. He discusses the coalition formation between landowners, laborers and capitalists in history assuming that voters' policy preferences on international macroeconomic policies depend on their factor endowments or sector-specific skills. Smith/Wanke (1993) highlight the economic interests of different industrial sectors of EU member states for the completion of the single market.

In general it is assumed that there is a linkage between the respective groups‘ economic interests and the outcome of international cooperation. The electoral support of these segments exerts pressure on the governments' positions in international cooperation: "Sectoral groups‘ reactions to the proposed cooperative policies will be a major concern for politicians. They will anticipate these reactions- or learn about them in the process of negotiating cooperation internationally –and choose policies based upon them cooperation results when it promotes the interests of key societal groups in a number of states" (Milner 1997b: 200). However, as Milner also emphasizes, due to the most of the time anticipated reactions, it is often difficult to identify these processes empirically “since nothing need happen” (Milner 1997b: 200). Therefore, she recommends to think counterfactually: if policies under view had (not) been undertaken, what would we think actors have done? Another strategy that we propose is to test whether candidates/parties correctly anticipated the reactions of voters.

In recent studies (Keohane/Milner 1995, Frieden/Rogowski 1995) this argument has been further developed. It is argued that the increasing internationalization will be followed by relative price changes among factors or sectors and this may lead to changes in political coalitions. Due to the rapidity and importance of this process, the formation of domestic coalitions will increasingly depend on international macroeconomic forces (cf.Keohane/Milner 1995). Frieden/Rogowski (1996) argue that socioeconomic actors react in a predictable way to these processes. In general, those actors benefiting from price changes welcome the openness of economies whereas disadvantaged actors will lobby for protection: "Groups that could gain from openness (for example, owners of the abundant factors) should increase their pressure on the government to change its policies; on the other hand, potential losers will lobby hard to preserve the status quo” (Keohane/Milner 1996: 18-19)

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[6] For useful reviews see Rodrik 1995, Milner 1997b.

In an influential paper, Frieden (1991) applied this approach to exchange rate regime change. Based on macroeconomic theory, he derives the interests and policy preferences of different sectors of the economy towards the exchange rate mechanism (ERM) of the European Monetary system (EMS). In his 'synopsis of the policy preferences of various socioeconomic actors in a world of mobile capital' (Frieden 1991: 445) structured along the classification criteria 'level of the exchange rate' (low, high) and 'degree of exchange rate flexibility and national ,monetary policy autonomy' (Low, High). He identifies relevant groups and localizes them in the so called interest matrix :

> "Fixing the rate in a world of mobile capital implies forgoing national monetary policy autonomy in favor of greater certainty about the value of the currency; in other words, it gives priority to a stable exchange rate over the ability national policy to affect domestic prices. This is especially attractive to two groups of actors whose economic activities directly involve international trade and payments and who therefore are highly sensitive to currency fluctuations. International traders and investors and the producers of export-oriented tradable goods tend to suffer from exchange market volatility, since it makes their business riskier." (Frieden 1991: 444-445)

> "In contrast, two other groups of actors tend to be highly concerned about domestic macroeconomic conditions and thus favor the national monetary policy autonomy made possibly by a flexible exchange rate. The first of these groups consists of producers of nontradable goods and services. Since their business does not involve the use of foreign exchange and since currency volatility has only indirect effects at best on thema, they tend to have no clear preference for stable exchange rates. The second group consists of producers of import-compteing tradable goods for the doemstic market, who tend to be relatively indifferent about exchange rate volatility (which may even reduce import pressure inasmuch as it makes importing riskier) and primarily concerned about policymaking autonomy" (Frieden 1991: 445)

Eichengreen/Frieden (1994) extend this argumentation to the expected distributional implications of EMU:

> „Those for whom currency volatility is most costly stand to gain the most from EMU. They include major banks and corporations with pan-EC investment or trade interests: for them forgoing national macroeconomic policy is a price worth paying for exchange rate predictability. Those for whom cross-border and foreign-currency transactions are inconsequential stand to loose the most. For them predictable exchange rates are of little or no value but national autonomy in the formulation of macroeconomic policies may be extremely important" (Eichengreen/Frieden 1994: 12).

Frieden (1994) more concretely specifies the differential incidence of EMU

> „A fixed exchange rate is favorable to those heavily involved in international trade and payments, especially major international banks and corporations. Exporters of goods or services for which nonprice dimensions (quality, reputation) are very important will also tend to favor exchange rate stability even if the currency's level imposes some cost disadvantage (within limits, of course). Nontradables producers, such as those in the public sector, are pulled both ways: a strong currency is good for them, while forgoing national monetary independence is undesirable inasmuch as they depend upon national economic conditions (and exchange rate stability is irrelevant to them) (Frieden 1994: 30).

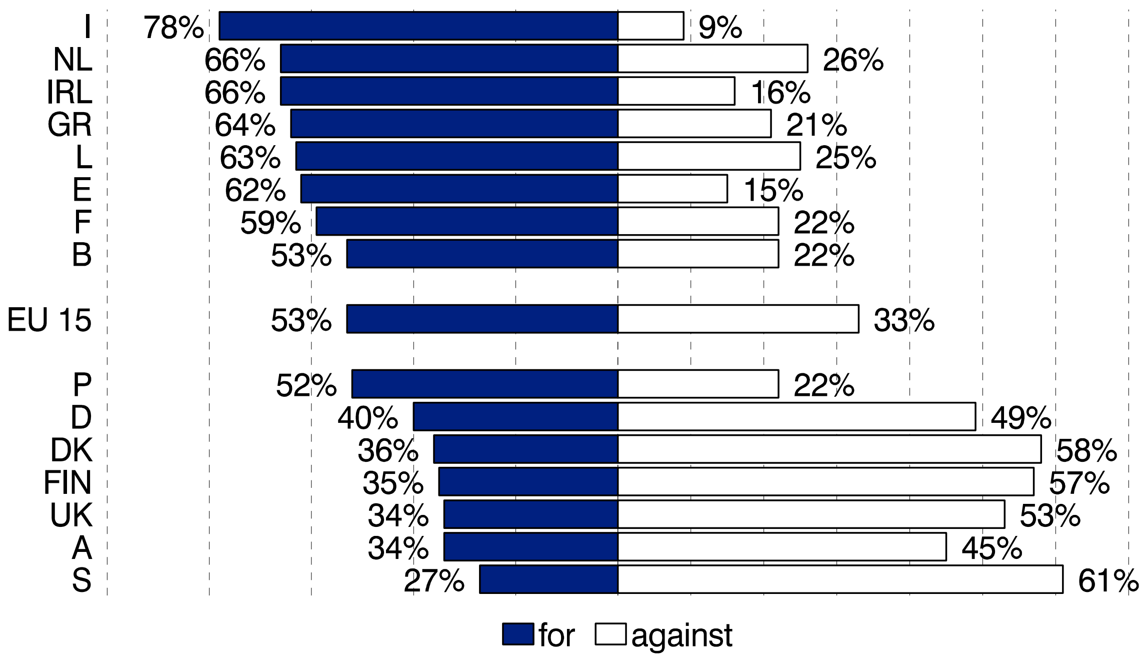
> „Producers of tradable goods that compete primarily on price, on the other hand, are hostile to both the strong currency its being fixed. The principal groups in question are producers of standardized manufactures, for whom a real currency appreciation causes substantial difficulties in competing with imports and, where relevant, in maintaing export markets. The fixed exchange rate is of little value, especially inasmuch as these producers are oriented towards maintaing their domestic markets. In the EC, farmers are essentially indifferent, as they are protected against EC exchange rate movements by complex arrangements that are part of the ECs CAP." (Frieden 1994: 31)

A recent study (Jones et al, 1998) extends this argumentation by considering not only direct distributional implications as induced by exchange rate regime change, but also reactions in the wake of fiscal consolidation measures taken by governments in order to assure international competitivity of domestic markets as well as to meet convergence criteria for important fiscal parameters as defined by the Maastricht treaty. Therefore, it is necessary to assess whether opposition to fiscal consolidation and towards appeals for wage bargaining moderation have extended into opposition to monetary union, because of politicians claiming that their hands were tied by European monetary integration.

Hefeker's (1997) survey of Germany's societal actors positions towards EMU confirms that their reactions in general follow the predicted pattern: Trade unions were split among those industries profiting from a devaluation of the Euro as compared to the US $ for instance and those suffering or unaffected by a devaluation. Deutscher Gewerkschaftsbund weakly favored the option of less tight monetary control by a European Central Bank. Having experienced the 1992-1993 crisis of the European Monetary System with its massive exchange rate fluctuations, agriculture was unanimously in favor of monetary integration. Also, the industry was split in their opinion towards monetary integration. Large banks strongly favored monetary integration hoping for reforms of the national banking regulations within the EU. Small banks (that expected to suffer from an integrated European market of banking services) disfavored monetary integration for the same reason. Industries producing chemicals, electric equipment, cars, and machinery had suffered from the 1992-1993 devaluation of some European currencies and favored fixed exchange rates. Only one third of employers with less than 20 employees favored monetary integration whereas two thirds of employers with more than 1000 employees favored fixed exchange rates. Only one third of the interviewed construction and retail businesses indicate that they expect monetary integration to come into effect on January 1, 1999. 64% of the insurance industry, however, expect monetary integration to start at this date.The manufacturing industry expresses their concern that monetary integration could lead to larger EU transfers disfavoring Germany and could be based on „political exchange rates" rather than rates based on economic fundamentals. Deutsche Bundesbank disfavored monetary integration for obvious reasons.

As a conclusion from their EU small countries analyses the authors emphasize the role of the voters in the process of monetary integration: "The final challenge will be selling monetary integration to the electorate. This is perhaps the most difficult at all" (Jones et al 1998: 233). Even assumed positive endorsements by interest groups, in the end the credibility of the necessity of the EMU project with its implications on national governments fiscal consolidation policies have to be approved/'ratified' by the voters. If we focus, however, on voter reactions towards EMU as predicted by the distributional approach, we have to solve a puzzle. Whereas Garrett/Way (1995) predict that countries like Germany, Finland and Austria should be strongly in favor of EMU, because they are heavily exposed to international trade, public opinion polls show that exactly these countries, characterized by having a dominant exposed sector, overproportionally disfavor EMU.

Figure 1: One European currency: For or against?



(Source: European Commission: Eurobarometer. Report Number 45, S. 45, Brussels, December 1996))

Contrary to Garrett/Way (1995) we will formulate a micro level model in order to test whether the German government correctly anticipated the reactions of their electorate regarding its position on EMU. We will at the same time control for distributional coalitions by segmenting the sample according to the export dependency of voters. Thereby we try to tackle in an innovative manner the problem of empirically testing the distributional hypothesis on the micro-level, since „problems with the distributional approach are not so much theoretical as practical. There is almost no empirical work which successfully measures the distributional incidence of different international monetary regimes“ (Eichengreen/Frieden 1994: 12).

Empirical Analysis

The national election to the German Bundestag in October 1998 resulted in a victory of Social Democrats and Greens. Especially in East Germany the former government of the conservative party cartel CDU/CSU and the liberal party FDP suffered heavy losses whereas the postcommunist PDS managed to pass for the first time the national 5% entry threshold[7]. Key policy issues discussed during the campaign have been policies for fighting the rapid increase of unemployment, especially in East Germany. Tax reform, pension reform as well as subsidies for child rearing have been propagated by all parties, with however diverging views of the appropriate means. European (monetary) integration on the contrary was excluded from the campaign by a tacit agreement between the established parties. Only the extreme right wing parties, the postcommunist PDS and some splinter groups were dedicated opponents of the monetary integration. Opinion polls showed that voters were generally sceptic, accepting monetary integration among „Northern European“ countries including France, yet excluding the Southern members of EU. Opinion polls also showed that voters expected that the European Central Bank would engage in anti-inflation policies less tight than those by Deutsche Bundesbank (which they favored). Overall, voters seem to have doubted that monetary integration would in fact start on January 1, 1999: Only 7% of the respondents indicated that they considered this date as „very likely“. (cf. Hefeker 1997: 47-49).

It is the aim of this empirical analysis to investigate the impact of voters' attitudes with respect to EMU on their decision to "punish" the incumbent government by voting in favor of Social Democrats, Greens, or other parties, or to abstain. We also allow for the effects of rivalling campaign issues such as unemployment, tax reform, and social security reform as well as generic party loyalty on the decision to vote against or in favor of the incumbent government.

Data and Explanatory Variables

Data source is a representative survey conducted shortly after the decision of the member states of the EU on May, 2, 1999. The field work of this survey covered the period from mid-May to mid-June. The survey was carried by Infratest, Munich, applying computer assisted personal interviews (CAPI) with about 1500 respondents. In order to test the implications of the refusal on EMU on the general election of October 1998, we use a punishment model (Key 1964). We selected the subsample of voters indicating to have chosen the government

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7 For an indepht analysis of this election cf. Pappi 1999, Pappi/Hinich/Shikano 2000.

in 1994 and differentiate between those staying with the government and those moving away from the government[8] .

Export Dependency of Industrial Sectors, Firm Size, Public versus Private Sector

In order to determine sectorally dependent voter reactions, we explicitly measure the trade sensitivity of each individual voter's industrial sector membership, because the level of trade can be significant in particular sectors of the economy even if the national overall trade ratios are modest. Highly aggregated classifications as provided by Frieden/Way (1995) or the assignment in Gabel (1999) may therefore be misleading since they do not capture the sectorally differentiated structure of trade. Trade sensitivity is usually defined as the sensitivity (in terms of elascities) of transborder sales (import and export) as induced e.g. by changing prices or income. Export dependency measures industrial exports as percentage of total domestic production in the respective sector. Import dependency measures industrial imports as percentage of total domestic production in the respective sector. For the assignment of export and import dependency measures to the individual voter we first determined the industrial sector[9] of the respondent's workplace and respectively coded its sector membership. Our assigment is based on actual trade flows in 1993. Due to data availability we used input-output matrices of 1993 of the Federal Statistical Office[10]. Export ratios have been constructed as a proportion of gross domestic product in the respective sectors. We expect the individuals' tendency to refuse EMU to decrease with increasing degree of export dependency of the industrial sector (s)he is working. Firm size is operationalized by the number of the companies' employees where the respondent is working. We expect, ceteris paribus, the voters tendency to refuse EMU to decrease with increasing firm size. According to Frieden's hypotheses we expect the voters tendency to refuse EMU to be higher in the public sector.

Individual Perceptions of Implications of EMU

In order to take into account other interest based decision criteria of voters we included two further variables that we supposed to be related to the voters expectations of EMU-induced

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8 Incl. respondents indicating that they are undecided or don' knows. Excluding these categories from analysis did not change the results. Results can be delivered on request.

9 For the coding, the Centre for Surveys, Methods and Analyses (ZUMA) used the classification of the German socio-economic panel, which is itself based on ISCO 68.

10 Cf. Statistisches Bundesamt, 1997, Fachserie 18, Volkswirtschaftliche Gesamtrechnungen, Reihe 2, Input-Output-Tabellen.

gains and losses. As the voter's expectations on the EMU-induced implications for (un)employment are concerned[11], we explicitly asked in our survey whether EMU will contribute to a decrease or rather to an increase of unemployment. Following the theoretical arguments as put forward by Gärtner (1997) we also controlled for expected income loss by a depreciation of the external value of the Euro. Again we explicitly asked whether the respondent expects EMU to be followed by a depreciation or rather by a revaluation of the external monetary value as compared to the US and Japanese currency.

Campaign Issues

In order to control for campaign issues we chose socio-demographic proxy variables. The debated tax reform with the government announcing tax cuts for high incomes should show a positive effect for staying with the government the higher the per capita income of a household. Due to the ongoing discussion on pension reforms with the government taking rather unpopular positions in order to maintain the financing of the pension stock we expect a significantly higher ‘exit’ by older people and especially by pensioners. The promise by Social Democrats to increase subsidies for families with children should have an effect for those families to exit the government. Unemployment developed to be the main issue of these legislative period. Unemployment, however was also a specific campaign issue of East Germany with the post communist PDS presenting herself as a mouthpiece of the East German underpriviliged. The PDS was also the only member of parliament taking a clear position against the Euro. Scepticism against EMU was also – more or less explicitly – nourished by the Bavarian government.

Non-Policy Biases

Due to information costs, voters governments' assess restrospective (Downs 1953, Key Fiorina, Thurner/Pappi 1998) performances and/or rely on parties' reputation (Hinich / Munger 1994). Past experiences with parties performance contribute to build up a stock of relative trust to each of the parties. Governments that fall short of providing income increases are punished. Reactions of voters to past performances and promised future policy outcomes reactions are buffered by partisan biases built up during longterm experiences (cf. Fiorina 1981, Thurner 1998). Therefore we control for partisan biases specified as a generic[12] variable in order to capture the comparative assessment of the voters.

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[11] For a discussion of the relationship between EMU and labour markets, see e.g. Eichengreen 1997, pp. 121-152.

[12] For the concept of generic variables in discrete choice analysis cf. Ben-Akiva/Lerman 1985. For an application where party loyalty has been specified for the first time as generic variable, cf. Thurner 1998, 2000.

Estimation Results

We propose a simultaneous model of attitudes and the voters' decision to punish the government. Rather than using a proxy variable for the voters' EMU attitude in a sequential model of the voting decision, we control for the endogeneity of voters' attitudes and estimate a recursively interdependent bivariate probit model of attitudes and the punishment decision.[13] Exclusion restrictions clearly need to be fulfilled in order to identify this model. We assume that expectations with respect to unemployment and the Euro depreciation directly affect the voters' attitudes and only indirectly affect the punishment decision via the voters' attitude towards EMU. Moreover, we profit from the hypotheses by Frieden (1991) and propose that the respective socioeconomic characteristics exclusively affect voters' attitudes rather than the party choice. We have also attempted to allow for the endogeneity of expectations in a four-dimensional (see Simultaneous Model 1) and party loyalty in a five-dimensional model of voting behavior, yet failed to reach convergence in the estimation process.

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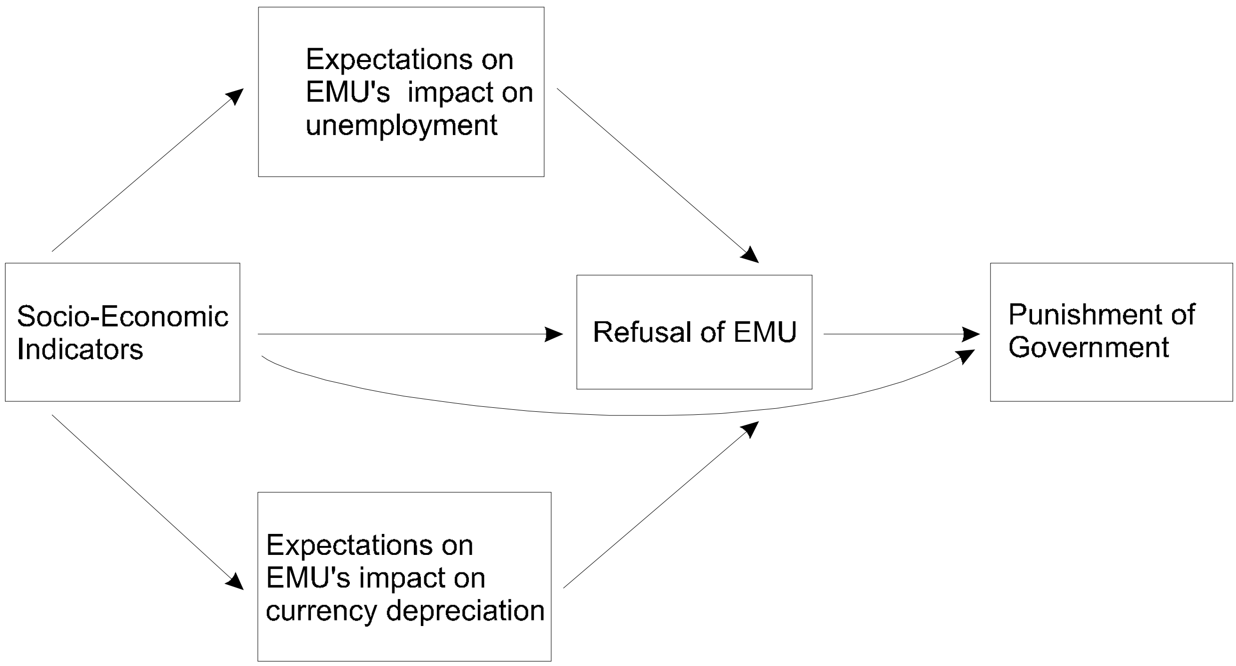
[13] For details of the estimation procedure cf. Eymann, Börsch-Supan, and Euwals (2000).

Figure 2: Hypothesized Model

Simultaneous Model 1



Since we were not able to endogenize expectations of the impact of EMU for future unemployment and for the external value of the Euro, we concluded that at least these attitudes are rather determined by ideosyncratic perceptions than interest driven. We therefore combine attitudes and socio-demographic variables for the explanation of refusal EMU (cf. table 1, appendix).

Table 1: Estimated Simultaneous Model 1

Expectations on EMU's impact on unemployment

	Coefficient	t-ratio
Unemploy-ment	0.543**	3.24

Socio-Economic Indicators

Export ratio	-0.957	-0.95
Firm Size	0.244	1.22
Unemployed	0.835*	2.05
Retired	0.329	1.90
13+years of educat.	-0.518*	-2.44
East German	0.608**	3.43
Public Sector	-0.548*	-2.56
Bavarian	0.015	0.07
Constant	-0.835**	-5.35

Expectations on EMU's impact on currency depreciation

Currency	1.217**	7.53

Refusal of EMU

	Co-efficient	t-ratios
EMU refusal	0.022	0.14

Party loyalty

Co-efficient	t-ratios
-6.212**	8.51

Punishment of Government

Proxies of campaign issues

Age	-0.529	-0.49
Income per capita	-0.112	-1.03
Unemployed	-0.498	-0.82
Retired	0.423	1.12
Nr of Children in Househ.	0.397**	2.98
East German	0.796*	2.53
Constant	0.482	0.83

Corr (EMU refusal, Punish: 0.376, (2.40))
N= 363, (stayers: N= 196, potential movers: N= 167)
LL: -312.08, LL (Constants only): -486.91
Rho sq. adj.: 0.32 / PCP: 83.89

As trade sensitivity of individual voters is concerned, we are not able to confirm the Frieden hypothesis: The coefficient for Export Dependency is not significantly different from zero. Our results reject the Frieden argument also when operationalizing the trade exposure by specifying public service membership as well as firm size. The effect of EMU refusal on punishment turns out to be insignificant as well. What is striking is the heavy refusal by East German voters: This can be attributed to their general scepticism against European Integration (cf. Pappi/Thurner 1999). They experienced their second currency change within 10 years. Furthermore, the PDS openly campaigned against the EMU of capital, large industries and the banks.

Unemployed respondents tend to refuse EMU. Refusal of EMU decreases with education. Voters not having a university entrance qualification significantly more often refuse to give up German currency. As Bavaria is concerned: despite heavy refusal of parts of the Bavarian

CSU. this protest seems to have been absorbed. We interpret therefore the refusal of EMU to be mainly a matter of dissatisfaction and information and knowledge.

Controlling for campaign issues and generic party loyalty to one of the government parties, it turns out that the refusal of EMU did not significantly influence the intention to punish the governing parties.

The correlation between error terms of coefficients of the first variable block and the second variable block, however, points to the fact, that there are indeed unobserved factors simultaneously influencing EMU refusal as well as punishment.

Interpretation

There are several possible interpretations to these results. As Milner (Footnote 15, p200) has pointed out, it is quite possible to assume sectoral interests that run counter to Frieden's analysis. Furthermore, Frieden does not provide a theory of the complex process of policy formation thereby neglecting the aggregation process of preferences (cf. Rodrik 1995, Gros/Thygesen 1998). Other authors raise objections against this approach arguing that the distributional consequences of monetary policy in general are simply too complex and too uncertain for actors to be able to develop a concrete idea of their policy preferences'(see Milner 1997b: 201 and the cited literature there, Kaltenthaler/Anderson 1998). We tend to follow these arguments: Due to the high informational requirements of understanding monetary integration, we suppose attitudes towards EMU to have been less interest driven and been rather the result of diffuse ideosyncratic sentiments correlated with the overall dissatisfaction of the performance of the former government.

Furthermore, there has been no polarization between main parties (cf. Hefeker 1997, Pappi/Thurner 1999), confirming the theoretical requirements for sensible voter reactions as proposed by Aldrich/Sullivan/Borgida (1989). Only marginal right populist parties and the East German post communist party PDS campaigned against EMU.

Note, however, that this is a conservative interpretation. The operationalization of party loyalty in our cross-sectional analysis may cause measurement problems that may absorb instantanously the effects of refusing EMU. Nevertheless, our results are corroborated by an alternative, spatial analysis (cf. Pappi/Thurner 2000) that identifies only weak effects of policy distances in the EMU issue where we control for the recall instead of party loyalty.

Conclusion:

Much more work needs to be done in order to understand voter reactions towards international cooperation in general and towards complex issues like EMU in specific.

Indeed, party loyalty largely determined party choice. Attitudes with respect to monetary integration seem to have been dominated by the individual's information status and by their idiosyncratic attitudinal expectations on the impact of EMU rather than by economic considerations. Arguments that the distributional consequences of monetary policy are simply too complex and uncertain for actors to be able to assess their implications and to develop an idea of their respective policy preferences seem to have been corroborated. As the implications for the election results in 1998 are concerned we have ambivalent results. In our sophisticated simultaneous model we have seen that there are further factors unobserved that have at the same to do with EMU refusal and the decision to punish the government. What we have learned from this study is that governments should not take for proven that tying one's hand by international cooperation is without risk for reelection.

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