



# Concerns about the Euro and happiness in Germany during times of crisis



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## ABSTRACT

This empirical study investigates whether people's concerns about the Euro currency affect their life satisfaction. A minority of very concerned individuals appear to be unhappy, which cannot be explained by personality or other observable factors typically affecting well-being. As a novelty, this investigation exploits exogenous variation in reported concerns by using the intensity of media coverage on the euro crisis with its extraordinary events throughout the year 2011 as an instrument. Results from the application of several empirical approaches confirm that there is an effect from being concerned about the euro on people's satisfaction with life. A potential explanation is that political beliefs and euro-skeptic attitudes are at play and may trigger unhappiness as a consequence of a perceived lack of representation in German politics. In line with this argument, a regional analysis links the variation in unhappiness among concerned citizens to the actual votes for Germany's first major anti-euro party in the subsequent federal elections.

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## 1. Introduction

The news headlines of 2011 offer a paradoxical picture of the situation in Germany. In the aftermath of the severe banking crisis with its economic repercussions, the country was economically in good condition and happiness appeared to be widespread among the citizenry. Meanwhile, the dominant topic of the year was the “concerns about the euro” (in German “Sorgen um den Euro”), as an ongoing sovereign debt crisis was omnipresent in the media.<sup>1</sup> Despite thousands of people voicing their concerns in protests in other European countries during times of economic turmoil, for most Germans the potential problems related to the European Monetary Union (EMU) were not immediate problems. On closer inspection, however, there were indications, such as the rising anti-euro sentiment that started to evolve into a political movement during that time, suggesting that the topic did actually matter, at least to some particularly concerned people.<sup>2</sup>

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<sup>1</sup> The title of a December 2011 press release by the University of Hohenheim was: “The concern about the euro is the top issue of the year 2011”. Based on their representative survey among people in Germany, researchers concluded that the euro crisis received more attention than events like Fukushima or the Arabic Spring. For additional background information, see [Appendix B](#) for a selection of media reports from that year.

<sup>2</sup> In a differentiated discussion, one needs to distinguish between the problems related to the EMU and the euro currency itself. For simplicity, the present paper follows the discussion in Germany by using the term “euro crisis” over alternative labels and leaves the broader discussion of the EMU (e.g., [Katsimi and Moutos, 2010](#); [Grüner, 2010](#); [Mikosch and Sturm, 2012](#)) and the crisis (e.g., [Windels and Wendler, 2014](#); [Ioannou and Stracca, 2014](#); [Moro, 2014](#)) with its underlying reasons to other researchers.

This paper questions the narrative of the happy Germans during times of crisis by investigating whether being concerned about their currency has the potential to trigger non-monetary costs, measured in reduced life satisfaction. A second contribution is the discussion of the potential ways through which people may see their well-being affected and consequently may even reconsider their political views. By doing so, this study contributes to the discussion of the euro and the debt crisis often connected to it, while it also sheds light on the rise of a political movement. If concerns about the currency are capable of affecting people's life satisfaction in significant ways, a political response and increased willingness to protest are potential consequences, even if those who are affected constitute only a minority in a population that is overall passing happily through one of the most outstanding economic crises in recent times.

Apart from examples, such as the federal government's takeover of financial obligations, there were only few repercussions of the crisis for the country of Germany. One may even argue that the German economy benefitted from the euro crisis, as capital flows into the country increased. In line with that, the economic figures were very positive in Europe's largest economy, especially when compared to the situation in the southern euro countries.<sup>3</sup> For Germans, the euro crisis of 2011 was an experience that clearly differed from financial crises with a discernable economic impact. In this context, recent empirical studies reveal non-monetary effects in happiness resulting from the unemployment and income shocks during the financial crisis of 2008/2009 (Deaton, 2012) and show how the happiness of Europeans responds to recent banking crises (Montagnoli and Moro, 2014). Arguably, the absence of substantial changes in objective living standards for the people of Germany during the euro currency crisis motivates the analysis of subjective well-being data even more. Non-monetary indicators allow examining the role of concerns about a currency that is linked to severe problems in the media but not necessarily in the daily experiences of people in times of economic abundance.<sup>4</sup>

Previous research on subjective well-being suggests that concerns about one's own economic situation have the potential to substantially affect people (e.g., Knabe and Rätzel, 2011). Broader social problems may also be relevant but they play a different role than concerns about issues that are directly related to oneself. Whereas people may report being concerned about topics like crime or immigration, their life satisfaction is not necessarily affected by such global issues. Previous research about how the currency of the euro itself affects people in their well-being is limited to the euro changeover of 2002, for which Wunder et al. (2008) reveal a significant loss in well-being resulting from the implementation of the currency.

While the study here is motivated by the idea that subjective well-being is generally translatable and measurable in economic terms, the prime motivation comes from a more political viewpoint.<sup>5</sup> Election outcomes after 2011 suggest that skepticism towards the euro currency and views about its economic role have been capable of inducing significant changes in the political landscape throughout Europe. Anti-euro views have been prevalent in the German public since the start of the discussion about the currency's implementation; yet, this political position has never received much support from German elites in politics, media, business, or science. With respect to the latter, a significant change occurred during the euro crisis as several professors of economics from German universities emerged to be the most prominent voices expressing concerns. As those views still had no significant representation in Germany's political spectrum, it was, in particular, some of those seemingly concerned economists who became politically active by being directly or indirectly involved in the founding of a party called the *AfD* (Alternative für Deutschland).<sup>6</sup> The origin and unifying position of this political opposition is a straightforward anti-euro attitude, accompanied by the proposal to discuss re-introducing the German *deutschmark* (DM). The new party soon outperformed the long-term government party of the liberal democrats in election polls and almost entered the German *Bundestag* in the 2013 federal elections with the support of more than two million voters.<sup>7</sup>

Following the description of data and empirical strategy (Section 2), the first part of the empirical analysis (Section 3) employs identification strategies used in previous happiness studies about the impact of subjectively perceived concerns. Results suggest strong negative effects in well-being from being concerned about the euro. The second part of the analysis (Section 4) constitutes a novelty in the context of research on people's worries and their well-being by making use of media data on the intensity of the euro crisis for the identification strategy. Thereby, an instrumental variable (IV) approach follows recent studies that exploit the quasi-randomness of the interview date as the basis of exogenous variation in the variable of interest (e.g., Kimball et al., 2006; Metcalfe et al., 2011; Schüller, 2012; Goebel et al., 2015). The discussion of results (Section 5) concludes that concerns about the

<sup>3</sup> Germany had a growth rate of 3.3% in 2011, only slightly lower than the 4.0% growth rate a year earlier, according to official World Bank data. These strong increases in GDP could offset the contraction of the German economy in 2009 due to the banking crisis. Meanwhile, Italy and Spain had almost no growth in 2011; Portugal and Greece had negative growth rates. Unemployment increased in all these Mediterranean countries and reached levels going even beyond the high figures during the banking crisis. Contrariwise, unemployment in Germany continued to fall in 2011. The unemployment rate of 5.9% was the lowest for the country in 20 years. For a broader discussion of the economic situation in the euro countries during the crisis, see Moro (2014).

<sup>4</sup> For comprehensive discussions of both the potential and the validity of data on subjective well-being, see Frey and Stutzer (2002), Frey (2008) and Weimann et al. (2015). Many of the findings in this growing field, such as the negative impact of being unemployed (e.g., Clark and Oswald, 1994) or the importance of both absolute and relative income (e.g., D'Ambrosio and Frick, 2012) are consistent over different data sets and across different countries. Note that in line with many other studies in this field, the discussion here treats the terms *happiness*, *life satisfaction* and *(subjective) well-being* interchangeably.

<sup>5</sup> To illustrate the economic importance, studies in this field often provide a transformation of well-being effects into equivalent monetary figures (e.g., Carroll et al., 2009; Lüchinger, 2009; Lüchinger and Raschky, 2009; Kountouris and Remoundou, 2011). While such transformation may give the reader helpful information, the exact calculation of the monetary equivalent is not trivial. See, e.g., Oswald and Powdthavee (2008), Powdthavee (2010) and Frijters et al. (2011) about the challenge to identify the effect of income on well-being.

<sup>6</sup> While the party had its origins in the euro crisis, it was officially founded in 2013. See the *AfD* federal elections program (2013) for the political positions regarding economic issues and the topic of currency in particular.

<sup>7</sup> The final *AfD* vote of 4.7% was slightly below the threshold of 5% needed to win seats in Germany's main legislative body, showing that the party was elected only by a minority of German voters in 2013. Note that the country's total population is approximately 80 million people of which approximately 62 million adults are at least 18 years of age and are eligible to vote in federal elections.

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