Reassessing the "Democratic Constraint"

Strategic Interdependence and Preferences about the Euro in Italy and Germany

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Abstract

The COVID-19 pandemic has brought about renewed requests for debt mutualization in the eurozone. Previous research suggests that debt mutualization is unlikely because national politicians face a "democratic constraint": Voters in creditor countries fiercely oppose debt sharing, which limits their representatives' room for maneuver, while voters in debtor countries strongly support remaining in the euro, which limits their governments' bargaining power. Based on a novel survey experiment in Germany and Italy, conducted at a crucial moment in the negotiations for "Coronabonds", we argue that the democratic constraint is less binding than previously assumed. Italian voters favor exit from the euro if they are informed that the price of remaining is austerity. Faced with the possibility of Italexit, German voters, in turn, become more willing to help Italy remain in the eurozone, including through debt mutualization. Our results suggest that voters' preferences are strategically interdependent across countries and malleable by elite framing.

Introduction

Ten years after the start of the sovereign debt crisis, the COVID-19 pandemic poses a new challenge to the stability of the eurozone. The coronavirus has hurt all European countries simultaneously, but with differing economic fallouts. Countries such as Germany and the Netherlands can easily borrow money to respond to the downturn, but countries like Italy and Spain are constrained in their fiscal response by prior government debt. The additional government debt incurred to fight the consequences of the pandemic further increases the debt burden of the latter, increasing the risks of another fiscal crisis.

This is not by accident but by design: The European treaties do not foresee mechanisms for joint fiscal capacity or risk-sharing across countries. On the contrary, governments are expected to be constantly exposed to the watchful vigilance of international financial markets. If their fundamentals are not in order, the markets will punish them by imposing higher risk premia, and thus force them to mend their ways. Article 123 of the Treaty on the Functioning of the European Union (TFEU) prohibits "overdraft facilities", i.e., the monetary financing of government debt by the European Central Bank (ECB). Article 125 of the TFEU states that member states shall not be responsible for the liabilities of other member states. These provisions aim to avoid moral hazard, discouraging profligate fiscal policies by member states.

During the euro crisis, the "no-bailout clause" was bent by modifying article 136 of the TFEU to allow for financial assistance to member states when the stability of the eurozone is at risk. This treaty modification allowed the creation of the European Stability Mechanism (ESM), but continued to make any financing contingent on strict conditionality. As a result, countries that apply for financial assistance from the ESM have to sign a Memorandum of Understanding, pledging to implement a series of reforms – austerity policies and structural reforms – as a condition for receiving assistance, and are subject to "enhanced surveillance".

Over time, it has become clear that this particular approach to crisis resolution runs into both economic and political problems. Economically, austerity policies designed to reduce government debt plunge countries into prolonged recessions which increase the real burden of debt (Blyth 2013). Politically, austerity and structural reforms are highly unpopular, leading to electoral volatility, public protests, and the emergence of anti-

system forces (Bremer, Hutter, and Kriesi 2020; Fernández-Albertos and Kuo 2016; Hübscher, Sattler, and Wagner 2020; Jurado et al. 2020).

An alternative to Europe's dysfunctional approach to crisis resolution would be to strengthen mechanisms for fiscal risk-sharing, which could take various forms. It could involve issuing "Eurobonds" , i.e. assuming joint liability for a portion of the public debt of member states. Alternatively, the ECB could redistribute risk through its own balance sheet by acting as a buyer of last resort of sovereign bonds (Grauwe 2011). Finally, the European Commission could increase its ability to tax and spend through a larger budget. In the past decade, many proposals for these different forms of risk-sharing have been discussed. Especially, the creation of Eurobonds was often floated during the eurozone crisis, but the recurring discussions have not led to any meaningful reforms.

The main explanation for this failure has been a presumed "democratic constraint" blocking European leaders. European politicians operate under a constraining dissensus (Hooghe and Marks 2009) and are responsive to their national voters and because they fear electoral punishment (Schneider 2018; Schneider and Slantchev 2018). Voters in creditor countries are said to strongly oppose any risk-sharing that involves cross-border redistribution (Bechtel, Hainmueller, and Margalit 2014; Beramendi and Stegmueller forthcoming; Walter, Ray, and Redeker 2020). At the same time and despite austerity, voters in debtor countries are seen as fundamentally supportive of the euro and unwilling to leave it despite the high costs associated with the crisis and austerity policies (Clements, Nanou, and Verney 2014; Hobolt and Wratil 2015; Jurado et al. 2020; Roth, Jonung, and Nowak-Lehmann Danziger 2016; Walter et al. 2018). This strategic imbalance has allowed creditor countries to shift the burden of adjustment on debtor countries (Copelovitch, Frieden, and Walter 2016; Frieden and Walter 2017), making any moves towards debt sharing unlikely.

But are preferences for fiscal risk-sharing across countries really so fixed as to make further fiscal integration impossible? Are southern voters committed to remaining in the euro independently of the costs? Do northern voters not internalize the risks associated with a break-up of the eurozone? In this paper, we argue that the "democratic constraint" in Europe is less binding than it has been described. Using two linked framing experiments conducted in Germany and Italy at the height of the COVID-19 pandemic in

April 2020, we show that democratic majorities (at least in so far as they reflect public opinion) are contingent on expectations about what other countries decide to do.

At the individual level, the preferences of voters in Italy, a key southern country, depend on beliefs about the costs of remaining in the eurozone as well as about whether or not Germany and other countries will allow for debt mutualization, while the preferences of voters in Germany, the key northern country, depend on beliefs about whether voters in Italy will leave the eurozone and about the consequences this would have for the German economy. Such beliefs are malleable by elite framing. Italian voters favor exit from the euro if they are informed that the price of remaining is austerity. German voters, in turn, are more willing to help Italy remain in the eurozone, including through debt mutualization, if they are informed that Italexit might cause a breakup of the eurozone. In other words, preferences are "strategically interdependent" across northern and southern countries and different aggregate outcomes are possible depending on the type of information voters receive.

To make this argument, the remainder of the paper proceeds as follows. First, we briefly review the institutional framework of the eurozone and discuss the limited mechanisms of (fiscal) risk-sharing introduced in it. Then we set-out our theoretical framework and develop testable hypotheses. Third, we introduce the experimental design and methods before presenting our results in two steps: first, by examining preferences in Germany and Italy descriptively; and second, by analyzing the effects of framing. We conclude by discussing how our findings help to make sense of recent policy events and by highlighting the most important implications of our findings.

Conflicts about fiscal risk-sharing in the eurozone Euro: A brief overview

The euro was created at the end of the 20th century as a monetary union without a fiscal union. Intergovernmental conflicts prevented tools for risk-sharing and debt mutualization from being introduced and, therefore, the European Economic and Monetary Union (EMU) was designed to function without them (e.g., Dyson and Featherstone 1999; Eichengreen and Frieden 2001; McNamara 1998). Northern European countries were afraid that they would have to pay for the profligacy of southern European member states. They intentionally limited fiscal risk-sharing when writing the Maastricht

Treaty in three ways: 1) the treaty prohibited monetary financing of government debt by the ECB; 2) it included a no-bailout clause; and 3) it encompassed the Stability and Growth Pact (SGP), which was supposed to prevent member states from excessive deficit-spending and unsustainable fiscal policies. At the time, it was assumed that an institutional architecture that constrained monetary policy to solely target inflation, and contained fiscal deficits and public debt (to 3 and 60% of GDP, respectively), while preventing any form of monetary financing of public deficit and cross-country mutualization of debt, would bring economic benefits for everybody. It is noteworthy that the Maastricht Treaty did not foresee any measures to limit the accumulation of private debt and current account imbalances. The theory behind this neglect was that the public deficit and current account deficit are "twins", and that if one controls the former, one manages to control the latter as well. Associated with this was the idea that governments' excesses posed the greatest threat to the stability of the common currency, while private financial markets could be relied upon to price risk correctly (Stiglitz 2016, chap. 2).

The eurozone, however, did not function as intended. Beginning in the mid-1990s, there was a convergence of interest rates in the EMU as market actors did not find the no-bailout clause credible (Chang and Leblond 2015). Since a currency union implies many economic and political relations among member states (Mabbett and Schelkle 2015; Schelkle 2017), market participants anticipated that other member states would have to respond if and when one member state was to face financial distress. This contributed to large capital flows from Europe's core to the periphery, as investors searched for higher yields at a time of declining interest rates (Fuller 2018). Current account imbalances were thus balanced by cross-border capital flows from northern European countries to the periphery. This led to an increase in private debt in some countries (e.g., Ireland and Spain), while it led to an increase in public and private debt in others (e.g., Greece). The latter was also made possible because the rules of the SGP were not enforced, especially after Germany and France had broken them without any repercussions shortly after the creation of the euro (Baerg and Hallerberg 2016).

The euro crisis forced a sharp adjustment of the pre-crisis equilibrium. As large European banks were strongly exposed to dollar-denominated debt, the American financial crisis deeply affected them, generating uncertainty and leading to a credit crunch (Tooze 2018). Cross-border financial flows suddenly stopped and large differences in sovereign bond

yields quickly reemerged (Copelovitch, Frieden, and Walter 2016). The playbook for resolving the crisis was written when the Greek government lost access to financial markets and become unable to roll over its debt. After some initial dithering, the EU decided to bail out Greece. Eventually, the no-bailout clause was amended by modifying article 136 of the TFEU. This modification allowed for financial assistance to member states when the stability of the eurozone is at risk.

However, the economic philosophy underlying the Maastricht Treaty was not fundamentally changed. The euro crisis was perceived as issuing primarily from government profligacy (Buti and Carnot 2012), and the mechanisms of fiscal surveillance were further strengthened through the introduction of the Fiscal Compact (Smeets and Beach 2020). Unsurprisingly, the bailouts of Greece and other member states were based on strict conditionality. Countries receiving financial assistance were required to sign a Memorandum of Understanding, committing to structural reforms and austerity policies. This shifted the burden of adjustment on the shoulders of debtor countries (Frieden and Walter 2017; Walter, Ray, and Redeker 2020). Northern member states agreed to the creation of the ESM which provides an emergency credit line in case of financial distress (Schelkle 2017) but only provides help in forms of loans with strict conditionality attached.

If the basic approach to fiscal policy did not fundamentally change during the eurozone crisis, the ECB changed dramatically. In July 2012, ECB president Mario Draghi announced that they would do "whatever it takes" to save the euro, thus signaling a commitment to act as the buyer of last resort for government bonds under pressure. This announcement led to the ECB's Outright Market Transactions (OMT) program, which was made conditional on countries entering an ESM program, thus linking the ECB and ESM approaches to crisis resolution. With this move, the euro crisis was brought under control for some time. Interestingly, the OMT program was never implemented, but its sheer announcement, signaling the ECB's willingness to backstop distressed governments, sufficed to reduce spreads.

Ideas for an alternative resolution of the eurozone existed, but northern member states were reluctant to implement them.[1] This resistance has been described as resting on a

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[1] Reforms in some areas were more meaningful than in others. Most importantly, the introduction of banking union implied partial European risk-sharing, with each country being ultimately responsible for

strong moral foundation (Carstensen and Schmidt 2018; Hien 2019; Matthijs 2016; Matthijs and McNamara 2015), but the most common explanation focuses on public opinion. Voters in northern European countries are seen as strongly opposed to the cross-national fiscal transfers that would be necessary to stabilize the eurozone (e.g., Bechtel, Hainmueller, and Margalit 2014; Beramendi and Stegmueller forthcoming; Kleider and Stoeckel 2019; Stoeckel and Kuhn 2018; Walter, Ray, and Redeker 2020). During the euro crisis, even the extension of loans aimed at helping southern governments service their debts (often due to northern creditors) led to a popular backlash in northern countries. Taxpayers in creditor countries were not enthusiastic about "bailing out" over-indebted countries, leading to a politicization of the euro and a Eurosceptic backlash among voters (Hutter and Kriesi 2019). According to Bechtel et al. (2014), in January 2012, 61 percent of Germans were opposed to the European bailouts. Public dissatisfaction with the bailouts gave fuelled increases support for challenger parties such as the populist right-wing party *Alternative für Deutschland* (AfD), which was founded in opposition to the European bailouts.

National leaders, therefore, faced a constraining dissensus (Hooghe and Marks 2009) among voters in northern countries. As governments had to sell inter-governmental agreements to their domestic audiences (Schimmelfennig 2015; Schneider 2018), the core divide within the eurozone became one between creditor and debtor countries (Armingeon and Cranmer 2018; Târlea et al. 2019; Wasserfallen et al. 2019). Concerns about public opinion and rising levels of Euroscepticism meant that surplus countries were hesitant to support initial bailouts (Schneider and Slantchev 2018) and reluctant to support further fiscal integration (Börzel and Risse 2018). Especially Germany's strategy was said to be "firmly rooted in domestic politics" (Schneider and Slantchev 2018, 3), motivated by electoral considerations and "political calculations" (Bernhard and Leblang 2016). The EU did just enough to keep countries in financial distress afloat, but the bailout packages were presented as acts of solidarity necessary to protect the EU (Degner and Leuffen 2016). Consequently, Walter et al. (2020, 42) argue that "popular resistance against interstate financing constrained governments' appetite for more generous financing approaches", while Beramendi and Stegmueller (forthcoming, 3) argue that

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backstopping its own banks, but with common surveillance and resolution procedures (Howarth and Quaglia 2016; Quaglia 2019).

citizens' preferences for fiscal integration and transfers between transfers were "the central elements of the *democratic constraint* on EU leaders".

Simultaneously, Southern governments faced their own "democratic constraint". The prolonged eurozone crisis substantially increased dissatisfaction with the EU (Guiso, Sapienza, and Zingales 2016; Hobolt and de Vries 2016; de Vries 2018). Remarkably, however, support for the euro remained high throughout the eurozone (Hobolt and Leblond 2013; Hobolt and Wratil 2015; Roth, Jonung, and Nowak-Lehmann Danziger 2016; Walter et al. 2018). Even in the crisis-ridden south, voters still fundamentally supported the euro despite austerity and a prolonged recession. There was a broad consensus in debtor countries that a unilateral exit from the euro should be avoided at all costs, not just in Greece but also in other countries (Walter, Ray, and Redeker 2020, chap. 4). Many voters thus had conflicting preferences because they strongly supported the euro but opposed austerity policies (Clements, Nanou, and Verney 2014; Fernández-Albertos and Kuo 2016; Franchino and Segatti 2019). In some countries, the adverse effect on growth and unemployment was severe, and the incremental approach in resolving the crisis "catastrophic for the citizens of many crisis-plagued member states" (Jones, Kelemen, and Meunier 2016, 1010). The experience of the crisis and austerity weakened support for the euro (Hobolt and Wratil 2015), but as citizens compare the status quo against possible alternatives (de Vries 2018), the prospect of leaving the euro was not attractive for voters in the south.

In the negotiations with creditors, this high support for the euro influenced the southern governments, which is clearly illustrated by events around the third Greek bailout in 2015. Jurado et al. (2020) have shown that while the far-left government led by *Syriza* was trying to renegotiate the terms of the agreement with the creditors (the "Troika"), support for the euro remained very high in Greece (around 75 percent), despite the negative consequences of austerity for the Greek population (Xezonakis and Hartmann 2020). In summer 2015, when a majority of voters rejected the third bail-out package in a popular referendum, more than three-quarters of respondents wanted to keep the euro, and only 13 percent preferred exit (Walter et al. 2018, 982). Popular support for the euro deprived the Greek government of a credible exit option and reduced its bargaining power. The Greek chief negotiator, finance minister Yannis Varoufakis was fully aware that "unless [Syriza] feared Grexit less than [it] feared surrender, there was no point in being elected",

as he later stated in his reconstruction of the negotiation process (Varoufakis 2017, 478). However, he was also aware of the popularity of the euro among the Greek voters. In the course of the negotiation, the Greek government never explicitly threatened exit but tried to convince the counterpart that it did not exclude that exit may come about by accident (Pitsoulis and Schwuchow 2017). Yet, the Troika saw the bluff. Ultimately, by accepting the Troika's terms, the Greek government complied with the preferences of Greek voters to remain in the Euro.

Public opinion, therefore, favored the negotiation position of creditor countries throughout the eurozone crisis: while southern countries had no credible alternative, northern countries had no incentive to alter the institutional architecture of the euro. This is why Beramendi and Stegmueller (forthcoming, 3) argue that "Europe's perpetual stasis has clear and traceable democratic origins", while Schneider and Slantchev (2018, 28) show that "strong domestic opinions can lead to suboptimal foreign policies." There was a lack of strategic incentives to change course in the north and an absence of strategic alternatives in the south. This led to constant muddling-through (Jones, Kelemen, and Meunier 2016), as EU leaders took "the path of least political resistance, keeping the euro afloat with regulatory measures while avoiding populist pressures that would arise in major treaty reform" (Hooghe and Marks 2018, 117). "Solidarity by stealth" (Schelkle 2017) from creditor countries came with strict conditions for debtor-countries. Meanwhile, the fundamental problems of the eurozone remained unsolved (Copelovitch, Frieden, and Walter 2016; Jones, Kelemen, and Meunier 2016; Matthijs and Blyth 2015).

With the COVID-19 pandemic, however, the debate about risk-sharing and fiscal transfers has returned with a vengeance. The pandemic has affected all European countries but with different economic consequences. Due to large differences in government debt across the eurozone, the capacity of countries to respond to the economic shock with deficit spending has diverged sharply. This makes a resurgence of tensions in sovereign bond markets a distinct possibility. The most forceful response to these renewed tensions has come once again from the ECB, which launched the Pandemic Emergency Purchase Program (PEPP) in the early stages of the pandemic, promising to counter any rise in interest rates spread through a commitment to purchase government bonds without limits. In the long run, however, it will prove difficult for the ECB to maintain its role as the buyer of last resort due to the limitations of the existing treaties.

This was made clear in the middle of the crisis when the German constitutional court issued a deeply skeptical ruling about the ECB's Public Sector Purchase Program (PSPP).

Therefore, in the wake of the pandemic, the issue of debt mutualization returned center stage. On 25 March 2020, nine heads of states from the eurozone signed a letter to European Council President Charles Michel, explicitly demanding the issuance of common European bonds to finance the crisis response. Initially, these demands were strongly opposed by northern governments, including Germany and the so-called "Frugal Four" (Austria, Denmark, Netherlands, Sweden), which unleashed a new debate about risk-sharing in the eurozone. Over time, however, the German government shifted its position and in May 2020, Angela Merkel and French President Emmanuel Macron proposed a pandemic recovery fund, including grants to member states financed jointly through European debt. Although transfers to the south remain limited when compared with the extra deficits incurred due to the pandemic, this shift in the German and European position seems *prima facie* incompatible with the existence of a binding "democratic constraint" on fiscal risk-sharing.

Strategic interdependence and the malleability of preferences

The argument about democratic constraint ignores that the choices that governments and voters face in "debtor" and "creditor" countries are strategically interdependent. Countries within the eurozone have deep economic ties and their economic fates are connected through the single currency (Schelkle 2017). If one country were to leave the eurozone, it would have profound consequences for other member states. Support for debt sharing in creditor countries thus depends on whether voters in debtor countries seriously contemplate the possibility of exit, while support for exit in debtor countries depends on whether voters in creditor countries are willing to agree to debt mutualization. Empirical analyses that focus on unconditional preferences (e.g., "are you in favor of debt mutualization, yes or no?", "are you for or against remaining in the euro, yes or no?") are likely to suffer from omitted variable bias.

In this paper, we focus on voters in two key countries, Germany and Italy.[2] Italy is at the heart of the crisis because it is heavily affected by COVID-19 and has the highest government debt in the eurozone. Furthermore, the pandemic has hit Italy less than ten years after the euro crisis and after 25 years of economic stagnation in which Italy's growth rate has usually been lower than its interest rate, thereby imparting a tendency for the Italian debt to rise inertially. In these circumstances, financial markets may perceive Italy's public debt to be unsustainable and, in the absence of support, ask for a greater yield on Italian bonds.

At the same time, the pandemic also has the potential to alter the assessment of the cost of remaining in the euro for Italian voters, to the point that they may seriously consider leaving the euro. The possibility of Italy leaving the eurozone had been a salient political issue before 2020. Public support for the euro has been lower in Italy than in most other European countries (European Commission 2019). The possibility of a referendum on eurozone membership has been repeatedly discussed by key political actors in Italy before and after the Greek referendum of 2015.[3] Most prominently, the Lega and the Five Star movement, two important political parties, have been highly skeptical of the euro for several years.

The possibility of Italexit implies a threat to the euro in its current form. As the third biggest economy of the eurozone, Italy is systemically important and Italexit would have severe consequences for other member states. This is especially the case for Germany, which is the most important creditor country in the eurozone and has strongly influenced Europe's crisis resolution strategy so far. Germany has been one of the primary beneficiaries of the eurozone because its export-led growth model depends on the single market and an undervalued real exchange rate (Baccaro and Pontusson 2016; Höpner 2019). Domestic political considerations, more specifically German public opinion being

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[2] In Appendix B, we formalize the argument about the strategic interdependence of preferences with a simple game theory model. This model shows that debt mutualization is an equilibrium outcome if a) Italy prefers exiting from the euro to remaining in it in the absence of debt mutualization, and, b) Germany prefers debt mutualization to Italexit. If these two conditions do not hold jointly, the equilibrium is either the status quo (if Italy prefers remaining in the euro no matter what) or Italexit (if Germany prefers a break-up of the euro if Italy prefers Italexit to remaining in case Germany refuses debt mutualization).

[3] This referendum would take the form of a consultative referendum in the Italian legal system ("*referendum di indirizzo*"). Such a consultative referendum was held on June 18, 1989, when Italians overwhelmingly approved giving the European Parliament a mandate to draw up a draft European constitution. A referendum would be politically difficult because it would have to be preceded by a constitutional amendment. Nonetheless, the idea has been frequently floated in the Italian public debate.

opposed to debt mutualization, were important determinants of the German government's position during the eurozone crisis (e.g., Schneider 2018). At the same time, German public opinion has been highly supportive of keeping the euro as the common European currency (European Commission 2019). We thus need to know whether German voters would be willing to support debt mutualization if this was necessary to avoid Italexit and a break-up of the eurozone.

In other words, the preferences of voters in Germany and Italy are strategically interdependent: The preferences of voters in Italy, a key southern country, depend on beliefs about the costs of remaining in the eurozone as well as about whether or not Germany and other countries will allow for debt mutualization, while the preferences of voters in Germany, the key northern country, depend on beliefs about whether voters in Italy will leave the eurozone and about the consequences this would have for the German economy.

In the face of this strategic interdependence, voter preferences for euro reform and membership are unlikely to be fixed. Although the economic crisis strongly politicized the EMU, it still is a complex arrangement. Cognitively it is difficult for individuals to fully evaluate the costs and benefits of a policy change. In creditor countries, Bechtel, Hainmueller, and Margalit (2017) find that only some individuals are fundamentally opposed to bailouts. Most citizens rather have "contingent attitudes", i.e., their attitudes "depend on the specific features of the policy and could shift if those features are altered" (Bechtel, Hainmueller, and Margalit 2017, 864). This should also be the case for preferences in debtor countries (Fernández-Albertos, Kuo, and Balcells 2013; Jurado et al. 2020). Given that Italy has stagnated since the introduction of the euro, there may be a tipping point when the costs associated with membership become too high and voters become indifferent between remaining or exiting.

We expect that the COVID-19 pandemic brought the country closer to this tipping point. The increased hardship caused by the pandemic, compounded by a widespread perception in the country of having been left alone by European partners in the early stages of the crisis, caused a general decrease in support for remaining in the euro in Italy. In spring 2020, Italian media reported extensively about the hoarding of indispensable medical supplies directed to Italy (e.g., masks) by countries such as Germany or the Czech Republic and about aid and help being extended from non-European countries rather than

from European countries. Reports of increasing euro-skepticism in Italy were widespread and, therefore, we expect higher support for Italexit in the context of COVID-19, as formulated by Hypothesis 1:

> *Hypothesis 1: Support for remain (exit) during the pandemic should be lower (higher) in Italy than before the pandemic.*

However, there are different ways in which the eurozone can resolve the crisis resulting from the COVID-19 pandemic. Reforms may shift the eurozone towards forms of debt mutualization, breakup, or a continuation of muddling through by requiring indebted countries to pursue austerity and internal devaluation without introducing instruments of debt sharing. All these different outcomes have trade-offs. What happens if individuals are made aware of the strategic interdependence and the trade-offs associated with different policy choices? A large literature on issue framing has shown that highlighting the positive or negative consequences of a policy choice in survey experiments substantially affects individual-level preferences (Amsalem and Zoizner 2020; Chong and Druckman 2007a, 2007b; Lupia 1994; Slothuus and de Vreese 2010). Framing effects have also been found in more realistic settings involving natural experiments (King, Schneer, and White 2017; Slothuus 2010), and they can persist over time beyond the immediate experimental setting (Lecheler et al. 2015). In line with this literature, we expect that information about the trade-offs associated with different policy choices influences the preferences of voters. Specifically, we focus on two different mechanisms that may change preferences towards the euro in both Germany and Italy: 1) information about the costs associated with Italy exiting or remaining in the eurozone for either country and 2) the impact of the corona crisis.

First, although some people are fundamentally opposed to or in favor of the euro, most Italian and German voters are likely to weigh the costs and benefits of continued membership in the euro, and are likely to respond to information highlighting such costs and benefits. For Italy, remaining in the euro in the midst of a possible financial crisis likely implies the implementation of a series of structural reforms and austerity measures. As argued above, the crisis resolution strategy adopted by the eurozone in the last decade prescribes that countries applying for financial support from the ESM are subject to strict conditionality. Politically, the problem with this crisis resolution approach is that austerity policies are highly unpopular and have contributed to a decline in support for the euro

(Fernández-Albertos and Kuo 2016; Franchino and Segatti 2019). In Greece, they were decisive in moving voters to a "no" vote in the 2015 referendum (Jurado et al. 2020; Xezonakis and Hartmann 2020). We thus expect Italian voters to be more likely to support euro exit if they are presented with a scenario that emphasizes the costs of continued membership in the euro by linking it to austerity. Conversely, we expect German voters to reduce their support for Italy's continued membership in the euro if they are presented with a scenario highlighting the possible costs for Germany in the form of fiscal transfers or guarantees. According to existing research, German voters are opposed to such transfers (e.g., Beramendi and Stegmueller forthcoming; Schneider and Slantchev 2018; Walter, Ray, and Redeker 2020), and information about the need for such transfers should thus reduce support for Italy's continued membership in the eurozone.

> *Hypothesis 2: Support for Italy remaining in the eurozone (exiting) should be lower (higher) when the costs of Italy remaining in the eurozone for the country in question are highlighted (austerity for Italian voters, debt mutualization for German voters).*

Still, Italexit would carry substantial costs for both Italy and Germany. Although these costs are highly uncertain and depend on whether exit would be unilateral or negotiated, we can speculate about them. In Italy, at a minimum, there would be costs and uncertainty associated with a currency change-over. In all likelihood, the exchange rate would depreciate and inflation would increase, which would erode the purchasing power of wages. A severe recession and the bankruptcy of many banks and businesses are also possible, especially if their liabilities remain in euro while their assets are redenominated. Furthermore, Italian banks hold Italian public bonds, which would depreciate in case of exit. At the same time, Italexit would also impose severe adjustment costs onto other member states. Due to the country's significance, Italy's exit could lead to a domino effect and even threaten the euro in its current form. This shrinkage of the eurozone, and its possible break-up, would have severe costs for Germany. It would likely result in appreciation and competitive losses for the German export industry, which would put the German export-led growth model at risk. We thus expect that exposing voters to information about the costs of Italy exiting the eurozone has the opposite effect than highlighting the costs of Italy remaining in both countries.

Hypothesis 3: Support for Italy remaining in the eurozone (exiting) should be higher (lower) when the costs of Italexit are highlighted (disorderly exit for Italy, threat to export-led growth for Germany).

Third, the corona crisis may have an impact on the assessment of both Italian and German voters. In Germany, we expect that highlighting the corona crisis as the reason for Italy's increased deficit would lead German voters to perceive Italy as a more deserving receiver of German aid (since the fiscal crisis would be seen as due to an event beyond the Italian government's control), and thus increase their willingness to keep Italy in the eurozone. In Italy, we do not have a clear expectation about the effect of presenting voters with a scenario highlighting the corona crisis as a background to the financial crisis. However, we expect that in combination with a scenario emphasizing austerity, it would increase preferences for Italexit. Our reasoning is that if the pandemic is presented as a *force majeure* that requires the Italian government to increase its spending, and yet a bailout plan forces the country into austerity, voters would be more willing to exit from the eurozone.

Hypothesis 4a: In Germany, support for Italy exiting (remaining) in the eurozone should be lower (higher) when the consequences of the coronavirus are highlighted.

Hypothesis 4b: In Italy, support for remaining in the eurozone (exiting) should be lower (higher) when the consequences of the coronavirus are highlighted in combination with the costs of remain (austerity).

We also expect that the combination of different frames will modify the effects of the individual frames, depending on the direction of the specific effects. On average, framing effects tend to be weaker when respondents simultaneously receive competing frames, which more closely resembles real-world political discourse (Amsalem and Zoizner 2020; Chong and Druckman 2007a). However, being exposed to competitive frames does not exclude the possibility that one kind of frame affects respondents more than another. We have no clear expectations about this, but to the extent that voters weigh certain losses more heavily than uncertain losses (as suggested by prospect theory), the frame that highlights the cost of remain should have the strongest effect, at least in the Italian case. In general, however, we expect that respondents who are cross-pressured by the frames

become more likely to be undecided. More specifically, we expect the frames highlighting the cost of Italy remaining in the eurozone and the cost of Italy exiting from the eurozone to pull respondents in opposite directions and to increase uncertainty.

Hypothesis 5: Uncertainty should be higher among voters who are cross-pressured by receiving two frames that go in the opposite direction.

Data and methods

We study public preferences for reform of the eurozone at a crucial time. The debate about fiscal risk-sharing in Europe re-emerged as a result of the COVID-19 pandemic. In response to initial demands for Eurobonds, the European Council discussed the issue in a video conference on March 26, 2020. The heads of state did not reach an agreement about an initial European fiscal response to the crisis, but they asked the Eurogroup, made up of eurozone finance ministers, to present a proposal within two weeks. Informal discussions began immediately thereafter, but there was significant uncertainty about eurozone reform until the video conference of the Eurogroup from April 7 – 9, 2020.

We used this time of fundamental uncertainty to field a survey on public opinion in two crucial countries: Italy and Germany. Fieldwork in both countries began on March 31, shortly after the videoconference of the European Council, and ended before the Eurogroup meeting on April, 7. To allow for the completion of the surveys in a short period with a representative sample, the survey was simultaneously conducted by *SWG* in Italy and *respondi* in Germany. Both surveys were based on a common questionnaire, and we closely coordinated and monitored their implementation. In both Italy and Germany, respondents were sampled from a large pool of individuals, who were recruited online and by telephone to ensure a balanced composition of the population.[4] Sample quotas were used to ensure a representative sample based on age, gender, and education. In total, 4,200 Italian respondents and 4,500 German respondents completed the survey. We use survey weights to correct for deviations in our sample from the true population.

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[4] For further information on our survey, response rates, and its representativeness, see Appendix A.

The weights account for the inclusion probability for the region, age, gender, education, and past vote choice.

In both Italy and Germany, the survey included a factorial survey experiment.[5] We had conducted a first wave of our survey about preferences towards the euro in Italy in October 2019, and we made the second wave as comparable as possible to the first wave. In Italy, we asked all respondents to imagine a basic scenario, in which Italy is at the heart of a European financial crisis:

> *Italy faces a crisis of confidence in financial markets. Capital flies out of the country; customers try to withdraw their deposits from banks; and the interest rate spread with Germany increases. As a result, the Italian government is unable to meet its financial obligations. Other European countries offer Italy a bailout package.*

> *Before deciding whether to accept or not the bailout package, the government calls a referendum. The referendum asks citizens whether they want to stay in the euro and thus accept the bailout package, or whether they want to reject the bailout package and therefore exit the Euro.*

To increase external validity, we tried to make this basic scenario as realistic as possible by reproducing the Greek scenario of June 2015: capital flight and depositors' run on banks; rapid increase of risk premia on government bonds; and ensuing financing problems for the treasury due to mounting interest rates. The scenario, however, diverges from the Greek scenario in one crucial respect. In Greece, the consequences of a no vote in the referendum were ambiguous because it was not clear whether it implied renegotiation of the bailout package or euro exit (Walter et al. 2018). We eliminated the ambiguity and created a stark choice between either accepting the bailout package and remaining in the euro or rejecting it and exiting the euro.

We randomly combined this basic scenario with three frames introducing different kinds of information: one frame presented the COVID-19 pandemic as the trigger of the crisis, while the other two frames highlighted the costs of remaining in the eurozone – the implementation of austerity policy and structural reforms – or exiting from it – a

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[5] The experiment was pre-registered prior to running the survey.

disorderly exit with reduced purchasing power, bank insolvencies, and a possible retaliation by other countries.[6] This novel 2 x 2 x 2 factorial experiment resulted in eight different scenarios, as summarized in Table 1. All frames written to resonate with the public discussion about the euro in Italy and to be as realistic as possible. They were pure issue, providing no information about endorsements by parties or other elections.[7]

We adapted the Italian frames to the German case by mirroring the Italian scenario. In the German survey, the basic scenario was the following:

> *Italy faces a crisis of confidence in financial markets. Capital flies out of the country; customers try to withdraw their deposits from banks; and the interest rate that the Italian government has to pay to issue government debt increases. As a result, the Italian government is unable to meet its financial obligations. The Italian government is unwilling to sign a bailout plan similar to the Greek one after the financial crisis, which would condition the disbursement of funds on the implementation of austerity measures, and is contemplating exit from the Euro.*
>
> *Due to its weight in the negotiations with other eurozone countries, the German government can prevent Italy from exiting the euro or facilitate Italy's exit.*

Table 1: List of all experimental groups in Italy and Germany

	Frame I	Frame II	Frame III	Experimental group
1	No COVI9-19	No costs of remain	No costs of exit	Control group
2			Costs of exit	Treatment 1
3		Costs of remain	No costs of exit	Treatment 2
4			Costs of exit	Treatment 3
5	COVID-19	No costs of remain	No costs of exit	Treatment 4
6			Costs of exit	Treatment 5
7		Costs of remain	No costs of exit	Treatment 6
8			Costs of exit	Treatment 7

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[6] The frame used to highlight the costs of remaining in the euro for Italy was largely the same as in the previous wave of the survey; the other two frames were new. For the exact wording of these frames, please see Appendix A.

[7] In an effort to be as realistic as possible, our frames combine various elements. While we are able to identify any overall treatment effect of the frames thanks to randomization (which ensures exogeneity by design), we are not able to specify the role that specific elements of our frames play. For example, for the austerity frame in Italy we cannot determine to what extent any shift in preferences is due to easier rules for layoffs, expenditure cuts, privatization, etc. This is acceptable, in our view, because these elements have historically been bundled together in previous bailout packages.

Similar to the Italian experiment, we again randomly combined this basic scenario with three frames: one frame mentioned the pandemic as the trigger of the financial crisis in Italy, while the other two frames highlighted the likely costs for Germany associated with Italy remaining or exiting the euro. For the costs of Italy remaining, the frame focused on the need to agree to some form of debt mutualization; for the cost of Italy exiting, the frame concentrated on the risk of a collapse of the euro and the associated competitiveness losses of the German export industry. Mirroring the Italian experiment, the combination of frames yielded eight different scenarios, as shown in Table 1. All frames were again pure issue frames and written to resonate with the public discussion about the eurozone in Germany and to be as realistic as possible.

In both countries, respondents were thus shown one out of eight different scenarios (seven treatment groups and a control group). Afterward, we asked them whether or not they support Italy exiting or remaining in the eurozone. In Italy, we asked, "How would you vote in this referendum?"; in Germany, we asked, "In your view, what should the German government do in response to this crisis?". We use answers to these questions as our key dependent variables. The Italian dependent variable has four categories: accept the bailout plan and remain in the euro, reject the bailout plan and exit the euro, would not vote, and don't know.[8] The German dependent variable has three categories: prevent Italy's exit from the Euro; facilitate Italy's exit from the Euro; don't know.

We present the results from the survey in two steps. First, we map support for Italexit descriptively and analyze how support has changed in Italy after the outbreak of the coronavirus. Second, we analyze the results from the framing experiment. We estimate multinomial probit models and calculate average treatment effects and predicted probabilities (controlling for common individual-level characteristics) to test whether the frames have the expected effects.[9] In the final step, we discuss some robustness checks.

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[8] To simplify the analysis, we merge respondents from the last two answers categories in the analyses below.

[9] We control in all models for age, age squared, gender, education, subjective income, perceptions of having benefited from the euro, and national identity. See Table A.1 in the appendix for a detailed operationalization of the variables. The results are highly similar if we run the models without these control variables.

Results

Descriptive findings

The descriptive results in Figure 1 illustrate that support for euro membership in Italy was lower in April 2020 compared to the first wave of the survey fielded in fall 2019. Support for remain decreased from 51 percent to 34 percent, while support for Italexit increased from 30 percent to 37 percent. This means that a small absolute majority for remaining in the euro has turned into a relative majority for Italexit in the wake of the COVID-19 pandemic. Yet, uncertainty also increased: in October 2019, 18 percent indicated that they did not know how they would vote in a hypothetical referendum; six months later 28 percent indicated that they were unsure. In Germany, 42 percent of respondents wanted Italy to remain in the euro in April 2020, whereas 38 percent of respondents favored Italexit. Nearly one-fifth of respondents were uncertain.

To assess the substance of the preference shift in Italy between before and after the outbreak of the pandemic, we run a multinomial probit regression model based on the pooled Italian data. We regress vote choice in a hypothetical Italexit referendum on a period dummy that identifies the respective wave of the Italian survey. The coefficient of the period dummy is strongly significant and substantial in size. Average marginal effects based on the regression results are shown in Table 2. According to model 1, after the coronavirus outbreak support for remain was 20.1 percentage points lower in Italy than in October 2019, while support for exit was 11.4 percentage points higher, and the propensity to be undecided was 8.7 percentage points higher. Changes in the socio-economic situation of respondents, for which we control in Model 2, explain part of the change in the support for the euro. Notably, the period dummy ceases to have a significant effect on voting for exit. Overall, however, these findings lend support to our first hypothesis. In post-corona Italy, support for euro membership was lower than before the outbreak of the virus.
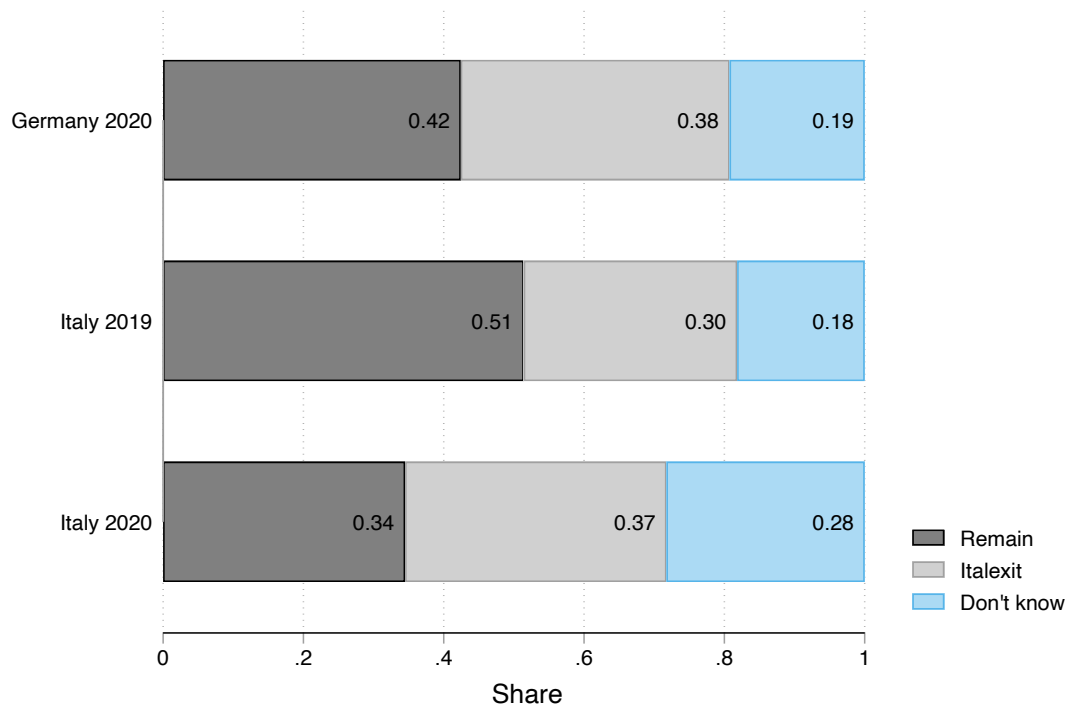
Figure 1: Preferences towards Italexit in Germany (April 2020) and Italy (October 2019 and April 2020)

Note: Only observations from the control group included; survey weights applied.

Table 2: Determinants of supporting Italexit in Italy based on the pooled sample from 2019 and 2020; marginal effects of timing of the survey based on multinomial probit regressions

	Model 1	Model 2
Remain		
Year=2020 (ref: 2019)	-0.201***	-0.155***
	(-5.30)	(-4.74)
Exit		
Year=2020 (ref: 2019)	0.114**	0.0570
	(3.06)	(1.84)
Don't know		
Year=2020 (ref: 2019)	0.0868*	0.0982**
	(2.47)	(2.87)
Control variables included?	No	Yes
Observations	1145	1145

t values in parentheses
* p<0.05 ** p<0.01 *** p<0.001

Note: Only observations from the control group included; survey weights applied. Model 2 includes age, age squared, gender, education, subjective income, national identity, and perceptions of having benefited from the euro as control variables.

Evidence from the Italian survey experiment

In the next step, we examine the effects of the framing experiment in Italy. Figure 2 shows the average marginal effects of the three frames and their interactive effects. The cost of remain frame has a strong effect on preferences, which is in line with our expectations (Hypothesis 2): If Italy's continued membership in the eurozone was contingent on the implementation of austerity measures, it would increase support for Italexit by 14.87 percentage points and reduce support for remain by 11.00 percentage points. Yet, the findings are surprising in two other ways.

First, contrary to Hypothesis 3, the costs of Italexit frame does not have a statistically significant effect on preferences. This result is remarkable because the frame confronts respondents with the prospects of severe short-term adjustment costs (loss of purchasing power, bank solvency problems, reduced lending, and trade retaliations). It could be that respondents do not react to these potential losses because of the high level of uncertainty regarding whether they will actually materialize. If voters perceive Italy to be in a situation of losses, which seems plausible when the survey was fielded (April 2020), they might be more willing to accept the risk of uncertain losses associated with euro exit than to accept the certain losses associated with austerity (Vis and van Kersbergen 2007).

Second, mentioning the coronavirus as the trigger for the financial crisis, on average, increases support for remain by 8.05 percentage points. A possible explanation may be that, at a time of national health emergency, respondents are less likely to blame the euro for Italy's economic ills. Rather, they may become more risk-averse when they are informed that Italy's crisis is caused by COVID-1 and prefer to avoid the uncertainties of euro exit. In Italy, however, we had expected the combination of austerity and the COVID-19 frame to decrease support for remaining in the euro (Hypothesis 4b). The results shown in Figure 2 suggest that there is no statistically significant effect. The sign of the average marginal effect, however, suggests that when voters are cross-pressured by the COVID-19 frame and a frame that highlights the cost of remaining in the eurozone, the latter prevails.

To interpret the full effect of the frames and their combinations, we calculate the predicted probabilities for voting in the hypothetical referendum by treatment (Figure 3). In all scenarios, except under the corona frame (scenario 2), we find a relative majority among

respondents in favor of Italexit. As discussed above, the costs of exit frame hardly affects preferences and does not shift the majority outcome (scenario 3). In contrast, mentioning austerity as a requirement for Italy's continued membership in the euro has a strong effect on preferences, turning a relative into an absolute majority in favor of Italexit (scenarios 5 to 7). While there is a relative majority in favor of remain under the COVID frame in scenario 2, this frame does not matter when combined with austerity (scenario 6). Contrary to Hypothesis 5, the combination of different frames does not increase uncertainty. When all three frames are combined (scenario 8), there is still a majority for Italexit which indicates that the prospect of conditionality dominates over other considerations.
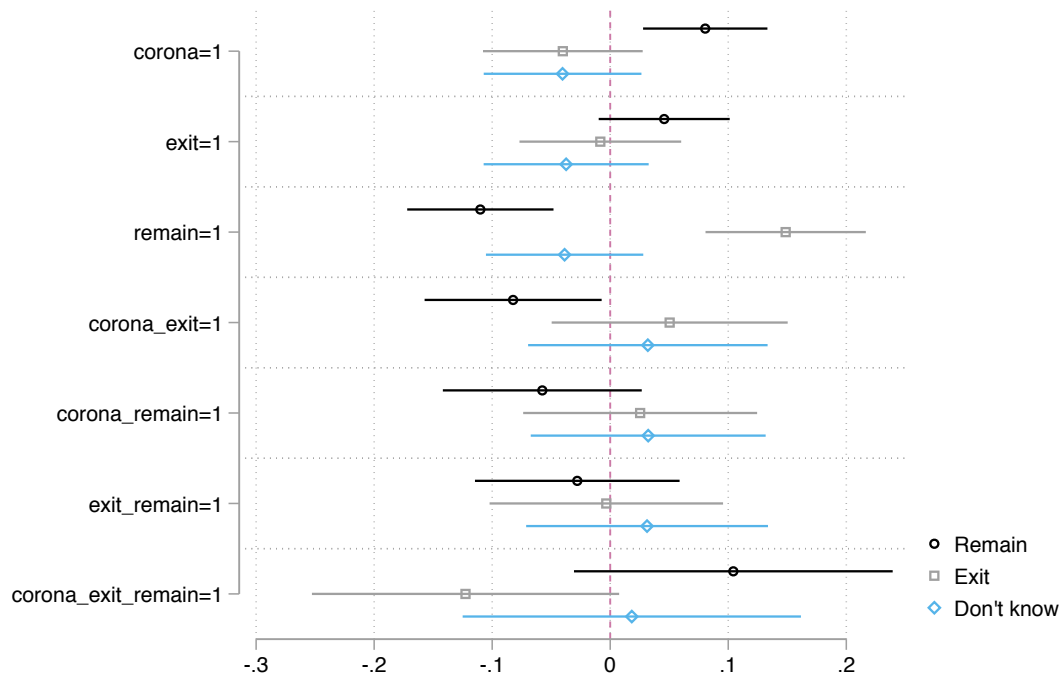

Figure 2: Average marginal effects of preferences towards Italexit in Italy

Note: Average marginal effects and 95 percent confidence intervals based on multinomial probit models. Survey weights and control variables were included.
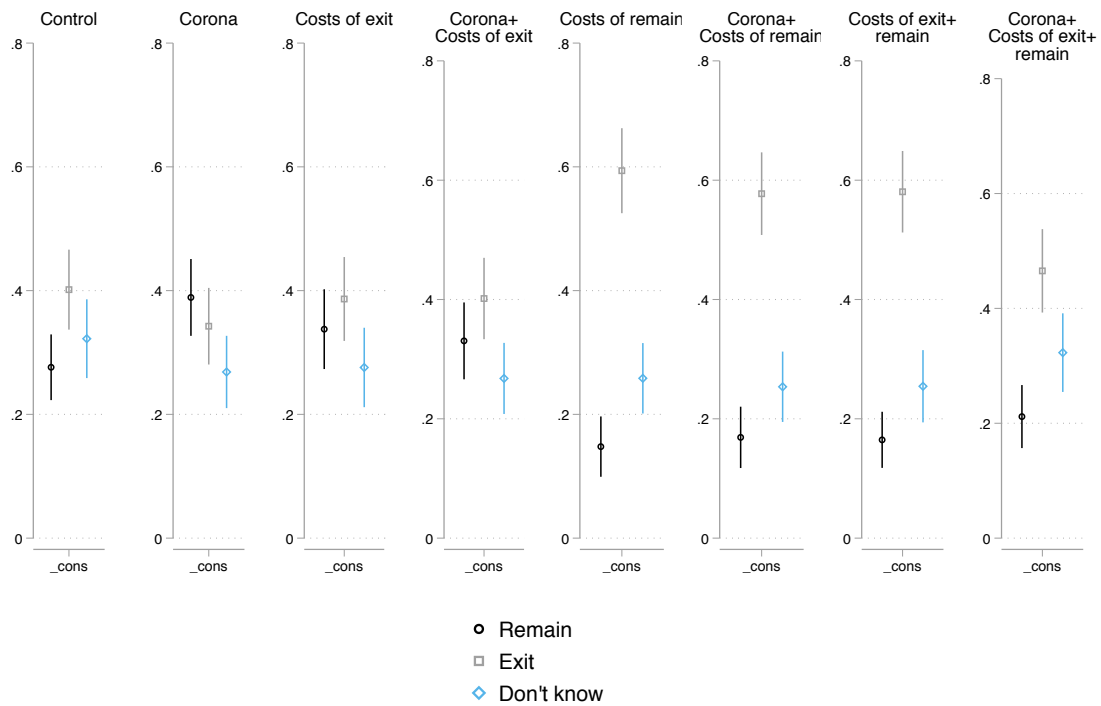
Figure 3: Predicted probabilities of preferences towards Italexit in Italy

Note: Predicted probabilities and 95 percent confidence intervals based on multinomial probit models. Survey weights and control variables were included.

In sum, our findings for Italy show that the COVID-19 pandemic significantly reduced support for the euro. The potential costs of a disorderly euro exit hardly matter, but the potential costs of remain have a large effect: as soon as Italy's continued membership in the eurozone is made contingent on austerity, a clear majority of voters opts for Italexit. At the same time, when reminded of the severe economic vulnerability caused by the pandemic, voters increase their support for remain, probably to avoid the additional risks posed by euro exit. However, the effect of the COVID frame tends to be lower when it is combined with another frame emphasizing material considerations (the costs of exit or remain). Overall, these results suggest that dissatisfaction with the euro in Italy has reached a tipping point and that voters may seriously consider exiting the euro if austerity is the only adjustment mechanism envisaged in case of a fiscal crisis.

Evidence from the German survey experiment

Results from the German survey largely conform to expectations (Figure 4). The frame highlighting the costs of Italy remaining in the eurozone for Germany increases support for Italexit by 6.69 percentage points (Hypothesis 2). On average, Germans thus react negatively to the prospect of debt mutualization. However, mentioning the costs of Italexit for the German economy has a much larger effect: it increases support for remain by 14.52 percentage points (Hypothesis 3). The effect is more than twice as large as the effect of the costs of Italexit frame. In contrast to the Italian experiment, the COVID frame is interpreted univocally by the German voters as making Italians more deserving recipients of aid, thus reducing support for Italy exiting the eurozone by 7.92 percentage points (Hypothesis 4a). The effect of the COVID frame, however, is smaller than the cost of Italexit frame, which indicates that appealing to Germany's self-interest is more effective than appealing to ulterior motives or European solidarity.

Figure 5 shows the predicted probabilities associated with the various frames. In the control group, a relative majority of German favors Italexit if Italy is faced with a financial crisis and is unwilling to follow the "Greek route" of implementing austerity in exchange for financial assistance, but the difference between the share of voters preferring remain and exit is statistically insignificant. In contrast, the COVID-19 frame and the cost of Italexit frame shift electoral majorities: the former leads to a clear relative majority in favor of remain, while the latter even leads to an absolute majority in favor of remain. When both frames are combined more than 60 percent of Germans want Italy to remain in the euro. The frame emphasizing the costs of Italy remaining in the euro for Germany leads to a majority in favor of Italexit, but the difference between exit and remain becomes insignificant when the COVID-19 frame is added. When the costs of remain and exit are presented together, a clear relative majority is in favor of remain. Furthermore, when respondents receive all frames simultaneously, more than 50 percent of respondents want Italy to remain in the eurozone, while 30 favor Italexit.

Interaction effects between the frames are insignificant. When respondents receive information about the costs of Italexit for the German economy in combination with other frames, the former clearly dominates. As in the Italian case, the experimental treatments do not significantly affect levels of uncertainty among respondents. Nearly 20 percent of respondents are uncertain in the control group (Figure 1) but, contrary to hypothesis 5, this uncertainty is not significantly altered by receiving two competing frames.
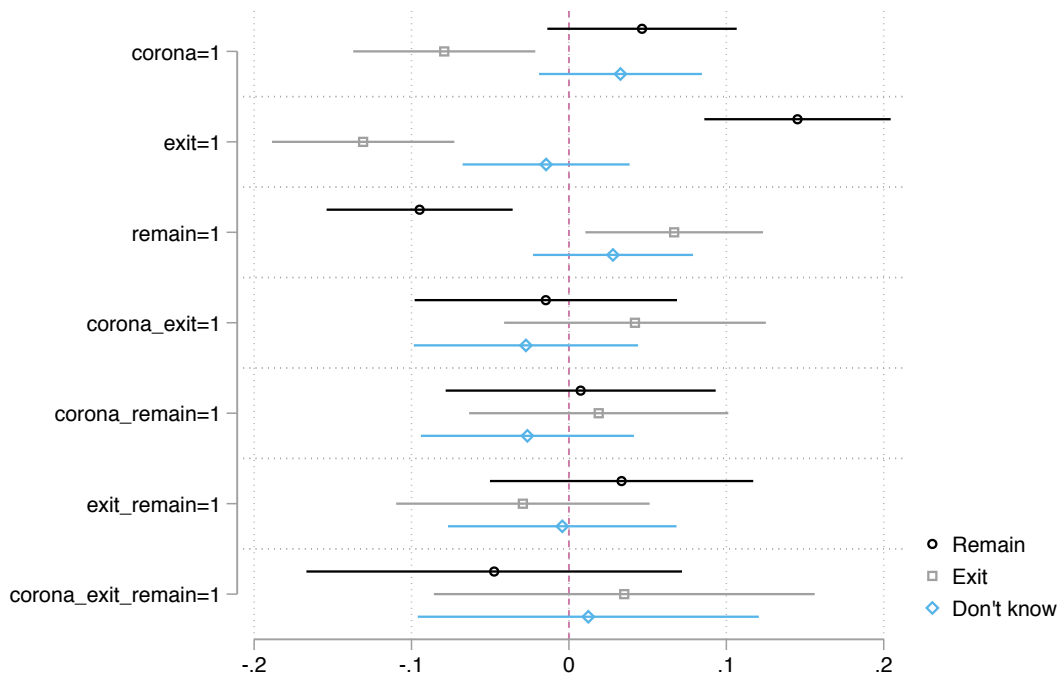
Figure 4: Average marginal effects of preferences towards Italexit in Germany

Note: Average marginal effects and 95 percent confidence intervals based on multinomial probit models.
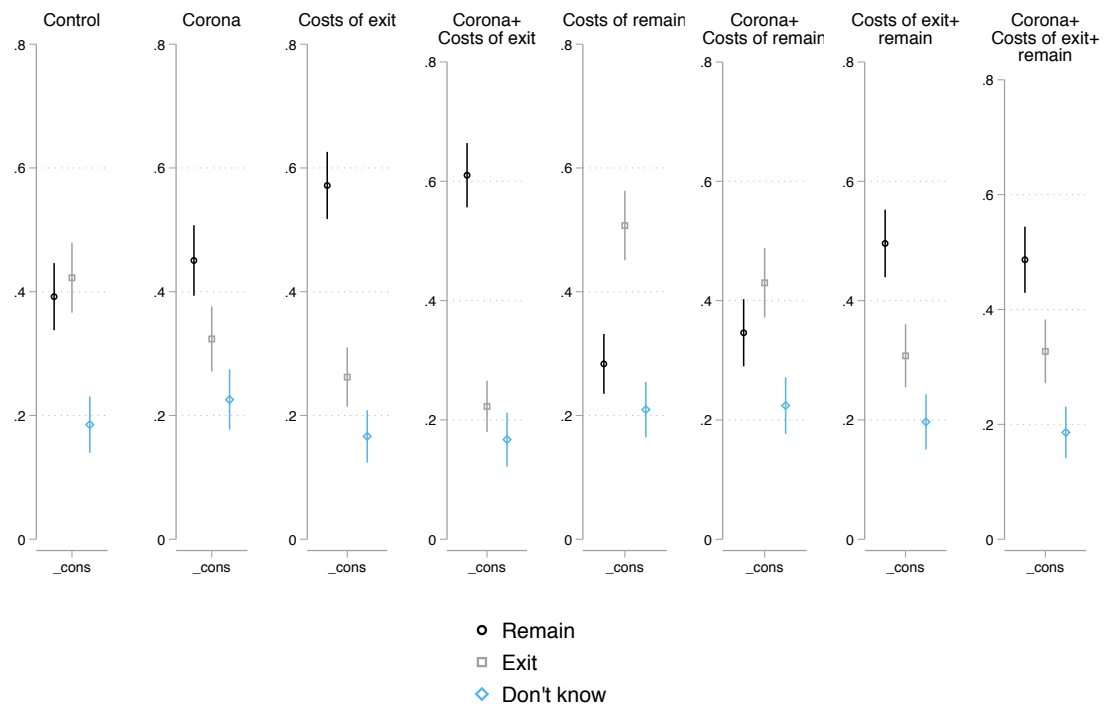Survey weights and control variables were included.

Figure 5: Predicted probabilities of preferences towards Italexit in Germany

Note: Predicted probabilities and 95 percent confidence intervals based on multinomial probit models.
Survey weights and control variables were included.

In sum, the survey experiment shows that German public opinion on the euro is more malleable than it is often portrayed and more open to the prospect of debt mutualization than generally argued. Voters become more favorable to helping Italy remain in the eurozone when they receive information about the impact of the coronavirus on the fiscal crisis in Italy. However, it is the costs of a possible breakup of the eurozone for Germany that have the largest impact, strongly increasing German preferences for keeping Italy in the euro.

Robustness checks

In this section, we first explore heterogeneous framing effects. The discussion about euro membership and debt mutualization, and our vignettes, are cognitively demanding. Education and knowledge may condition how individuals react to the frames (Chong and Druckman 2007b). Yet, heterogeneous effects are absent for most frames in Italy, and we do not find any significant heterogeneous effects in Germany. For the Italian case, we find that the positive effect of the COVID frame on support for remain identified in Figure 2 can primarily be attributed to individuals in the lowest educational category, who are particularly vulnerable to the economic effects of the pandemic. For them, the frame increases the likelihood to vote to remain by 10.81 percentage points, whereas it has a negative effect for highly educated individuals (-7.64 percentage points; Figure D.7). Similarly, there is a conditional effect of economic knowledge on the costs of exit frame in Italy.[10] The overall effect of this frame is insignificant (Figure 3), but individuals with high economic knowledge may better understand the potential economic implications of a disorderly Italexit. Consistent with this interpretation, Figure D.8 shows that individuals with higher economic knowledge are more likely to favor remain and less likely to favor Italexit when exposed to the costs of exit frame, but the effect remains insignificant. These additional analyses reinforce the finding that the prospect of austerity is the dominant force altering attitudes towards the euro in Italy.

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[10] Economic knowledge is measured as the sum of correct responses to three questions capturing factual economic knowledge (see Appendix A.3).

Second, as a further test of our claim that voter preferences towards the euro are strategically interconnected across countries, we also analyzed a different dependent variable from our survey. In Italy, we asked respondents whether they prefer to remain or exit from the euro if Germany and other European governments do not agree to debt mutualization. In Germany, we asked respondents whether they prefer a scenario in which Germany and other European governments do not agree to share debts and Italy exits the euro or one in which Germany and other European governments agree to share debts and Italy remains in the eurozone.[11] The results with this variable are very similar to the main analysis (see Appendix E). Italian voters are willing to exit the euro in the absence of debt mutualization, especially if remaining in the euro comes at the cost of austerity. In turn, German voters are willing to accept debt mutualization if the alternative is a breakup of the eurozone. This confirms that preferences towards the euro depend crucially on the expected choices of the counterpart.

Conclusion

The COVID-19 pandemic threatens to rekindle the euro crisis. However, this time the crisis would not come in the form of a balance of payment crisis, seeing that the southern countries have had a current account surplus for the last few years. Instead, it would come as a public debt crisis. Its epicenter would be Italy, a country that had a very high public debt as a share of GDP even before the pandemic hit, and a very low growth rate for the past 25 years. In response to COVID-19, the Italian government has had to increase public expenditures to soften the economic consequences of the pandemic. Italian debt is expected to increase by more than 20 percent and reach 160 percent of GDP in 2020 according to official estimates. In these circumstances, financial markets may perceive Italy's public debt to be unsustainable.

Differently from the previous phase of the crisis, the ECB has responded promptly to the corona crisis by launching a targeted bond-buying program (the PEPP). However, this fix does not seem a durable solution because its legitimacy is increasingly contested by the German Constitutional Court. Furthermore, the redistribution of risks through the central

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[11] These questions were asked immediately after the question on preferences towards Italexit which we used in the analysis above.

bank's balance sheet, while effective at keeping interest rate spreads low, aggravates the democratic deficit of the EU.

It is thus not surprising that renewed requests for debt mutualization through Eurobonds emerged in spring 2020. In the past, European politicians rejected any type of cross-country redistribution, and the literature has argued that governments are subject to a constraining dissensus (Hooghe and Marks 2009): voters in creditor countries are strongly opposed to debt sharing or fiscal transfers, and thus northern politicians cannot agree to them without violating their democratic mandate (and compromising their chances of holding power). Preferences of voters in debtor countries, in turn, also constrain southern politicians because they reduce their room for maneuver. So far, Southern voters have shown no inclination to consider leaving the eurozone, even when the costs of remaining in it (harsh austerity policies) have proven very high and highly unpopular. Without a credible exit option, it is not surprising that the costs of adjustment have been borne solely by the southern countries (Walter, Ray, and Redeker 2020).

In this paper, we have argued that the national democratic constraint blocking progress towards debt mutualization in Europe has been exaggerated. Not only are voter preferences malleable by framing, especially about the costs of remaining or exiting from the euro, but they are also strategically interdependent across countries. Our survey results show that with the coronavirus crisis, the Italian electorate may have reached a tipping point between remaining in the eurozone and exiting from it. When faced with a scenario that establishes a link between remaining in the common currency and the implementation of austerity measures, Italians prefer exiting from the euro. In turn, German voters have a small unconditional preference for Italexit over debt mutualization. However, this preference changes when German voters consider the likely costs of Italexit for Germany, i.e., the collapse of the euro and the risk of compromising the German export-led growth model.

Increased awareness of the systemic risks that the COVID-19 pandemic poses for the integrity of the eurozone may help to explain Germany's surprising shift in the negotiations over Coronabonds. The attitude of the German elites in wake of the pandemic was very different from a few years before when they had staunchly rejected all proposals for debt mutualization. In 2020, German leaders were at the forefront of the decision to introduce the European pandemic recovery fund (also known as Next

Generation EUI), which includes elements that resemble Eurobonds quite closely. The recovery fund may still not be sufficient to stave off renewed fiscal tensions in the eurozone, and it is possible that additional measures will be needed, but it represents a fundamental u-turn from Germany's previous European policy.

Independently from whether fiscal tensions in the eurozone will return despite the pandemic recovery fund, our study has multiple implications for the way we study fiscal integration in the eurozone. First, one should not confuse "primitive" and "strategic" preferences towards the Euro. Although northern voters may dislike the idea of debt sharing when considered in isolation, they may come to embrace it when the alternative is a breakup. Second, the assumption that southern voters are willing to put up with anything to remain in the euro may have been justified for Greece, Ireland, and Portugal, but seems no longer justified for Italy. This undermines the EU's preferred crisis resolution strategy based on conditional financial support in exchange for fiscal austerity and structural reforms. Third, voter preferences are by no means fixed and political elites are much less constrained than they sometimes pretend to be. There is a lot of strategic uncertainty among voters, creating room for national leaders to shape the perception of the relevant facts.

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ONLINE APPENDICES/SUPPLEMENTAL MATERIAL

Reassessing the "Democratic Constraint"

Strategic Interdependence and Preferences about the Euro in Italy and Germany

Table of Contents:

APPENDIX A: Further information about the survey

A.1. Italian frames and questions used as dependent variables:

Corona crisis (before the basic scenario):

> *The corona crisis has forced the Italian government to significantly increase public expenditures, both to reinforce health care infrastructure at a time of stress and to contain the consequences of the recession. This has led to a large increase in the public deficit as a share of GDP and a downgrade of Italian bonds by rating agencies. As a consequence, now…*

Costs of remain (between the two paragraphs of the basic scenario):

> *Acceptance of the bailout package implies that the Italian government commits to implementing some policy changes. The measures that the Italian government needs to implement involve making it easier for companies to fire employees, cutting public expenditures (e.g. pension cuts, social expenditure cuts, etc.), increasing taxes (both income taxes and value-added taxes), privatizing state assets, and introducing a haircut on savings in troubled banks. These measures may lead to a recession and increase unemployment.*

Costs of exit (between the two paragraphs of the basic scenario):

> *Refusal of the bailout package implies exiting the Euro. This is likely to usher in a turbulent period in which the new currency quickly loses value vis-à-vis the Euro, inflation rises reducing the purchasing power of citizens, and the banks face solvency problems and cut their lending to households and enterprises. The European partners may also react by restricting Italy's access to their markets. These measures may lead to a recession and increase unemployment.*

Question:

> How would you vote in this referendum?
>
> 1. I would accept the bailout package and remain in the Euro
> 2. I would reject the bailout package and leave the Euro
> 3. I wouldn't vote
> 4. I don't know

A.2. German frames and questions used as dependent variables:

Corona crisis (before the basic scenario):

> *The corona crisis has forced the Italian government to significantly increase public expenditures, both to reinforce health care infrastructure and to contain the consequences of the recession. This has led to a large increase in the Italian public deficit as a share of Gross Domestic Product and a downgrade of Italian government bonds by rating agencies. As a consequence, now…*

Costs of exit (between the two paragraphs of the basic scenario):

> *Italy's exit from the Euro, as the third-largest economy of the eurozone, may lead to a domino effect and even to the end of the euro in its current form. This would imply a large appreciation of the new German currency, which may reduce the competitiveness of the German export industry, and lead to enterprise failures and job losses. The consequences for the German economy may be serious.*

Costs of remain (between the two paragraphs of the basic scenario):

> *The measures that the German and other European governments would need to implement to avoid Italy's exit involve some form of debt mutualization such as jointly guaranteed government debt (commonly referred to as Eurobonds); authorize the European Central Bank to buy Italian bonds without limits; or introduce a European unemployment insurance financed by a European tax. These measures would increase Germany's public debt and may imply higher taxes or higher inflation. The consequences for the German economy may be serious.*

Question:

In your view, what should the German government do in response to this crisis?

1. Prevent Italy's exit from the Euro
2. Facilitate Italy's exit from the Euro
98. I don't know

A.3. Variable coding

Table A.1: Coding of key additional independent variables

Variable	Survey question	Operationalization
Benefited from euro	"Taking everything into account, would you say that you and your family have on balance benefited or not from Italy being a member of the European common currency, the euro?"	Continuous variable, 0-10; 0 = Not benefited at all; 10 = Benefited a lot
Exclusive national identity	Do you see yourself as 1 Italian only; 2 Italian and European; 3 European and Italian; 4 European only; 5 None; 98 Refusal; 99 I don't know	Binary categorical variable; 1 coded as 1, 2 to 5 coded as 0, 98 and 99 coded as missing
Female	What is your gender? 1 Male 2 Female 3 Other 98 Prefer not to say	Binary categorical variable 1 coded as 0, 2 coded as 1, 3 and 98 coded as missing
Age	What is your date of birth (dd/mm/yy)?	Three age groups generated (<30; >=30 & <60; >=60)
Education	What is your highest educational qualification?	Continuous variable based on a detailed list of Italian education levels according to the ISCED classification
Subjective income	Thinking of your household's total monthly or weekly income, is your household able to make ends meet, that is, pay your usual expenses easily or with difficulty?	Continuous variable, 0-10; 0 = With great difficulty; 10 = Very easily
Past vote	Which party did you vote for in the last European parliamentary election on 26 May 2019?	Categorical variable based on a detailed list of Italian parties; Lega, PD, and MS5 coded individually; all other parties as "Other party"; abstention, "I would prefer not to say" and "I don't remember" coded as "No party"
Export dependent (continuous)	To what extent does the enterprise/organization for which you work depend on sales (exports) abroad?	Continuous variable, 1-5; 1 = Very little or not at all; 5 = Very much or entirely
Export dependent (dummy)	To what extent does the enterprise/organization for which you work depend on sales (exports) abroad?	Binary categorical variable, 1 = Very much or entirely; to a large extent (more than 50% of total sales); 0 = all others
Economic left ideology	A factor of "economic left ideology" has the highest loadings for the items "The government should take measures to reduce differences in income levels" and "It should be the government's responsibility to provide a job for everyone who wants one"	Predicted values of a rotated principal component factor score of eight items on attitudes towards economic and social value issues; three resulting factors
Economic knowledge	1. What does the gross domestic product (GDP) measure? 2. What is the exchange rate? 3. Inflation is the term used to describe...	The variable is coded as the sum of correct answers to three knowledge questions. Four response options were given for each question.
Assets (savings)	Do you or a member of your household own any of the following (please select all that apply)? [list of six types of	Binary variable; coded as 1 if a respondent has savings; 0 otherwise

	assets given] Savings (in a bank account)	
Assets (stocks or bonds)	Do you or a member of your household own any of the following (please select all that apply)? [list of six types of assets given] Stocks or bonds	Binary variable; coded as 1 if a respondent has stocks or bonds; 0 otherwise
No assets	Do you or a member of your household own any of the following (please select all that apply)? [list of six types of assets given] My household does not own any of the above	Binary variable; coded as 1 if a respondent does not own any of the listed assets; 0 otherwise
Vulnerable labor market position	Do/did you have a work contract of... [five response options given]	Binary variable; coded as 1 if a respondent has a work contract of limited duration, works part-time or via an agency, or has no work contract (and is employed); 0 otherwise
Unemployed	Which of these descriptions best describes your situation (in the last seven days)? [nine response options are given]	Binary variable; coded as 1 if a respondent is a. unemployed and actively looking for a job; b. unemployed, wanting a job but not actively looking for a job; 0 otherwise

APPENDIX B: Strategic interaction as a game-theoretic model

The clash between northern and southern countries over the issuing of Coronabonds can be formalized as a two-person game between Germany (heading the northern front) and Italy (heading the southern front). The game starts with the Italian government finding itself in the condition of not being able to honor its financial commitments due to the additional burden of the corona crisis, and asking the German government to share a portion of the additional debt. We assume that the actions of both governments conform to public opinion in the respective countries. The German government moves first by choosing between two possible options: allow for debt mutualization (MUTUALIZE), or not allow for it (NON-MUTUALIZE). Next Italy moves by choosing whether to remain in the eurozone (REMAIN) or to exit (EXIT). The game generates four possible states of the world: 1) one in which Germany allows for mutualization of risk and Italy remains in the eurozone (MR); 2) one in which Germany agrees to mutualization and Italy exits (ME); 3) one in which Germany does not allow for mutualization and Italy remains (NR); and 4) one in which Germany does not allow for mutualization and Italy exits (NE).

We assume that Germany's first preference is the status quo, i.e. NR (non-mutualize and Italy remains), and that Germany's last preference is ME (debt mutualization but Italy exits nonetheless,) because in this case Germany would pay the costs of mutualization without being able to deter a break-up of the eurozone. However, we also assume that German voters are uncertain between MR (mutualization and Italy remaining in the eurozone) (MR) and NE (non-mutualization and Italy exiting), and that they decide between the two options based on information about the costs and benefits of these two options. With MR, Germany benefits from keeping the eurozone intact but pays the costs of debt mutualization. With NE, the opposite happens.

In contrast, we assume that Italy's first preference is MR, i.e. a state in the world in which they remain in the eurozone while benefiting from debt mutualization, and that Italy's last preference is ME, which implies paying the costs of euro exit without benefiting from debt mutualization. Italian voters are assumed to be uncertain between NE and NR, two states of the world in which Germany does not agree to debt mutualization. In NR, they value to costs of exit from the eurozone as greater than the costs of remaining. In NE, the opposite applies. Again, we assume that the Italian voters's preferences can be moved by

providing information about the costs and benefits of these two options. Table B.1 displays the pay-offs.

Table B.1: Pay-off matrix from the interaction between Germany and Italy (with ordinal payoffs)

		Italy	
		Remain (R)	Exit (E)
Germany	Mutualize (M)	MR (3 or 2), 4	ME 1,1
	Non-Mutualize (N)	NR 4, (2 or 3)	NE (2 or 3), (3 or 2)

Table B.1 shows that if the game is played simultaneously, an outcome involving debt mutualization is not feasible because the strategy of mutualization is strictly dominated for Germany (since it prefers NON-MUTUALIZE to MUTUALIZE both if Italy plays EXIT and if it plays REMAIN). The equilibrium is Italexit or the status quo depending on the preferences of Italian voters between exiting or remaining in the euro contingent on Germany refusing debt mutualization. However, if the game is played sequentially (Figure B.1), debt mutualization becomes a feasible outcome if Italy prefers NE to NR, and if Germany prefers MR to NE. In other words, for debt mutualization to emerge two conditions have to be satisfied: 1) Italy must credibly threaten exit; 2) Germany must consider that the costs of debt mutualization are lower than the costs of Italexit. Table B.2 presents all four possible combinations.

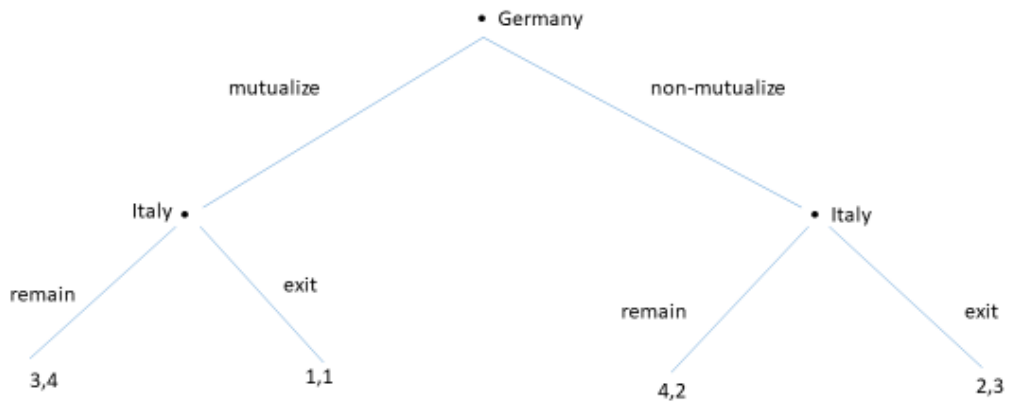Figure B.1: Decision tree for a sequential game with Germany as a first-mover

Table B.2: Four possible outcomes based on the sequential game with Germany as a first-mover

		Italy	
		NE>NR	NR>NE
Germany	MR>NE	Debt sharing (Mutualize & Remain)	Status quo (Non-Mutualize & Remain)
	NE>MR	Euro break-up (Non-Mutualize & Exit)	Status quo (Non-Mutualize & Remain)

APPENDIX C: Additional tables and figures (descriptive)

C.1: Determinants of support Italexit in Italy

Table C.1: Determinants of supporting Italexit in Italy; average marginal effects based on multinomial probit regressions with additional covariates

	(1)	(2)	(3)	(4)
Benefitted from euro				
. Remain	0.0738***	0.0725***	0.0587***	
	(15.95)	(14.57)	(10.52)	
. Exit	-0.0506***	-0.0518***	-0.0459***	
	(-5.95)	(-6.19)	(-5.33)	
. Don't know	-0.0232**	-0.0207*	-0.0128	
	(-2.69)	(-2.43)	(-1.49)	
National identity				
. Remain	-0.0777	-0.0632	-0.0924	
	(-1.63)	(-1.37)	(-1.93)	
. Exit	0.216***	0.224***	0.204**	
	(4.59)	(4.75)	(3.12)	
. Don't know	-0.139*	-0.161**	-0.112	
	(-2.37)	(-2.83)	(-1.81)	
Female				
. Remain		0.0261	0.0822*	0.0601
		(0.68)	(2.17)	(1.27)
. Exit		-0.141**	-0.139**	-0.104*
		(-3.12)	(-3.03)	(-2.04)
. Don't know		0.115*	0.0569	0.0443
		(2.34)	(1.17)	(0.88)
Age				
. Remain		-0.00748	-0.00476	-0.0102
		(-1.19)	(-0.74)	(-1.15)
. Exit		0.00576	0.00680	0.0162
		(0.61)	(0.70)	(1.48)
. Don't know		0.00172	-0.00204	-0.00594
		(0.19)	(-0.22)	(-0.68)
Age squared				
. Remain		0.0000754	0.0000479	0.000109
		(1.24)	(0.78)	(1.28)
. Exit		-0.0000519	-0.0000740	-0.000175

	(1)	(2)	(3)
	(-0.58)	(-0.78)	(-1.56)
. Don't know	-0.0000236	0.0000261	0.0000652
	(-0.27)	(0.29)	(0.76)
Education			
. Remain	0.0128	0.00905	0.0189*
	(1.59)	(1.27)	(2.01)
. Exit	0.0107	0.00778	-0.00305
	(1.10)	(0.78)	(-0.28)
. Don't know	-0.0234*	-0.0168	-0.0158
	(-2.26)	(-1.62)	(-1.51)
Subjective income			
. Remain		-0.0144	-0.0244**
		(-1.85)	(-2.69)
. Exit		0.0151	0.0272*
		(1.56)	(2.55)
. Don't know		-0.000722	-0.00274
		(-0.07)	(-0.28)
Forza Italia (ref: Lega)			
. Remain		-0.0140	0.0664
		(-0.16)	(0.61)
. Exit		0.176	0.106
		(1.72)	(0.89)
. Don't know		-0.162*	-0.173**
		(-2.33)	(-2.97)
Fratelli d'Italia			
. Remain		-0.113	0.0329
		(-1.47)	(0.41)
. Exit		0.0830	-0.0580
		(1.01)	(-0.59)
. Don't know		0.0305	0.0251
		(0.35)	(0.29)
M5S			
. Remain		0.0561	0.205***
		(0.85)	(3.40)
. Exit		-0.0655	-0.233***
		(-0.97)	(-3.40)
. Don't know		0.00945	0.0289
		(0.15)	(0.48)
PD			
. Remain		0.199*	0.615***
		(2.55)	(10.70)
. Exit		-0.140	-0.508***

			(-1.67)	(-8.12)
. Don't know			-0.0591	-0.107*
			(-0.86)	(-2.03)
Other				
. Remain			0.156	0.459***
			(1.83)	(5.09)
. Exit			-0.175	-0.453***
			(-1.94)	(-5.30)
. Don't know			0.0199	-0.00607
			(0.21)	(-0.07)
Didn't vote				
. Remain			0.0203	0.166*
			(0.29)	(2.45)
. Exit			-0.120	-0.313***
			(-1.56)	(-4.09)
. Don't know			0.0997	0.147
			(1.27)	(1.93)
Observations	503	501	474	498

Note: t statistics in parentheses, * p<0.05, ** p<0.01, *** p<0.001
Survey weights were applied; only the control group included.

C.2: Determinants of support Italexit in Germany

Table C.2: Determinants of supporting Italexit in Germany; average marginal effects based on multinomial probit regressions with additional covariates

	(4)	(5)	(6)
Benefitted from euro			
. Remain	0.0587***	0.0584***	0.0478***
	(9.39)	(8.94)	(6.30)
. Exit	-0.0522***	-0.0526***	-0.0426***
	(-8.07)	(-7.79)	(-5.47)
. Don't know	-0.00647	-0.00583	-0.00518
	(-1.18)	(-1.04)	(-0.81)
National identity			
. Remain	-0.143**	-0.144**	-0.120*
	(-2.86)	(-2.90)	(-2.23)
. Exit	0.141**	0.148**	0.166**
	(2.85)	(2.98)	(2.91)
. Don't know	0.00229	-0.00371	-0.0463
	(0.05)	(-0.09)	(-1.12)
Female			
. Remain		-0.0162	-0.0271	-0.0470
		(-0.37)	(-0.64)	(-1.11)
. Exit		-0.0569	-0.0323	-0.0294
		(-1.29)	(-0.73)	(-0.64)
. Don't know		0.0731	0.0593	0.0765*
		(1.96)	(1.61)	(1.99)
Age			
. Remain		-0.00664	-0.00993	-0.0160
		(-0.77)	(-1.11)	(-1.73)
. Exit		0.00187	0.00815	0.00732
		(0.21)	(0.92)	(0.78)
. Don't know		0.00478	0.00178	0.00868
		(0.67)	(0.26)	(1.19)
Age squared			
. Remain		0.0000643	0.0000955	0.000141
		(0.71)	(1.04)	(1.50)
. Exit		-0.0000126	-0.0000761	-0.0000603
		(-0.13)	(-0.84)	(-0.62)
. Don't know		-0.0000516	-0.0000195	-0.0000809
		(-0.69)	(-0.27)	(-1.06)

Education			
. Remain	-0.00907	-0.00216	0.0146
	(-0.68)	(-0.17)	(1.10)
. Exit	0.0142	0.000318	-0.0106
	(1.04)	(0.02)	(-0.76)
. Don't know	-0.00510	0.00184	-0.00398
	(-0.44)	(0.17)	(-0.34)
Subjective income			
. Remain		0.0000183	-0.00610
		(0.00)	(-0.82)
. Exit		-0.00929	-0.000415
		(-1.10)	(-0.05)
. Don't know		0.00927	0.00652
		(1.46)	(1.01)
SPD (ref.: CDU/CSU)			
. Remain		-0.0792	0.0133
		(-1.10)	(0.18)
. Exit		-0.00196	-0.0644
		(-0.03)	(-0.92)
. Don't know		0.0812	0.0511
		(1.74)	(1.14)
AfD			
. Remain		-0.233**	-0.438***
		(-2.62)	(-6.36)
. Exit		0.197*	0.427***
		(2.28)	(5.84)
. Don't know		0.0366	0.0114
		(0.74)	(0.25)
FDP			
. Remain		-0.191*	-0.187
		(-2.14)	(-1.84)
. Exit		0.0883	0.109
		(0.92)	(1.05)
. Don't know		0.103	0.0785
		(1.50)	(1.16)
Die Linke			
. Remain		0.0562	0.0227
		(0.68)	(0.27)
. Exit		-0.0566	-0.0238
		(-0.69)	(-0.30)
. Don't know		0.000352	0.00110
		(0.01)	(0.03)

Bündnis 90/Die Grünen

. Remain		-0.0873	-0.00618
		(-1.25)	(-0.08)
. Exit		-0.0227	-0.0965
		(-0.33)	(-1.48)
. Don't know		0.110*	0.103*
		(2.17)	(2.03)

Other party

. Remain		-0.0971	-0.142
		(-1.09)	(-1.54)
. Exit		-0.144	-0.0903
		(-1.90)	(-1.11)
. Don't know		0.241**	0.233**
		(3.12)	(3.03)

Didn't vote

. Remain		-0.335***	-0.439***
		(-4.57)	(-6.72)
. Exit		0.212**	0.234**
		(2.68)	(3.05)
. Don't know		0.123*	0.205***
		(2.02)	(3.37)

Observations	509	463	510

Note: t statistics in parentheses, * $p<0.05$, ** $p<0.01$, *** $p<0.001$
Survey weights were applied; only the control group included.

APPENDIX D: Additional tables and figures from the survey experiment

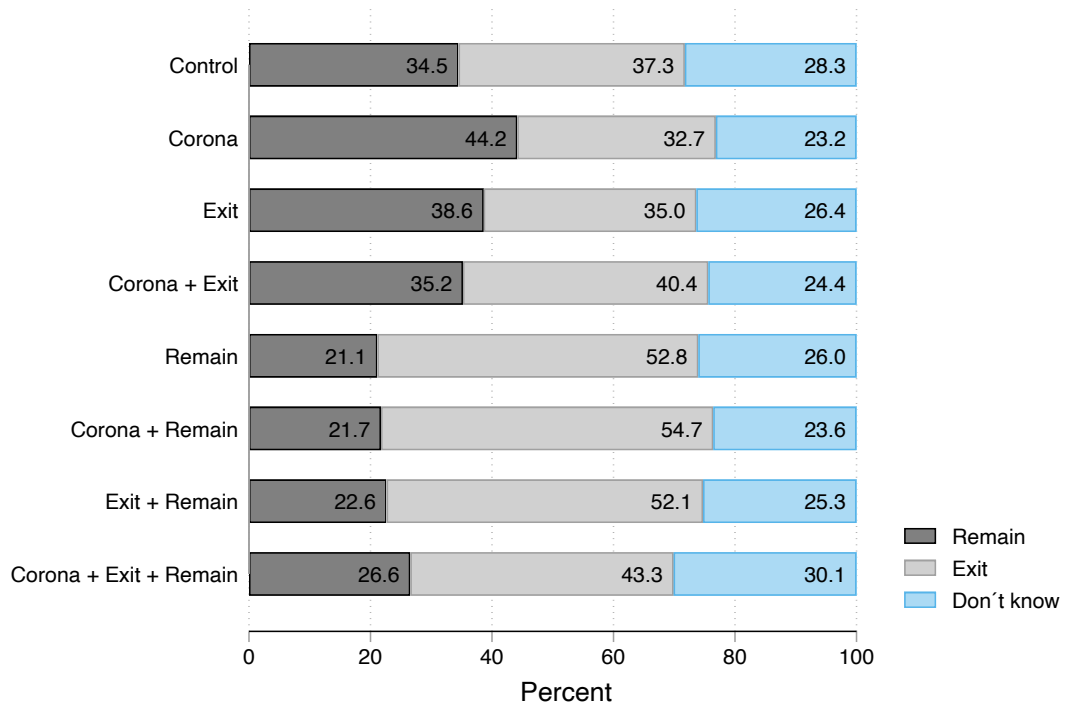**D.1. Average levels of support for Italexit by scenario**

Figure D.1: Average levels of support for Italexit and remain by scenario in Italy
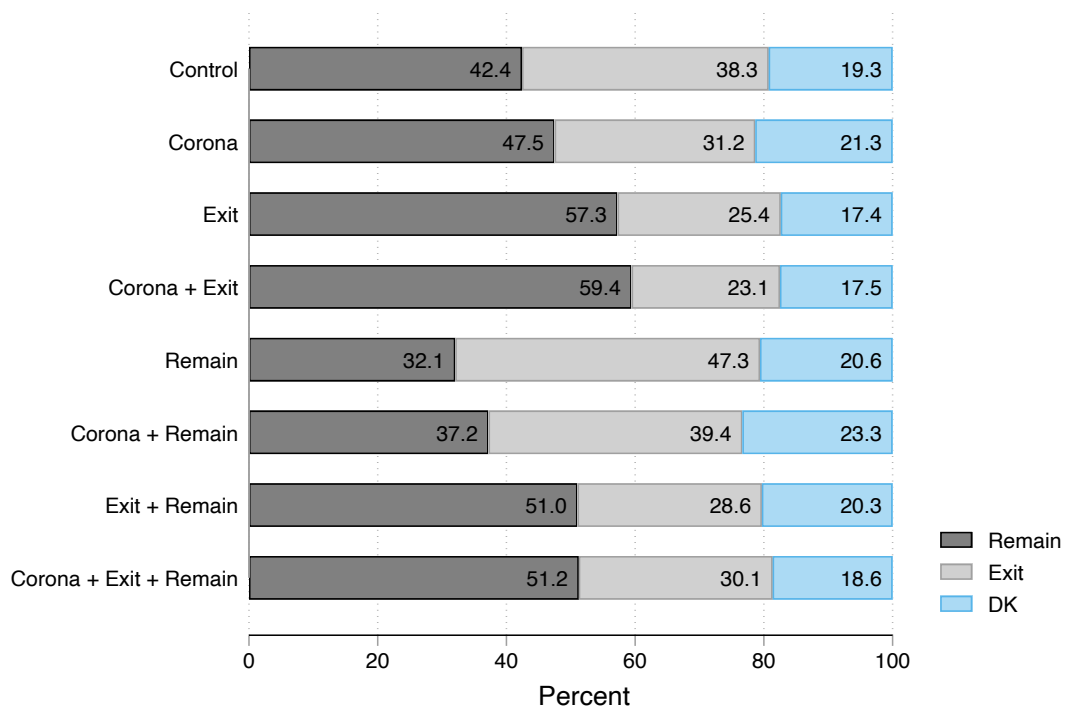

Figure D.2: Average levels of support for Italexit and remain by scenario in Germany

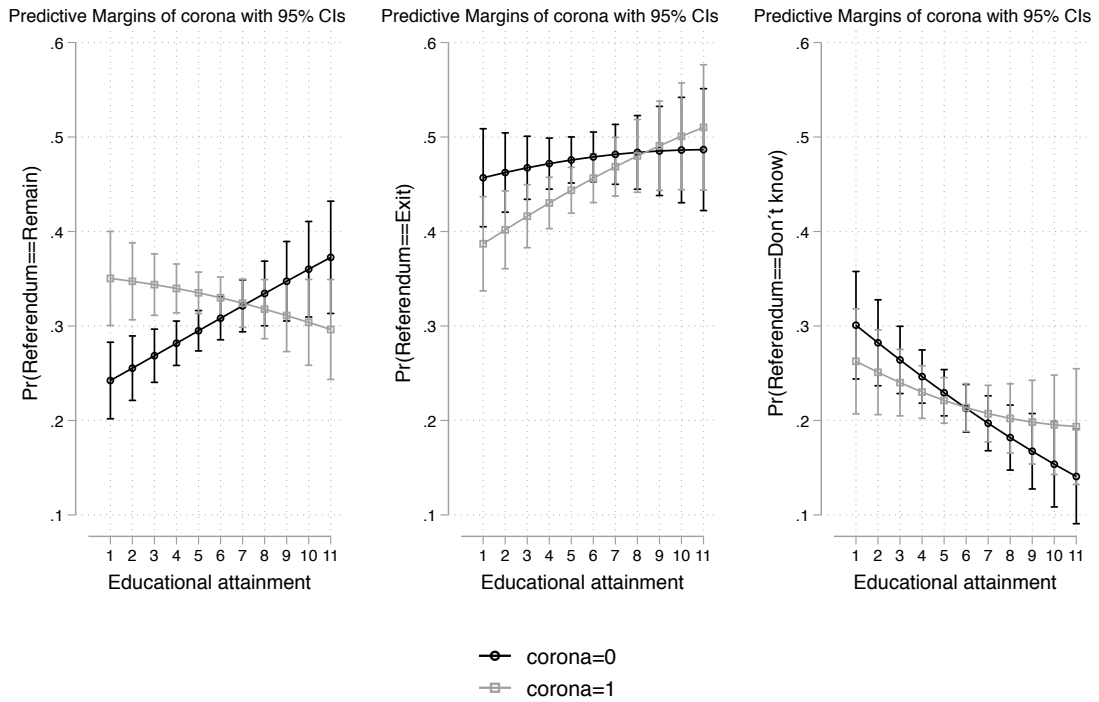**D.2. Heterogeneous treatment effects by education and economic knowledge**

Figure D.3: Heterogeneous treatment effects of the corona frame by educational attainment in Italy
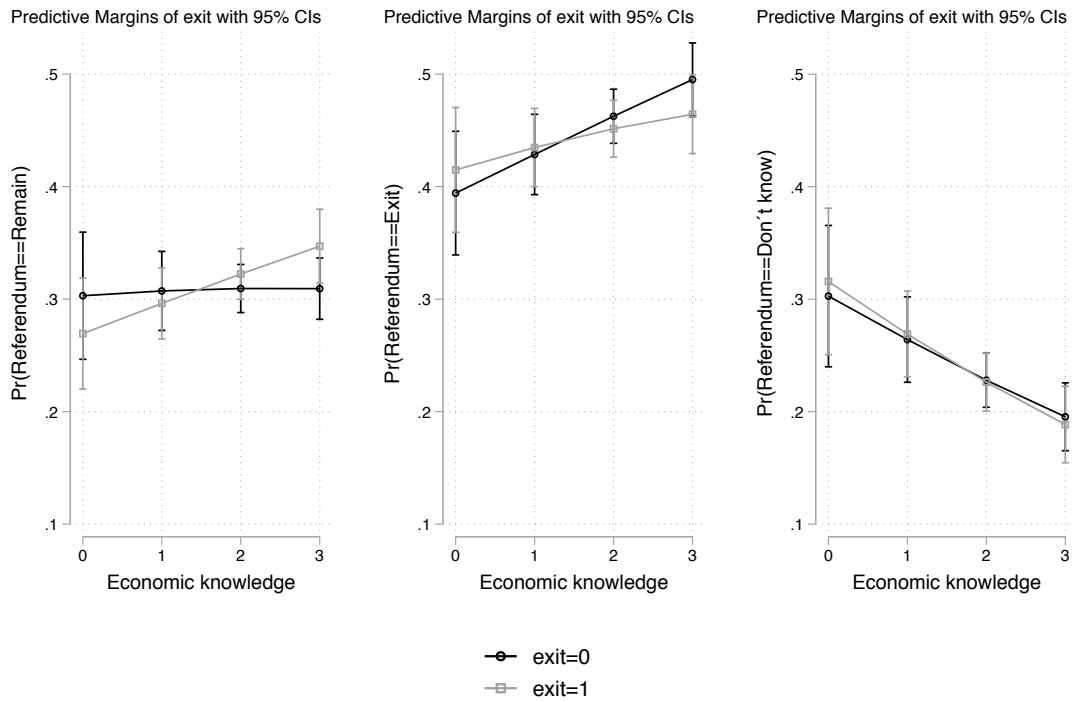

Figure D.4: Heterogeneous treatment effects of the costs of exit frame by economic knowledge in Italy

APPENDIX E: Results from the survey experiment with a second dependent variable

In this appendix, we show results from the analysis with the second variable, as discussed in the robustness checks section. In Italy, respondents could indicate their preferred choice out of the two following options: 1) "Germany and other European governments do not agree to debt mutualization, and Italy remains in the Euro" and, 2) "Germany and other European governments do not agree to debt mutualization, and Italy exits the Euro". In Germany, respondents could choose between 1) "Germany and other European governments do not agree to debt mutualization, and Italy exits the Euro" and, 2) "Germany and other European governments agree to debt mutualization, and Italy remains in the Euro". These choices are crucial for the determination of the equilibrium of the game analyzed in Appendix B.

Table E.1 depicts the relative majorities in preferences in Italy and Germany and summarizes the expected equilibrium outcomes based on the game-theoretical account developed in Appendix B.[12] The table is based on Figures E.1 and E.2. which plot the predicted probabilities for support of different outcomes in Italy and Germany, respectively. Depending on the narrative about the cause of the crisis (the coronavirus frame) and the salience of costs of the different options, the equilibrium solutions for the eurozone fluctuate between Italexit or debt mutualization.

First, if Germany does not agree to risk mutualization, we find that Italians are always more likely to support exit than remain. In two scenarios, the difference in support for remain and exit is not statistically significant, namely for the corona frame (scenario 1) and the corona plus cost of exit frame (scenario 4). In all other scenarios, the difference between exit and remain is significant, i.e., there is a clear tendency for Italian voters to prefer Italexit over remain. This gives Italy a credible threat.

Second, responses of German voters are highly contingent upon the frames they receive. If voters receive no additional information (the control group, scenario 1), or information about the costs of mutualization for Germany without information about the costs of Italexit and the corona crisis (scenarios 5, 6, and 7), a majority of voters does not want

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[12] The relative majorities for Italexit and remain based on this second dependent variable are very similar to the results in the main analysis (Figures 3 and 5). The results differ in two instances (scenario 2 in Italy; scenario 7 in Germany). In these two scenarios, majority support shifts from remain to exit. Higher levels of support for Italexit are plausible for this second dependent variable, given that the question wording is very explicit about debt mutualization being absent (in Italy), or necessary to avoid Italexit (in Germany).

risk mutualization and would accept Italy exiting the eurozone. Yet, as soon as German respondents take into account the costs of Italexit they consider risk mutualization as the preferable option (scenarios 3 and 4). When they consider simultaneously the costs of exit and remain, emphasizing the impact of the coronavirus shifts the majority in favor of mutualization (scenarios 7 and 8). The difference between mutualization and exit is not statistically significant in these scenarios but the pattern is clear: predicted support for mutualization is higher than support for Italexit when Germans are alerted to the costs of Italy leaving the eurozone.

Taken together, Table E.1 demonstrates that the equilibrium outcome depends on the kind of information processed by respondents.

Table E.1: Summary of the results of the simulated strategic interaction between Germany and Italy

	Scenario	Italy	Germany	Equilibrium
1	Control	NE >> NR	NE >> MR	Italexit
2	Corona	NE > NR	NE < MR	Mutualization
3	Cost of exit	NE >> NR	NE < MR	Mutualization
4	Corona + cost of exit	NE > NR	NE < MR	Mutualization
5	Cost of remain	NE >> NR	NE >> MR	Italexit
6	Corona + cost of remain	NE >> NR	NE >> MR	Italexit
7	Cost of exit + cost of remain	NE >> NR	NE > MR	Italexit
8	Corona + cost of exit + cost of remain	NE >> NR	NE < MR	Mutualization

Note: The results are based on predicted probabilities of support. "<<" or ">>" imply that differences are statistically significant at the 95 level. The predicted probabilities are shown in Figures C.15 and C.16 in the appendix.
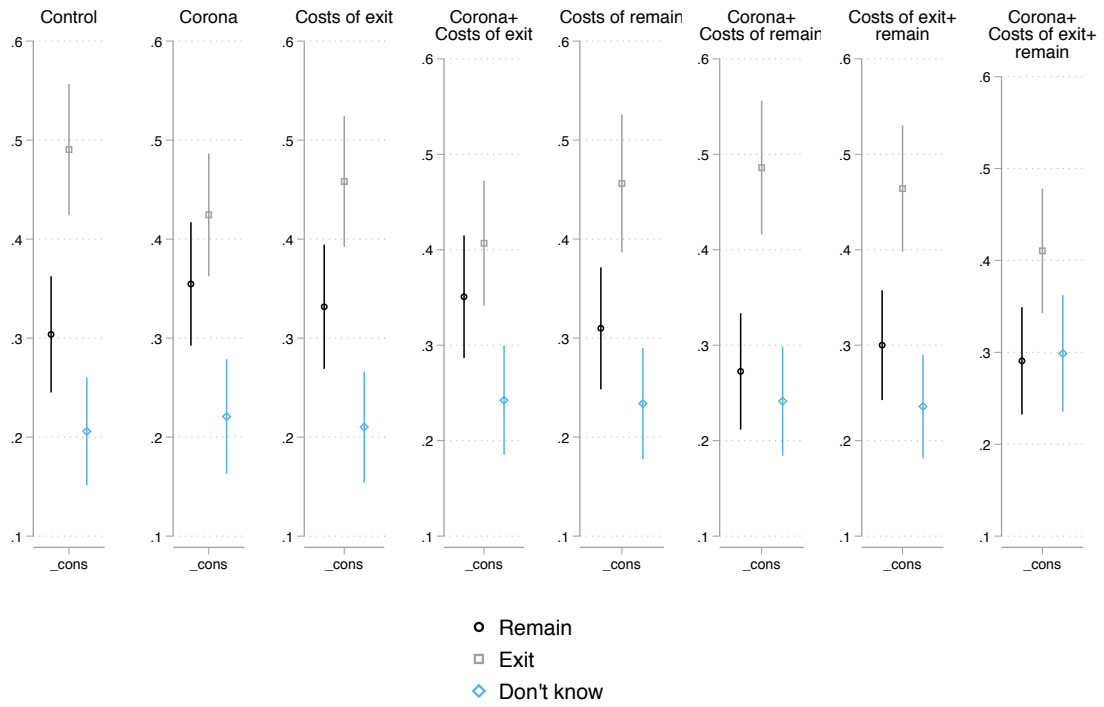
Figure E.1: Predicted probabilities of preferences towards the outcome of the strategic interaction in Italy
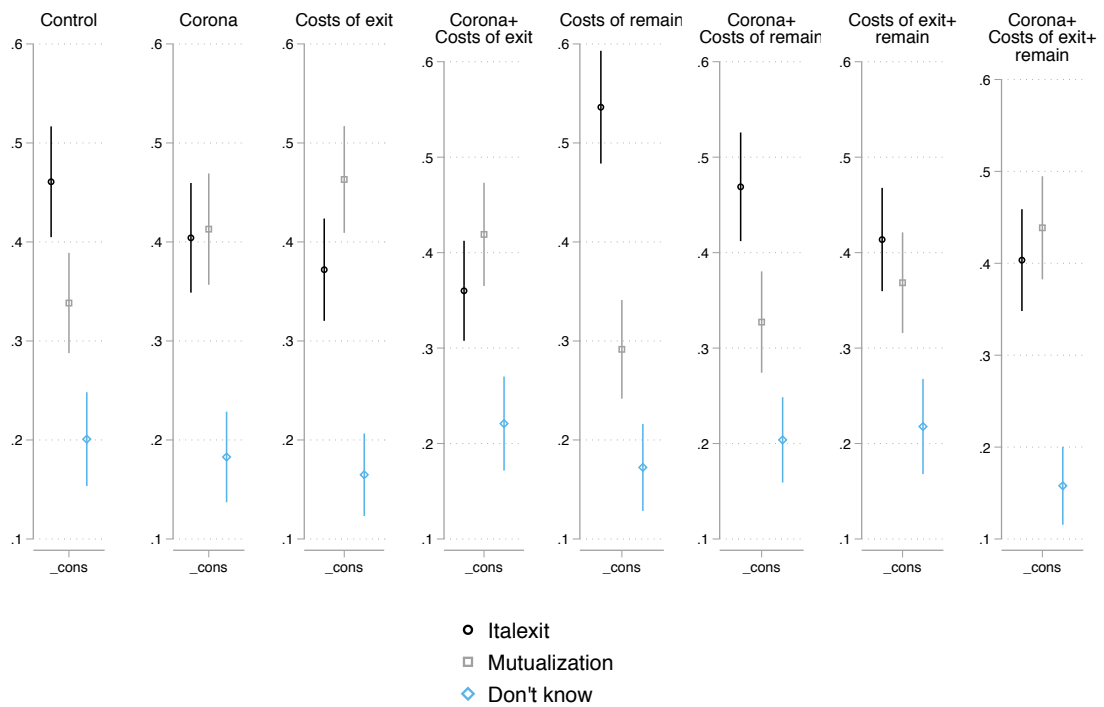

Figure E.2: Predicted probabilities of preferences towards the outcome of the strategic interaction in Germany

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