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The Eurozone Crisis and Citizens' Shattered Systemic Trust

When almost four years ago, on 16 September 2008, the insolvency of the investment bank Lehmann Brothers triggered the worst financial and economic crisis since the 1930s, scholars who were familiar with the notion of systemic trust have predicted that the biggest damage caused by the crisis is most likely that to citizens' systemic trust. Whereas trust in national governments and parliaments actually increased in the direct aftermath of the crisis in 2008/09, in year four of the financial crisis, and year two of the eurozone crisis European citizens' trust in national and European government institutions reached new historical lows particularly in autumn 2011 in the EU15 and EU27. Considering the size and dimensions of the crisis this decline in trust is certainly not astonishing. Moreover, until now, in most European economies the decline in trust in national and European government institutions has remained moderate. However, when examining the periphery countries in the eurozone, in particular in Spain, Ireland, Portugal and Greece the negative impact of the financial and eurozone crisis on citizens' trust in national and European government institutions is startling.

According to the standard Eurobarometer, trust in their national government institutions (both government and parliament) has declined on a non-weighted average in these four countries by 51% from a net value of -7% before the crisis in spring 2008 to a net value of -58% in autumn 2011. Sad records can be detected both in Spain, where citizens have lost a staggering 80% of net trust since the beginning of the crisis (from +20% to -60%), and in Greece, where citizens' trust in the national parliament declined by 62% and reached net values of -74% (86% mistrusted and only 12% still trusted it) and -82% in the national government (90% mistrusted and only 8% still trusted it) in autumn 2011. It should be pointed out here that the net value of -82% in autumn 2011 depicts the lowest level ever recorded within an EU15 country since data on trust has been collected by the standard Eurobarometers (from 1999 onwards).

Trust in European government institutions (the EU Commission and Parliament) has declined on a non-weighted average in these four countries by 55% from a net trust value of +38% before the crisis in spring 2008 to a net trust value of -17% in autumn 2011. Distressing records can be seen in Spain and Ireland, with Spanish citizens having lost 63% (from +44% to -19%) and Irish citizens 57% (from +47% to -11%) from before the crisis in spring 2008 to autumn 2011. However, on average the trust levels in the European governmental institutions remain, at a net level of -17%, significantly higher than -58% for the national government institutions.

Considering these trends in the eurozone's periphery three questions emerge. First, what are the immediate consequences of this decline in trust? Second, what are the driving forces of this decline in trust? Third, what could European and national policymakers do to stop this trust crisis?

First, the most recent political turmoil in Greece serves as an excellent example of the consequences of a fast and steady decline in citizens' systemic trust. It has led to the alienation of Greek citizens towards their national government institutions and has prepared the ideal breeding ground for the continuing radicalisation of the Greek political system with the expected winner being populist parties. These parties will most likely support purely national than rather EU interests with the potential immediate economic consequences that the future Greek government might not be willing to pay back its debt, and that Greek citizens will be successful in preventing the implementation of the austerity measures to which they have been opposed since the beginning of the crisis.

Second, most recent empirical analysis has detected two channels which seem to be responsible for the significant loss of citizens' trust in national and European government institutions. Both an increase in unemployment and an increase in government debt have been associated with citizens' declining trust. In the EU15 the negative relationship of an increase in government debt seems to be driven by countries that owe a larger share of government debt to the aiding/bailing out of their financial sector, resulting in the implementation of austerity measures.

Third, taking these two lines of thought into consideration, European and national policymakers should first gain awareness of the significant loss of trust, and should pressure scholars and experts to start including measures such as citizens' systemic trust in economic modelling. The current political chaos in Greece was predictable. Trust in the national government and parliament had already noticeably declined in spring 2010, and an analysis of the trends in citizens' systemic trust from late 2010 onwards showed quite clearly that the austerity measures intended by the European Commission, European Central Bank and International Monetary Fund to be implemented in Greece would turn out to be unrealistic due to the growing opposition of Greek citizens. Back then, a range of experts and scholars had already predicted the political chaos at the end of the line and, taking recent events into consideration, seem to have correctly described the chosen policy measures in Greece, in analogy to historical events in the German Weimar Republic, as "Brünning's domestic policy".

Moreover, both European and national policymakers should start to admit that the procyclical austerity measures chosen so far in Greece and the other periphery countries have shattered citizens' systemic trust. These austerity measures have to be accompanied by growth-enhancing investments and ensure that the unemployment rates in these four periphery countries are reduced. Unemployment rates in Greece and Spain of 22% and 24% respectively are unsustainable for political and social cohesion. Moreover, it is scandalous that the growth of GDP has been choked in Greece, with GDP in 2012 having shrunk by nearly 25% since the start of the financial crisis in 2008.

In addition, European and national policymakers should understand that a *commonality of destiny* among its member countries is a key prerequisite for the optimal functioning of a currency union. Without stronger solidarity among the eurozone member countries and a common agreed process towards deeper political integration, the break-up of the eurozone will most likely be pre-programmed. This point is worth mentioning in particular when dealing with the short- and medium-term economic challenges of the Spanish and Italian economies. The breakaway of one of these two large Mediterranean countries would not only endanger the eurozone but most likely the process of European integration per se. As has been highlighted a couple of times within this journal, European policymakers could have chosen a range of options on how to stop the crisis, one of them being the issuance of common eurobonds.

One fact remains clear, however, the break-up of the the eurozone would be against the will of the majority of citizens in each individual eurozone country. Since the implementation of the euro from 2002 onwards and throughout the financial and eurozone crisis a clear majority of European citizens have supported the Economic and Monetary Union and its single currency, the euro.

Felix Roth
Centre of European Policy Studies (CEPS), Brussels, Belgium.