

## Public Budget, Social Trust and Socio-Economic Crises

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The spreading of the new Covid19 virus has had profound impacts on economic activities, social life and civil liberties worldwide. On one hand, citizens are exposed to the unprecedented health hazard represented by the virus. On the other, the strain it has placed on health systems worldwide has called for governments to enact extreme countermeasures. For many these are likely to be the most intrusive public intervention in the private sphere ever experienced, introducing severe limitations on individuals' freedom and civic liberties for the good of the wider community. Additionally, while ensuring public safety and shielding the health system from being overburdened, those same countermeasures generated serious negative long-term consequences on individuals' livelihoods, both from an economic and social standpoint. The resulting impact on perceptions and attitudes along social, political and economic dimensions is unclear.

With this project, we aim at investigating the causal impact of unanticipated and exogenous (natural) shocks negatively influencing current social and economic conditions on individuals' socio-political attitudes. In order to do so, we exploit the current Covid19 epidemic. In particular, exposure to uncontrollable and unexpected events severely affecting individuals' wellbeing both from an economic (e.g. income loss) and a social (e.g. confinement, scramble for staple goods in fear of rationing) perspective might induce a shift in the perception of those functions of the government, and of the State more generally, presiding to their maintenance. While the coordinating and public good provisioning functions of the government might go unnoticed and their necessity might not be cogently felt in times of relative prosperity and stability, the same might not be true in times of crisis. Moreover, generalized social trust might be eroded due to (perceived) staple goods scarcity and when individual behavior of others, or indeed the mere presence of others in one's immediate social proximity potentially constitutes a salient threat to one's safety and health.

We therefore investigate how experimentally induced perceptions of the severity of the consequences of the epidemic affect demand for government intervention and optimal size of the government, for publicly provided goods (especially healthcare), generalized social trust, trust in national government and supranational institutions, national sentiment and preferences for alternative political parties in a random sample of the Italian population.

Crucially, our investigation disaggregates and separately investigates the impact of two different classes of consequences of the Covid19 epidemic: the health and the economic dimensions.

In order to identify the effects of the severity of the calamity's repercussions, our intervention exploits the current uncertainty surrounding the forecasted consequences of the epidemic. We investigate differences in individuals' reactance to information about the severity of the virus' impact measured

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as the difference between expected and observed death in Italy. In particular, we vary whether individuals are exposed to the expected/observed deaths gap in cities severely or mildly hit by the epidemic (data from the Italian health ministry, Ministero della Salute). Along the economic dimension, we vary whether respondents are presented with optimistic or pessimistic estimates of the consequences of the lockdown on the Italian GDP in 2020 relative to 2019 (resp., drop in Italian GDP estimated to be virtually zero according to OECD and twice as large as that experienced in 2009 according to Goldman Sachs; Il Sole 24 Ore).

#### Experimental conditions:

Experimental conditions			
Dimension	Optimistic	Pessimistic	
Economic	T <sub>0</sub> : 0.2% reduction of Italian GDP in 2020 with respect to 2019 compared to 5.7% in 2009 relative to 2008.	T <sub>1</sub> : 11.6% reduction of Italian GDP in 2020 with respect to 2019 compared to 5.7% in 2009 relative to 2008.	Source: <a href="#">Il sole 24 ore</a> - <a href="#">Eurofound</a> - <a href="#">AGI Italia</a>
Mortality	T <sub>2</sub> : As of the beginning of April the crude number of deaths registered in the previous month more than doubled in Aosta (+126%) and nearly tripled in Brescia (+195%) relative to the expected values based on the past five years since the onset of the Corona epidemic.	T <sub>3</sub> : As of the beginning of April the crude number of deaths registered in the previous month slightly increased in Palermo (+2%) and in Rome (+5%) relative to the expected values based on the past five years since the onset of the Corona epidemic.	- Ministero della Salute: <a href="http://www.deplazio.net/images/stories/SISMG/SISMG_COVID19.pdf">www.deplazio.net/images/stories/SISMG/SISMG_COVID19.pdf</a>

#### Statistical model

Most of our outcome variables of interest are 10-category likert type scales allowing respondents to place themselves between two extremes; for instance, full agreement or disagreement with a given statement.

We therefore primarily rely on OLS regressions for ease of interpretation of the results. We evaluate their appropriateness against ordered category nonlinear models (ordered probit or logit), the output of which will be reported in the appendix.

We estimate the following model:

$$Y_q = \beta_0 + \sum_{k=1}^3 \beta_k T_k + \beta_7 X + \beta_8 W + \varepsilon,$$

with  $Y_q$  denotes the responses to question  $q$  in our survey,  $T_k$  with  $k=\{0, 1, 2, 3\}$  denoting the  $k^{\text{th}}$  treatment ( $k_0$  serving as excluded category),  $X$  a vector of individual and  $W$  of regional controls (including Covid incidence, death rate etc; alternatively region fixed effects). Standard errors are

clustered at regional level. The vector  $X$  also includes a set of individual beliefs about the consequences of the epidemic in the same dimensions we intervene upon. Beliefs about a given dimension in groups that were not treated in that dimension constitute the baseline against which we evaluate our manipulation. For instance, we consider beliefs about the economic consequences of the epidemic elicited from the group of respondents who received information about the health hazard of the virus as *untreated* along the economic dimension. The kernel density of these beliefs will therefore constitute the baseline against which we compare the kernel density of the beliefs of the group who received information about the economic consequences of the epidemic. Significant concentration of the latter around the values reported by us is evidence of successful manipulation.

For  $k=\{0,2\}$  we test  $H_0: \beta_k - \beta_{k+1} = 0$ , the null hypothesis of no different impact of the reported severity of the epidemic's consequences on individuals' responses.

We will further estimate

$$Y_\theta = \beta_0 + \sum_{k=1}^3 \beta_k T_k + \beta_7 X + \beta_8 W + \varepsilon,$$

where  $Y_\theta$  denotes a summary index of the outcome variables addressing topic  $\theta$  extracted by factor or principal component analysis.

The outcome questions grouped by topic are listed below.

## Outcome measures

$Y_q$  denotes the main outcome variable of interest, with  $q$  denoting one of the following:

- **Attitudes towards the European Union**

Q1: For educational purposes, we are considering to inform students about the importance of the European Union using real texts. We selected a speech given in front of the European Parliament, which promotes European integration. It would help us if you could take 5 minutes of your time to read this speech and give us your opinion. Please notice that whether you agree to read the text or not will not affect your payment.

(binary agreement response).

Question 1 is our behavioural measure of support for the European Union. It asks the respondent to incur into a cost (time and effort) in an action explicitly framed as pro-european in its intent. In case of agreement, respondents are told that they will read and review the text only at the very end of the survey. We also measure the time they spend reading the text in the end.

Q2: On a scale from 1 to 10, how much do you trust the European Union (1= not at all, 10= a lot).

Q3: On a scale from 1 to 10, would you say that Italy has benefited from being a member of the European Union? (1= not at all, 10= a lot)

Q4: If there was a referendum next Sunday with the following question: "Should Italy remain a member of the European Union or leave the European Union", how would you vote? (multinomial logit)

- Remain in the European Union
- Leave the European Union
- I don't know

Q5: On a scale from 1 to 10, do you think the EU is better placed to solve problems than national or regional governments are? (1= not at all; 10= best placed)

Q6: On a scale from 1 to 10, do you think the European Union is managing the COVID-19 epidemic well? (1= not at all, 10= absolutely)

Q7: On a scale from 1 to 10, do you think your national government is managing the COVID-19 epidemic well? (1= not at all, 10= absolutely)

Q8: People may feel different degrees of attachment to their town or village, to their country or to Europe. On a scale from 1 to 10, how attached do you feel to

- Italy (1= not at all, 10= a lot)
- Your town/village (1= not at all, 10= a lot)
- Europe (1= not at all, 10= a lot)

Q9: Which of the following should mostly fund the economic consequences of the COVID-19 crisis?

- Your national government
- The European Union
- Your regional government

Q10: On a scale from 1 to 10, do you think there should be solidarity between EU member states to fund the COVID-19 costs? (1= there should not be; 10= there should be)

- **Role and size of government**

Q11: People have different views on what the responsibilities of the government should or should not be. On a scale from 1 to 10, do you think the government should

- raise taxes to subsidise the poor (1= not at all; 10= a lot)
- regulate markets (1= not at all; 10= a lot)
- raise taxes to ensure adequate unemployment insurance (1= not at all; 10= a lot)
- raise taxes to ensure adequate health care (1= not at all; 10= a lot)
- raise taxes to ensure a reasonable standard of living for the old (1= not at all; 10= a lot)

Q12: On a scale from 1 to 10, would you say that

- the overall fiscal burden in your country is too low (1) or too high (10)?
- your fiscal burden is too low (1) or too high (10)

Q13: People have different views about market globalization. On a scale from 1 to 10, do you favour completely globalised markets (1), complete national self-sufficiency (10).

- **Political preferences**

Q14: On a scale from 1 to 10, do you agree with the following statements? (1= fully disagree; 10= fully agree)

- Privacy rights should always be upheld/protected, even if they hinder efforts to combat crime.
- The people, and not politicians, should make our most important policy decisions.
- Politicians should have no influence over the content of public broadcasters.
- Having a strong leader is good for Italy even if this leader breaks the rules to obtain results.
- A handful of powerful individuals influences political decisions even in democracies.

Q15: How much of your personal freedom would you be willing to give up to

- protect your own safety? (1= none; 10= a lot)
- protect the safety of your family? (1= none; 10= a lot)
- protect public safety? (1= none; 10= a lot)

Q16: Imagine the national elections were coming up next Sunday. Which party would you vote for?

[Follows a list of the major political parties]

- **Social values**

Q17: On a scale from 1 to 10, do you think current immigration in your country is too low (1) or too high (10)?

Q18: On a scale from 1 to 10, how much do you think the public healthcare system in your country should prioritise Italians over immigrants (1= not at all, 10= a lot)

Q19: On a scale from 1 to 10, do you think one can never be careful enough in dealing with people (1), or would you say that most people can be trusted (10)?

Q20: On a scale from 1 to 10, do you agree that

- everyone should be treated equally as global citizens, with fundamental rights (1= not at all; 10= fully agree)
- everyone should be loyal to the community they are part of, and respect its traditions (1= not at all; 10= fully agree)

We collect additional data allowing us to investigate potential mechanisms, including measures of generalized social trust, local/global sentiment, attitudes towards the European Union, attitudes towards immigration, attitudes towards market regulation and state intervention and socio-political sentiment.

**Sample**

We survey 6000 individuals from a random sample of the Italian adult population under 70 years of age. The sample is representative by age, area of residence and gender.<sup>2</sup>

**Heterogeneity analysis**

We will perform heterogeneity analyses along the income, education, political orientation and perceived job security.

**Debriefing**

At the end of the survey, we debrief the respondents to avoid them remaining with only partial information about the health and economic consequences of the Covid-19 epidemic.

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<sup>2</sup> Minimal detectable effect MDE=0.102 at alpha=0.05 and power=0.8 over standardised outcome measures.