

Reprisals Remembered: German-Greek Conflict and Car Sales during the Euro Crisis

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Abstract

During the Greek debt crisis after 2010, the German government insisted on harsh austerity measures. This led to a rapid cooling of relations between the Greek and German governments. We compile a new index of public acrimony between Germany and Greece based on newspaper reports and internet search terms. This information is combined with historical maps on German war crimes during the occupation between 1941 and 1944. During months of open conflict between German and Greek politicians, German car sales fell markedly more than those of cars from other countries. This was especially true in areas affected by German reprisals during World War II: areas where German troops committed massacres and destroyed entire villages curtailed their purchases of German cars to a greater extent during conflict months than other parts of Greece. We conclude that cultural aversion was a key determinant of purchasing behavior, and that memories of past conflict can affect economic choices in a time-varying fashion. These findings are compatible with behavioral models emphasizing the importance of salience for individual decision-making.

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1 Summary

The Greek debt crisis saw a massive increase in political tensions between Greece and Germany. Germany played a major role in the handling of the Greek crisis and was perceived by many Greeks as responsible for the harsh austerity measures imposed on the country in the period 2010-2012. Did the frequent public clashes create a backlash amongst consumers? Calls for boycotts were prominent in the press and on the internet. Our study systematically investigates the effects of political conflict and calls for boycott. In particular, we show that political tensions changed purchasing decisions. Importantly, we find much greater effects of conflict in areas that suffered German reprisals during the German occupation of Greece, 1941-44.

We focus on car registrations in Greece during the period 2008-2012. After the start of the crisis in 2010, the market share of German cars experienced a significant drop in months of heightened tension in Greek-German relations; this drop was markedly larger in regions of the country where German occupation forces had committed large-scale civilian massacres during the occupation.

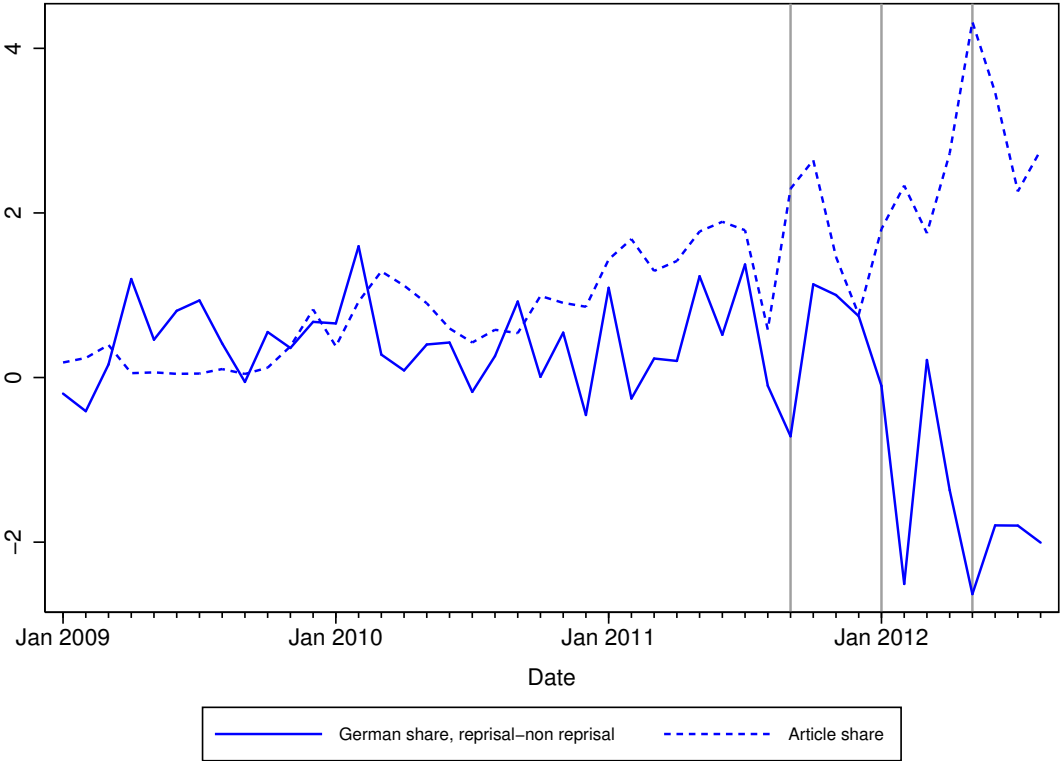
We identify “conflict periods”, by constructing a monthly index of political sentiment towards Germany in Greece, and vice versa. It is based on the frequency of references to conflicts between the two countries in news articles in the online archive of the newspaper Kathimerini. The construction of this index draws on text classification methods frequently used in the computer science literature. In essence, our index consists of the monthly share of Kathimerini articles containing critical remarks of German politicians towards Greece, or negative statements of Greek politicians towards Germany. There were many news items of this kind in the Greek press. For example, in February 2012, Greek president Karolos Papoulias stated that *“he cannot accept insults to his country”* by German finance minister Wolfgang Schaeuble.

We look at how German car sales react during months of tension, in Greek prefectures where a large part of the population was affected by German reprisals during the occupation, and in prefectures without such a history. The market share of Ger-

man cars in these two types of prefectures is broadly similar in “regular” months, but sharply different during in crisis months. The extra drop during months of heightened tension can be plausibly interpreted as a reaction against Germany. We show that civilian massacres during the occupation are largely uncorrelated with observable prefecture characteristics today, so that economic and sociodemographic differences cannot explain the differential reaction. We also take into account the fact that German cars are to a large extent luxury products, by limiting our comparisons to brands operating in similar segments of the car market.

The effects we find are significant in magnitude. The German market share decreases by up to 2.5 percentage points in an average month of tension. The difference between prefectures with and without reprisals can be as high as 4 percentage points — this practically amounts to 10.7% of the average market share that German cars had amongst small- and medium-sized (non-luxury) cars during the period 2008-2012. As shown in the graph below, the difference increases over time. As tension in Greek-German relations accumulates during the crisis, the gap between prefectures with and without a memory of past German atrocities widens. Our results suggest that the drop in German car sales can be largely attributed to substitution of German cars with other car brands; it is not due to a simple postponing of purchases.

German-Greek Conflict and Evolution of German Market Share in Prefectures With and Without Reprisals



Notes: The solid line is the difference in the seasonally adjusted (expressed as difference of month t from month $t-12$) share of German car registrations in the Volkswagen category in reprisal vs non-reprisal prefectures. The dotted line is the monthly share of Kathimerini articles related to German-Greek conflict. Both series are normalized by their standard deviation.

Is such consumer reaction plausible for a big-ticket durable item such as cars? Previous studies show that conflict of interests between countries can lead to large shifts in consumer sentiment and bilateral economic activity: U.S. consumers boycotted French-sounding products when France refused to participate in the war against Iraq; when Japan introduced a textbook that downplayed its violent role in China during the decade of the 1930s, stock values of Japanese firms that traded in China collapsed. Our findings are also consistent with a large literature in psychology and behavioral and experimental economics, which underlines the interaction of memory with rational

decision-making and the importance of fairness considerations and emotions as heuristics affecting individual choice.

Short bio

Vasiliki Fouka is a PhD candidate in Economics at Universitat Pompeu Fabra in Barcelona, Spain. She holds a degree in International and European Economic Relations from the Athens University of Economics and Business.