

ORIGINAL ARTICLE



WILEY

Global Value Chains

Inflation concerns and mass preferences over exchange-rate policy

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Funding information

Browne Center for International Politics, University of Pennsylvania; Wilf Department of Politics, New York University; Department of International Relations Research Fund, London School of Economics and Political Science

Abstract

Exchange-rate policies are cornerstones of the world economy. They also have fundamental welfare and distributional consequences on nations, firms, and individuals. How do individuals internalize these consequences? We challenge the conventional wisdom on the source of mass preferences and argue that many individuals understand currency policies through the lens of inflation. Specifically, we argue that people who are concerned about inflation are more likely to support a fixed exchange rate regime and are more likely to oppose depreciation. We present observational and experimental evidence across middle-income (Argentina and Serbia) and developed (United Kingdom) countries to support our argument. Further tests suggest that fears over purchasing power—instead of debt or savings considerations—drive inflation concerns.

KEYWORDS

exchange rates < International political economy, finance/sovereign debt < International political economy

"The [fixed exchange rate] currency system that we have is loved by Argentines. But it is loved not because they love the dollar; it is loved because it protects their property rights on their savings, on their salaries."

Domingo Cavallo, May 7, 2001. A Century of the Americas Forum, Washington, DC

1 | INTRODUCTION

Currency politics have important welfare and distributional consequences. How do individuals understand the tradeoffs in exchange-rate policy? Canonical models on preferences over currency policy focus on the ways the exchange rate affects international trade. From this standpoint, individuals' attitudes about exchange rates fall along factoral, sectoral, or firm-level lines (Bearce & Tuxhorn, 2017; Broz & Plouffe, 2010; Frieden, 1991). This paper focuses on an alternate view that hinges on the effects of exchange rates on consumers rather than producers.¹

While important economic actors, largely oriented toward production—such as exporting firms, industries or lobbying groups—tend to prefer a fixed exchange rate regime because it stabilizes cross-border transactions, mass preferences over exchange rate policy are likely to be more complicated (Walter, 2008, 2014). Emphasis on the trade effects of exchange rates tends to downplay a crucial and centuries-old way in which currency policy can affect voters' pocketbooks: through their price stabilizing effects.² Fixing the value of the national currency to a pre-established rate with respect to another currency can keep inflation in check.³

We argue that for mass publics—whose daily lives center more on economic consumption than on production—concerns over high inflation that often resonate more deeply than their sector of employment, and that those preferences translate to attitudes about currency politics. The consequences of inflation can be dramatic and widespread; it can erode people's purchasing power through a reduction of real wages, and it can wipe out savings whenever they are denominated in local currency. As such, preferences for price stability, particularly for consumers, outweigh the potential benefits from monetary flexibility and can even have electoral implications. Our approach complements trade-based theories of currency policy preferences. The two theories are not incompatible, and undoubtedly, trade concerns drive some people's preferences. However, we argue and show that inflationary concerns are a theoretically and empirically relevant, yet underemphasized, explanation underlying currency policy preferences.

Ours is a novel argument in the study of macroeconomic policy preferences. While previous scholars have studied individual concerns about inflation (e.g., Scheve, 2004), we provide the first direct evidence explicitly linking individuals' inflation concerns to their exchange-rate policy preferences. This augments the picture of the microfoundations of monetary and exchange rate policy preferences Bearce and Tuxhorn (2017) that show that monetary policy preferences are grounded at the firm level. If a majority of the mass public is involved in the domestic economy, canonical models would then predict that they have strong preferences for domestic monetary autonomy and flexibility. However, this relationship could break down in the presence of inflation. By directly measuring concerns about inflation, and showing that these concerns decrease support for domestic monetary autonomy in favor of a fixed exchange rate regime, we provide a more nuanced and complete picture of the sources of individual-level currency policy preferences.

We test this proposition using observational and experimental evidence from three original surveys in Argentina, Serbia, and the United Kingdom. Our case selection includes countries at various stages of political and economic development, with different levels of salience surrounding inflation and currency policies. Argentina had a well-publicized currency board throughout the 1990s that collapsed in 2001; the country's peso now floats on the international market. The current Serbian dinar, established

in 2003 as a managed float, went through a period of inconvertibility in its previous incarnation as the Yugoslav dinar, with an episode of hyperinflation under Slobodan Milošević. The British government's decision to stay out of the euro proved a harbinger for its decision to leave the European Union itself—a prospect that survey respondents were considering at the time that the survey launched (in June 2016). We focus primarily on individual perceptions of the exchange rate regime (i.e., a country's decision whether to peg or float its currency) but we also examine perceptions of exchange rate levels (whether a currency is strong or weak).

Through our survey experiments, we find that people who are concerned about inflation prefer a fixed exchange rate. Specifically, those who think that inflation is their country's biggest problem are, on average, more likely to prefer a fixed exchange rate by about 14 percentage points in Argentina, and about 8 percentage points in the UK. To address endogeneity concerns, we exploit daily changes in consumer prices and the timing of the survey interviews in Argentina to implement an instrumental variable approach. These results strengthen our confidence in the causal interpretation of our findings.

Further, we use a framing experiment to elucidate the exchange rate regime's possible consequences. Individuals respond strongly to the potential inflation-controlling effects of a fixed exchange rate. In all cases, these results hold even after controlling for an individual's employment link to the international economy. Respondents in Argentina were about 9 percentage points more likely to prefer a fixed exchange rate when the frame focused on a peg's ability to prevent of inflation. In Serbia, frames surrounding the inflation-controlling effects of the exchange rate regime increased their preference for a peg by about 0.12 of a standard deviation—although not statistically significant at conventional levels. Furthermore, when similarly primed about the potential effects of depreciation, both Serbian and British respondents reacted to inflation frames in ways consistent with our argument. These tests also speak to the mechanisms underlying mass preferences over currency policy, pointing toward differential effects for consumers rather than producers. In particular, our findings suggest that exchange rate preferences operate through individuals' concerns about their purchasing power, rather than the effects of inflation on their savings or debt effects.⁴ Taken together, this provides powerful evidence for the influence of inflation on mass perceptions of the exchange rate.

Our argument offers two key contributions to the literature on economic policy preferences. First, we shed light onto the microfoundations of the mass political economy of international economic policy choices. By broadening the scope of how individuals conceptualize economic gains and losses, we offer a more complete picture of the factors that drive these preferences. This sheds light on, for example, the unpopularity of currency devaluations, or why, as Argentine Economic Minister Domingo Cavallo put it, Argentines loved the currency board in the 1990s. Second, in line with a burgeoning thread of research, we also provide micro-level evidence that—contrary to some expectations—monetary and currency policy concerns can be salient in individuals' minds and political behavior (Ahlquist et al., 2018; Nelson & Steinberg, 2018; Steinberg & Nelson, 2019).

2 | INFLATION, CURRENCY POLICY, AND PURCHASING POWER

Since the early modern era, rulers have turned to hard currency as a way of keeping inflation in check. Today, such efforts often take the form of pegging domestic currency to a more stable international currency—that is, a fixed exchange rate.⁵ A country's exchange rate regime—whether the rate of exchange of their domestic currency floats freely, with its value determined by the market, or whether its value is fixed to that of another hard currency—is one of the most crucial economic policy choices a government can make, with substantial welfare and distributional consequences (Frieden, 1991;

Steinberg, 2015). As Frieden (2014, 1) puts it, the “exchange rate is the most important price in any economy, for it affects all other prices.”

Firms—for whom currency policy is highly relevant, particularly if they are exporters—have received significant attention in the literature on currency regimes. For instance, exporting sectors prefer an undervalued, fixed rate, to give both a competitive edge and stability to their products in international markets (Frieden, 1991; Hefeker, 1997).⁶ Scholars have tested the sectoral- and firm-level models of monetary policy preferences (Bearce, 2002; Bernhard & Leblang, 2006), including through the use of survey data (Bearce & Tuxhorn, 2017). The extant arguments tend to stress the primacy of political institutions and interests, as conceptualized through firm preferences (Frieden et al., 2001). Prominent extensions examine the implications of political regimes on exchange-rate choice, arguing that non-democracies may prefer these types of commitments (Bearce & Hallerberg, 2011; Bearce & Moya, 2020; Broz, 2002).

The sectoral or firm-level logic has limits once we consider the economy and the political environment more broadly, particularly with respect to the preferences of consumers rather than producers. The focus on producer preferences understandably elucidates the interests of a group for whom exchange rates are highly salient; moreover, producers are better organized and are more likely to lobby governments for those preferences, making them likely influential in a government's policy choice (Frieden, 1991).

At the same time, these approaches might fall short when explaining mass preferences over the exchange rate. Many countries do not have large export markets. Employment is often domestically oriented, especially in developing countries with large informal sectors. Even those that do have large trading sectors can experience concentrated gains; large multinational corporations (MNCs) tend to reap the majority of profits from PTA-related trade (Baccini et al., 2017). This implies that even when employed in an exporting sector, many individuals might not themselves experience the benefits of export-related profits. Moreover, the positive aspects of domestic monetary autonomy and exchange rate regime flexibility might not be realized in a context where monetary authorities have little credibility, or more broadly, where the government is not trusted to properly manage the economy, as it is the case in large parts of the world. In these cases, inflationary pressures are more common than one might think, with median (mean) rates around 10.2% (16.3%) across developing countries under floating regimes.⁷

Currency regimes bring with them many distributional consequences, both concentrated and diffuse, acting through a variety of channels. For instance, exchange rates affect expected profits or losses from international trade, but they can also serve as a credible commitment to low inflation.⁸ Additionally, if individuals take out loans in foreign currency, the exchange-rate regime can also affect the stability of their debt service payments, while the exchange-rate level can affect the principal (Galindo et al., 2003; Pratap et al., 2003; Walter, 2008).

2.1 | Inflation-driven preferences over currency policies

As early as the 14th century, rulers in the Ming Dynasty, mindful of the episodes of inflation that resulted from the Yuan Dynasty's printing of money as a means of war finance, only minted copper coins. Economic historians point to “the bad experience of the population with paper money inflation and the repudiation of paper notes” as instrumental in this decision (Bernholz, 2003, p. 54). This impulse resonates throughout modern times. Today, macroeconomic policy efforts to curb inflation often take the form of pegging domestic currency to a more stable international currency—that is, a fixed exchange-rate regime.

In the postwar era, many countries—particularly in the developing world—adopted pegged exchange rates not in service of exports, but rather to curb inflationary pressures. For countries with histories of hyperinflation, a strict exchange rate regime, in which the printing of new banknotes had to be backed by

a fixed amount of hard-currency reserves, could constrain the expansion of the money supply relative to goods (Obstfeld & Rogo, 1995). Indeed, the IMF, motivated by empirical evidence that linked fixed exchange rates to lower levels of inflation, propagated this policy in many developing countries, even if such regimes were later shown to be vulnerable to speculation and potentially trigger crises (Ghosh et al., 2003).⁹

Additionally, a persistently pegged exchange rate should also temper the expectation of inflation, which dampens inflation itself (Klein & Shambaugh, 2009). Moreover, anti-inflationary effects also operate through the channel of imports. This has also further consequences at the firm level, where fixed exchange rates correlate with a reduction in private-sector concerns about inflation (Broz & Plouffe, 2010).¹⁰

Furthermore, then considering the exchange rate level, and more specifically depreciation, a rapid decline in the exchange value of a currency typically leads to higher levels of inflation. In an integrated economy, households cannot quickly avoid buying goods and services from abroad. In the short-run, a change in the exchange rate is bound to affect the cost of these items—a phenomenon referred to as the exchange-rate pass-through. Campa and Goldberg (2005) show that the exchange rate pass-through is positive and often close to unity for many countries. In other words, a significant share of the decline in the exchange rate is reflected in higher consumer prices.

Such anti-inflationary effects of pegged exchange rates are consistent with political cycles around exchange rate policy. In the run-up to an election, governments have a greater propensity to introduce fixed exchange rates, only introducing floats after elections have occurred (Walter, 2009). This suggests that politicians are sensitive to the public's preferences for the stable prices that a pegged exchange rate can bring.

Exchange rate pegs are not guaranteed to reduce inflation in all settings, of course, and if governments exit those regimes, they might also usher in dramatic episodes of hyperinflation (Obstfeld & Rogo, 1995). The overall welfare effects of fixed exchange rates on inflation have been the subject of some debate in the economics literature (see, for example, Calvo, 1999; Rey, 2013; Svensson, 1994; on the contested nature of anti-inflationary effects of pegs, and Levy-Yeyati & Sturzenegger, 2003 on the effects of pegs on economic growth). However, this does not mean that policymakers—and, indeed, mass publics—are incapable of making links between pegs and price stability, or for those opinions to be irrelevant to policy (Blendon et al., 1997). As mentioned above, the IMF for decades prominently promoted fixed exchange rates to emerging market economies, specifically as a means of promoting government credibility in service a stable monetary policy, and individuals were well aware of these policies (Calvo & Mishkin, 2003; Fischer, 2001). Moreover, even though many of the economic effects of market reforms were unclear, this did not stop mass publics from forming opinions about these reforms in Latin America (Armijo & Faucher, 2002) and in Eastern Europe (Appel & Orenstein, 2016; Batur & Gray, 2009). Similarly, in the debates about the eurozone, mass publics had distinct opinions about the economic effects of monetary unification, even though many of those predictions proved more complicated than were suggested in the early debates (Gabel, 2000). Thus, it is reasonable to expect that individuals can make the connection between inflation and exchange rate pegs. Indeed, suggestive evidence links the preferences of workers employed in manual labor (Hooghe & Marks, 2005) and the non-tradables sector (Jupille & Leblang, 2007) to stable exchange rates, showing that voters are sensitive to price changes. Individuals' support for stable exchange rates have been demonstrated in the context of euro adoption as well, (Banducci et al., 2009; Gabel, 1998, 1999), and individuals tend to reap psychological benefits from the idea of a strong national currency (Hobolt & Leblond, 2009).

Overall, it is uncontroversial that curbing inflation is a policy goal with mass appeal. Rising prices are at the forefront of individuals' minds in their assessment of the economy. Early evidence of the US, Germany, and Brazil showed that respondents would choose low inflation at the expense of the unemployment of millions of people (Shiller, 1997). Welsch and Kühling (2016) show that in 25 OECD countries, respondents' subjective assessments of their own well-being responded almost as strongly

to a one-percentage point increase in inflation as to a similar increase in unemployment. Other studies support the idea that purchasing power has a strong effect on individuals' perceptions of their own welfare, relative to other economic considerations (Di Tella et al., 2001).

While many individuals have personal experience with rising consumer prices (Figlewski & Wachtel, 1981), support for inflation-reducing policies does not require voters to accurately assess the extent of inflationary pressures—although this might affect the intensity of preferences. Those who have not had firsthand experience may still be concerned because the consequences of price increases are relatively easy to understand or because of intergenerational transmission of inflation aversion. And even if perceptions of inflation may not be wholly accurate, mass publics can easily internalize the effects of inflation on their own welfare. High levels of inflation can erode the real value of individual savings, just as it raises prices. Likewise, whenever wages are not indexed, inflation represents a decline in real earnings and a loss of purchasing power. Beyond the short-term material effects, inflation can also have psychological consequences (Bernholz, 2003). Overall, people who rely on local currency-denominated savings or wages are among the primary victims of inflation. Furthermore, even debtors are likely to be adversely affected if they rely on local currency sources of income.

Thus, we hypothesize that individuals who are concerned about inflation are more likely to prefer a fixed exchange rate regime, or more generally:

Hypothesis 1 *There is a positive relationship between inflation concerns and support for a fixed exchange regime at the individual level.*

However, the effect of inflation, and fear thereof, need not be linear; mild inflation might not be noticeable to most consumers. Establishing *ex ante* the level of inflation that triggers concerns is difficult, because it is, to some degree, a psychological response. In the empirical section, we bypass this problem by using (subjective) revealed concerns over inflation. Moreover, to address endogeneity concerns, we also instrument subjective concerns with objective inflation rates.

As noted before, exchange-rate misalignments in pegged regimes can also trigger currency crises (e.g., Leblang, 2002, 2003). Thus, some individuals—particularly in countries that have already experienced such crises—might associate pegged exchange rates not with inflation-fighting credibility, but rather with the painful inflation that exit from this regime induces. In some country settings, or among individuals who have experienced the ill effects of hyperinflation,¹¹ price stability would be prioritized. However, this would mean that individuals would be less likely to prefer a peg even if they feared the effects of inflation, a bias against Hypothesis 1.

In addition to the type of exchange rate regime, our argument has implications for preferences over the exchange rate level as well. We argue that a drop in the value of their currency is not necessarily good news for individuals.¹² While lower exchange rate levels increases the competitiveness of the exporting sector, declining exchange rates can also mean higher inflation levels. We therefore expect people who are concerned about inflation to be wary of a depreciation in the exchange rate. Thus, a secondary hypotheses follows:

Hypothesis 2 *There is a positive relationship between inflation concerns and opposition to currency depreciation.*

2.2 | Microfoundations of inflation preferences

Our primary goal in this paper is to establish a causal link between inflation concerns and mass attitudes toward currency policies. The sources of those concerns, however, are the subject of rich debate

in the literature on inflation. Theoretical expectations as well as empirical evidence for the sources of inflation preferences are ambiguous (Easterly & Fischer, 2001).

Scholars have debated the possible implications of demographic characteristics on inflation preferences. Women and the elderly might be more inflation averse (Scheve, 2004). One might expect that people with relatively high levels of education might possess human capital as well as market assets that might help hedge against the ill effects of inflation. This would suggest that individuals with higher levels of education might be more tolerant of inflation. But at the same time, educated people may be able to assess the effects of inflation on the broader economy—not just their own pocketbooks—and attendantly may be more concerned about the macroeconomic effects. So too with personal income: better-off individuals might have more diversified portfolios and be more insulated from changes in consumer prices, but at the same time they might have a higher rate of savings, and inflation would erode the value of their wealth. Accordingly, Fischer and Huizinga (1982) find that over nearly four decades, there was little relationship between inflation aversion and levels of income or education among US citizens; Rose (1998) also found no relationship between income and inflation preferences in postcommunist countries. But in a cross-country survey, Jayadev (2006) finds that the rich tend to prefer low-inflation policies, rather than those of full employment. In terms of country characteristics that might establish scope conditions for our argument, Desai et al. (2003) find that levels of inequality matter more for inflation aversion than a country's political regime type.

Although it is beyond the scope of this paper to adjudicate among those theories, we do address the microfoundations through which inflation preferences might work. Inflation concerns can operate through two primary channels. The first is through the impact on real wages and on purchasing power. When contracts are not perfectly indexed to inflation, increasing prices reduce real earnings. The rise in the price of consumer goods sometimes outpaces wage increases, leaving individuals materially worse off. The second channel operates through inflation's effect on savings and debt. Inflation can erode both the value of an individual's assets or, conversely, her debt. A reduction in the real value of debt would likely be a welcome development, but the same forces could be detrimental for those individuals who invest their earnings. To the extent that people rely on savings to improve their welfare, concerns about savings could be the driving force behind fear of inflation.

Both channels are plausible and are not mutually exclusive: we will explore them empirically below, along with examining the demographic determinants of inflation preferences.¹³

3 | RESEARCH DESIGN AND CASE SELECTION

To test our hypotheses, we rely on observational and experimental evidence from three different original surveys conducted in Argentina, Serbia, and the UK.¹⁴ This set of countries offered ideal conditions to assess both the internal validity of our argument and the extent to which it is supported across different contexts.

The logic behind the case selection is mainly two-fold. These countries differ in their economic development as well as in their position in the international economy (see Table A1). These differences arguably increase the confidence in the relevance of our argument for a broader set of countries.¹⁵ First, the UK is a wealthy democracy; Argentina and Serbia, on the other hand, are emerging economies with institutions whose quality has varied. They are also different in terms of their actual levels of trade openness. In 2015, Serbia's exports and imports represented about 103% of its GDP, the UK stood at 56%, and Argentina—which has become more economically closed in recent years—represented 23%. Importantly for our purposes, they also differ in their inflation rates, thus ensuring that we are able to test our argument not only in places where inflation is high.

These three cases also offer us different political settings surrounding voting behavior. In Argentina, we test our argument surrounding an election where inflation and currency concerns were part of the political debate. The timing of our survey in the UK centered on the “Brexit” referendum on membership in the European Union. In contrast, in Serbia we are able to analyze a setting without the salience of political campaigning. This, again, should increase confidence in our findings. Fully exploring the inflation mechanism as a driver of exchange-rate preferences would require a different research design, such as a lab-in-the-field experiment, which is beyond the scope of this paper. However, our aim in this paper is to demonstrate that this mechanism can be at work across a variety of comparative country settings.

We sequenced the three surveys to build our case step by step. We began with Argentina, which offered us the opportunity to test Hypothesis 1. We combine survey experiments and instrumental variable estimates to analyze the extent to which inflation concerns lead to greater support for fixed exchange rate regimes. We use a framing approach to contrast our inflation-based theory to the prevalent explanation based on exports. Next, we fielded a survey in Serbia to test Hypothesis 2. Again, we contrasted it to export-based theories. We lastly conducted a survey in the UK where we additionally investigated the mechanisms purported by our theory. We also took advantage of the Brexit referendum to see whether these preferences are correlated with (self-reported) voting behavior. We summarize the contribution of each survey in Table 1.

The combination of observational and experimental approaches is theoretically grounded. The observational data is consistent with our argument that many people do have well-formed views on exchange rate policy and inflation. Whether they fully understand the mechanisms could be secondary (Rho & Tomz, 2017); what matters for our argument is that they connect the two areas. Observational data allows to address this query. Nonetheless, such a connection can also raise concerns about reverse causality. Indeed, as Broz and Plouffe (2010) show, exchange rate regimes can affect inflation expectations. To address such endogeneity concerns—and also to further disentangle underlying mechanisms—we turn to framing experiments. By so doing, we can randomly bring inflation concerns, as well as other competing explanations, at the forefront of respondents’ minds to gauge whether such treatment effects align with our theoretical expectations while engaging in comparisons among these different treatments. An additional advantage of the randomization process is that any (pre-treatment) variable that could influence these preferences should be, in expectation, balanced across treatment groups such that their omission should not change the point estimates of treatment effects (Imbens & Rubin, 2015).

4 | EVIDENCE FROM ARGENTINA

Over the last half-century, Argentina implemented a range of trade and monetary policies, giving rise to economic cycles of trade liberalization, stability and fixed exchange rates, followed by trade protection, hyperinflation, and chronic devaluations.¹⁶ Each cycle ended with a crisis, such as the *Rodrigazo*

TABLE 1 Tests in cases

	ARG	SRB	UK
H ₁ : Currency Regime	✓ (Table 2, Figure 1)	✓ (Table 5)	✓ (Table 6)
H ₂ : Currency Level		✓ (Table 5)	✓ (Table 8)
Alternate H: Exports	✓ (Table 2)	✓ (Table 5)	✓ (Table 6)
Mechanism		✓ (Table 5)	✓ (Table 8)
Electoral Outcome			✓ (Table A7)

of 1975, the hyperinflation of 1989, and the crash in 2001–2002. The common denominator of these crises was a devaluation of the peso and an inflation rate that translated into the erosion of economic wealth and an increase in poverty.

In the most recent period, the government also experimented with a variety of anti-market policies. These policies were in contention at the time we fielded our survey, on the eve of the 2015 presidential election. The electoral campaign that was ongoing at the time of our survey evolved around economic issues, being presented as a choice between certainty and continuation of the Kirchnerist policies versus change and uncertainty from a new, non-Peronist and arguably more conservative candidate. Inflation and currency policies were key issues.

We conduct our analyses in three steps. First, we examine the extent to which inflation concerns correlate with preferences over exchange-rate regimes. Second, we implement an instrumental variable strategy to show that inflation concerns have a causal effect on exchange-rate policy preferences. Finally, we rely on a survey experiment to provide further evidence that an inflation channel is indeed driving our results.

4.1 | Data

We fielded our survey under the Argentine Panel Election Study, which conducted face-to-face interviews with a nationally representative sample of 1,153 adults between June 24, 2015 and August 7, 2015 (before the elections). Of these, 781 individuals were interviewed again in a second round (between November 21, 2015 and December 30, 2015). To compensate for attrition, 626 additional

TABLE 2 Argentina: Inflation concerns and exchange rate regime preferences

	(1) OLS	(2) OLS	(3) OLS	(4) 2SLS
Inflation concerns	0.12 ^{***} (0.04)	0.16 ^{***} (0.04)	0.14 ^{***} (0.04)	1.48 ^{***} (0.53)
Job with Foreign Ties		0.01 (0.08)		0.07 (0.11)
Regular control variables		✓		✓
Standardized and interacted CV			✓	
Region FE		✓	✓	✓
<i>First stage</i>				
Daily Inflation (1-month MA)				0.34 ^{***} (0.10)
Kleibergen-Paap F-stat				12.61
Observations	1,024	745	745	745
R^2	.01	.09	.10	-.90
Outcome mean	0.73	0.73	0.73	0.73
Outcome SD	0.44	0.44	0.44	0.44

Notes: Regular control variables: control variables enter the model linearly. Standardized and interacted control variables: each variable is standardized (mean zero and standard deviation 1) and interacted with inflation concerns. Robust standard errors in parentheses.

* $p < .10$;

** $p < .05$;

*** $p < .01$.

individuals were interviewed in the second round. The overall sample contains thus 1,779 respondents. Some of the questions we use in our analysis were only asked in the second wave, which limits the sample size to a maximum of 1,407 (see Table A2 for summary statistics).

4.2 | Observational evidence

To capture inflation concerns, we ask respondents what stands as their most pressing concern.¹⁷ We create *Inflation Concerns* as an indicator that takes the value of 1 if inflation represents the respondent's most pressing concern, 0 otherwise. In our sample, inflation was the most important problem facing Argentina for 12.9% of the respondents; it ranked third behind crime (34%) and barely behind the economy in general (13%). To retrieve *Preferences for a Fixed Exchange Rate Regime*, we asked respondents whether they would prefer a fixed exchange rate or a floating exchange rate, and code responses 1 and 0, respectively.¹⁸ With this, we estimate an OLS model of the form¹⁹:

$$\text{Prefer Fixed Exchange Rate}_i = \beta \text{ Inflation Concerns}_i + X'_i \delta + \alpha_j + \varepsilon_i \quad (1)$$

where i is an individual respondent. The vector of controls, X_i , aims to account for potential confounders in preferences for a fixed exchange rate. The extant explanation centers on whether the respondent works in a sector with foreign ties, linking sector of employment to exchange rate preferences; individuals who are employed in an exporting sector ought to prefer fixed exchange rates. We coded the indicator variable *Job with Foreign Ties* by asking respondents whether they work in a firm that engages in business abroad. About 3% of our sample answered in the affirmative, a number that is largely in line with new-new trade theory and similar research in other contexts.²⁰

We also include other demographic variables that might capture preferences for a stable currency, including age and gender, as older citizens as well as women tend to be more inflation-averse. Furthermore, Argentine citizens born in the 1990s or earlier would have active memories of the currency peg as well as of the inflationary episodes, which might make them especially aware of the tradeoffs of a fixed exchange rate when it comes to prices. We also control for levels of income, education (with the idea that more educated people might be more aware of the workings of the economy), and union membership to capture labor as a factor of production. In addition, monetary policy might be divided along partisan lines. As such, we also include a variable that captures Cristina Kirchner's disapproval rate (an indicator of both ideology and partisanship in this context). We include fixed effects α for each province j .

Lastly, we estimate models in which control variables enter linearly as well as models in which we demean the covariates and interact them with our variable of interests (inflation concerns here; randomized treatments below). The estimated coefficient on our key variables can be interpreted as an estimator for the *average effect of the treatment in the population*, even in the presence of heterogeneity along these covariates, and can be appropriately compared across models with and without covariate adjustment (Imbens & Rubin, 2015; Lin, 2013).

In Table 2, column 1 reports a statistically significant correlation between inflation concerns and exchange rate policy preferences. Substantively, those who think inflation is the most pressing concern are about 13 percentage points more likely to prefer a fixed exchange rate regime. Column 2 replicates the analysis by including control variables described above. Overall, the estimated coefficient is stable and robust. Importantly, having a job that does business abroad is not significant in these models. This indicates that concerns about price stability are key and substantially important determinants of the preference for a peg.

To address endogeneity concerns, we leverage the fact that respondents were interviewed at different points to estimate an instrumental variable model. To instrument *Inflation Concerns* we rely on high-frequency inflation estimates from the *Billion Prices Project*, hosted by MIT and PriceStats. Scraping daily prices from supermarkets in Argentina, this data provides a daily index of changes in consumer prices. Here, we use a 30-day window moving average of the estimated monthly inflation as our instrument (although results are robust to different windows). Recent changes in prices are likely to affect the extent to which people are concerned about inflation, but not their preference for exchange-rate regimes directly. These price fluctuations could conceivably influence other variables that could plausibly be linked to an individual's preference for a particular exchange-rate regime. This would constitute a violation of the exclusion restriction, which is why we include control variables that would effectively block these channels. In particular, we control for Kirchner's disapproval rate: in times of high inflation, people may express broad disagreement with the government, which could lead to a desire for new monetary regimes.²¹ This being said, we could still be missing additional channels linking the instrument to our outcome. To verify that reasonable violations of the exclusion restriction would not invalidate our findings, we implement the sensitivity test recommended by Conley et al. (2012). We find that our estimates are robust to reasonable violations of the exclusion restriction (Figure A2).

We estimate the following two-stage least squares form:

$$\text{Inflation Concerns}_{it} = \lambda \text{Daily Inflation (1 - Month MA)}_{it} + \nu X_{it} + \eta_{it} \quad (2)$$

$$\text{Prefer Fixed Exchange Rate}_{it} = \beta \widehat{\text{Inflation Concerns}}_{it} + \gamma X_{it} + \varepsilon_{it} \quad (3)$$

where Equation 2 represents the first stage, and Equation 3 describes the second stage. Column 3 in Table 2 shows the main results from Equation 3, along with the estimand of interest from Equation 2. Importantly, the first-stage results confirm the strength of the instrument with a Kleibergen-Paap Wald F-statistic of about 12.²² The evidence fully supports our argument: concerns about inflation lead to higher support for a fixed exchange-rate regime.²³ Note that the IV estimates of β will not have exactly the same interpretation as our OLS estimates. With instrumental variables, we are estimating the local average treatment effect (LATE). This estimate captures the effect of the treatment among so-called compliers (Imbens & Rubin, 2015, 529). Thus, the populations about which the estimates are informative differ.

4.3 | Experimental evidence

To further establish the causal link between inflation aversion and preferences for a peg, we conducted a survey experiment to explore the extent to which respondents' react to framing information about the benefits and trade-offs between fixed and floating regimes. This helps distinguish between inflation aversion relative to other attributes of the pegged exchange rate, namely its limitations in allowing the monetary authority to respond to economic crises. This approach compares the relative weight of positive and negative frames about the effects of a pegged exchange rate.

We randomly assigned respondents to four treatment conditions: a pure control; a vignette reminding respondents of the inflation-reducing benefits of fixed exchange-rate regimes; a vignette offering information about the crisis-fighting ability of flexible regimes; and a combination of those two. Table 3 shows the text of the experiment questions.

For ease of exposition, we report the results graphically in Figure 1. We present the treatment effects with and without pre-treatment covariates.

We find that people respond more strongly to the inflation vignette than to the monetary policy flexibility vignette. Priming individuals about the inflation effects of a fixed exchange-rate regime increases support for the latter by about 9 percentage points compared to our baseline (which provides no information at all). Again, this is not a trivial effect.

In contrast, the treatment about better responding to economic crises has no systematic effect on exchange rate policy preferences. In addition, the estimated effect from T1 is larger than T2 (F-test $\beta_{T1} > \beta_{T2}$, p -value = .06). Finally, when we provide information in favor of both fixed and floating exchange rates, we find no effect. This is consistent with the idea that counter-frames tend to neutralize each other and could even overload respondents with information.

A potential concern with respect to the vignette introduced by T2 is that the floating regime is managed by the government, and as such, any advantage of the floating might be lost if it is managed by a malfeasant government. In other words, attitudes about the government's trustworthiness might be driving the null effect. Table A4 shows that this does not seem to be the case, as interacting our treatment indicators with a measure of trust in government shows no significant interaction effects, nor does it affect our main finding.²⁴

5 | EVIDENCE FROM SERBIA

While the previous evidence shows that inflation concerns influence preferences for fixed exchange rate regimes—even outweighing information about the benefits of floating—it cannot fully rule out the possibility that preferences for the fixed regimes are tied to price stability through cross-border channels, such as international trade, or other wealth effects. In this section we aim to adjudicate among these competing mechanisms. We rely on another survey experiment to directly compare the effects of frames related to trade vis-à-vis inflation on exchange rate policy preferences. We also investigate individuals' perceptions about the consequences of different exchange rate levels on their material well-being.

We fielded a nationally representative survey in Serbia in autumn 2016 (see Table A5 for summary statistics). Serbia provides a fertile ground for our study for several reasons. First, unlike in Argentina or in the UK, there was no election or referendum taking place at around that time (presidential elections only took place in April 2017). Nonetheless, the European Union had recently announced the

TABLE 3 Survey experiment in Argentina

Treatment	Text
Common to all	“A country's currency can have a fixed exchange rate, where the value is set by the government, or it can be a floating exchange-rate, where the value is set by the market. [TREATMENT].” [OUTCOME:] “If you could choose, would you prefer a fixed exchange rate or a floating exchange rate?” (=1 if the respondent prefers a fixed exchange rate, 0 if floating)
T0: Control	<i>No text</i>
T1: Inflation	The advantage of a fixed exchange-rate is that it can prevent inflation.
T2: Respond to crisis	The advantage of a floating exchange-rate is that it allows the government to better respond to economic crises.
T3: Both	The advantage of a fixed exchange-rate is that it can prevent inflation. The advantage of a floating exchange-rate is that it allows the government to better respond to economic crises.

opening of the first chapters of the *acquis communautaire*, which begins the process of accession negotiations making currency policy relevant for our respondents: EU membership has significant implications for the economy and its internationalization, such as the possibility of accession to the euro, arguably an extreme version of a fix.

Serbia experienced significant hyperinflation in its recent history. When the country was part of Tito's Socialist Federal Republic of Yugoslavia, the Yugoslav dinar was fixed to the Deutschmark from 1945 until 1973. It switched to a managed float until 1989, when the government again adopted a fixed regime, in part as an effort to curb rising inflation. In the early 1980s, inflation ranged from 32 to 40 percent, leading the government to impose capital controls. Due to fast-rising levels of external debt, the country secured an IMF loan in 1988, but it came with conditions meant to ensure export competitiveness (due to its nonalignment, the country exported to markets in both the west and the east). As part of the conditionality, Yugoslav authorities agreed to devalue the dinar each month by the rate of anticipated inflation. But this had the effect of encouraging even further inflation, spurred on by the printing of money in the run-up to elections once the Berlin Wall fell. A total of five revaluations between 1990 and 1994 failed to rein in mounting inflation. By December 1993, prices doubled every few days, and hyperinflation reached its peak in January 1994, at 313 million percent.

Once Milošević lost power in 2000, the country subsequently switched to a managed float, after adopting an inflation target in its newly formed central bank. The float is sufficiently flexible as to be categorized as a free float by many observers. Nonetheless, because of the long history of inflation, sanctions, and inconvertibility of the national currency, many citizens continue the practice of holding private savings in hard currency—so-called “mattress money” because savings were often kept under mattresses rather than in banks (IMF, 2006).

5.1 | Experimental evidence

We further explore the link between inflation attitudes and exchange rate preferences by looking at the potential channels through which these preferences might form. We use a similar methodology as in the Argentina survey, but here we focus on examining both the underlying mechanisms as well as alternate explanations.

Our data comes from two framing experiments (see the full wording in Table 4). The first one unpacks whether and how individuals assess the impact of exchange rate *regimes* on their material well-being. Here, we explore individuals' beliefs on whether their personal finances would be affected by the choice of a fixed exchange rate over a floating one. We exposed respondents to different frames about the benefits of a fixed exchange rate with respect to inflation (the first treatment) and exports (the second treatment). All respondents were told that a floating regime allows a country to keep control over its monetary policy. Hypothesis 1 would predict that respondents should be more likely to react to the inflation treatment.

The second experiment establishes the degree to which individuals process the effects of exchange rate *levels* on their welfare. We randomly primed respondents about the extent to which the depreciation of the country's currency can increase inflation; increase exports; or do both. We then ask respondents about their perception surrounding the exchange rate. This test allows us to explore the links that individuals make between the effects of a strong or weak currency on the national economy, and to assess whether such links affect their own preferences.

Columns 1 and 2 in Table 5 report the results of our first experiment. The first model shows the difference in means of the inflation treatment against the baseline exports treatment. The second model includes an indicator on whether the respondent's work does any type of business abroad²⁵

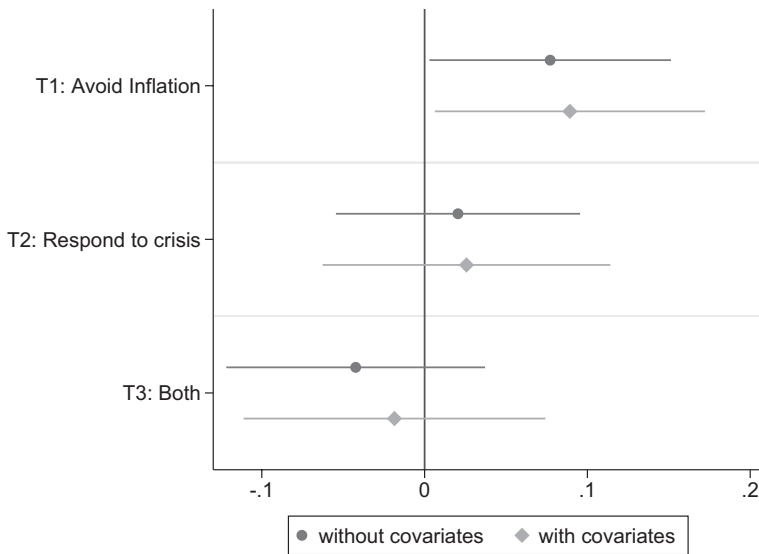


FIGURE 1 Results of survey experiment in Argentina. Note: Baseline category: control group (T4). The dependent variable equals 1 if the respondent prefers a fixed exchange-rate, and 0 if she prefers a floating exchange-rate. Lines represent 95% CI

along with other pre-treatment covariates to increase precision; we use a similar set of covariates as in the Argentina case to control for various socioeconomic and demographic factors.

These results align with the expectation that people are more responsive to the effects of an exchange rate regime on inflation rather than on exports. While not statistically significant at conventional levels, information about inflation effects seems to increase the belief that a fixed exchange rate is positive to personal finances by about 0.12 standard deviation (Column 2, p -value = 0.102).

In Columns 3 and 4, we show the results of our second experiment on channels through which the exchange rate level might affect individuals' perceptions. The inflation prime significantly increased the likelihood that people consider themselves to be negatively affected by depreciation. However, it is also important to note that the exports prime (i.e., the second treatment) conveyed positive information, compared with the information about inflation—that is, we informed responses about how depreciation could contribute to more competitive exports, compared with a rise in domestic prices. To that end, we would expect the coefficient on the exports treatment to be negative, and this is what we find—with similar magnitude to the effect of the inflation. This also shows the validity of the export channel of exchange rate preferences, while also providing evidence for our core hypothesis.

In sum, the evidence from Serbia indicates that inflation perceptions motivate individual preferences for exchange rate regimes, even when considering the material welfare gains from competitive exports. This set of tests has probed both the core relationship between inflation and exchange-rate regime preferences (Hypothesis 1), while also offering indications of individuals' perceptions of how the exchange-rate level affects their finances. This relationship will be further uncovered in our final set of tests.

6 | EVIDENCE FROM THE UNITED KINGDOM

A potential concern with the previous results is that they might be specific to developing countries; in middle-income countries with recent histories of inflation, individuals might potentially be more

TABLE 4 Survey experiments in Serbia

Treatment	Text
First survey experiment	
Common to all	<p>“The currency of a country like Serbia can either be pegged to another currency (where the rate of exchange is set by the National Bank of Serbia) or floating (where the rate of exchange can change). [TREATMENT]. On the other hand, one advantage of a floating exchange rate is that it allows Serbia more freedom to respond to economic fluctuations.”</p> <p>[Fixed Rate:] <i>How do you think a fixed exchange rate would affect your personal finances, compared to a floating exchange rate?</i> (From 1 = very negatively to 6 = very positively)</p>
T1: Inflation	One advantage of fixed exchange rates is that they can keep inflation under control (that is, prices don't increase much).
T2: Exports	One advantage of fixed exchange rates is that they can increase exports to other countries.
Second survey experiment	
Common to all	<p>“The value of a country's currency can change on a regular basis. If, say, the Serbian dinar were to depreciate (so you'd receive fewer euros per dinar) this can have several consequences. [TREATMENT].”</p> <p>[Depreciation:] <i>Do you think that those effects will be... for you?</i> (From 1 = definitely positive to 6 = definitely negative)</p>
T1: Inflation	For instance, a drop in the value of the dinar might make goods more expensive (that is, it might increase inflation)
T2: Exports	For instance, a drop in the value of the dinar might make Serbian exports more competitive on the global market.
T3: Inflation vs. Exports	For instance, a drop in the value of the dinar might make goods more expensive (that is, it might increase inflation) while also make Serbian exports more competitive on the global market.

sensitive to information about inflation as well as more aware of the consequences of the economic consequences of their country's currency. Additionally, in middle-income countries with weaker political institutions, monetary authorities might be less able to make a credible commitment to low-inflation policies without committing to a fixed exchange rate. That might have made the Serbia and Argentina settings particularly strong cases for finding a link between inflation aversion and preferences for a pegged exchange rate. To demonstrate the broader applicability of our theory, as well as to explore further aspects of exchange-rate policy, we test our argument in the UK. Testing our hypothesis in a country with strong institutions extends the validity of our tests, even in a setting where the central bank is the primary bulwark against inflation.

Here, we center our tests on the level instead of the regime of the exchange rate. We took advantage of the prominence of the pound's value as a context in which we could assess people's perceptions of whether and how they would be hurt by the pound's fluctuation. (Additionally, in Section A4.1 in Appendix 1 we also present suggestive evidence of the political and electoral salience of these concerns by exploring their influence on voting in the Brexit referendum).

We conducted our survey in the context of the Brexit referendum of June 23, 2016. About 10 percent of respondents took the survey in the days before or the day of the referendum. During this period, the value of the British pound in the wake of a possible Brexit was much discussed in the news. Prior to the vote, officials from the Bank of England made public statements about the potential drop

TABLE 5 Inflation and exchange rate policy in Serbia

	First Experiment		Second Experiment	
	Fixed Rate		Depreciation	
	(1)	(2)	(3)	(4)
T1: Inflation Treatment	0.15 (0.09)	0.15 (0.09)	0.37*** (0.11)	0.37*** (0.11)
T2: Exports Treatment			−0.37*** (0.11)	−0.36*** (0.11)
Controls		✓		✓
Region FE		✓		✓
Observations	734	734	796	796
R ²	.00	.04	.05	.12
Outcome range	{1,2,3,4,5,6}	{1,2,3,4,5,6}	{1,2,3,4,5,6}	{1,2,3,4,5,6}
Outcome mean	3.63	3.63	4.53	4.53
Outcome SD	1.26	1.26	1.32	1.32

Notes: Baseline group: “T2: Exports” for the First Experiment, “T3: Inflation vs. Exports” for the Second Experiment. Dependent variables are responses to the perceived effects of a fixed exchange rate (models 1, 2) and depreciation (3, 4) on personal finances. All specifications are estimated using OLS. Standardized controls interacted with the treatments include: Job with Foreign Ties, Age, Female, Union member, Income, and Education. Robust standard errors in parentheses.

* $p < .10$;

** $p < .05$;

*** $p < .01$.

of the British pound if Brexit were to occur, and even tabloid newspapers covered a possible drop in the pound's value.²⁶ Among the concerns raised by the media, the cost of food figured prominently in daily debates.²⁷ Thus, the possibility of a drop in value, and the subsequent fulfillment of that possibility after voters opted to leave the EU, likely provided context for survey respondents.

Next, we present observational and experimental evidence in service of our core hypothesis, about the links between inflation concerns and exchange rate regimes and level. Data comes from an online survey in the UK.²⁸

6.1 | Observational evidence

We examine again whether people who are concerned about inflation are more likely to support a fixed exchange-rate. Our dependent variable is an indicator that takes the value of 1 if the respondent prefers a fixed-exchange rate, 0 otherwise, based on the following prompt: “A country's currency can either be pegged to another currency (where the rate of exchange is set by the Central Bank) or floating (where the rate of exchange can change regularly). If you could choose, would you prefer a fixed exchange rate or a floating exchange rate?”²⁹

To measure our variable of interest, *Inflation Concerns*, we asked: “What aspect of the economy most influences your opinion on the referendum? Please click on the two issues that are the most important to you” with answers including the “possibility of inflation” as well as concerns about employment, taxes, trade, etc. Inflation Concerns takes the value of 1 if respondents choose inflation as one of these two issues, 0 otherwise. As before, we account for whether the respondent works for a firm that is involved in international business.³⁰ Further controls include the same set of socio-demographic variables as in previous tests, specifically age, education, income, union participation, savings, and employment status.

TABLE 6 Inflation concerns and exchange rate policy preferences in the UK

	Prefer a Fixed Rate		
	(1)	(2)	(3)
Fear of Inflation	0.075** (0.038)	0.077** (0.038)	0.081** (0.038)
Job with Foreign Ties		−0.035 (0.021)	−0.036 (0.022)
Unemployed		−0.027 (0.058)	−0.022 (0.058)
Age		−0.061*** (0.017)	−0.061*** (0.017)
Education		−0.049*** (0.013)	−0.052*** (0.013)
Union		−0.000 (0.036)	0.008 (0.036)
Income		−0.008 (0.008)	−0.008 (0.008)
Saving percentage		−0.001 (0.001)	−0.001 (0.001)
Immigration			0.073** (0.037)
Sovereignty			−0.016 (0.038)
World standing			0.020 (0.037)
Security			0.003 (0.036)
Satisfaction with the EU			0.017 (0.015)
Region FE		✓	✓
Observations	723	723	723
R ²	.01	.10	.12
Outcome range	{0,1}	{0,1}	{0,1}
Outcome mean	0.31	0.31	0.31

Notes: All specifications are estimated using OLS. Interactions of standardized controls with inflation concerns not reported. Robust standard errors in parentheses.

* $p < .10$;

** $p < .05$;

*** $p < .01$.

Given the particular context of the EU, additional controls are included in some models. We asked respondents what issues had been important to them in deciding how to vote in the Brexit referendum. We included indicators when people placed sovereignty, Britain's influence in the world, and British security in their top three. We also included an indicator that measures satisfaction with the EU as a whole.

Table 6 reports the results. Column 1 shows a simple difference in means, while Columns 2 and 3 progressively add relevant and EU/Brexit related covariates. We again find evidence that inflation concerns are a key driver of exchange rate policy preferences. Thinking of inflation as an important issue correlates with an increase in the likelihood of preferring a fixed exchange-rate of about 7 percentage points. The effect is stable and robust to different specifications. This provides further support that, even in a developed-country setting, inflation concerns motivate preferences for a stable exchange rate regime.

6.2 | Experimental evidence

Having again shown support for Hypothesis 1, we aim to further explore the mechanisms underlying aversion to floating regimes. We do so by asking respondents about their perception of how a change

in the value of the pound would affect their finances. In addition to exports and inflation, this time we also primed respondents about the consequences of a depreciation on debt and savings. Contrasting debt and savings is important because while depreciation reduces the value of savings, it can also make non-indexed debt more affordable. Table 7 reports the full wording of the treatments and outcome variables. By contrasting these different treatment effects, we aim to adjudicate among the mechanisms that might resonate with individuals. To the extent that the inflation treatment influences outcomes, we can plausibly infer that the main drivers behind inflation concerns are worries related to immediate purchasing power rather than issues surrounding savings or debt.

Table 8 shows the results. Columns 1 and 2 report the estimates when answering the question: “Do you think a drop in the value of the pound might affect you?” while Columns 3 and 4 display the outcome “Do you think that those effects will be mostly positive or mostly negative for you?” As before, we expect all estimates of the inflation treatment (T1) to be positive. In addition, the Savings (T3) and Debt (T4) treatments tell us the extent to which inflation concerns plausibly operate through these channels.

As in Argentina and Serbia, inflation concerns seem to be the main driving force surrounding exchange rate policy. The effect of the inflation treatment is, once again, substantial in magnitude: about 0.2 of a standard deviation. Moreover, we find no significant effects of the debt and savings frames. This suggests that inflation is more likely to affect individual preferences through concerns about real income.

In addition, we also find that inflation perceptions increase concerns about the detrimental effects of depreciation. Again, this is the only statistically significant effect and it is also non-trivial in magnitude; in this case, close to 0.3 of a standard deviation.

While our multi-country research design tests our argument on developing and developed, electoral and non-electoral contexts, Section A4.1 in Appendix 1 further considers the scope conditions of the argument (also discussed in the concluding section) and describes suggestive evidence aimed at partially ameliorating these concerns. Specifically, we draw on public opinion data from the US to show that inflation can indeed be the most important problem of an advanced economy. We also leverage web search data as a proxy of mass interest and show that US monthly inflation is correlated with US monthly Google searches about “gold standard.” In a country where currency policy is arguably not so salient, this suggests that our argument might be reflecting a plausibly general phenomenon.

Moreover, while outside the scope of this paper, Section A4.1 in Appendix 1 further discusses and provides suggestive evidence from the UK case, in line with recent literature, about the importance of currency policy preferences for electoral politics. While not causally identified, we show a positive association between preferences for a fixed exchange regime and self-reported remain vote during the Brexit referendum.

7 | CONCLUSION

The IPE literature has arguably overemphasized the importance of sectoral interests on currency policies, particularly in settings where politicians have substantial electoral incentives to pick currency policies that are more likely to deliver the macroeconomic outcomes desired by voters. Low inflation is one such outcome, and prices may be particularly relevant for consumption.

Complementing the extant factoral, sectoral and firm-level explanations for currency policy preferences, we show that individuals can view exchange-rates as credible commitments to low inflation. Prices matter to mass publics, particularly to consumers, and those perceptions can influence their

TABLE 7 UK survey experiment

Treatment	Text
Common to all	<p>“The value of a country's currency can change on a regular basis. If, say, the British pound were to depreciate (lose value), this can have several consequences. One is that the pound's worth will be less relative to other global currencies. On the other hand, a drop in the value of the pound might make [TREATMENT].”</p> <p>[Affected by Depreciation?:] <i>Do you think a drop in the value of the pound might affect you?</i> (From 1 = definitely no to 5 = definitely yes)</p> <p>[Affected Negatively?:] <i>Do you think that those effects will be mostly positive or mostly negative for you?</i> (From 1 = very positive to 6 = very negative)</p>
T1: Inflation	Goods more expensive (that is, it might increase inflation).
T2: Debt	Individual debt burdens more affordable.
T3: Savings	Your savings worth less.
T4: Placebo	Currency trading more active.
T5: Exports	British exports more competitive on the global market.

TABLE 8 Inflation and the consequences of exchange rate regimes

	Affected by Depreciation?		Affected Negatively?	
	(1)	(2)	(3)	(4)
T1: Inflation	0.19** (0.10)	0.20** (0.10)	0.29** (0.12)	0.32*** (0.11)
T2: Debt	−0.05 (0.10)	−0.03 (0.10)	0.09 (0.12)	0.11 (0.11)
T3: Savings	0.01 (0.10)	0.06 (0.10)	0.10 (0.12)	0.15 (0.11)
T4: Placebo	0.03 (0.10)	0.03 (0.10)	0.05 (0.11)	0.05 (0.10)
Controls		✓		✓
Region FE		✓		✓
Observations	915	915	897	897
R ²	.01	.11	.01	.17
Outcome range	{1,2,3,4,5}	{1,2,3,4,5}	{1,2,3,4,5}	{1,2,3,4,5}
Outcome mean	3.79	3.79	3.36	3.36
Outcome SD	0.94	0.94	1.04	1.04

Notes: Specifications estimated using OLS. Baseline category: exports treatment (T5). Controls are described in Table 6. Robust standard errors in parentheses.

* $p < .10$;

** $p < .05$;

*** $p < .01$.

views on macroeconomic policy tools. These findings should dampen concerns that exchange rates are too complex for individuals to understand, or that such policies are not salient in individual assessments of their own welfare.

Our evidence has shown the primacy of inflation concerns in a variety of country settings and across many types of individuals. Future work should consider the heterogenous determinants of inflation preferences, both at the country level as well as across individuals. Although our tests were conducted across several country settings, and the aim of the paper was not to theorize over the sources of inflation preferences more generally, it might be the case that—both at the individual as

well as the national levels—certain types of settings might be particularly susceptible to inflation concerns. Much of the work on European monetary integration looked at the role of price stability concerns in debates over the single currency (Corsetti et al., 1999; Eichengreen, 1993). If countries have experienced particularly damaging episodes of inflation, as Germany did, price stability may be a trenchant concern whether or not individuals have direct experience of that inflation. Countries with persistent unemployment, as in southern Europe, may similarly be more tolerant of inflation due to the purported trade-off between employment and prices. Future research could explore these possibilities with research designs aimed at establishing the precise weight of inflation in perceptions of costs and benefits of exchange rate policy, with particular emphasis on how consumers and producers might view these tradeoffs differently.

It is important to consider the scope conditions of our argument. Inflation's reach is ubiquitous, and no country or individual is utterly immune from its effects. Although existing theory does not offer clean theoretical predictions about the sectoral, income, or educational links to inflation, further work could explore whether the inflation concerns argument is equally evocative in other country settings, depending on the size of the domestic market; the relative importance to the economy of tradable goods compared with non-tradable goods; and previous histories of inflation. Country settings that have stronger export markets might offer stronger evidence for trade concerns and in terms of inflation side. By contrast, individuals in countries with persistent deflation problems might have a more sanguine view of the inflation risks of a floating exchange rate. Similarly, citizens might be willing to endure adjustment through a peg if they have a history of high inflation, but might prove more difficult in countries that have not experienced hyperinflation episodes. Future work could also develop theories of how factors like consumption patterns, national pride, or outgroup sentiment that influence trade preferences may or may not carry over to macroeconomic policy preferences.

This paper's primary concern is to offer a theory, as well as observational and experimental evidence, of how inflation affects exchange rate policy preferences. Our randomized tests held constant a variety of other factors. However, economic policies are multi-layered, and exchange rates may affect individuals on several contradictory dimensions. Others have shown that individuals' foreign-denominated debt exposure can make them particularly vulnerable to swings in the exchange rate, for example (Ahlquist et al., 2018). Similarly, vulnerability to unemployment might make individuals more tolerant of inflation (Hibbs et al., 1982). Future work could specify other factors that might be at play when individuals think about exchange-rate policies and test their salience.

Acknowledgments

We thank Cameron Ballard–Rosa, Lawrence Broz, Ryan Brutger, Stephen Chaudoin, Marc Copelovitch, Jeff Frieden, Carolina Garriga, Bobby Gulotty, Raymond Hicks, Ayse Kaya, Jeff Kaplow, David Lake, Ed Mansfield, Stephen Nelson, Pablo Pinto, Peter Rosendorff, David Steinberg, Stefanie Walter, and audience members at APES, APSA, Essex, IPES, IPSA, MPSA, Temple, TWIIG, UCL, and University of Zürich for comments and suggestions on earlier drafts.

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ENDNOTES

¹ For a similarly oriented application with respect to trade, see Baker (2005); Baker and Wojcik (2019).

² Extending an influential framework put forward by Frieden (1991), Broz and Plouffe (2010) focus on how the anti-inflationary effects of exchange rates affect *firm-level inflation expectations*, not mass preferences for exchange rate

regimes. Similarly, Walter (2008) considers vulnerability to price effects when analyzing depreciation, but does not analyze regimes. Price levels have been used as a proxy for consumer power (Chang, Kayser, and Rogowski, 2008), with implications for electoral politics.

- ³ This can take place through the channel of imports or simply through the constraint of the money supply imposed by a peg (Bearce, 2008; Bodea, 2010). When a country fixes its currency to the value of another asset, it constrains the central bank's ability to print money, thereby hindering inflation. Furthermore, if citizens are aware that their country's currency is pegged, it should temper their expectation of inflation, which itself moderates inflation (Klein and Shambaugh, 2009).
- ⁴ Additionally, the Appendix further discusses and presents tests on the electoral implications as well as the external validity of our findings.
- ⁵ Independent central banks with a mandate of targeting low inflation are another method of curbing inflation (Broz, 2002; Bodea, 2010), but this article does not directly address this policy choice.
- ⁶ The sectoral explanation is the dominant one, but other trade-based theories extend to exchange rate preferences as well. For example, consumption patterns might affect citizens' exchange rate preferences (Ardanaz, Murillo, and Pinto, 2013; Baker, 2005), or individuals might have affective reasons to prefer certain kinds and levels of regimes (Guisinger, 2017; Mansfield and Mutz, 2009).
- ⁷ Data covering the 1960–2016 period from WDI, defining developing countries as non-OECD members.
- ⁸ Ultimately, how well a fixed exchange regime deals with inflation depends to which currency (or basket thereof) it is peg to. However, in practice, fixed regimes are peg to stable, low inflation currencies.
- ⁹ As discussed below, if anything, this should bias against our core hypothesis.
- ¹⁰ See also Broz and Werfel (2014) for industry-level reactions to the exchange rate level.
- ¹¹ Some argue that inflation aversion can even be transmitted across generations (Farvaque and Mihailov, 2009); the case of Germany, whose citizens remain inflation intolerant decades after the 1930s inflation episode, is illustrative.
- ¹² For arguments related to sectoral-level preferences instead, see Steinberg (2015).
- ¹³ We do not claim that fears about wages, savings, and debt exhaustively explain inflation concerns. We explore the sources of inflation concerns in our own data from Argentina and the UK (Table A8), and complement it with data from 26 countries from LAPOP from 2004 to 2014 (Table A9) along with data from the US from 1960 to 2014 (Table A10), with somewhat inconclusive results (see Section A5.1). Consistent with the extant literature, our findings suggest that the sources of within- and cross-country preferences about inflation need further investigation but cannot be boiled down to sociodemographics alone. We leave a thorough examination of the sources of inflation attitudes for future studies.
- ¹⁴ Appendix Section A1 describes the sampling behind each survey.
- ¹⁵ In Appendix Section A6 and in our conclusion, we further discuss external validity.
- ¹⁶ Even though both inflation and currency policies are salient in Argentina, it is not necessarily an easy case for our argument as a fixed exchange regime is often associated with the 1990s currency board, which is widely acknowledged to have been one of the sources of the 2001 financial crisis.
- ¹⁷ This was an open-ended question, in which enumerators gave no options, and the first response was coded.
- ¹⁸ Here, we focus on those who expressed an opinion, but including those who did not does not change the results.
- ¹⁹ Using nonlinear models produces substantively identical results.
- ²⁰ For instance, in Bearce and Tuxhorn's (2017)'s US sample, about 7% of respondents work in firms that do the majority of their business in external markets (the 'Overseas Business' variable in their study).
- ²¹ Including additional controls, such as perceptions about the state of the economy, does not affect the results.
- ²² Appendix Table A3 reports the full output of the first stage estimation.
- ²³ While the approximately ten-fold increase between the OLS and 2SLS might seem concerning, it is in line with our expectation of an arguably narrow LATE, a product of a context with many never-takers and always-takers. That is, in a context where over the recent years inflation rose regularly to over 20% and up to 40%, we expect that most people are already primarily concerned about inflation or are already mainly concerned about, say security and crime, thus

unlikely to be nudged by recent price shocks. Thus, we expect only an arguably small subset of the population to be malleable to the short-term price fluctuations.

- ²⁴ Other interactions, such as support for Kirchner, provide the same substantive result.
- ²⁵ The question wording was as follows: “To what extent does the company that you work(ed) for (or own(ed)) do business abroad?”. We coded an indicator on whether any foreign business was conducted. The sample mean was 13%.
- ²⁶ For example, the *Daily Mirror* ran an article on June 7, 2016 headlined, “Will Brexit send the pound crashing? How the EU referendum affects the value of sterling.”
- ²⁷ “UK food prices set to rise after Brexit vote,” *The Guardian*, June 26, 2016.
- ²⁸ We implemented the survey through Crowdfunder, a platform similar to Amazon's MTurk. Unlike the previous data, then, the British survey is not nationally representative. Our sample is relatively better-off, and better-educated respondent than in our surveys in the other two countries. Compared to the British population, we over-sample the 25 to 34 years and women. Geographically, however, our sample is generally representative (with a slight over-representation of people from London). For the purposes of internal validity within our experiment, this should not affect our inferences.
- ²⁹ As before, we focus on those who expressed an opinion, but results are unchanged if we include those who did not.
- ³⁰ The question and coding for Job with Foreign Ties is the same as in the Serbian sample.
- ³¹ See the 2012 platform <https://prod-static-ngop-pbl.s3.amazonaws.com/docs/2012GOPPlatform.pdf> here, and the 1980 platform <http://www.presidency.ucsb.edu/ws/index.php?pid=25844> here.
- ³² “Ted Cruz calls for monetary policy tied to gold,” *Washington Examiner*, Oct 25 2015
- ³³ “Greenspan urges a return to the gold standard.” *MarketSlant*, July 4, 2016, <https://www.marketslant.com/articles/greenspan-urges-return-gold-standard> here.
- ³⁴ “Trump Favors Returning To The Gold Standard, Few Economists Agree.” *NPR*, June 16, 2016, <http://www.npr.org/2016/06/16/482279689/trump-favors-returning-to-the-gold-standard-few-economists-agree> here.
- ³⁵ “Could U.S. Go Back to the Gold Standard?” *Wall Street Journal*, November 16, 2015, <http://www.wsj.com/video/could-us-go-back-to-the-gold-standard/FF04567D-DA2F-4F9D-9477-E5B373BB38BE.html> here.

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APPENDIX 1

CASE SELECTION & SURVEY METHODOLOGY

TABLE A1 Case selection: key indicators

	Argentina	Serbia	UK
GDP per capita	\$15,000	\$5,800	\$42,000
Population (millions)	41	7	64
Trade Openness	23%	103%	56%
Inflation (peak)	40.3% (2016)	95% (2001)	3.6% (2008)
Inflation (latest)	40.3% (2016)	1.4% (2015)	0.05% (2015)

Notes: Inflation (peak) is the highest yearly (official) inflation rate since 2000. GDP per capita is measured in 2010 USD. Inflation data from IPC Congreso for Argentina, NBS for Serbia, and ONS for the UK. Other data from the World Bank.

Argentina

The survey was conducted in the context of the Argentine Panel Election Study (APES). It was conducted with face-to-face interviews. The sample is nationally representative sample and includes of 1,153 adults, age 18 or older, living in cities of 10,000 inhabitants and more. It was conducted between June 24, 2015 and August 7, 2015 (before the elections). Of these, 781 individuals were interviewed again in a second round (between November 21, 2015 and December 30, 2015). To compensate for attrition, 626 additional individuals were interviewed in the second round. The overall sample contains thus 1,779 respondents. Some of the questions we use in our analysis were only asked in the second wave, which limits the sample size to a maximum of 1,407. The general design was a stratified multistage cluster sample, using probabilistic selection at some stages and non-probabilistic selection at others. The first stage sampled 18 cities/towns using purposive and convenience sampling within strata. Next, probability proportional to size (PPS) sampling was used at the census fractions and

radiuses level. Then 160 blocks (as primary sampling unit, PSU) were selected using simple random sampling. Households were then selected using systematic random sampling and individuals using gender and age quotas.

Serbia

The survey was conducted by IPSOS, with in person interviews via computer-assisted personal interviewing (CAPI). The sample is nationally representative sample and includes of 1,002 adults. It was conducted between September 17, 2016 and September 22, 2016. The sample based on a three stage random stratified sample, namely (a) polling station territory—approximately size of 200 households (with probabilities proportional to size), (b) households by random route technique starting from the given addresses, and (c) random selection of respondent from the list of household members aged 18 or older. Stratification was done according to the type of settlement (i.e., urban vs. rural) and to six regions (i.e., Belgrade, Vojvodina, East, South East, Central, and West).

United Kingdom

We designed the survey with Qualtrics. To select a pool of respondents, we put an ad on Crowdfunder, a platform similar to Amazon's MTurk. To ensure the quality of the responses, we dropped respondents who did not finish the survey as well as those that were identified as potential spammers by Crowdfunder. We also removed respondents who indicated being underage. Overall, this left us with 918 respondents completed the survey. The survey was administered in late June 2016. We asked respondents a range of demographic questions, including their gender, age (8 categories), their income (9 categories + DK/NA), their political affiliation, and their location (12 categories). To the extent possible, we used the same categorization as other sources such as the census. While our sample is not nationally representative, its geographic coverage is similar to the one from the country, with a small over-representation of respondents living in London.

EVIDENCE FROM ARGENTINA

TABLE A2 Summary statistics for the Argentine sample

	Mean	Median	S.D.	Min.	Max	Obs.
Prefers Fixed Exchange Rate	0.73	1	0.44	0	1	1,024
Inflation concerns	0.10	0	0.30	0	1	1,779
Daily Inflation (1-month MA)	1.91	2	0.13	1.69	2.28	1,407
Job with Foreign Ties	0.03	0	0.16	0	1	1,779
Age	42.45	40	16.97	18	91	1,775
Female	0.53	1	0.50	0	1	1,779
Union member	0.15	0	0.35	0	1	1,774
Kirchner disapproval rate	2.73	3	1.15	1	5	1,405
Income	4.44	4	2.39	0	10	1,305
Education	3.34	3	2.03	0	9	1,761

TABLE A3 Instrumental variable evidence from Argentina: First stage

	Inflation concerns
	(1)
Daily inflation (1-month MA)	0.34*** (0.10)
Job with Foreign Ties	−0.05 (0.05)
Age	−0.00 (0.00)
Female	−0.04 (0.03)
Union member	−0.03 (0.03)
Kirchner disapproval rate	−0.00 (0.01)
Income	0.00 (0.01)
Education	−0.01** (0.01)
Observations	745
R^2	.04
Region FE	✓
Outcome range	{0,1}
Outcome mean	0.73

Notes: Robust standard errors in parentheses.

* $p < .10$.; ** $p < .05$.; *** $p < .01$.

TABLE A4 Argentina: Robustness to trust in congress

	Prefer Fixed Rate	
	(1)	(2)
Trust in Congress	−0.02 (0.03)	−0.00 (0.03)
Trust in Congress × T1: Avoid Inflation	−0.04 (0.04)	−0.02 (0.04)
Trust in Congress × T2: Respond to crisis	0.01 (0.04)	−0.01 (0.04)
Trust in Congress × T3: Both	−0.06 (0.04)	−0.05 (0.05)
Observations	1,005	733
R^2	.02	.11
Controls		✓
Region FE		✓
Outcome range	{0,1}	{0,1}
Outcome mean	0.73	0.73

Notes: All specifications are estimated using OLS. Output from other variables omitted. Robust standard errors in parentheses.

* $p < .1$.; ** $p < .05$.; *** $p < .01$.

EVIDENCE FROM SERBIA

TABLE A5 Summary statistics for Serbian sample

	Mean	Median	S.D.	Min.	Max	Obs.
Female	0.52	1	0.50	0	1	1,002
Age	47.14	46	16.76	18	87	1,002
Urban	0.61	1	0.49	0	1	1,002
Job with Foreign Ties	0.14	0	0.35	0	1	1,002
Union Member	0.19	0	0.39	0	1	1,002

EVIDENCE FROM THE UNITED KINGDOM

TABLE A6 Summary statistics for UK sample

	Mean	Median	S.D.	Min.	Max	Obs.
Prefer Fixed Exchange Rate regime	0.31	0	0.46	0	1	723
Inflation Concerns	0.29	0	0.45	0	1	918
Affected by depreciation	2.79	3	0.94	0	4	915
Affected negatively by depreciation	3.36	3	1.04	1	5	900
Vote Remain	0.62	1	0.48	0	1	916
Job with Foreign Ties	0.39	0	0.49	0	1	918
Unemployed	0.14	0	0.34	0	1	918
Age	2.30	2	1.08	1	8	918
Education	4.40	5	1.42	1	7	918
Union	0.36	0	0.48	0	1	918
Income	3.09	2	2.24	1	9	918
Saving Percentage	49.53	60	29.38	0	100	918
Immigration	0.38	0	0.49	0	1	918
Sovereignty	0.32	0	0.47	0	1	918
World Standing	0.38	0	0.49	0	1	918
Security	0.35	0	0.48	0	1	918
Satisfaction with the EU	2.58	3	1.12	1	5	918

Electoral consequences

Our main results shed light onto the microfoundations of exchange rate policy preferences. To what extent do these preferences have behavioral implications, particularly in a political sense? While scholars often argue that societal pressures regarding currency policy preferences do influence actual macro-policy outcomes (Broz, 2002; Frieden et al., 2001; Schamis & Way, 2003; Steinberg, 2019; Walter, 2008, micro-level individual evidence of individual behavior has been scarce. We fill this gap by analyzing (self-reported) vote surrounding the Brexit referendum. Given the widely discussed potential depreciation of the pound should the UK leave the EU, we argue that this is a suitable case for analysis. In line

with our argument and with the relevance of these preferences, we find that individuals who prefer a fixed exchange regime were about 10 percentage points more likely to vote remain at the referendum.

We leverage the Brexit referendum, examining (self-reported) voting behavior. Following our argument, we should expect preferences for a fixed-exchange rate—a proxy for preferences for a stable currency—to be correlated with a remaining in the EU vote. Of course, it could be the case that people who support remain (for other reasons) are simply echoing one of the arguments made in favor of remain, namely that leave would cause depreciation. It is not our goal here to make any sort of causal claim, but rather corroborate that these attitudes co-move; even if they move as a result of the latter, it would support the cognitive process and association that is necessary for our argument to be true.

Table 7 shows the results. Preferences for fixed exchange rate regimes are positively associated with support for remaining in the EU. The point estimates are very stable, between 10 and 11 percentage points, and are statistically significant and robust across specifications. This remains the case after accounting for a series of relevant covariates, including working for a firm with international ties—which also increases the odds of being in favor of remaining in the EU—along with other variables which also behave as one would expect in regards to the Brexit vote.

TABLE A7 Exchange rate preferences and Brexit vote

	Brexit Vote: Remain		
	(1)	(2)	(3)
Preference for Fixed Exchange Rate	0.10 ^{***} (0.04)	0.10 ^{**} (0.04)	0.11 ^{***} (0.04)
Fear of Inflation		0.14 ^{***} (0.04)	0.12 ^{***} (0.04)
Job with Foreign Ties		0.12 ^{***} (0.04)	0.10 ^{***} (0.04)
Unemployed		0.07 (0.06)	0.07 (0.06)
Age		−0.03 (0.02)	−0.01 (0.01)
Education		0.04 ^{***} (0.01)	0.03 ^{**} (0.01)
Union		−0.00 (0.04)	−0.04 (0.04)
Income		−0.01 (0.01)	−0.01 [*] (0.01)
Saving Percentage		−0.00 (0.00)	−0.00 (0.00)
Immigration			−0.23 ^{***} (0.04)
Sovereignty			−0.25 ^{***} (0.04)
World Standing			0.04 (0.04)
Security			−0.06 [*] (0.04)
Satisfaction with the EU			0.03 ^{**} (0.01)
Region FE		✓	✓
Observations	726	726	726
R ²	.01	.05	.19
Outcome range	{0,1}	{0,1}	{0,1}
Outcome mean	0.63	0.63	0.63

Notes: Dependent variable is vote on Brexit. All specifications are estimated using OLS. Controls are described in Table 6. Robust standard errors in parentheses.

* $p < .10$.; ** $p < .05$.; *** $p < .01$.

ADDITIONAL ANALYSES

Here, we present two sets of additional analyses, namely a section about (a) the determinants of inflation concerns, and (b) a section linking US inflation to US online behavior about “gold standard” searches.

Correlates of inflation concerns

While fully exploring the determinants of inflation concerns is beyond the scope of this paper, in this section we present cursory evidence from a wide set of surveys, including our own. We examine Inflation Concern as an outcome and analyze its determinants, focusing mainly on standard sociodemographic variables. First, we examine the two cases with the data available from our sample, namely Argentina and the United Kingdom. Then, we replicate this exercise using data from LAPOP surveys, covering 26 countries in the American continent from 2004 to 2014. Finally, we examine evidence from the US from 1960 to 2014. The overall analysis, both within- and between-countries suggest mixed results.

Evidence from our sample

We can explore the determinants of inflation concerns in our sample by examining Argentina and the United Kingdom. Table 8 shows the results. Thinking about standard sociodemographic variables, the only statistically significant findings are that education is negatively correlated with inflation concerns in Argentina, and age is negatively correlated in the UK. Here, neither gender nor income seem to be correlated with our outcome.

Evidence from 26 countries from LAPOP surveys

To explore a wider set of countries, over time, we turn to LAPOP surveys. Data is available from 26 countries (Argentina, Bahamas, Barbados, Belize, Bolivia, Brazil, Chile, Colombia, Costa Rica, Dominican Republic, Ecuador, El Salvador, Guatemala, Guyana, Haiti, Honduras, Jamaica, Mexico, Nicaragua, Panama, Paraguay, Peru, Suriname, Trinidad and Tobago, Uruguay, and Venezuela) from 2004 to 2014. Table A9 shows the results. In this case, female gender is positively correlated with inflation concerns, while education and unemployment are negatively correlated (in line with our Argentinean sample). Columns 3 and 4 show that these results are robust to excluding both Argentina and Venezuela from the estimation. In this case, neither age nor income are correlated with inflation concerns.

Evidence from the US (1960–2014)

We rely on data from the Most Important Problem Dataset. Table A10 shows the results. Different columns also include different variables collected differently across survey waves, thus influencing the effective sample size. Within this case, we see inconsistent results on age, education, gender and income, among others.

TABLE A8 Correlates of inflation concerns: evidence from Argentina and the UK

	Inflation Concerns			
	Argentina		United Kingdom	
	(1)	(2)	(3)	(4)
Job with Foreign Ties	0.05 (0.06)	0.05 (0.06)	−0.03 (0.03)	−0.03 (0.03)
Age	−0.00 (0.00)	−0.00 (0.00)	−0.04*** (0.01)	−0.04*** (0.01)
Female	−0.03 (0.02)	−0.02 (0.02)	0.02 (0.03)	0.02 (0.03)
Education	−0.02*** (0.01)	−0.02*** (0.01)	0.01 (0.01)	0.01 (0.01)
Union	0.01 (0.03)	0.00 (0.03)	0.00 (0.03)	0.00 (0.03)
Income	0.00 (0.00)	0.00 (0.00)	0.00 (0.01)	0.00 (0.01)
Kirchner disapproval rate	0.01 (0.01)	0.01 (0.01)		
Daily Inflation (1-month MA)		0.32*** (0.09)		
Saving Percentage			0.00*** (0.00)	0.00*** (0.00)
Unemployed			−0.05 (0.05)	−0.05 (0.05)
Immigration Top−3			−0.03 (0.03)	−0.03 (0.03)
Sovereignty Top−3			−0.02 (0.03)	−0.02 (0.03)
World Standing Top−3			0.03 (0.03)	0.03 (0.03)
Security Top−3			0.01 (0.03)	0.01 (0.03)
Satisfaction with the EU			0.00 (0.01)	0.00 (0.01)
Observations	1,016	1,016	918	918
R ²	.02	.03	.04	.04
Outcome range	{0,1}	{0,1}	{0,1}	{0,1}
Outcome mean	0.14	0.14	0.29	0.29
Outcome SD	0.35	0.35	0.45	0.45
Region FE	✓	✓	✓	✓

Notes: All specifications are estimated using OLS. Robust standard errors in parentheses.

* $p < .10$.; ** $p < .05$.; *** $p < .01$.

EXTERNAL VALIDITY

Effect of Inflation on US citizens' online behavior about gold standard

Although this paper has explored three different country contexts for our core hypotheses, concerns about external validity may arise. Arguably, similar patterns may arise in smaller, internationally exposed economies. However, even if inflation can become a salient issue across economies—for example, the US and other developed countries such as Japan—that does not necessarily translate into exchange rate policy preferences. This might be especially true in contexts such as the US today, where exchange rate policy might be considered an abstract, non-salient issue Klein and Shambaugh (2009). And yet inflation has been a source of concern for many Americans over its history. Figure A1 shows that more than 60% of Americans perceived inflation to be the most important issue in the late 1970s, early 1980s—with a peak of 78.21% in October, 1974. Inflation concerns still might drive exchange-rate preferences.

TABLE A9 Correlates of inflation concerns: evidence from 26 LAPOP countries (2004–2014)

	Inflation concerns				
	All available countries			Excluding ARG & VEN	
	(1)	(2)	(3)	(4)	(5)
Age	0.00 (0.00)	−0.00 (0.00)	0.00 (0.00)	−0.00 (0.00)	0.00 (0.00)
Age ²			−0.00 (0.00)		−0.00 (0.00)
Female	0.01*** (0.00)	0.01* (0.00)	0.01* (0.00)	0.01* (0.00)	0.01* (0.00)
Education	−0.00*** (0.00)	−0.00*** (0.00)	−0.00** (0.00)	−0.00*** (0.00)	−0.00* (0.00)
Education ²			0.00 (0.00)		0.00 (0.00)
Income		−0.00 (0.00)	−0.00 (0.00)	−0.00 (0.00)	−0.00 (0.00)
Income ²			−0.00 (0.00)		−0.00 (0.00)
Unemployed		−0.01* (0.00)	−0.01* (0.00)	−0.01* (0.00)	−0.01* (0.00)
Ideology (Left / Right)		0.00 (0.00)	0.00 (0.00)	0.00 (0.00)	0.00 (0.00)
Observations	166,097	44,608	44,608	42,873	42,873
R ²	.09	.07	.07	.07	.07
Outcome range	{0,1}	{0,1}	{0,1}	{0,1}	{0,1}
Outcome mean	0.05	0.05	0.05	0.05	0.05
Outcome SD	0.21	0.22	0.22	0.22	0.22
Country FE	✓	✓	✓	✓	✓
Year FE	✓	✓	✓	✓	✓

Notes: All specifications are estimated using OLS. Cluster standard errors at the country level in parentheses.

* $p < .10$; ** $p < .05$; *** $p < .01$.

We put these concerns to the test by leveraging a burgeoning data approach to measure citizens interest: Google search data. Google searches can be interpreted as an, admittedly imperfect, proxy for public interest—in other words, a behavioral measure of mass interest in an issue. Recent research has relied on Google search data across a wide variety of fields, including economics and political science. For example, Pelc (2013) uses searches about “WTO” to argue that US citizens are indeed concerned about their country being called at the WTO's Dispute Settlement. Stephens-Davidowitz (2013) uses (and validates) this approach to proxy racial attitudes as well as an effective way of predicting turnout. This approach is in line with the growing body of literature about online information consumption and attitudes [e.g., Baccini et al., 2016].

Here, we analyze the extent to which US monthly inflation is linked to US search engine queries about “gold standard”—a concept that resonates well with the notion of a fixed exchange rate regime and has gained attention. For instance, during the Republican presidential debates of 2015, Rand Paul supported creating a commission to study whether the dollar should be linked to gold—something that Republican platforms have put forward in the past.³¹ Ted Cruz went further explicitly saying that monetary policy should be tied to gold, and made explicit links to inflation. “On Wall Street, the Fed is doing great. But if you look at working men and women, if you look at a single mom buying groceries,

TABLE A10 Correlates of inflation concerns: evidence from the US (1960–2014)

	Inflation Concerns				
	(1)	(2)	(3)	(4)	(5)
Age	0.00 (0.00)	−0.00 [*] (0.00)	0.00 ^{**} (0.00)	0.00 (0.00)	0.00 ^{***} (0.00)
Age ²			−0.00 ^{***} (0.00)		−0.00 ^{***} (0.00)
Female	−0.01 ^{***} (0.00)	−0.00 (0.00)	−0.00 [*] (0.00)	−0.01 ^{***} (0.00)	−0.01 ^{***} (0.00)
White respondent	0.01 ^{***} (0.00)	0.00 (0.00)	0.00 (0.00)	0.01 ^{***} (0.00)	0.01 ^{***} (0.00)
Party identification (D - R)	0.00 ^{***} (0.00)	0.00 ^{***} (0.00)	0.00 ^{***} (0.00)	0.00 ^{**} (0.00)	0.00 ^{**} (0.00)
Education	0.00 (0.00)	−0.00 (0.00)		0.00 ^{**} (0.00)	
Some High-School			−0.00 (0.00)		0.01 [*] (0.00)
High-School			0.01 (0.01)		0.01 ^{***} (0.00)
College			0.00 (0.01)		0.01 ^{***} (0.00)
Post-Grad			−0.00 (0.01)		0.00 (0.00)
Unemployed		−0.00 [*] (0.00)	−0.00 [*] (0.00)		
Income	0.00 ^{***} (0.00)	−0.00 ^{**} (0.00)		0.01 ^{***} (0.00)	
Second Income Quartile			−0.00 (0.00)		0.00 [*] (0.00)
Third Income Quartile			−0.00 (0.00)		0.01 ^{***} (0.00)
Highest Income Quartile			−0.01 ^{**} (0.00)		0.01 ^{***} (0.00)
Union				−0.00 (0.00)	−0.00 ^{**} (0.00)
Urban	−0.00 ^{***} (0.00)	−0.00 [*] (0.00)	−0.00 [*] (0.00)	−0.00 (0.00)	−0.00 (0.00)
Southern state	0.00 ^{**} (0.00)	0.00 (0.00)	0.00 (0.00)	0.01 ^{***} (0.00)	0.01 ^{***} (0.00)
Observations	428,901	116,700	116,700	192,046	192,046
R ²	.32	.27	.27	.32	.32
Outcome range	{0,1}	{0,1}	{0,1}	{0,1}	{0,1}
Outcome mean	0.10	0.04	0.04	0.16	0.16
Outcome SD	0.30	0.20	0.20	0.37	0.37
Study Wave FE	✓	✓	✓	✓	✓

Notes: All specifications are estimated using OLS. Cluster standard errors at the study-wave level in parentheses.

* $p < .10$; ** $p < .05$; *** $p < .01$.

she sees hamburger prices have gone nearly 40 percent. She sees her cost of electricity going up, her health insurance going up and loose money is one of the major problems, we need sound money.”³²

This was echoed by others. Alan Greenspan also advocated a return to the gold standard, by saying: “if we went back on the gold standard and we adhered to the actual structure of the gold standard as it exists let's say, prior to 1913, we'd be fine.”³³ In a similar line, Donald Trump declared in 2016 that

TABLE A11 Effect of Inflation on US citizens' online behavior about gold standard

Index of US Google Searches about Gold Standard								
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
Panel A: Variation by monthly US inflation								
US Inflation _{t+1}					−4.25 (3.21)	−1.04 (2.63)	−1.12 (2.79)	−0.45 (2.08)
US Inflation _t	0.99 (2.47)	5.08** (2.50)	4.96* (2.59)	4.74** (1.83)	6.08* (3.42)	6.83** (2.71)	6.69** (2.84)	6.05** (2.38)
US Inflation _{t−1}					−5.42* (2.94)	−2.34 (2.23)	−2.30 (2.29)	−2.33 (1.90)
R ²	.00	.56	.59	.75	.02	.56	.60	.75
Panel B: Variation by monthly ARG inflation (Placebo)								
ARG Inflation _{t+1}					2.16* (1.16)	−0.58 (0.98)	−0.52 (0.92)	−0.31 (0.79)
ARG Inflation _t	4.38*** (1.05)	−0.56 (0.95)	−0.49 (0.96)	−0.22 (0.92)	1.61 (1.42)	−0.46 (1.17)	−0.41 (1.19)	−0.31 (1.09)
ARG Inflation _{t−1}					3.21*** (1.19)	0.10 (0.95)	0.19 (0.99)	0.56 (0.93)
R ²	.10	.54	.58	.73	.16	.54	.58	.73
Observations	162	162	162	162	161	161	161	161
Outcome range	[39,100]	[39,100]	[39,100]	[39,100]	[39,100]	[39,100]	[39,100]	[39,100]
Control outcome mean	69.69	69.69	69.69	69.69	69.64	69.64	69.64	69.64
Control outcome SD	14.72	14.72	14.72	14.72	14.75	14.75	14.75	14.75
Linear Time Trend		✓				✓		
Cubic Time Spline			✓				✓	
Year Fixed Effects				✓				✓

Notes: All specifications are estimated using OLS. Robust standard errors in parentheses.

* $p < .1$.; ** $p < .05$.; *** $p < .01$.

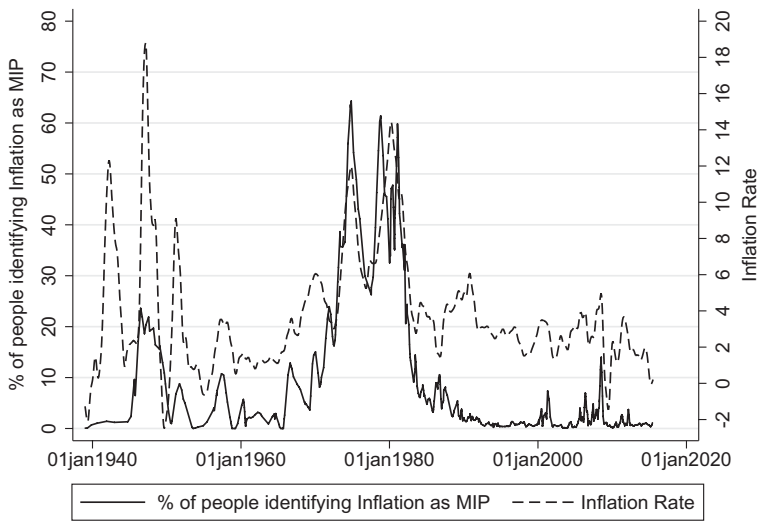


FIGURE A1 Inflation Concerns & Inflation in the US (LOWESS)

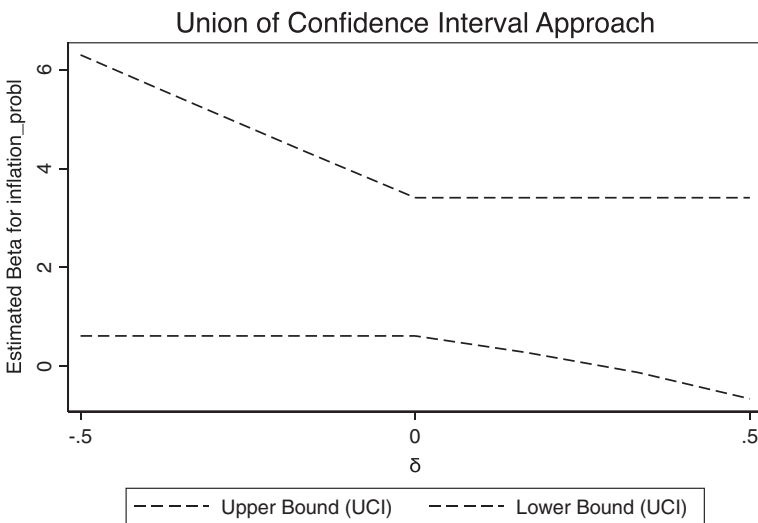


FIGURE A2 IV Sensitivity Test (Conley et al. 2012)

"[b]ringing back the gold standard would be very hard to do, but, boy, would it be wonderful. We'd have a standard on which to base our money."³⁴

Moreover, in line with this paper, The Wall Street Journal's Chief Economics Commentator, Greg Ip, when discussing these events noted that "[t]he gold standard is what you normally hear calls for when inflation is out of control."³⁵

Our data run from January 2004 until August 2017. Inflation data is drawn from the Bureau of Labor Statistics. Regarding the technical aspects of the data, Google web searches are analyzed by Google Trends, which computes the proportion of searches for the terms one has included, relative to the total number of searches done over the specified time period. That is, this analysis indicates the likelihood of a random user to search for a particular search term from a certain location at a certain time. These results are standardized to an index from 0 to a 100. Two issues need to be raised here.

On the one hand, Google Trends designates a certain threshold of traffic for search terms, meaning that observations with relatively low search volume are lost. On the other hand, Google Trends also eliminates repeated queries from a single user over a short period of time, so that the level of interest is not artificially impacted by these type of queries. This is of particular importance for this paper, since it reduces concern about results being driven by schools and universities, think tanks, etc.

Panel A in Table 2 shows the main results. The simple bivariate correlation is shown in Column 1. Then, Columns 2 through 4 assess the robustness by controlling for a linear time trend, a cubic time spline, and year fixed effects, respectively. In addition, Columns 5 through 8 follow the same structure but also include a lag and lead inflation variable. Supporting our expectations, the evidence points to a strong effect of US inflation on citizen's interest in gold standard. Substantively, a one percentage point increase in US inflation leads to about a one third standard deviation increase in web searches related to gold standard.

To ameliorate concerns about the specification, Panel B shows the results of a placebo test when instead of using monthly US inflation, we replicate the analysis using monthly Argentine inflation. With a few exceptions, estimates are not statistically significant, but most importantly they are not robust across specifications. These simple results indicate that even in developed and deep economies with a long-distant history of exchange rate fixity, inflation and currency politics are linked. This offers suggestive evidence in favor of the external validity of our core tests.

We also implemented the sensitivity analysis proposed by Conley et al. (2012, "Plausibly Exogenous," *Review of Economics and Statistics*). They suggest to verify how the estimate of interest (here: concerns over inflation) change when the exclusion restriction is not perfectly met. We examine what would happen to our treatment effect if the direct effect from daily inflation ranged from -0.5 to 0.5 . We picked these values based on the estimate we find from a reduced form model where we simply regress preference for fixed exchange rate on daily inflation. We find that our treatment effect (y axis) remains positive and significant for most of the range of violations of the exclusion restriction. In other words, this violation would need to be severe to nullify our findings.

Table A11 Argentina: split sample (observational evidence). The sample is divided between respondents who work for domestically-oriented firms and those who work for firms with international connections. Note the small sample size for the latter group. The models estimated are otherwise identical to those in Table 2.

Table A12 Brexit: split sample (observational evidence). The sample is divided between respondents who work for domestically-oriented firms and those who work for firms with international connections. Note the small sample size for the latter group. The models estimated are otherwise identical to those in Table 8.

Table A13 Brexit: split sample (experimental evidence). The sample is divided between respondents who work for domestically-oriented firms and those who work for firms with international connections. Note the small sample size for the latter group. The models estimated are otherwise identical to those in Table 6.

Table A14 Serbia: split sample (observational evidence). The sample is divided between respondents who work for domestically-oriented firms and those who work for firms with international connections. Note the small sample size for the latter group. The models estimated are otherwise identical to those in Table 5.

Table A15 Serbia. Dependent variable: inflation is a top-3 concern.