



Trans European Policy Studies Association  
TEPSA Briefs – November 2018

## Euro or no Euro, that is the question

*Petr Kratochvíl & Zdeněk Sychra\**

The policy of indefinitely postponing the adoption of the single currency is going to fail soon. The Eurozone is preparing for further integration, and the cleavage between the Eurozone and the rest of the EU member states will grow even deeper. The time has come for the non-Euro countries to decide whether to join the Eurozone soon or accept the risk that their future Eurozone accession will be difficult and painful.

### Introduction

The creation of the Eurozone has been arguably the most ambitious step towards the European Union (EU)'s deeper integration in the entire history of the European unification. However, the introduction of the single currency also created new dividing lines in the EU between the insiders and the member states which do not use the Euro. As the recent proposals by the French President Emmanuel Macron show, this divide may get even deeper as an even more

intense cooperation among the Eurozone countries is on the table. However, there is more bad news for the non-Euro countries: the British departure from the EU will mean losing the most influential non-Euro EU member state, which will relegate the rest to an even more peripheral position.

However, at this exact moment, all options are still open. The Brexit negotiations consume much of the EU's energy, and President Macron's vision has not been turned into a detailed proposal yet. Additionally, Chancellor Angela Merkel's announced retreat from the steering wheel of German politics opens up the question of the future reception of these plans in Germany again. The current period of suspense in the integration process is thus a unique window of opportunity for the non-Euro countries to reassess their options. If the future holds a prospect of their continuously diminishing influence in the EU and especially in

\*Petr Kratochvíl is Senior Researcher at the Institute of International Relations, Prague, Czech Republic. Zdeněk Sychra is Assistant Professor at the Masaryk University, Brno, Czech Republic. All the opinions expressed in this briefing are the sole view of the authors, and do not represent the position of the Institute of International Relations or the Masaryk University, nor of the Trans European Policy Studies Association (TEPSA).

the Economic and Monetary Union (EMU), are they (or at least some of them) prepared to reconsider their cautious attitude to the common currency? Does their resistance to the adoption of the single currency continue unabated or are the popular attitudes towards the Euro changing in those countries? Are the economic considerations offset or further reinforced by the national political narratives? Or, to put it even more provocatively, is this the moment when the expansion of the Eurozone – allowing the latter to become co-extensive with the European Union – starts again?

### **The Eurozone's deeper integration is coming**

In spite of the rise of Euroscepticism, European integration has been expanding in a number of unexpected directions. The attempts to formulate a unified response to the migration challenge, the nascent EU energy policy and the recently revived proposal for a common EU army, all these are cases in point. However, the Eurozone integration has clearly taken over the role of the central integration project, with new policies and new institutions being specifically proposed and designed for it. Also among the recent proposals which came from President Macron and Chancellor Merkel, the integration of the Eurozone stands out. These range from the introduction of the common backstop instrument in the European Stability Mechanism (ESM) Treaty, via the incorporation of the ESM in the EU law, to the most ambitious proposal, the proposal to create a common Eurozone budget “to boost competitiveness and convergence”.

The non-Eurozone EU members watch these developments with a growing unease. After Latvia joined the Eurozone in 2014 and Lithuania in 2015, and with the prospect of Brexit, the non-Euro bloc will consist of only eight countries which will represent less than a quarter of the EU population. The geographic and political diversity of these countries and their heavy economic dependence on the Eurozone all further challenge their cohesiveness and their ability to act even as a feeble counterweight to the Eurozone economic giant. And all this is framed by the fact that only Denmark enjoys a permanent opt-out (while being closely bound to the Exchange Rate Mechanism (ERM) II anyway) with all the others legally bound to introduce the Euro once they fulfil the criteria.

### **Public opinion shifting in favour of the Euro**

But things in the non-Euro countries are changing too. The support for the common currency is again growing, albeit unevenly. Clearly the fears which were related to the Eurozone crisis no longer play a decisive role in the eyes of the public. The warnings against another Greek bailout which became election slogans against the Euro in some Central European countries do not resonate with the public as strongly as they once did. The recent Flash Eurobarometer opinion poll from 23 May 2018 shows this trend quite convincingly (see [Figure 1](#)). Today, there is an overall (but slight) majority of the citizens of these countries that is in favour of the Euro (51 %). This is an increase of 4 % compared to last year and 6 % compared to 2016. With the single exception of Croatia,

the popularity of the common currency rose everywhere. Even in the most sceptical countries (such as Sweden and the Czech Republic), the numbers of those who believe the common currency would never be introduced in their respective country are going down. Having said this, only 40 % of Swedes and a mere 33 % of Czechs are in favour of introducing the common currency. The most recent Eurobarometer poll from October 2018 also confirms that in the Eurozone area, the support for Euro is at its highest since the surveys began 16 years ago.

Economically, there are clear advantages to joining the common currency, but also a number of disadvantages, especially for rich countries with a faster growth rate than the Eurozone such as Sweden. While the other non-Euro EU member states are in a different economic position from Sweden, the cost-benefit analysis for them is similarly ambivalent, as these countries are, on average, economically less developed than the Eurozone, but catching up quickly, while also enjoying relatively independent monetary policies.

But here lies the conundrum: why is it that the countries with the strongest potential benefits of joining (such as the Czech Republic) the Eurozone are also the most sceptical of it? The answer should be entirely clear by now: both the academic research and the painful experience of the Brexit referendum campaign show very convincingly that politics frequently trumps economic considerations. In fact, arguing in favour of “pure” and “rational” economic

considerations is a folly of a similar order, as those making such arguments misunderstand the simple fact that in our societies, political ideologies and economic rationalities are inextricably linked. The very creation of the single currency has always been as much a political project as an economic one. And this is not a bad thing. Politics is a practice that, among other things, deals with the regulation of economic processes and the distribution of goods. To fully separate the two is to miss a most essential point of what politics is about.

The reaction to the window of opportunity which opens up now for the non-Euro countries will be exactly of this mixed nature. The economic side is related to the renewed optimism associated with overcoming the economic crisis which hit Europe (and the Eurozone) ten years ago. The political aspect pertains to the current reform proposals, which are still very fluid and therefore malleable by inputs from others. Especially with the weakened German leadership, French President Macron will be looking for allies even among those countries which would indicate their interest in adopting the Euro, thus arguing for an open pathway from the non-Euro area to the Eurozone.

### **Domestic politics as an anti-Euro factor**

But this is the critical juncture at which domestic politics kicks in. A number of non-Eurozone countries have been on a collision course with the European Commission for years now, both over the issue of migration (Hungary, Poland,

the Czech Republic and, to some extent, Romania and Slovakia) and over their domestic backsliding from democracy (Poland and Hungary, again). Additionally, the Euro has become a political symbol of supranational Europe and thus also one of the main targets for the rising Eurosceptic movements across the region of East-Central Europe. While the Eurosceptic criticism of the single currency was overshadowed by the obsessive attacks on migrants for a certain period of time, this seems to be working less now and so the Euro returns to the limelight as a popular training target for the Eurosceptic arrows.

Things have recently got even more complicated: virtually all Central European populists have adopted the same strategy – that of attracting the far right's voters by adopting the far right's vocabulary and, at times, even the far right's policies. While this has worked quite well for the ruling parties in terms of their election results (see the strategy of Fidesz in Hungary vis-à-vis Jobbik and that of the ANO Movement in the Czech Republic vis-à-vis the fervently anti-immigration Freedom and Direct Democracy Party in the Czech Republic), it also translates into the mainstreaming of the Eurosceptic critique of the EU. It is perhaps not so difficult to suddenly embrace the opposite rhetoric favouring the introduction of the Euro (since these parties have ample experience with policy U-turns), but it still takes some effort and risks losing the Eurosceptic voters again.

**Time to act or say goodbye to an easy Eurozone accession in the future**

The clichéd talk about the core and the periphery oversimplifies the complex relations within the EU, but if there is one single policy area where the dividing line will soon be drawn, it is the European Monetary Union. Keeping all doors open may have been a sound policy for the non-Euro countries for a while, as it facilitated their faster convergence. But it will soon run out of steam. The immediate damage limitation policy is bridging the Euro and non-Euro areas as much as possible, both legally and politically. However, such a policy is becoming increasingly difficult and soon a political decision about whether the non-Euro countries will join the Eurozone or stay behind will be needed.

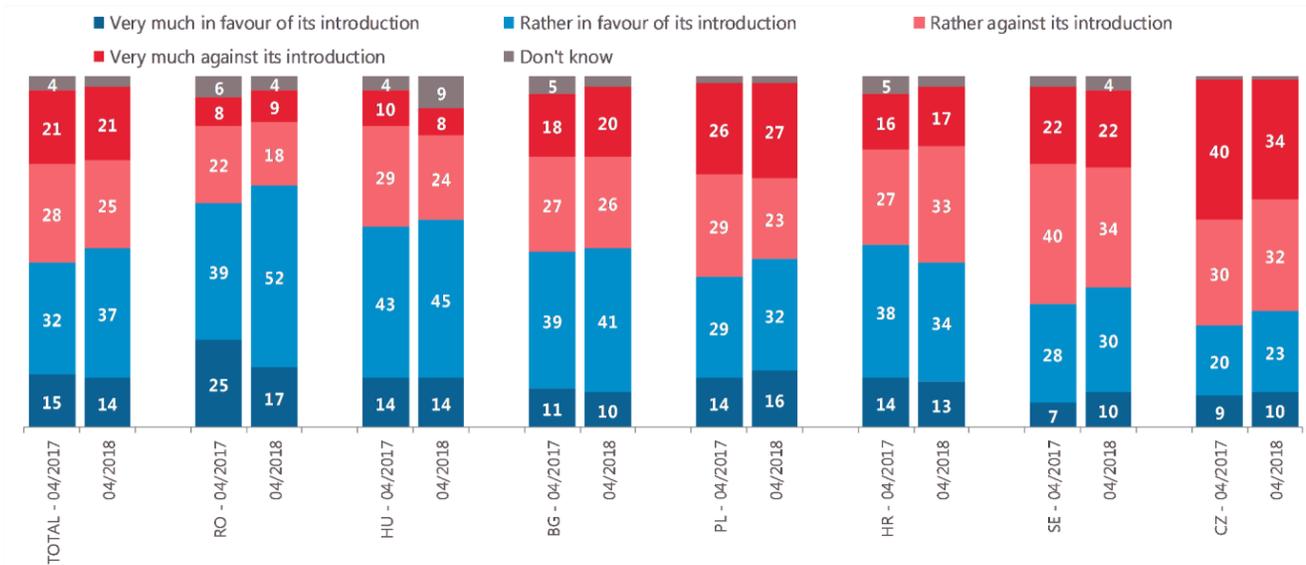
The time has come for the eight member states that do not use the Euro to decide. Those who will opt for joining the Eurozone must do so very publicly. Adopting the common currency is not only about setting a date (which some have done and subsequently broken the promise), but also about working with the public. It is absurd that those who would profit most from joining, such as the Czechs, are also the most sceptical regarding this step. There are many ways to proceed – Slovaks, whom the Czechs closely watch, are very supportive of the Euro, Swedes too have a positive example among the Nordic countries and the same applies to South-Eastern Europe. In short, the fundamental question – whether or not to use the Euro – has to be addressed very soon. It would be a shame if the non-Euro countries missed their opportunity just because they did not realise the window of opportunity would be closing soon.

## Graphs

**Graph 1: Public support for introducing the Euro**

Source: Flash Eurobarometer 465, 23/5/2018, [https://ec.europa.eu/info/news/economy-finance/flash-eurobarometer-public-support-for-introducing-the-euro-continues-to-rise\\_en](https://ec.europa.eu/info/news/economy-finance/flash-eurobarometer-public-support-for-introducing-the-euro-continues-to-rise_en)

**Q11** Generally speaking, are you personally more in favour or against the idea of introducing the euro in (OUR COUNTRY)? (%)





### Trans European Policy Studies Association

Rue d'Egmont 11, B-1000  
Brussels, Belgium

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### Institute of International Relations Prague

Nerudova 3, 118 50  
Praha 1 - Malá Strana

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Co-funded by the  
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