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Sławomir Czech[*]
University of Economics in Katowice, Poland

The Political Economy of Staying Outside the Eurozone: Poland and Sweden Compared[**]

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Abstract: *This paper deals with the issue of political constraints put on economic policies that derive from the distribution of power in democratic societies. Poland and Sweden are both euro-outsiders that are obliged to adopt the euro, but recent developments within the Eurozone and related to the 2008+ crisis engendered widespread reluctance among the public to give up national currencies. Within a short time, the general support for the euro turned strongly negative, making it a grave challenge for politicians to pursue the adoption of the common currency. On this background, we reflect on the alleged correspondence between these two countries that would allow to follow similar policies toward euro introduction. We point to the idiosyncrasy of the Swedish case that makes it virtually impossible to emulate its policies by a country like Poland with very different long-term goals*

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[*] Contact: slawomir.czech@ue.katowice.pl, Uniwersytet Ekonomiczny w Katowicach, ul. 1 Maja 50, 40-287 Katowice, Poland

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and starting conditions. By doing so, we highlight the context of policymaking that seems crucial to a successful art of political economy.

Introduction

In this paper we deal with the superficial similarity of the political situation of Poland and Sweden toward joining the Eurozone. These two countries seem to have much in common: the obligation to adopt the euro as currency, very low public support for entering the Eurozone and, especially, a comfort of floating exchange rate that helped them in regaining growth after downturns. This might lead to a straightforward conclusion that Poland, in fact a catching-up economy, could well step into the Swedish path, which does not predict introduction of the euro in the foreseeable future. There would apparently be too much to lose and very little to gain if Poland decided to join the Eurozone anytime soon. The "wait and see" strategy thus seems to be by far the best choice in this situation. It would also be widely acclaimed by the public, which has been recently dominated by euro-skeptics.

Our goal is to pinpoint the futility of this argumentation by showing that the Polish and Swedish economic and political situations are in reality very different from each other and do not allow for drawing simple conclusions of systemic similarities and hence desired policies. We especially highlight the idiosyncrasy of the Swedish attitude against euro adoption in order to show the very specific reasons for staying outside which make it quite a challenge to imitate their policies. By doing so, we exhibit that even if economics could be sometimes universal, political economy is not. As a result, the challenges faced by politicians differ. We do not judge whether any of these countries should introduce the euro, nor do we scrupulously analyze economic pros and cons of the decision – we rather illustrate the complex distribution of power within the democratic society and pay attention to the context of policymaking.

The paper is organized as follows. The second section describes briefly the methodology of the research. The third section presents the political situation that both Sweden and Poland arrived at on their road to the euro. The fourth section reviews public attitudes toward the euro in both countries. The fifth section points to the selected differences that determine the incompatibility of Swedish and Polish political economy toward euro adoption. The final section concludes.

Method of the Research

This paper is written according to the political economy approach, which assumes that politics and economy are closely interrelated. This relation is reciprocal: political processes affect economic outcomes and distribution of economic resources creates political power. What is of our interest here, however, is the conflict of interest between the citizens' unwillingness and political-economic obligations that drive the tension created around the euro adoption in two distinct societies that are nevertheless obliged to introduce the common currency. Thus the problem here is not whether euro adoption is an optimal or beneficial solution, but in what way the dissent around it influences the scope of political actions. This highlights the difference between technical and sociopolitical nature of decision making.

In what follows, we trace the links between political and economic aspects of joining the Eurozone with the assumption in mind that the adoption of euro is not only an economic decision, but predominantly a political one. It is, therefore, not only the economic rationale that counts here, but chiefly political positions, interests, prejudices and even myths. Yet whatever the political nature of this conflict, any final decision will definitely have economic consequences that will affect the economic welfare of a society in the long run. This is the point that we intend to shed light on comparing Poland and Sweden. Because these two countries have distinct starting points then consequently they also have diverse fields of political maneuvers and a specific set of economic scenarios in the context of social welfare maximization.

In order to conduct the study, we analyze the attitudes of citizens shared through such channels of sociopolitical communication as opinion polls and referendum. We adopt evolutionary and historical perspective that illustrates the change of political preferences evolving along with economic and political circumstances. Opinion polls data is provided by the European Commission, Statistiska Centralbyrån (for Sweden) and CBOS[1] (for Poland). We also make use of economic data provided by OECD, Eurostat and the UN. In addition, we carry out literature analysis that helps us demonstrate the political background of being an euro-outsider.

[1] Public Opinion Research Center.

Sweden and Poland Half-way to the Eurozone

As soon as the euro was introduced in 1999 only four countries of the then European Communities did not join: Denmark, United Kingdom, Greece and Sweden. The two former – EC members since 1973 – were able to negotiate the opt-out clauses that allowed them to stay outside the euro area with no future obligation to adopt the common currency. Greece joined the Eurozone soon, in 2001. It is only the Swedish case that remains open until today.

When Sweden joined the European Union in 1995 the EMU project had already started. Consequently, the accession treaty obliged the Swedes to adopt the common currency somewhere in the future. Yet the timing of the adoption was not set at that time. Also the Swedish parliament (*Riksdag*) settled in 1994 that the decision of joining the Eurozone was to be taken later, after careful considerations of pros and cons of this step. For this reason, a special commission headed by Lars Calmfors (economy professor at the Stockholm University) was set up in order to conduct a relevant study. The Calmfors Report, published in 1996, stated clearly that the reasons for not joining the Eurozone already in 1999 were much stronger than the reasons in favor of adopting the common currency (Finansdepartamentet, 1996, p. 434). The most important negative factors were the risks of rising unemployment and growing budget deficit. This was particularly important in the Swedish context, as the economy was recovering from the toughest recession since 1930s. The downturn of 1991–1993 caused a 5% GDP fall as well as drastic unemployment upsurge to 9%, and 13% of GDP budget deficit in 1993. Thus the option of joining an avantgarde political project and facing possible asymmetric shocks with very limited monetary tools in hand was perceived as rather unwise in a country that still aimed at conducting full employment policies. Two other factors supporting the postponement recommendation included firstly the need for conducting a broad public debate on joining the EMU as the decision would have impact on the whole society and, secondly, embracing the fact that not all countries decided to join the Eurozone, so the threat of political isolation became less probable. It should be noted, however, that the report was against joining the EMU *initially* owing to the above reasons, but it recommended leaving an ‘open door’ position toward adopting the euro in the future. In the long term, with the risks and threats significantly lessened, introduction of the euro could turn out to be a sensible move. In line with this caveat, the report pointed out many disadvantages of staying outside EMU like political marginalization, unfavorable currency fluctuations or higher transaction costs of trade with the Eurozone.

As a result, the Swedish government was quite reluctant towards joining the EMU until the mentioned problems of the Swedish economy would have been resolved. This has largely happened at the turn of 1990s. and 2000s. when unemployment fell to 4%, inflation was low and stable, and the fiscal policy had enjoyed budget surpluses since 1998. The main objections of the Calmfors Report were no longer valid and so the door to the common currency became widely open. The final decision was, however, left for the citizens to make in a general referendum in the fall of 2003. The outcome of the referendum was negative: 55,9% of voters were against euro compared to 42,0% of 'yes' votes (for more details see the next section). Consequently, even though almost all Swedish parties showed largely pro-euro attitude, the outcome was accepted by politicians who were no longer pressing for euro adoption. Growing distrust among the public towards the common currency was an important reason to do so, though, as we shall see, not the only one. In the post-referendum years rare euro-related suggestions published in newspapers or fitted into speeches by prominent politicians have so far remained ineffective in convincing the public to take up the issue again (see for example Batra *et al*., 2010, Lennander, 2013). Moreover, in a recent debate that took place in May 2014 between the then Prime Minister Fredrik Reinfeldt and the opposition leader Stefan Löfven (became PM in the fall of 2014 after the elections) they both stated clearly that the euro issue 'is not even on the cards' as Swedes were happy with how the krona was performing at the moment. The political actors exert thus no particular pressure for the euro adoption, which goes in hand with the public preferences.

Interestingly, a similar consensus seems to have appeared among economists as the research made on the issue is almost inexistent. The debated arguments in favor of the Eurozone are mostly political. Granström (2015), Swedish financial representative into the EU 2009–2014, has for example recently pointed to the vanishing influence of Sweden on the core European politics which is made among euro-group countries and a surprising silence of the interest groups (like manufacturing industry) that should lobby for euro adoption, which could enhance Swedish international trade and thus social welfare. In similar vein, economists Flam and Nordström (2007) had argued that the common currency gave Eurozone countries a huge trade boost and Sweden is still missing the opportunity. Reade and Volz (2009) have also tackled the opinions of negative influence of euro adoption on the Swedish monetary sovereignty. They argued that Swedish monetary policies are not as independent as some would like it to see, since they are closely interrelated with developments in the Eurozone. The costs of giving up the monetary sovereignty are thus negligible and Sweden should think of ceasing to be a passive bystander to ECB policies. Also Söderström (2008) shows that the business cycles of Sweden and Eurozone had been strongly correlated. Yet even though he demonstrates that GDP growth could have been higher if Sweden entered the Eurozone since 1999, he points that it might as well have been much more volatile. We should note here, however, that all of the economic analyzes mentioned here were studied before the 2008+ crisis occurred and the latest developments still await scientific elaboration.

When in 2004 ten new countries – Poland included – joined the European Union, the euro project was in full swing. None of the newcomers was thus able to negotiate an opt-out clause. Moreover, the accession to the EU depended on signing the accession treaty that included the obligation of accepting euro as currency in the future. The countries willing to join the Eurozone were expected to fulfill the convergence criteria which were supposed to assure that their economies were firm and predictable enough to handle the single market conditions. For this reason the adoption of euro became not only a political decision, but also an economic challenge for the transition countries, which limited the possible eagerness of some countries to join immediately. Today, however, only three out of them still have their national currencies, that is the Czech Republic, Hungary and Poland.[2] Seven countries managed thus to meet the criteria and adopted the euro as currency.

The Polish case should be viewed here with two strings attached – technical and political one. Most importantly, Poland has never met all of the convergence criteria at once since joining the EU in 2004. In the recent years, four criteria were usually met, that is the inflation level, exchange rate volatility, long-term interest rate and public debt level. It is the budget deficit (with open procedure of excessive deficit until June 2015) and joining the ERM II that lagged behind. Hence, since the unilateral adoption of the euro had been rejected as a rather hazardous move, there was no technical possibility of joining the EMU on the EU terms. What is more of our concern here, however, is the political climate in Poland around the euro case. The attitudes of various governments were far from being single-minded during the recent decade.

Before the accession to the EU the socialdemocratic government was rather in favor of the common currency and counted on a relatively quick adoption of the euro. It was then too early, however, to pursue this goal with numerous convergence criteria unmet and the need to watch over the accession issues at the moment. The change of government in 2005 to a

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[2] The same applies to the late comers of Bulgaria, Croatia and Romania.

conservative-populist right-wing coalition pushed the euro debate off the agenda as the new leaders were openly against the common currency, mostly for symbolic-national reasons. It was only the center-right government of Donald Tusk ascending into power in 2007 that considered the adoption of euro as a strategic move for Poland. Yet political tensions between the new government and the opposition, as well as the outburst of the financial crisis and debt issues in the Eurozone forced Tusk to continually postpone the euro issue. In 2009 he officially announced that due to exacerbating fiscal problems the plans of euro adoption were suspended for the time being. Since then, the government and many other officials (including the Presidents Bronisław Komorowski and Andrzej Duda and the Head of the National Bank of Poland Marek Belka) claim that the euro remains a long-term opportunity for Poland, but the Eurozone has to deal with its internal stability and debt issues first. Additionally, opposition leaders demand a referendum on the euro adoption, which would settle the issue for some time, even though it would only have a consultative nature.

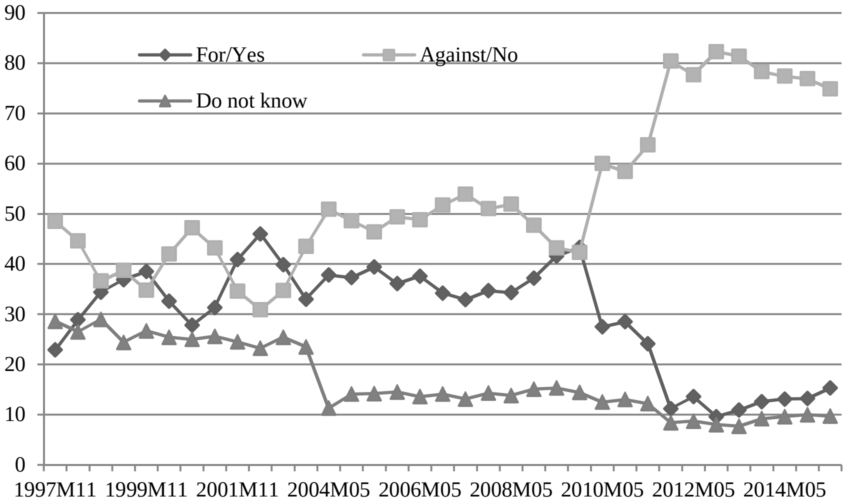
Contrary to Sweden, the euro issue in Poland has been a subject of a lively debate among economists. This is virtually impossible to refer to all the opinions here, so we shall very briefly mention the main issues raised. When Poland joined the EU economists were rather optimistic of the effects of euro adoption, with the costs being relatively low and the benefits high, especially in the long run (Borowski, 2004). With time, the view turned out more nuanced, pointing to possible challenges stemming from this step, like the possibility of a procyclical impact of ECB policies on the Polish economy (Sławiński, 2008). Lis (2008) stressed that one should focus more on domestic policies including systemic reforms and general modernization in order to become mature enough to fully benefit from the common currency. Other scholars warned that the adoption of the euro could bring greater economic volatility (Gradzewicz & Makarski, 2009; Kolasa, 2008), though with relatively small general welfare loss. The report on the costs and benefits of euro adoption published by the National Bank of Poland (*Raport*… 2009) concluded after thorough analysis that permanent benefits would be visible only in the mid and long run, and the costs would accumulate in the short term. It identified, however, several factors that could influence these outcomes both in positive and negative ways. And finally, the research done after the 2008+ crisis showed that Poland has indeed benefitted from staying outside the Eurozone. Brzoza-Brzezina *et al.* (2014) demonstrated that if Poland had adopted the euro in 2007, it would possibly have had a highly negative impact on GDP dynamics in the crisis years. In fact, it was the flexible exchange rate that stabilized the economy. Yet it cannot be concluded that Polish economists have followed the love-to-hate path as the majority of them recommends to introduce the euro. They are convinced that the euro will bring huge opportunities in the long run, but also might bring risks and costs that are hardly predictable today.

Vox Populi: Citizens and the Euro

As we have already mentioned, the public opinion both in Sweden and Poland is rather critical of euro adoption. We shall now look more deeply into this issue, as it fuels not only political programs of parties and individual politicians, but also reflects public assessment of the current economic and political situation. It is worthwhile to pay attention to the development of this critical stance, as the attitudes towards the euro have changed with the evolution of the Eurozone, experiences of other countries after introducing euro and national consequences of the 2008+ crisis. Recent research show that the exchange rate dynamics and the symbolism of national currency do play a significant role in shaping of these attitudes (Binzer *et al.*, 2009).

In Sweden the support for the euro has lately been record low since 1999. It has slightly improved in the last two years, but still remains extremely low compared to the pre-crisis period (see Figure 1). When euro was introduced in 1999 the relation of supporters vs. critics of euro was largely in balance. Between 2001 and 2003 those in favor of the common currency were even in majority, which gave solid foundations for the proponents of referendum to expect a victory. However, at the end of 2003 the situation reversed and euro-skeptics began to dominate almost permanently. The support levels have, however, stabilized at ca. 50% of supporters vs. 35% of critics between 2004 and 2009. In 2010 these positions evened out only to sharply diverge. In 2012 there were already 80% of those against euro and only 10% of those in favor.

Figure 1. Public support for introducing euro in Sweden (%)



The question asked: “Would you vote yes or no for the introduction of euro instead of krona if we had referendum today?” Until 2003 the question was “Are you for or against introduction of euro instead of krona?”.

Source: Statistiska Centralbyrån.

What do we owe this volatility and radicalization of opinions to? To understand the situation in 2003–2009 we must turn to the referendum and briefly analyze its outcome. In spatial terms, only two counties were in favor of the euro: Stockholm and Skåne, but even there the winning margin was just little above 50%. In the other 19 counties the outcome was negative. What is more, in the northernmost regions (Jämtland, Norrbotten and Västerbotten) the relation of no- to yes-voters was around 3:1. It is thus only the most developed regions of the country and most internationalized in terms of trade and culture that accepted the euro[3]. In societal terms, the opponents of the euro consisted usually of welfare state beneficiaries (Jonung, 2004; Jupille & Leblang, 2007). The majority of blue-collar workers, farmers and public sector employees voted against euro adoption, as well as majority of women and people under 21. Only among the self-employed and white-collar workers euro had more enthusiasts than skeptics. It is thus no wonder that after wide distribution of Calmfors Report that saw unemployment rise and budgetary tensions as a possible outcome

[3] It is also interesting to point to municipalities like Haparanda on the Swedish-Finnish border, which was also in favour of euro adoption for trade reasons.

of euro adoption, the majority of Swedes voted no. Growing deficit would most probably mean that welfare spending need to be cut. Also a possibility of introducing a fiscal union in the EU in the future as a counterbalance to the monetary union could lead to a reduction of welfare spending and undermining the model of universal welfare state being already a part of the Swedish identity. It was true that the troubles that the Report warned against were already gone in 2003, but as a matter of fact nobody could guarantee that the negative effects of a political project of this kind would not materialize in the future especially that the recollection of the dot-com downturn was still there.

The debate that took place in the media and in economic journals was also far from conclusive. It rather cast more doubts and reservations to the common currency. It was for example argued that the reduction of transaction costs or exchange rate risk was not enough to compensate the loss of own monetary policy in terms of setting interest rates and influencing the exchange rate (Gottfries, 2003), that political benefits of joining the possibly conflict-prone Eurozone while being a rather small country were pretty doubtful (Swedenborg, 2003), and that abandoning efficacious policies of well-functioning national central bank for the sake of joining an organization simply 'too big to be effective' seemed like an irrational move (Svensson, 2003). Also the members of government themselves were divided on the issue and sent contradictory messages to the society – Deputy Prime Minister Margareta Winberg and Minister for Industry and Trade Leif Pagrotsky were openly rejecting euro. The most numerous and influential labor union *Landsorganisationen* was also against the common currency. With political scene divided and possibly much to lose Swedes preferred to stay outside the euro and wait for further development of the situation.

The radicalization of opinions began in 2010, when the consequences of the 2008+ crisis were spilling around. Immediately after the outbreak of the downturn Swedish krona seemed like a small boat on a messy ocean drifting next to a supertanker, which fueled positive attitudes toward euro, yet soon the situation reversed. Depreciation of krona by 30% vs. the US dollar and by 20% vs. the euro gave the economy an export boost which allowed to reach 6% GDP growth rebound in 2010. It was not the first time that floating exchange rate saved the day in Sweden – after the crisis of 1991-1993 and the dot-com crisis at the beginning of 2000s weak krona worked the same way, which proved crucial for a country depending so deeply on good export conditions[4]. After the 2008+ crisis a very poor situation of the PIIGS countries in terms of accumulated public debt and relatively poor

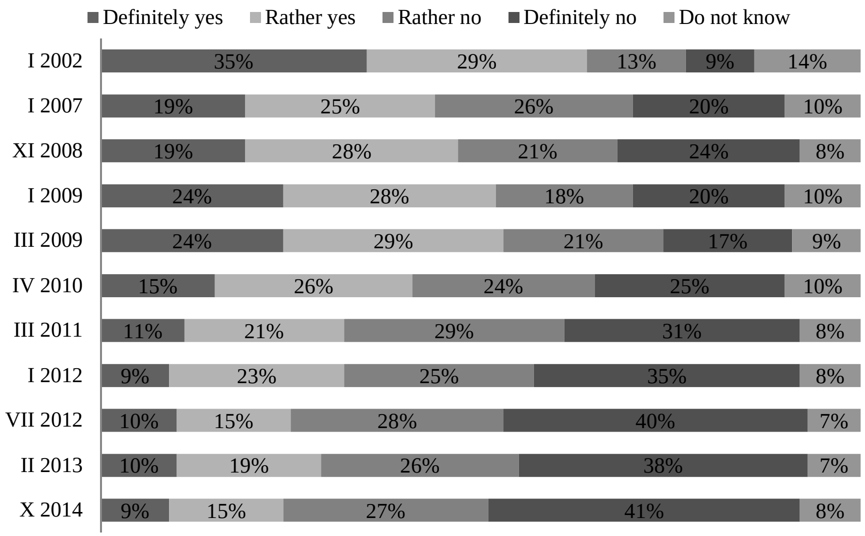
[4] Value of exports mounts up to 45% of GDP (2014).

productivity emerged, which threatened the stability of the euro and required an immediate political intervention from the EU core countries in order to provide them with liquidity. At the same time, the Swedish public debt fell below 35% of GDP after many years of tough fiscal policies. The difference between the indebted Eurozone and largely relieved from the debt burden Sweden became strikingly visible. Entering the Eurozone in this situation would seem more like a bad joke or tough desperation than sound economic policy, especially since the Swedish growth remains relatively high and there is rather a threat of deflation than inflation.

The Swedes seem, therefore, to realize that if it had not been for sovereign economic policies, the situation could look much different from what it is now. And this refers not only to the fact of having own currency, but also to their tough self-discipline that Eurozone was actually lacking in the field of public finances and focusing on high competitiveness with wages carefully following the productivity change (*Sweden*…, 2011). Consequently, there could be not much to gain from euro adoption, but possibly much too lose. According to the European Commission (2015) report, 71% of Swedes agreed that euro adoption would mean losing control over national economic policies (20% disagreed). The opinion on positive economic impact of euro adoption is rather poor: merely 29% of Swedes believe that it will bring higher growth and employment, 17% think that it will bring lower inflation rates, 15% think that it will ensure sounder public finances, and only 11% think that it will cause interest rates and debt charges to go down. Also, only 16% believe that euro adoption shall protect the country from international crises. Majority of the Swedes also fears losing national identity (66%) and price hikes after the adoption (64%). The pure advantages of euro are seen in convenience while travelling into Eurozone, the possibility of easier price comparisons and foreign shopping, and elimination of exchange rate fees. All in all, the total impact of euro introduction is perceived as negative by 62% of Swedes and as positive by 31%. For the above reasons as much as 61% Swedes claim that euro should be introduced as late as possible and only 10% would like it to happen as soon as possible. It does not mean, however, that Swedes are critical towards staying in the European Union – only 20% would like Sweden to step out from the community and 50% prefers to stay with the EU. Being a part of the biggest world economy is visibly beneficial and gains wide support, but the same cannot be said about having the same currency at the price of giving up own monetary policies.

Polish citizens were never officially asked to share their opinion on the introduction of euro even though some politicians have long demanded holding a referendum. Interestingly, it is usually euro-skeptics that have insisted on having a referendum so that they would gain a legitimacy for rejecting euro adoption, whereas in Sweden it were euro proponents that counted on a positive referendum outcome. Polish opinion polls show that the hopes of euro antagonists have been quite reasonable as Poles' attitude toward common currency changed from rather positive to strongly negative (figure 2). Before the EU accession as much as 64% of respondents declared that they would agree on the replacement of zloty with euro (CBOS, 2014). In the later years the balance between opponents and supporters of euro was largely even, though with a winning margin turning to the latter group. The outbreak of 2008+ crisis changed the attitude entirely. Between 2010 and 2014 the percentage of euro supporters shrank from 31% to 24%, whereas the percentage of opponents grew from 49% to 68% with majority of them declaring a definitive 'no' to the common currency.

Figure 2. Public support for introducing the euro in Poland



The question asked: "Would you agree on replacing zloty with euro?"

Source: CBOS (2014).

The fall of public support for euro did not occur as sharply as in Sweden, although the general trend shows clear similarities. At the beginning of 2009 the number of supporters of euro was greater than opponents and later began to drop steadily. Since 2011 the dominance of euro-skeptics has been plainly visible. This change of minds of the public can be attributed to the awareness of the benefits of floating exchange rate and troubles in the Eurozone. Similarly to the Swedish krona, between 2008 and 2009 Polish zloty depreciated by ca. 45% against euro and ca. 80% against US dollar giving a strong boost to exports and contributing to Poland's exceptional positive GDP growth throughout the whole crisis period. It was hence too late for the liberal government to pursue pro-euro campaign to convince citizens of the advantages of euro adoption. The publication of an official Road Map to the common currency by the Ministry of Finance in 2008 was probably belated by a couple of years and compelled to face the legacy of the anti-euro government of 2005–2007. The political strength of opposition parties also contributed to a mixed message on the euro issue sent to the society. The public debate has not been single-minded either. The mainstream media have been showing conflicting positions on a regular basis, creating confusion among the people. In effect, even radical views, staying usually at the margin, gained some support though – as it seems – not by the power of arguments, but by the argument of turmoil and oversimplified solutions of complex issues.

Even though the Poles are generally negatively oriented toward the common currency, they perceive euro adoption as less intrusive then the Swedes: 50% of Poles believe that having common currency would mean losing control over national policies, whereas as many as 44% disagree with this opinion (European Commission, 2015). They have also higher expectations toward the benefits of euro introduction (though they still remain in minority): 32% think that it will bring more growth and employment, 29% think that it will ensure sounder public finances, 28% think that it will bring the interest rates and debt charges lower, and 27% that it will ensure lower inflation. As much as 30% also think that euro will protect Poland from the effects of international crises. Similarly to Sweden, most Poles perceive the euro as a convenient tool for international travelling, shopping and price comparisons. The Poles are also less afraid than the Swedes that the euro would harm their national identity (53% agrees that it would), but more anxious about prices going up after the adoption of common currency (70%). In general 54% of the Poles believe that euro introduction will have negative consequences for the national economy, whereas 39% believe the opposite. Consequently, only 10% of the Poles think that the euro should be adopted as soon as possible, and 47% believe that it should be done as late as possible[5]. Finally, again similarly to Sweden, the Polish citizens oppose the euro, but are keen to stay within the EU: in the

[5] According to CBOS (2014) 73% of Poles think that we should not rush into Eurozone and 25% think that we should join as soon as possible.

end of 2014 there were only 11% of respondents declaring their negative stance towards EU and 84% of respondents happy for Poland to be a member of the EU. These numbers have been largely on the same level since 2007.

The Convenient Euro-outsider?

The outcome of the Swedish referendum put politicians in an uncomfortable situation. Even though most of them were rather in favor of introducing euro, they had to respect the voice of citizens. Then again, the government was worried that the rejection of euro would lead to political marginalization of Sweden within the EU core. The Swedish image of a country promoting European integration and often showing substantial commitment for the EU matters earned a scar on its surface. Hence Sweden had to adopt a policy stance that would be both careful and effective in terms of their further involvement in the European policies. According to Lindahl and Naurin (2005), the Swedish government decided to follow the policy of low visibility so as to kill two birds with one stone. In order not to upset domestic electorate and discourage the Swedes from the possible future euro adoption, the issue of common currency was not supposed to be raised at home. In the international arena, however, Swedes chose a hitchhiking strategy of visible readiness for euro introduction (Miles, 2005). The strategy meant that although the train to the euro had already left, Sweden should be ready to jump into another train any minute. In order to be perceived as instantly ready for boarding, the Swedish government intended to meet the convergence criteria and remain an active discussant in economic and monetary issues on the EU political arena. Riksbank was also expected to conduct monetary policy that would be rather concurrent to EBC policies. Sweden decided thus to stay top-of-the-class in implementing the directives and suggestions from Brussels in order to dissipate the impression of being a free-rider that wishes to enjoy the benefits of EU integration, yet does not wish to bear the consequences and risks of sharing the common currency with other EU members. For this reason Sweden has never attempted to create a common position with other euro-outsiders (like United Kingdom and the newly accessed countries) as a political and economic counterbalance for euro.

As a result of the above attitude and favorable political and economic coincidence, Sweden found itself in a surprisingly convenient situation, which offers the luxury of staying outside the Eurozone without incurring excessive costs of this fact. Swedish politicians do not feel pressure from the electorate on quick euro adoption, which is also an excuse towards the European Commission, which respects democratic vote, while the economic situation does not call for vital structural and policy reforms. It is this comfortable political and economic position that contrasts with the situation of countries such as Poland, which could possibly try to emulate Swedish reluctant policy towards the euro. Let us analyze it in more detail, as this is the very core of the political economy of euro adoption. We should note here, though, that we are far from analyzing all the possible issues at hand, we just point to the most telling ones to illustrate our point.

The most important economic difference between Sweden and Poland is, of course, the level of economic development. GDP per capita of both countries differs almost twofold with Sweden enjoying in 2014 as much as 45800 USD (PPP) and Poland only 24800 USD (PPP)[6]. This sets different goals before the governments of these countries meaning that Sweden wishes to keep this high level, whereas Poland strives to reach it. In many aspects this naturally implies pursuing similar policies, yet the challenge for the catching-up countries is always much more demanding than 'merely' the defence of the high position. Sweden, for example, enjoys a renowned position in the international division of labour as it is widely recognized for its innovative and technologically advanced goods sold all over the globe. According to the Global Innovation Index 2014, Sweden is the third most innovative economy in the world, while Poland occupies only the 45th position. There is especially a striking difference in the Research and Development category and patents granted. According to the World Bank data, Sweden spends as much as 3,4% of its GDP on R&D and Poland only 0,9%. The value of high-tech exports reaches 17 billion USD in Sweden and 12 billion USD in Poland (with the population almost four times larger). Sweden is also a highly diversified economy according to the Observatory of Economic Complexity occupying 4th position in the world (Poland taking 21st position). It is the dispersion of tacit knowledge and know-how in many branches that contributes to the economic potential of the country and consequently long-term economic growth. Many of Swedish leading companies (the so-called national champions[7]) are involved in the manufacturing of goods and services with high value added, leaving the traditional

[6] OECD data. According to Eurostat Swedish GDP per capita (PPP) represents 124% of the EU average, whereas Polish merely 68%.

[7] Including biopharmaceutical company AstraZeneca, home appliances manufacturer Electrolux, trucks, busses and construction equipment manufacturer Volvo, telecommunication companies Ericsson and TeliaSonera, construction equipment and tool producer Atlas Copco, and four influential banking companies (Nordea, SEB, Handelsbanken, Swedbank). One should also mention such brands as IKEA, H&M, Skanska, SKF, Svenska Cellulosa, Scania.

industries of steel, paper and pulp behind. In contrast, the largest Polish companies are involved mostly in energy production and resource extraction businesses[8], which are usually a secondary source of innovations and productivity growth. There are of course promising companies in IT and manufacturing, but their maturing requires time (*Growing*…, 2014). What all this, however, implies is that in the international trade Sweden is an established player that holds relatively high price-setting capabilities (limited by competition though). When selling final, highly processed innovative goods, one can charge extra for novelty and creativity, whereas being a resource supplier, a middleman in a production chain or an assembly powerhouse, hardly offers such a possibility, which makes such businesses highly sensitive to volatility of exchange rates. Also trying to act as a price maker will end up with somebody else taking your place, as one's competitiveness needs to be price related. We can thus claim that from this point of view the adoption of the euro offers the Swedes quite limited rewards because their export relies to a wide extent on highly processed goods and is innovation related which tends to mitigate the exchange rate threats.

Another difference concerns the structure of exports in terms of destination. In 2014 38,6% of Swedish exports (in trade value) was received by countries with euro as currency[9]. The corresponding number for Poland is 54,7%. In other words as much as 61,4% of Swedish export goes to countries with other currencies than the euro, whereas in the Polish case it is only 45,3%. What is even more striking is that the most important Polish trade partner – Germany – receives over a quarter (25,9%) of Polish exports in general. Swedish most important trading partners are Norway and Germany with 10,4% and 9,7% share of exports, respectively. This means that the Polish exports is much more vulnerable to exchange rate volatility toward the euro, and its adoption will alleviate this risk especially that more than a half of the Polish exports goes to the Eurozone and Polish foreign trade is virtually dominated by one trading partner that uses euro as currency. Sweden is relatively more relieved from this pressure with more balanced trade structure even though almost two-fifths of its exports goes to the Eurozone.

In a similar vein, the euro might also work as a confidence booster that could convince international investors of political and economic stability of a country. This can be easily observed within two areas: business environment and currency recognition. Sweden is usually on top of such rankings

[8] Oil refineries and retailers PKN Orlen and Lotos, petroleum company PGNiG, energy producers Tauron and PGE, mining company KGHM. Insurance company PZU and banking company PKO BP are also among the largest entities in Poland.

[9] Numbers in this section are based on UN Comtrade data.

as Doing Business, Index of Economic Freedom or Corruption Perception Index which reflects its high political and social order standards and therefore authorities do not have to convince others that Sweden is a safe place for making business. Countries like Poland, on the other hand, troubled with social problems, historical legacies and sometimes political instability and uncertainty are still working for that kind of brand. Euro adoption can visibly contribute to this process, as such a country becomes a part of a wider economic and political organism with high standards and reliability. For analogical reasons, the Polish currency is perceived as not as trustworthy as the Swedish one, which could have been observed during the 2008+ crisis when the Polish zloty was treated as just one of many Eastern European currencies, even though it had much firmer foundations than for example the Ukrainian or Hungarian currencies.

And lastly a word on the convergence criteria. It is true that Sweden does not fulfil the criteria, but this is mostly a political matter. According to the Convergence Report by European Commission (2014), Sweden does not meet only two criteria, i.e. legislation compatibility and ERM II participation. In the consequence of a lost referendum Swedish governments were under no pressure to change the relevant laws and join the ERM II. Thanks to this decision, the krona was allowed to float freely after the 2008+ crisis, which proved beneficial for the economy. Other monetary criteria (inflation rate and long term interest rate) have been met for many years now, and the exchange rate has stabilized after the crisis turmoil. The most interesting fact concerns the fiscal policy. After a tough struggle against soaring public debt and budget deficits in 1990s. Sweden adopted new procedures of budgeting that allowed for significant debt reduction and balanced budget (see Calmfors & Wren-Lewis, 2011). In effect, Sweden enjoys today sound public finances, which not only allow for easy criteria fulfilment, but also make Sweden one of the few European economies relatively untouched by the 2008+ crisis in fiscal terms. Poland, in contrast, does have difficulties with meeting the fiscal criteria. For most time since 2004 its budget deficit was too high, triggering the excessive budget procedure and public debt has been gradually rising. A relief in public debt gained by the pension reform in 2013 is probably only temporary and the debt levels may soon reach 60% of GDP. Another difficulty may concern relevant legislation for euro adoption, which requires constitution change. This will probably be hard to obtain due to growing political influences of parties opposing introduction of euro[10]. All this implies that Sweden is able to meet the criteria relatively

[10] Lawful amendment of constitution in Poland requires the majority of at least two-thirds of votes in the presence of at least half of the statutory number of Deputies in the Sejm and absolute majority in the Senate.

easy if the situation requires it, whereas Poland may have problems with it both in economic and political sphere. Meeting the criteria, however, not only means receiving a green light into Eurozone, but provides a measure of macroeconomic stability of a country, which enhances economic growth and access to more affordable capital.

Save from the economic criteria discussed above, there are also political ones that are worth mentioning. First of all, the geopolitical position of these countries is immeasurably distinct. Poland does have bothersome systemic and political legacy and borders with countries that feel uncomfortable about the transition period and loss of political influence and power. Moreover, two of Polish closest neighbours are in fact engaged in a military conflict which may threaten the stability of the whole region. The intentions of the Russian leader Vladimir Putin to restore the political influences of the Soviet Empire, even if often exaggerated, may also seem quite disturbing. Sweden is rather safe from such distress. And the second thing is that Poland is a net recipient of the EU funds, whereas Sweden is a net contributor. This gives the latter stronger legitimacy to stay outside the Eurozone with the argument of apparently giving more than taking. Poland, instead, needs to face a tougher ethical dilemma with being the largest beneficiary of the EU funds, yet hesitating to bear the costs of the European project. This may also breed the discontent among the EU officials in the future.

Conclusions

Both Poland and Sweden are obliged to adopt the euro, yet none is eager to do so at the moment. The major reason for this decision is public unwillingness to give up national currencies that prevails over more sympathetic opinions. It could be argued that staying with the national currency is no disaster. In fact many countries enjoy the benefits of own currency and sovereign monetary policies. Truthfully, there are countries like Sweden (or Norway, United Kingdom, Switzerland etc.) with its national currency and sound macroeconomic situation, and there is Greece (or Portugal, Spain etc.) with euro as currency and very poor economic performance coupled with deteriorating development perspectives. The picture that reaches the public is thus far from glorifying the common currency, even though citizens are usually rather aware that this is not a black-and-white situation. What is relevant here, however, is that the public resistance to the euro has created a serious constraint on the scope of possible political scenarios. This, of course, can be a blessing if there is not much to be gained with euro adoption and it becomes an excuse not to join the Eurozone even if one is expected to. On the other hand, it converts into a severe hurdle if there are economic and political gains to be reaped.

In democratic societies such challenges as the adoption of the euro are never purely pragmatic and deliberative decisions. They are heavily tinted with emotions and symbolic contents when it comes to referring to the opinion of the general public which hardly follows technical debates on the issue. So even if politicians wield institutional powers, they do sometimes succumb to the position of the electorate they represent. In the Swedish case this situation is a minor problem. With prosperous economy, high competitiveness and top living standards, the European currency has little to offer to the Scandinavian society. Swedish politicians are thus on the safe side, adopting the "wait and see strategy". Alas, it seems that the same cannot be said of Poland, because the consequences would most probably be dissimilar in the long run. The context of euro rejection is very different.

A frequent misunderstanding is to perceive the common currency as a goal in itself, not as a means to other ends. Having own currency indeed can be beneficial if one wields other assets in hand that can make up for the lost opportunities when staying outside. By saying this, we have in mind factors like established position on international markets, good prospects for further development or promising capital and human assets accumulation. Thus the rejection of euro should be a thoughtful and reasonable decision that is supposed to bring more benefits than costs, either in economic or in political terms. Similarly one cannot expect any benefits to appear from the sole fact of having euro, one has to be institutionally and organizationally ready for it. This is a real challenge for applied political economy.

The main difference between Sweden and Poland is located in the fact that these countries are in fact pursuing diverse goals and have very different starting positions. For Poland the issue on the agenda should be then how does the euro fit into all that we wish to achieve in the long term? Is the common currency going to be useful in reaching our goals or will just be a kind of ornament? Besides, one should not look only at the gaining side, but take into consideration the losing side. What are the costs of being an euro-outsider? What are the costs of joining the Eurozone? Contrary to Sweden, Poland does not have the comfort of neglecting the public debate on the issue. The public opinion is indeed negative toward the euro, but it does not bear the responsibility for the country, whereas leading politicians do. The initiative should be on their side, whilst simple acceptance of the public voice is an easy ride. If Poland is trying to work out its own path of development, it should wisely realize what works best for it in the long run and follow that trail. Mimicking the policies of the countries like Sweden, being on a different level of economic development and in different political situation, is no smart solution. The art of political economy is to realize when one can yield to the external constraints and when one should strive to overcome them.

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