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10 Years after Swedish Euro "Nej": Lessons for Poland

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Almost 10 years after Sweden's referendum on euro adoption, there are calls in Poland for a similar vote. Since Sweden is the only "older" Member State without an opt-out that has yet to adopt the euro, its experience presents a comparison with the dilemma facing Poles. The Swedish euro debate and referendum were based on recommendations contained in a detailed report on the costs and benefits of the common currency, prepared by a special body. Elaboration of a similar study of comparable political weight in Poland could considerably contribute to improving the quality of public debate on Poland's euro dilemma.

There are fundamental differences of economic policy between Poland and Sweden, making it hard for each to draw lessons from the other. Sweden's GDP per capita is twice as high as Poland's. Its export-oriented economy is more competitive than the Polish one, which is still in the process of economic transformation. Both countries have been on opposite sides of many negotiations in Brussels, such as on the EU Multiannual Financial Framework 2014–2020 or energy and climate policy. Yet, on the issue of their membership in the third stage of the Economic and Monetary Union (EMU), there are significant parallels. Both countries are legally obliged to adopt the euro, but there is no deadline as to when. In both countries, the main political parties are deeply divided on the issue, but they also fear being left out of decision-making regarding the future of the EMU and potentially some sectors of the internal market.

The Swedish Euro Vote Question. The Swedish referendum came at the end of a long and heated public debate involving domestic and foreign economists. Issues included classical questions such as whether the euro constituted an optimum currency area, the effects of the EU's monetary and fiscal policies, the extent of the independence of the European Central Bank, and the effectiveness of the Stability and Growth Pact rules. A 28-volume special report commissioned by the government in 1995 and published the following year provided the basis for discussion. The independent commission, led by economic professor Lars Calmfors, advised against joining the third stage of the EMU in 1999, but cautiously spoke in favour of adopting the common currency at a later stage. It concluded that there is a strong political rationale for it as Sweden would improve its position within the EU decision-making process. There was much more reluctance from the economic vantage point. One of the main arguments against joining the eurozone was the desire to maintain monetary policy as a tool for securing domestic macroeconomic stabilisation. The report further concluded that in order to minimise Sweden's vulnerability to asymmetric shocks and decrease the risks associated with joining the euro, economic adjustments were necessary. The two main adjustments were to decrease the level of unemployment and consolidate the budget. The Social Democratic government based its official position on this report, although there were divisions within the party.

In September 2003, the Swedish political elite asked voters if they wanted to join the eurozone. Of the 82.6% of registered voters who participated in the Swedish referendum, nearly 56% cast their ballot for the "no" side. The results showed a strong geographical divide, with the counties of Stockholm and Skåne the only two where the "yes" side won more votes than the "no" side. Although the referendum in Sweden was not binding, the government decided to respect the results and delay the adoption of the common currency to an unspecified time.

Today, 10 years after the "no" vote, popular support for the euro is at an all-time low in Sweden, with more than 80% of those polled opposing the adoption of the common currency. However, the benefits of staying out of the eurozone may actually be smaller than the Calmfors report suggested 17 years ago. Recent studies indicate that Sweden has very little autonomy in terms of monetary policy, with the Central Bank of Sweden already following ECB monetary policy. The lack of a Swedish voice in Frankfurt is thus a real deficit. Where Sweden has managed to protect its vital interests, this was at least partially thanks to a convergence of interests in Stockholm and London concerning financial issues. Taking into account that the country is quite deeply integrated into the EU, it seems that for Sweden eurozone membership would today entail more benefits than costs. However, with such strong opposition to joining, it seems that after the sovereign debt crisis experience most of the political forces and businesses are, as summarized by *The Economist*, "out and happy."

Poland's Case. In contrast to the Swedish case, Warsaw is facing a domestic legal problem. Euro accession would require constitutional changes that would place the European Central Bank, rather than the National Bank of Poland, in charge of monetary policy. With the current political situation, the two-thirds majority in the Sejm required to change the constitution is unlikely to be achieved without support from the opposition. As a result, Poland may need a referendum to obtain the votes in the Sejm. The opposition welcomes the idea of a referendum, as they argue that the conditions of eurozone membership have changed significantly since Poland joined the EU. According to recent public opinion polls, 64% of Poles are against adopting the euro. It is therefore likely that the issue will be the subject of intense political debate as elections to the European Parliament, Sejm, and the office of Polish president are coming up in the next two years.

Doubts therefore exist about the political rationale for the referendum. First, it is unlikely that citizens will be fully aware of the complex rules of the new euro area architecture given that they often present a challenge even for experienced analysts. There is thus a risk that the debate will be simplified to a question of sovereignty, symbolised by the national currency. Second, the persistent structural difficulties in the southern eurozone countries have resulted in chronic instability and political crises since 2008, which are widely reported in media. As a result, the negative aspects of eurozone membership are easier to present and a referendum campaign on the issue would likely lead to the extensive mobilisation of opponents to the common currency.

Conclusions. One of the most important aspects of the Swedish referendum that Poland can look to for a model is the way in which the debate over the euro was conducted. Rather than focusing on economically trivial questions such as the importance of the krona as a national symbol, both the "yes" and "no" sides drew on reports elaborated by independent bodies to frame their arguments, which is something lacking in Poland today. Although the question of when to adopt the euro has increasingly become a political matter, it does not mean that the subject cannot be objectively assessed in economic terms. Poland currently lacks a study with economic and political weight that could be compared to the study of the Calmfors committee in Sweden. Therefore, it can be recommended that Poland should follow the Swedish example and set up an independent scientific committee to prepare an objective report on the costs and benefits of the euro. The independent group of experts would also assess the readiness of the Polish economy to join a highly integrated currency union. The report could also contribute to the quality of the current debate, and through a well-crafted campaign, increase the public's knowledge of the euro.

In the current situation, however, it seems that there are more arguments against a Polish referendum on eurozone membership than there are in favour of it. Poland's status as an aspiring euro area member has given it good reason to take part in the political decisions over the EMU's future. A negative outcome in a referendum would in all likelihood considerably weaken this argument and cost Poland bargaining power on EMU matters. Yet, an up-to-date, reliable and objective study on the costs and benefits of joining the euro, setting a long-term economic adjustment strategy at the same time, seems to be a prerequisite for any decision on eurozone membership.

Regardless of the referendum issue, Poland's economy needs consistent and considerable structural reforms. Being a member of a highly integrated common currency area requires much more than sheer labour cost competitiveness. For Sweden, the decision to keep the krona has forced economic policymakers to keep sound public finances and increase the country's competitiveness in order to stay afloat. The Swedish example thus shows that the transparency of economic policy decisions and the quality of public discussion on the subject seems to be more important than setting new hard fiscal rules.

Currently, it is highly unlikely that Poland or Sweden will join the third stage of the EMU before 2020 due to economic and political constraints. Cautiousness towards the euro is evident not only among the public but also in the policies of both states' central banks. In both countries, large operations to introduce new paper bills are planned for the coming years. Thus, even the central banks do not anticipate the introduction of the euro in the near future.

Still, both Polish and Swedish decision-makers have to bear in mind that the number of non-eurozone members is steadily decreasing. Provided that there will be no exits, by 2015, more than 2/3^{rds} of the EU28 will be composed of states with the common currency. In addition, the nature of the UK's EU membership can be subject to modification between 2015 and 2017. As a result, non-eurozone countries' leverage may decrease on many issues, including further eurozone financial or fiscal integration. Therefore, sooner or later both Poland and Sweden will have to decide if they want to be in, or out.