

Looking North:

The Scandinavian Argument for Multi-Level Economic and Monetary Union (EMU)

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The European Union (EU) is undergoing a significant period in its existence marked by various crises at both member state and supranational levels. While previous literature has stated, “it is difficult to remember a time when the EU or its predecessors were not facing a crisis of one sort or another” (Hodson & Puetter, 2016, p. 365), it can be argued that the various crises that the European Union has faced over the past fifteen years have shifted the collectively-held conception of an integrated and cooperative European Union into a splintered and divided institution. The global financial crisis, the subsequent sovereign debt crisis, and the migrant crisis are causing member states to re-evaluate their position within the EU (Verdun, 2016). This re-evaluation is taking form in multiple iterations and at various levels of intensities, and is forcing the EU to look at ways in which it can adapt and evolve in order better accommodate the quickly changing needs of the elements that compose it.

One of the most visible occurrences of this evolution in European integration is seen within the EU’s Economic and Monetary Union (EMU). EMU played a large role in the sovereign debt crisis, as its “incomplete” structure not only helped to create the crisis, but also prevented quicker action from being taken in order to help those most affected (Verdun, 2016, p. 304)(Hodson & Puetter, 2016 p. 367-371). As Verdun (2016) explains, “the institutional design of EMU is incomplete” (p.304) as there is an imbalance of EU control over monetary and fiscal policy within countries in the third stage of its economic and monetary integration (p.297-298;p.304). In EMU, the EU (via the European Central Bank (ECB)) has full monetary policy control despite fiscal policy control being retained by national governments (Verdun, 2016, p.297-298). A lack of integrated fiscal policy in part allowed national debt and deficit levels to increase beyond agreed upon ceilings in some member states, while an ECB-controlled monetary policy prevented those affected by the crisis from taking measures to help soften the effects

through currency deflation (Hodson & Puetter, 2016; Verdun, 2016). While the sovereign debt crisis created new motivation for further integration in EMU, several of these proposals have failed to be completed due to continued hesitation from member states around the EU (Verdun, 2016, p.305-306).

This paper looks to use EMU as an arena in which to more specifically analyze the EU's current evolutionary process in an effort to find applications that can be applied throughout the EU. Therefore, this paper will attempt to provide an answer to the question: Should the third stage of Economic and Monetary Union (EMU) become a voluntary point of accession?

This paper will outline the position of Denmark and Sweden, two member states that do not use the euro (the EU's common currency), and will argue that they have proven to be effective and valuable members of EU's economic and monetary community, despite the fact that neither of them are fully integrated into EMU. This paper will argue that the mandatory acceptance of the euro as part of the third and final step of integration into the EMU should instead be voluntary, and argue that member states that have yet to adopt the euro should have the choice between keeping their own currency, or accepting the euro (Verdun, 2016). This paper will take a commonly held fear that introducing a "multi-speed Europe" will dilute its "common principles", as is established in the Economist (2017, p.15-16), and will show that this is an unrealistic belief. Finally, this paper will use the Czech Republic, another member state who does not currently use the euro, and will present the case as to why it should be allowed to keep its national currency.

I. Analyzing Denmark's Formal Precedent for a Voluntary Euro

Although Denmark signed off in agreement to the 1992 Maastricht Treaty, the treaty that

formally established “The Three Stages To Economic and Monetary Union”, its ratification was rejected following an extremely close public referendum¹ (Verdun, 2016, p.299-300). This publicly-backed rejection led to Denmark receiving four opt-outs from the Maastricht Treaty in order for them to agree to its ratification (The Danish Parliament, n.d.; Marcussen, 2005). Included was the opt-out from adopting the euro, thus allowing Denmark to keep its currency, the krone, in addition to retaining control of its monetary policy (The Danish Parliament, n.d.). However, while Denmark maintains this opt-out, it remains tightly linked to the euro through its place in the Exchange Rate Mechanism (ERM II). ERM II is a mechanism used to prepare non-euro member states integration into the euro-zone through the pegging national currency exchange rates to the euro with set fluctuation bands of ± 15 percent (European Commission, n.d.). While ERM II requires a national currency exchange rate with the euro to remain within ± 15 percent fluctuation, Denmark maintains policies that prevent the krona from straying ± 2.25 percent from a central krona-euro exchange rate (European Commission, n.d.). It is important to highlight that “participation in ERM II is voluntary, although, [...] a country must participate in the mechanism for at least two years before it can qualify to adopt the euro” (European Commission, n.d.). Therefore, while the extremely tight link between the krona and the euro essentially makes ECB monetary policy also Danish monetary policy, it is vital to keep in mind that this remains a voluntary linkage.

This section will read as follows: First, the perception that Denmark would gain significant influence in EMU forums by being a member of the Eurozone will be questioned and analyzed by highlighting arguments made by Miles (2005) and Marcussen (2005). Then, Marcussen’s (2005) concept of the “model country strategy” will be highlighted as an important concept in

¹ The results of the referendum were, “50.7 per cent against [to] 49.3 per cent in favour” (Verdun, 2016, p.300).

regards to non euro-area members maintaining influence and effectiveness within EMU (p.57).

Miles' (2005) concept of "integration asymmetry" speaks to the perception of the "Franco-German led 'core EMU Europe'" (p.9), and that this Franco-German relationship is responsible for driving and influencing much of the EMU's policies; creating a group in which "the Franco-German couple [is] more equal than the rest"(Marcussen, 2005, p.55). In applying this concept specifically to the Danish case, as is done in Marcussen (2005), the argument can be clearly made that, even if Denmark were to join the euro, its influence may not be fully realised. In his article, Marcussen (2005) shows that, while the Danish Central Bank is prohibited from participating in "central decision-making forums in the euro-area", because of the visible prevalence of "integration asymmetry" within the forums, it is not guaranteed that they would necessarily be able to garner any significant additional influence if they were to adopt the euro (p.55). Not only does Marcussen (2005) establish this point, but he goes onto conclude that "even though the [Danish Central] Bank is not an integral member of the ECB Governing Council, this does not mean that it is completely isolated from European monetary policy-making" (p.56). Marcussen (2005) then argues against the perceived fear that Denmark is at a significant lack of influence within EMU by showing that, while Denmark is excluded from Euro-group meetings, the Danish Central Bank does still play an important role in various "ECB-related forums", ultimately stating, "although Denmark is a euro-outsider, Danish civil servants need not necessarily feel ill-informed about matters of interest for the euro-area as such" (p.56).

To further his argument, Marcussen (2005) lists various ways in which "small states" (p.57) can increase their "influence inside the euro area" (p.55). Of particular importance is

Marcussen's (2005) example of a "model country strategy"² whereby "countries outside of the euro area that achieve [economic] success will automatically be drawn further into central [ECB and EMU] discussions than countries who have not achieved similar success" (p.57). Marcussen (2005) goes on to show that "Denmark [from 1960-2005 is] doing quite well" in regards to this idea of being a relatively strong economic actor, therefore showing that Denmark has been exercising this "model country strategy" for a significant length of time (p.57). While this article was published in 2005, the concept of "model country strategy", and the more general argument that Denmark maintains its influence while formally outside of the euro area, is an important take-away for the discussion of Sweden's place outside of the euro (Marcussen, 2005, p.57).

II. Analyzing Sweden's Informal Precedent for a Voluntary Euro

This section of the paper will look to The Economist's (2017) recent report that refuted three statements against having a "multi-speed" (p.15) approach to the European Union, and will specifically address the second argument that is refuted, which states: "unless everyone is prepared to agree on common principles and an ultimate goal, the [EU] might slowly but surely fall apart" (p.16). Sweden's unique relationship with EMU will be used to further develop counter-arguments to this anti- "multi-speed Europe" statement, and to show that it is largely unfounded (The Economist, 2017, p.15).

The first argument against the notion that the EU's survival is dependent on all members

² Marcussen's (2005) concept of "model country strategy" is defined as: "countries that have achieved success with regard to a common standard of measurement will automatically be drawn further into central discussions than countries that have not achieved similar success" (p.57). Marcussen (2005) uses this concept with a specific regard to EMU by stating, "[i]n the EMU framework, economic success and failure is decisive", showing that economic performance is the "common standard of measurement" in EMU (p.57).

“agree[ing] on common principles and an ultimate goal” (The Economist, 2017, p.16) is that, while Sweden has decided to remain a “euro-outsider”, research by Naurin and Lindahl (2010) suggests that there is little evidence to support the notion that they, or any other euro-outsiders are “breach[ing] the norm of European solidarity” (p.487). Naurin and Lindahl (2010) look to previous research to test the argument that “euro-outsiders”, by either formally or informally not participating in the euro area, were considered to be “[in] violation of Community norms, which stigmatizes the outsiders, making them less attractive as cooperation partners” (p.486). However, in their research, Naurin and Lindahl (2010) find that, even though there is a “strong consensus norm in the Council”, that norm is most visible between member states on a daily basis, as opposed to their representative state’s broader integration goals (p.488). Naurin and Lindahl (2010) go on to conclude that “[consensus seeking] is about getting things done [...] often in the face of overarching ideological disagreement”, suggesting that, even though there is indeed a strong community within the Council of the EU, it is not necessarily hampered by prejudices of member states who do not fully integrate into certain EU policy areas (p.489). This, as Naurin and Lindahl (2010) illustrate, also echoes Marcussen’s (2005) argument that Denmark – while not apart of the third stage of EMU – still has a strong connection with the ECB and monetary-relegated decision-making, as its delegates are present in almost all of the monetary meetings except those that deal specifically with the euro. In the second part of their article, Naurin and Lindahl (2010) then look to address the issue that, by opting-out of important policy areas, such as EMU, member states experience a “lack of influence”, because of their position as “euro-outsiders” (p.489). The researchers tested this by looking at the levels of “informal network ties which member states have access during the negotiation process” to see whether being “euro-outsiders” caused member states to be excluded due to their position (Naurin & Lindahl, 2010, p.

486). However, Naurin and Lindahl (2010) find in their study that “data on network capital in the working groups and committees of the Council of the EU indicate that Euro-outsiders are in fact doing well in the informal networking in the Council”³, even showing that in some factors, Sweden and Denmark were “over-performing in the network capital index relative to their size” (p.505). Both of these findings are incredibly interesting, as they suggest that, not only are the “euro-outsiders” (p.489) seen as important members within the Council of the EU, but that in some cases, the outsiders were actually exceeding the level of informal networking that was expected (Naurin & Lindahl, 2010). This over-performance again calls back to Marcussen’s (2005) concept of ““model country strategy””, whereby countries that are “achiev[ing] economic success” are naturally pulled into decision-making forums (p. 57).

Therefore, in using Naurin and Lindahl’s (2010) research, as well as recalling back to Marcussen’s (2005) arguments, there is strong evidence to suggest that, even when countries do not take part in the euro, their influence in the Council of the EU, as well as their presence in general, are not hampered to the extent that one would say that they no longer “agree on common principles [held by the EU]” (The Economist, 2017, p.16). In addition, one can see a two-way relationship exists, as Naurin and Lindahl’s (2010) research shows that “network capital” remained strong, even when isolating each “euro-outsider” and testing their relationships only with the “euro-insiders” (p.499-501). Thus, the evidence presented supports the argument that a “multi-tier” EU can exist, and, as The Economist (2017) suggests, is already present in some forms. By showing that there is an effective relationship between “euro-outsiders” (Naurin & Lindahl, 2010, p.485) and “euro-insiders” (Naurin & Lindahl, 2010, p.485), even when member

³ “**Network capital**” is defined in Naurin and Lindahl (2010) as: “the set of potential partners that an actor has access to for gaining and spreading information and building coalitions during the negotiation process” (p. 490).

states are on opposing sides of integrating on a vital piece of the European Union, the argument that a “multi-speed Europe” does not have to come at the price of the destruction of the EU’s common values is strongly grounded (Naurin & Lindahl, 2010) (The Economist, 2017, p. 15).

To further the argument against the anti-“multi-speed Europe” position established in The Economist (2017, p.15-16) by looking at both the poll data from the Swedish referendum in 2003, as well as the dates when Naurin and Lindahl (2010) conducted their study on informal networking, one can see that, when presented with key opportunities to visibly exhibit backlash to the EU as a whole, Sweden largely refrains. While that is said, it is interesting to bring in arguments made by Miles (2004) as well as Lindahl and Naurin (2005), as these authors offer interesting analyses of Sweden’s national sentiments towards the EU.

Following the 2003 referendum that confirmed Sweden’s place outside of the euro zone, The Economist (2003) reported, “the same exit polls that accurately predicted a no to the euro also showed that 60% of voters wanted Sweden to remain in the EU”, adding that the country had actually increased its acceptance of the EU since it joined in 1994. In addition to this important statistic regarding Sweden’s openness to the EU are the dates that Naurin and Lindahl (2010) compiled their data on informal networking within the Council of the EU; the dates of Naurin and Lindahl’s (2010) data collection are: 2003, 2006, and 2009. These three dates are significant, as they overlap with both the 2004 ten-member accession and the beginning sovereign debt crisis. However, data from Naurin and Lindahl (2010) shows that, while Sweden’s network capital scores did fall from 2003 to 2009, they still remained 4th out of 27 member states in regard to overall network capital, well ahead of “several other member states with more voting power in the Council” (Naurin & Lindahl, 2010, p.495). The poll data portrayed in The

Economist (2003), as well as the research conducted by Naurin and Lindahl (2010) show that Sweden maintains a significant partnership with the EU, and that, even though they do express reservation regarding certain areas of integration, they do not express large drop-offs in response to major changes of the EU, either for good or for bad. This evidence refutes The Economist's (2017) statement, as both the 2004 accession of ten new member states, and the sovereign debt crisis would be two key areas where a drop would be at least expected, if Sweden really were against the "common principles" of the EU (p.16).

However, it is important to further analyze Sweden's sentiments towards the EU. In both Miles (2004, p.155) and Lindahl and Naurin (2005, p.67), the concept of a "federo-sceptic" Sweden suggests that a reason that Sweden decided against the euro in the 2003 referendum was because of a "[Swedish] population fear of [...] being 'entrapped' by ambitious plans for further integration" (as qtd in. Miles, 2004, p.155). It is worth exploring Lindahl and Naurin's (2005) arguments for this concept, as they offer an more nuanced view of Sweden's "federo-scepticism" (p.67), and use it to show how the Swedish public has managed to effectively compartmentalize EU integration into its various categories so that, while they may be hesitant in some areas of integration, they are not an overall "EU-sceptic" country (p. 77). Lindahl and Naurin (2005) argue that Sweden holds a unique position in that it is a "euro-outsider that still wants to be an EU-insider and participate in other fields of cooperation" suggesting that, in making decisions regarding EU integration, Sweden differentiates between policy areas (p.78). It is within Lindahl and Naurin's (2005) argument of Sweden's compartmentalized integration that the crux of the argument for multi-speed integration is made. Having an 'outsider-insider' – and therefore effectively a "multi-tier"—approach to European integration, as is shown in Lindahl and Naurin (2005), highlights that, in giving member states some freedom to express national sovereignty,

EU integration can still be significant, and can still be able to effectively facilitate cooperation between the fully integrated member states and those who wish to remain in parallel to the EU's progress. In order to apply the analysis of both the Danish and Swedish relationship to the euro, the next section of this paper will look at the Czech Republic, a member state since 2004 that has not yet adopted the euro as its currency, in order to show how allowing an 'outsider-insider' relationship, as outlined in Lindahl and Naurin (2005), could facilitate an increase in cooperation between the Czech Republic and the EU.

III. Analyzing the Possibility of the Czech Republic's Precedent for a Voluntary Euro

The Czech Republic is considered a Eurosceptic country when it is compared to its fellow 2004 accession members (Dandashly & Verdun, 2016), though its political position regarding the euro has switched between being anti-euro to being more open to accepting the common currency (Dandashly & Verdun, 2016). Although the position of the Czech Republic has shifted over various governments, Dandashly and Verdun (2016) state, "the Czechs and the Swedes [...] have the lowest percentage of their population who believe that euro adoption will have positive consequences" (p.17). Using this connecting point between Sweden and the Czech Republic, an argument can be made to allow the Czech Republic to have the same informal yet stable position on euro adoption. While the economic powers of the Czech Republic and Sweden differ, out of the new member states (those that have joined since 2004 and do not currently use the euro), the Czech Republic exhibits key characteristics that make it a useful case to show how allowing a varied integration in the context of EMU could actually help with the state's perception of the EU (Dandashly & Verdun, 2015; Dandashly & Verdun, 2016). The Czech koruna is a relatively strong national symbol compared to other new member states (Dandashly & Verdun, 2015, p.5),

and it is also economically “quite strong relative to the euro and other currencies” (Dandashly & Verdun, 2016, p.17). The strength and importance of the koruna echoes back to Marcussen’s (2005) arguments regarding ““model country strategy”” and the ability of a country to naturally be brought further into “central discussions” if it is stable and strong outside of the Eurozone (p.57). Using Marcussen’s (2005) ““model country strategy”” (p.57) in the Czech Republic case would suggest that, by giving the Czech Republic a more stable position on EMU and allowing it to remain outside the Eurozone, it could be expected that Czech ministers in the Council of the EU may begin to develop stronger connections with euro zone members, if it were to maintain its economic strength. In addition, the arguments made by Miles (2004, p.155) and Naurin and Lindahl (2005, p.67) surrounding Sweden’s “federo-sceptic[ism]” would suggest that by allowing the Czech Republic to develop alongside – but importantly still outside – the euro, the Czech Republic may begin develop a more specialized relationship to European integration in other policy areas. As Dandashly and Verdun (2015) mention in their conclusion, “with [former President] Klaus having left his position [in 2013], euro-skepticism seems to prevail in Czech society, at least for the time being” (p.20), signaling that disdain for the euro has continued to dominate, even following a more pro-euro President taking over power. However, in applying the principles of the unique relationship that Sweden has with EMU to the Czech Republic, a more stable and cooperative membership between the EU and the Czech Republic could develop, as giving Czech Republic more stability regarding EMU sovereignty could translate into increased cooperation from the member state in other areas, and less generalized disdain for the European Union as a whole.

IV. Conclusion

This paper has outlined and analyzed the positions of Denmark and Sweden, two member states who do not use the euro, in an effort to dispel arguments made in *The Economist* (2017) against the concept of a “multi-speed Europe” (p.15-16). This analysis is done in an effort to support the larger argument made in this paper, which states that member states that have not yet adopted the euro should be presented with a choice regarding integration into the third stage of EMU. Using research conducted by Miles (2005) as well as Marcussen (2005), it is argued that Denmark still maintains a significant level of influence within and with respect to EMU, both through its continued participation in several decision-making forums, as well as through its enduring national economic stability. To further the argument, research conducted by Naurin and Lindahl (2010) has shown that, not only are Sweden and Denmark not “in breach of the norm of European solidarity” (p.487) by being “euro-outsider[s]” (p.485), but that, the Council of the functions on developing consensus between the members, and does not generally let broad “ideological differences” split the group (p.489). Additionally, arguments made by both Miles (2004, p.155) and Lindahl and Naurin (2005, p.67) suggest that, while Sweden’s scepticism towards the EU is due to their “federo-scepticism”, adding that they have sharpened their sentiments towards the EU to specific policy areas, instead of generalized “euro-scepticism” (Lindahl & Naurin, 2005, p.77). Finally, this paper has taken the cases of Sweden, and to a lesser extent, Denmark, and had applied them to a comparable case in the Czech Republic (Dandashly & Verdun, 2016). This application suggests that, if the Czech Republic were to be given the choice of a voluntary third stage of EMU, both its government and its populous may begin to develop the same specified sentiments and positions regarding the European integration, as is seen in the Swedish and Danish cases.

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