

# The Effects of Public Opinion on Euro Adoption in the Czech Republic, Hungary, and Poland



## Introduction

The issue of euro adoption among European Union (EU) member-states is currently quite relevant, as euro adoption is required from all new member-states. The Czech Republic, Hungary, and Poland are only three of the ten EU member-states to have joined the EU as part of the 2004 Eastern European enlargement and not yet joined the euro. We know from the literature that a variety of factors explain why countries choose to join the euro quickly or slowly. Some factors may be institutional, such as the potential need for a referendum in order to adopt the euro, or the presence of eurosceptic political parties. Other factors may be economically based, such as the loss of independent monetary policy. However, this study chooses to look at just one: public opinion towards euro adoption. In effect, the research question this study attempts to answer is "To what extent does public opinion affect the policies of the governments in the Czech Republic, Hungary, and Poland in the decisions surrounding euro adoption?" The literature on the effects of public opinion on government decisions surrounding euro adoption is relatively limited; therefore, this study will help to fill this gap in the literature.

## Background



Figure 1: "The EU Flag." Digital Image. Pixabay. 20 Oct. 2013. Accessed 6 Mar. 2017.

### The European Union:

The EU is rather unique in that it forms a supranational organization. As a governing body that sits at a level above national governments, the EU is able to enact policy that must followed by each of its member-states (of which there are currently 28). Each member joins after they meet certain criteria and signs the accession treaties. As of 2004, the accession treaties include a clause stating that, by signing the treaty, new member-states are pledging to adopt the euro at some point in the future. However, the case of Sweden shows that member-states that are pledged to eventually adopt the euro can simply avoid this obligation by not making an effort to follow the Maastricht criteria (see below). Thus Sweden shows how new member-states can delay euro adoption for as long as they desire.

### The Euro:

If a member-state does decide it wishes to join the euro area, it must first meet all of the Maastricht convergence criteria (European Commission 2015):

- 1) maintain sustainable price levels, where average level of inflation for the last year before examination does not exceed the average level of three countries of EU with lowest inflation by more than 1.5 percentage points
- 2) ensure the exchange rate moves within the "normal fluctuation band" ( $\pm 15$  per cent of Exchange Rate Mechanism II (ERM II)) for at least two years without devaluation against the single currency
- 3) ensure that the nominal long term interest rate does not exceed the average of three EU countries with the lowest inflation by more than 2 %
- 4) maintain government budget deficit at below 3% of GDP; and
- 5) ensure that public debt does not exceed 60% GDP (European Commission 2015)

The EU designed the first three criteria to maintain monetary and exchange rate stability, whereas the last two criteria attempt to protect the euro from inflation due to massive budgetary deficits.

## Methodology

I consider two main questions in my research:

- 1) what factors affect public opinion on euro adoption? (assessed through analysis of Eurobarometer data)
- 2) what is the nature of the relationship between public opinion and government policy on euro adoption (assessed through analysis of a survey I created)

### Eurobarometer:

As a survey conducted by the European Commission each spring and fall, the Eurobarometer covers various issues surrounding the EU. I chose to look at the specific Flash Eurobarometer 418 entitled, "The introduction of the euro in the Member States that have not yet adopted the common currency," (European Commission 2016). I chose to examine three questions that measured variables that can help to explain what affects public opinion in each of the three countries. The two independent variables were concerns over the loss of independent monetary policy, and concerns over the loss of national identity; the dependent variable was opinion on euro adoption. Thus, the two hypotheses were: 1) The more people have concerns over the loss of control over economic policy as a result of euro adoption, the less favourable they are towards the adoption of the euro; and 2) The more people feel they will lose part of their national identity as a result of euro adoption, the less favourable they are towards the adoption of the euro.

### Own Survey:

I chose to create my own survey to ask university students in the Czech Republic, Hungary, and Poland their thoughts about the relationship between public opinion and government policy on euro adoption in their country. Through contacts of my thesis supervisor, Dr. Amy Verdun, we provided a link to the online survey to professors from universities from each of the three countries, who then provided the link to their students. The survey received 145 responses in total, 71 of which were from the Czech Republic, 59 from Hungary, and 15 from Poland. I concentrated on two questions in my survey that measured variables that may help explain the relationship between public opinion and government euro adoption policy. The independent variable was belief that public opinion in their country is negative, and the dependent variable was belief that public opinion affects the government's policy towards euro adoption. Thus my hypothesis was: The more university students believe public opinion towards the euro is negative in their country, the more they believe public opinion influences their government's policy on euro adoption.

## Findings

### Eurobarometer:

Overall, I found a positive correlation between the independent and dependent variables. Meaning, the more that people have concerns over the loss of independent monetary policy and over the loss of national identity, the less favourable they felt towards euro adoption. However, this result could be limited by several elements, the first one being that Eurobarometer data to might be subject to a pro-EU bias. Given that the results were obtained through phone-interviews with citizens of each country, respondents may have felt the desire to provide answers that they felt the interviewer (as a representative of the EU) wanted to hear. In order to offset this possible bias, I compared Eurobarometer data with data from similar surveys done in the Czech Republic and Poland (such data was not available in Hungary at this time). From this comparison, I was able to see some differences in the data between the two sets of data, but the differences are slight enough to say that any pro-EU bias that might have been generated by the Eurobarometer had little effect on the data for the Czech Republic. With the Polish data one can see that the national poll shows much more negative views towards the euro compared with Eurobarometer results. Thus it is necessary to treat the Polish results from the Eurobarometer with caution as they may artificially inflate positive feelings towards the euro in Poland.

### Own Survey:

For the Czech Republic and Hungary, I found a positive correlation between the independent and dependent variable of my hypothesis, but found that the results for Poland were statistically insignificant due to the small sample size. Thus, excepting the case of Poland, the more university students believe public opinion to be negative in their country, the more likely they are to believe that public opinion influences government euro adoption policy. However, this result must be treated with caution, as there are limitations to my data. Due to my sample size, I am unable to generalize my results to the general public, or even the demographic of university students in each country due to the potential lack of accuracy of my data. In order to determine the (potential lack of) accuracy of my data, I compared the results of my survey to that of the Eurobarometer:

For each of the three countries it is necessary to show restraint in attaching a large amount of credence to the results of my survey, as the Czech results are in complete opposition to the Eurobarometer survey, the Hungarian results inflate positive views towards the euro, and the Polish results inflate negative views towards the euro. One can potentially explain the Czech and Hungarian discrepancy in results by noting that respondents of my survey were all students of the social sciences, and therefore had previous knowledge of the process of euro adoption, and the arguments for and against the euro. Such knowledge possibly created more amenable feelings towards the euro. The discrepancy in Polish results can be attributed to the small sample size of Polish respondents to my survey, which had the potential to skew the results.

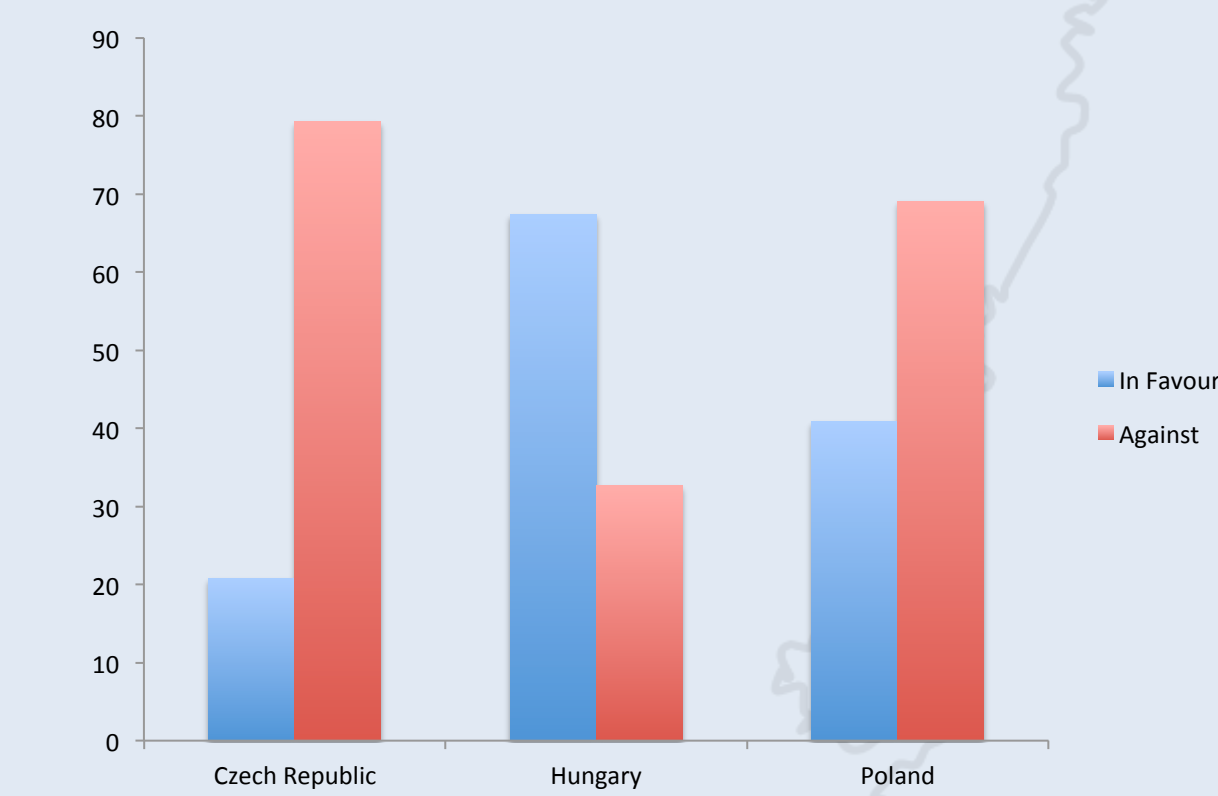


Figure 2: Eurobarometer Results (%)

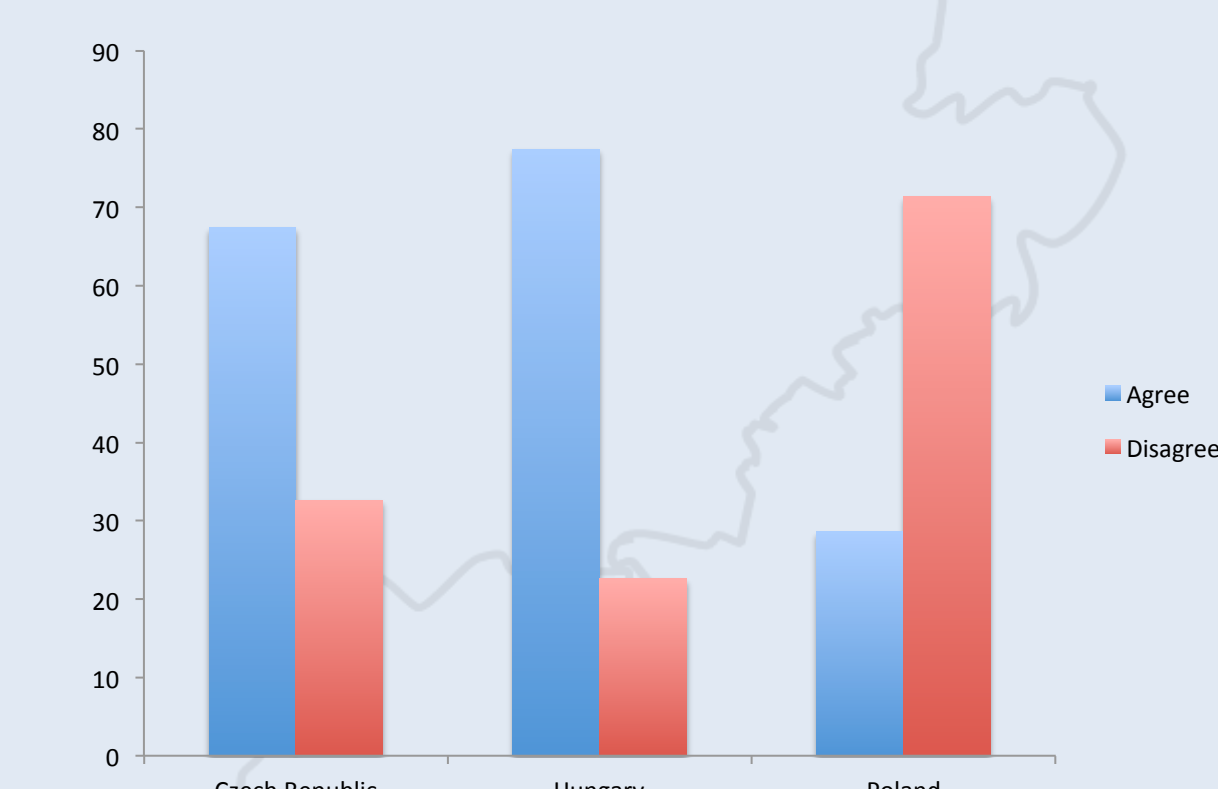


Figure 3: Own Survey (%)

## Analysis

The results from this research show that negative public opinion in each of these countries can be partially explained by concerns over the loss of independent monetary policy (a factor that contributed heavily to the economic crisis that hit the euro zone in 2009) and by the loss of national identity. This negative public opinion is then believed (as per the results of my survey on university students) to have an effect on government policy on euro adoption in the Czech Republic, Hungary, and Poland. Support for the hypothesis that negative public opinion is reflected in the decisions of the governments of the Czech Republic, Hungary, and Poland to not join the euro also stems from the fact that all three countries currently have eurosceptic (i.e. anti-EU) parties represented in Parliament. When people choose to elect eurosceptic representatives, it not only shows negative opinion towards the euro, but also affects change in that those representatives will now fight against further economic integration with the EU. While there are many factors that effect the decisions of governments on whether or not to join the euro, one can potentially look to the effects of public opinion to explain government euro adoption policy.

## Conclusion

The issue of euro adoption is important for states to consider, as it shows commitment to the EU and helps to create further cooperation among states. By looking at the relationship between public opinion and government decisions towards the euro, I am able to not only determine some of the reasons that explain why public opinion is negative towards euro adoption, but also determine the extent to which government decisions are affected by negative public opinion. Ultimately, I was able to determine that negative public opinion largely influences the decisions of the governments in the Czech Republic, Hungary, and Poland to not yet join the euro.



Figure 4: "Euro Coins and Banknotes." Digital Image. Wikipedia Commons. 14 Oct. 2006. Accessed 6 Mar. 2017.

## References

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