

THE SUPPORT OF THE EURO IN THE FIFTEEN EU COUNTRIES – POLITICS AND ECONOMICS*

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This paper aims at examining the contributions to the popularity of the euro in the EU countries as a consequence of the political support to the European cause and the economic need to replace some outdated lilliputian currencies in several countries.

The various degrees of adhesion to the euro in Western, Southern and Northern Europe are generally attributed wrongly only to varying political enthusiasm for Continental integration as between, say, Italy, at one extreme and the U.K. at the other. In fact, the two factors mentioned play a role.

The data

Columns (1) and (2) of Table 1 show the “gross” support of the fifteen member countries of the euro whereas columns (3) and (4) describe the net support i.e. gross support minus opposition: both were obtained in a EU poll taken in the fall of 2000. The nations are ranked similarly according to both variables, the main exception being Belgium which occupies rank 3 for gross and 5 for net as resistance to the euro was repudiated by 24% of the population (72%–48%) – more so than in Italy (17%) and Luxembourg (20%) – but less so

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than in the Netherlands (31%), Austria (38%), Germany (44%), Finland (49%), Denmark (55%), the U.K. (63%) and Sweden (64%). Notice that the latter countries had a currency with a high purchasing power – the lowest being the Austrian schilling (worth about 0.14 euro) and the highest the pound sterling (worth about 1.60 euros).

We surmise indeed that inclination toward the euro is also influenced by the unsuitability of the pre-2002 currency because of the exaggerated number of zeros required to price even a trivial good or service like a book or a meal in a restaurant with the possibility of a 10^{-1} time or 10^{+1} time error when the purchase is less trivial like buying jewels or a plane. Especially old people – their share in the population goes up all over Europe – should suffer from that “zeroism”.

That such a factor matters in the economy is shown by the many monetary reforms with or without a change in the denomination, which have taken place over the last half-century in Latin America, the Middle East, Africa and also in Europe as witnessed by the creation in France of the “new” franc worth 100 “old” francs in 1959. There are, of course, important costs implied by such reforms and this

Table 1
The support of the euro in the EU and its explanatory variables

Countries	Gross euro support		Net euro support		Backing of political unification		Euro rate	
	% (1)	Rank (2)	% (3)	Rank (4)	% (5)	Rank (6)	Absolute value (7)	Rank (8)
Italy	79	1	62	1	62	1	1,936.3	1
Luxembourg	75	2	55	2	54	6	40.3	5
Greece	70	3	49	3	51	8	340.8	2
Ireland	69	5	49	3	49	9	0.788	14
Belgium	72	4	48	5	57	2	40.3	5
Spain	68	6	44	6	56	3	166.4	4
Netherlands	64	7	33	7	56	3	2.20	12
Portugal	57	9	31	8	41	11	200.5	3
France	62	8	30	9	56	3	6.56	10
Austria	53	10	15	10	45	10	13.76	7
Germany	47	11	3	11	53	7	1.96	13
Finland	45	12	– 4	12	38	13	5.95	11
Denmark	41	13	– 14	13	39	12	7.45	8
Sweden	26	14	– 38	14	37	14	9.30	9
U.K.	21	15	– 42	15	37	14	0.60	15

may explain why Italy, where it has been often mentioned over the last decades, never chose to take the initiative, though the matter was discussed in the high spheres of government and the central bank.

But now the euro offers an invaluable opportunity for some countries: at the same cost, they get a reasonable *and* European numéraire (with no need of conversion for trade and capital transactions inside the zone).

No doubt, the incentive to adopt the euro will be higher for the most “pauperized” currencies: the Italian lira, the Greek drachma, the Portuguese escudo, the Spanish peseta and possibly the Belgian-Luxembourg franc.

Columns (5) and (6) of Table 1 are taken as the measurement of EU backing in general, measured as the wish of the population for a reinforcement of the Union: it is an average of answers to 25 questions about the wish to have an EU consensus in several fields – education, health, culture, defense etc. and monetary affairs.¹

Columns (7) and (8) present the value of the euro expressed in the currencies of the members²: the range lies between 0.6 and 1,936 – i.e. a relative range of more than 3,000.

We regressed (1) or (3) on (5) and the logs of column (7), as a range of about 60 for column (1) could not possibly keep pace with the 3,000 of column (7). It is unlikely that the Italian currency would exert an influence approximately 3,000 times that of the British pound sterling.

The findings

The results of the regressions are shown in Table 2.

Table 2

Regression Results					
	Gross euro support (1)	Net euro support (2)	Political variable (3)	Monetary variable (euro rate) (4)	Constant term (5)
Pearson regression					
$R^2 = 0.63$ $\bar{R}^2 = 0.56$ (1)	–	yes	2.34*** (0.76)	5.49** (2.68)	– 111.0*** (36.6)
$R^2 = 0.67$ $\bar{R}^2 = 0.62$ (2)	yes		1.33*** (0.37)	2.77** (1.32)	– 17.6 (18.0)
Rank regression					
$R^2 = 0.63$ $\bar{R}^2 = 0.56$ (3)	–	yes	0.44* (0.21)	0.44* (0.21)	0.94 (2.26)
$R^2 = 0.57$ $\bar{R}^2 = 0.50$ (4)	yes	–	0.51** (0.20)	0.44** (0.20)	0.38 (2.07)
Rank regression without Ireland					
$R^2 = 0.76$ $\bar{R}^2 = 0.71$ (5)	–	yes	0.54*** (0.15)	0.57*** (0.15)	– 0.85 (1.56)
$R^2 = 0.75$ $\bar{R}^2 = 0.71$ (6)	yes	–	0.48*** (0.15)	0.63*** (0.15)	– 0.81 (1.55)

* Significant at 10% level; ** at 5% level; *** at 1% level; (): standard errors.

The first two rows represent the linear-loglinear regressions for both the gross and the net support of the euro. The variable “general backing of the EU” reveals significance at the 1% level whereas the present exchange rate of the euro in the 15 nations is significant at the 5% level.

As we have no theoretical foundation for the relation, we tested these first results by correlating the ranks (Spearman rank coefficients) i.e. we applied O.L.S. to the three variables expressed in ranks. With the variable “net support” both explanatory variables are significant at the 10% level (2). With the “gross backing” variable they become significant at the 5% level.

It is somewhat curious that the correlations are generally higher with the gross than with the net variable. This would indicate that the opposition to the euro contains some part of white noise not taken care of by our national explanatory variables.

This could be partly due to one outlier, Ireland, whose support ranking is much higher than is warranted by the values of the explanatory variables – even more so for the net than for the gross variable: one additional point and Ireland would occupy the third slot while occupying the ninth for the first explanatory variable and the fourteenth for

¹ This poll was taken around the same time as the previous one i.e. the Fall of 2000. For both see “Poll no. 54 of Eurobaromètre”, published by the EU in April 2001.

² As of mid-July 2001 for the UK, Sweden and Finland.

the second. This could be due to the fact that more than one quarter of Ireland's trade is now with the UK and that the Irish may hope to reduce a dependency almost unique in the European Union.³ Toward that end, what is better than a fixed exchange rate with Europe – and the UK left out? If Ireland is excluded, the coefficients all become significant at the 1% level and the coefficients of determination at 0.75 or more are rather impressive for a cross-section somewhat higher now for the net than for the gross variable.

The regression functions are homogeneous of degree 1.11: an increase by 9 for a country in the ranking of the two explanatory variables brings about a jump of 10 in the dependent variable. The constant term has then to be negative – which is the case here without, however, any significance.

We also notice in Table 2 that the coefficient for the euro variable is higher than for the political variable except in row (3) where there is equality and in row (4) where it is lower.

Conclusion

The net support of the euro is especially high in the first nine countries of Table 1 from Italy to Portugal (61% to 31%). The contribution of politics is strong for eight (from Italy to France); that of exchange rates for six (the four Southern countries and Belgium and Luxembourg).

It may be inferred that the lilliputian exchange rates of the currencies of the four Southern currencies were decisive in adopting the euro. Without them at most 7 in 15 currencies could have been left out. And among the 7, two large countries (Italy and Spain)!

It could thus be that the reckless inflations of the four in the past made them into harbingers of the future. As Saint Augustine put it: *Felix culpa*.

³ Only Austria with Germany reaches an even higher figure. While Luxembourg's trade is more balanced.