



Can a common currency foster a shared social identity across different nations? The case of the euro



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ABSTRACT

Fostering the emergence of a “European identity” was one of the declared goals of the euro adoption. Now, years after the physical introduction of the common currency, we investigate whether there has been an effect on a shared European identity. We use two different datasets in order to assess the impact of the euro adoption on the fostering of a self-declared “European Identity”. We find that the effect of the euro is statistically insignificant. We interpret this result as suggesting that the euro did not have the desired positive effect on feelings of European identity. This result holds important implications for European policy makers. It also sheds new light on the formation of social identities.

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The euro is far more than a medium of exchange. It is part of the identity of a people. It reflects what they have in common now and in the future.

European Central Bank Governor Wim Duisenberg, December 31, 1998.

The introduction of a common currency is not primarily an economic, but rather a sovereign and thus eminently political act [...] political union must be our lodestar from now on: it is the logical follow-on from Economic and Monetary Union.

Joschka Fischer, German Foreign Minister, Speech to the European Parliament, January 12, 1999.

Thanks to the euro, our pockets will soon hold solid evidence of a European identity. We need to build on this, and make the euro more than a currency and Europe more than a territory. In the next six months, we will talk a lot about political union, and rightly so.

Laurent Fabius, French Finance Minister, The Financial Times, London, July 24, 2000.

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To millions of European citizens, the euro notes and coins in their pockets are a concrete sign of the great political undertaking of building a united Europe. So the euro is becoming a key element in peoples sense of shared European identity and common destiny.

Romano Prodi, President of the European Commission, Speech to the European Parliament, January 16, 2002.

1. Introduction

The physical introduction of the euro on the 1st of January 2002 marked an ambitious and celebrated achievement in the development of the European Union.³ The introduction was defended on grounds of financial and economic gains, and there is an ongoing and controversial discussion of the *economic* costs and benefits, especially in light of the recent financial crisis.

However, beside the economic rationale, the creation of the euro had also a political dimension. European treaties have engraved the aim of an “ever closer union” for the European integration. In that perspective, the adoption of a common currency was seen as a significant step, creating the conditions for further political integration. Among the expected effects of the introduction of the euro, it was widely anticipated that it would foster a pan-European identity, a shared feeling of “Europeanness”, in addition to (if not in place of) existing national identities. This emergence of a European identity would create a European *demos*⁴ seen as a necessary condition for deeper political integration (Cederman, 2001).

In this study we look at whether the euro has had an effect on European identity as it was anticipated by its political founders. First, employing a difference-in-difference design, we investigate whether feeling of European identity increased with the physical introduction of the euro. To do so we compare the evolution of self-declared European identity before and after the adoption of the euro in 17 countries of the EU who have already introduced it.⁵ Second, we also consider a possible effect of the euro through the iconography of its coins. Unlike euro notes which do not have national elements, euro coins all have a national specific symbol on one side. We take advantage of a unique dataset on the diffusion of *foreign* euro coins in France after the adoption of the euro in 2002.⁶ We test whether regional variations in exposure is associated to changes in European identity. Our two studies’ results converge to the same conclusion. We do not find any indications that the introduction of the euro did have an effect on the self-perception of European citizens as “Europeans”. This result contrasts sharply with the expectations of the political actors who engineered the creation of the euro.

Our study makes two significant contributions. First, it enhances our understanding of the dynamic of formation of a European identity. The absence of substantial effect of the introduction of the euro on identity is relatively surprising in the light of the expectations it had raised. This result invites one to reconsider the mechanisms by which a pan-European identity can spread and complement or replace existing national identities. It is also important to enlighten the political debate on the political European integration and the emergence of a European *demos*.

Second, it sheds new light on the debate about the factors influencing the emergence of a joint identity. Our results may seem surprising in view of the large behavioural economic and psychological literature that robustly demonstrates that humans strongly react to minimal experimental manipulations of their perceived group identity along economically relevant dimensions such risk and social preferences.⁷ A new shared currency is a strong manipulation of the experienced boundaries between an ingroup and outgroup. Yet our study suggests that it was not enough to foster the feeling of common European identity. This absence of an effect reminds us that the social world differs from a laboratory setting by the wealth of competing identity-building symbols available.

A paper related to ours is (Guiso et al., 2015), who study whether or not important milestones in the European integration process (the Maastricht treaty, the 2004 enlargement and the 2010 euro crisis) generated public support for further integration. They find that these steps reduced pro-European sentiments and trust in European institutions in general. Guiso et al. (2015) also rely on survey data from the Eurobarometer. They do however not study the impact of any of these events or that of the euro introduction itself on a self-declared European identity.

When assessing our results it is important to appreciate the limitation of the available data. Even though we corroborate our results with a large range of robustness checks that all confirm the main conclusion of this paper, it is obviously very difficult to provide conclusive answers to the question of the causal effect of the euro introduction. In particular using

³ This date marked the physical introduction of the coins and bank notes in twelve member states. However, these states had already officially adopted the euro in 1999. At that time their national currencies ceased to exist and their exchange rates become fixed to each other. The old coins and notes continued to be used as legal tender over the period 1999–2002. Therefore, 2002 was the year when Eurozone citizens practically experienced the introduction of the common currency in their daily life.

⁴ This term refers to the “popular unit that exercises democratic rights, and as such, is usually thought to be constituted by a shared identity” (Cederman, 2001). See Dahl (1991) for a formal discussion of the concept in political science.

⁵ The euro has now been adopted by 19 EU countries. The integration of the Eurozone by Latvia (2014) and Lithuania (2015) is too recent for them to be included in the analyses.

⁶ The dataset we use here, has information on the distribution of these ‘foreign’ euro coins relative to ‘French’ coins.

⁷ See for example Chen and Li (2009), Shayo (2009), Benjamin et al. (2010). A classical manipulation is the creation of groups according to preferences over Klee versus Kandinsky paintings, the so-called “minimal group paradigm” (Tajfel and Turner, 1979).

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