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**SHOULD FINLAND EXIT THE EURO? AN ANALYSIS.**

Bachelor's Thesis

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Tallinn 2016

I declare I have written the master's thesis independently.

All works and major viewpoints of the other authors, data from other sources of literature and elsewhere used for writing this paper have been referenced.

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## **ABSTRACT**

In 2009, the Euro appeared as a success as the economy of Europe had grown to close to that of USA's (Kanniainen 2014, 7). However, the reality about the condition of Europe's economy was not that ideal after the global financial crisis of 2008. Due to this there has emerged discussion whether or not Finland should exit the Euro, and whether the Euro has been a reason for Finland's low economic performance.

There are two roles for a common currency that apply to the Euro region. Firstly, it aims to function as an institution that supports monetary policies and represents the economic aspect of the Euro (Kanniainen 2014, 10) Secondly, it supports the evolution towards a federation which has a centralized financial policy and this is the political aspect of the Euro (Ibid.). Kanniainen (2014) lists two options for Finland for future: either to continue with the other 18 members the evolution from euro zone to a federation, or to exit the euro zone (p. 49). This thesis will present arguments in favour of own currency in Finland and argue against the evolution towards a federation. Furthermore, the main idea in this thesis is that Finland should exit the Euro due to the current economic situation of Finland and of Europe. This would promote growth and make Finland financially more independent as it would not be tied to the EMU.

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## **INTRODUCTION**

Finland adopted the Euro along with 10 other European countries on 1st January 1999. After the financial crisis of 2008 and the Euro crisis that started in 2010 anti- Eurozone sentiments have strengthened in many European countries together with distrust towards the EU as a whole. Especially in Finland euro skepticism has been promoted mainly by supporters of True Finns party. The National Bureau of Economic Research (NBER) Emeritus President Martin Feldstein warned already in 1992 that common currency in the euro zone could bring unemployment and harm the euro countries (GnS economics 2012, 3). Moreover, these predictions have become true to some extent after the financial crisis (Ibid.) and this explains why anti-Euro sentiments that have emerged with a vengeance after 2008.

This thesis evaluates the pros and cons of a common currency from the Finnish perspective. More precisely, this thesis studies whether or not Finland should resign from the Eurozone and how beneficial would reintroducing the previous currency of Finland, The Finnish Mark be for the Finnish economy. More precisely, the hypothesis is that Finland should reintroduce its own currency Mark back due to the economic benefits it would have.

The significance of this thesis is that it reveals the strengths and weaknesses of a common currency in the Eurozone and in a Monetary Union. The hypothesis is that due to current unstable economic situation after the global financial crisis of 2008, gaining its own macroeconomic independence would be an adequate economic measure for Finland. In addition, as social policy depends on a country's economic policies (Grönroos 2013, 37), it is important to note the other aspects such as political reasons have no relation to the economics that which currency union might have an effect on.

The first section of this thesis will evaluate in more detail the reasons why Finland joined the Euro in 1999. The second section will evaluate the pro Euro views and see how adequate they are for Finland, whether or not the expectations regarding to the benefits of the Euro have become true, and if Finland has too much to lose if they decided to exit the Euro. The third section will present the ideas against the common currency from the Finnish

perspective and explain more in detail why Finland should introduce its own currency. The fourth section supports this conclusion by analyzing three countries that have kept their own currency Sweden, Denmark and Iceland. These countries represent Nordic countries similar to Finland and are chosen for this investigation because they have similar welfare states. And lastly, the fifth section of this thesis will conclude the main reasons why Finland should exit the Euro and present a summary on why it would be beneficial for Finland.

## **1. FINLAND AND THE EURO**

The main reason for the adoption of the Euro for Finland was that after the Second World War, Finland wanted to be part of the larger integration process, which begun already in 1958 by the creation of the common market (Stark 2005, 11). The goal of the common currency was set already in 1969 by the EU and the Maastricht treaty of 1992 and was concluded by the creation of the Euro (Stark 2005, 11). The Maastricht Treaty was signed in February 1992 by 12 Member States (Heinonen 2015, 28).

Another important idea behind the establishment of the Euro was that the markets of the European nations were too small to maintain competitiveness compared to larger nations such as the US and Japan (Ibid.). Transforming Europe from small economies to one large economic region meant market liberalization, the free movement of capital, and services and products (Stark 2005, 11). And a common currency meant that there would be no currency exchange costs and exchange risks (Stark 2005, 12). This would additionally mean eliminating the possibility of exchange rate crises. This together with the will of being part of integration of the Europe made Finland to consider the membership of the Euro, and further on these facts made Finland to adopt the common currency.

Finland joined the European Union (EU) in 1<sup>st</sup> of January 1995, after a referendum held on 16 October 1994 that received a total of 57 percent of approval (Breuss 2003, 131) and the promises of the benefits of a common currency gained popularity. Therefore, after joining the EU, the next natural step for Finland was to adopt the common currency. Moreover, Finland's stance for trade has been liberal during and before joining the EU (Salo 2006, 5) and the country has acknowledged the benefits of European common market and the common currency of the Europe.

When Eastern Europe and the Soviet Union collapsed in the beginning of 1990's, Finland faced a recession that made GDP fall by 6,3 % in 1991, 3,3 % in 1992 and 1,2 % in 1993 (Breuss 2003, 133). Furthermore, Finland additionally had a systematic banking crisis similar to Sweden and Norway (Sandal n.d, 78). The banking crisis of Finland, Sweden

and Norway included increase of fragility, crisis, and a shock (Ibid.).

The idea of joining EMU were introduced already in 1995 during a period that was seen as economically unstable (Salo 2006, 3). The vote on Euro membership was held in 1996 in the Finnish parliament, where the supporting side won with a significant majority with 115 for and 21 against (Kumpula-Natri 2009, 1). According to the Eurobarometer, which asked if Finland should join the Euro, in 1996 only 29 % of the Finnish citizens were in favour of the Euro and this number represented the lowest Euro support in the Europe (Ibid.) However, already in 1998 56 % were in favour of the Euro in case other EU-countries joined as well (Ibid.).

## **1.1 Finnish economic development after joining the Euro**

In this subsection, an overview of Finnish economic development will be presented. The rate of Finnish exports and imports, Economic Forecast for Finland made in 2016, the Finnish wage and salary indices in the public and private sector and the consumption rate of Finland will be examined in this section in order to provide a better understanding of Finnish economic performance.

Despite persistent unemployment, the Finnish economy was in rather positive shape if compared globally in 1995 when Finland was joining the EU (Salo 2006, 3). Ever since Finland joined the Euro, its fiscal policy has included fiscal discipline, the finances of general government have been in surplus and close to balance, and the local government deficits have remained small (Salo 2006, 4). Honkahrju (2013) describes Finland as a country with AAA sovereign credit rating, and a stable outlook of future (p. 1). Still before the year 2008 Finland experienced strong output growth that was strengthened by growth of high-tech sector (OECD 2014, 5). Furthermore, the recovery has been rather hesitant for the whole euro zone region (OECD 2014, 8) and surely Finland did face problems brought about by the 2008 financial crisis.

Figure number 1 illustrates changes in the Finnish unemployment rate between 1969-2013.



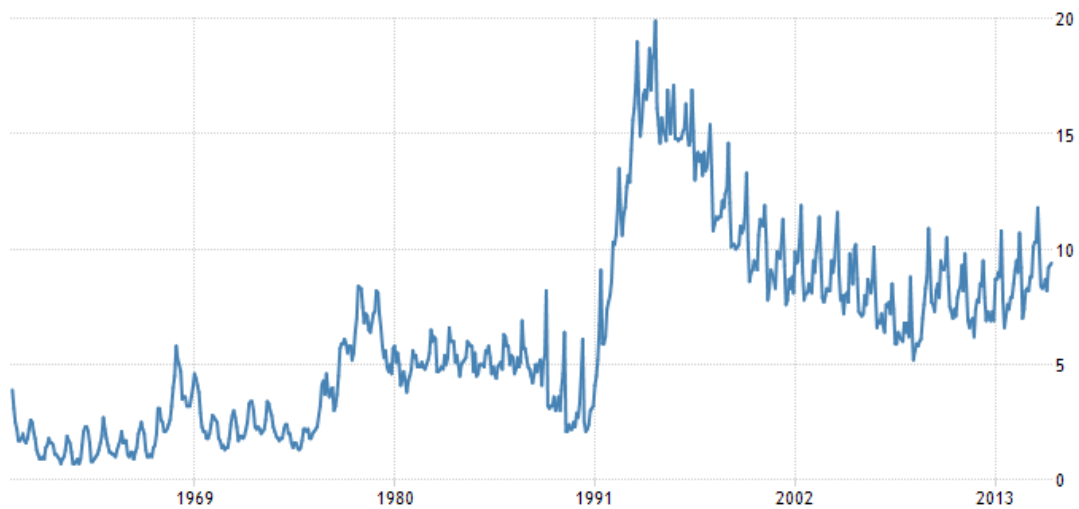


Figure 1. Unemployment Rate of Finland 1969-2013

Source: Trading Economics (2013)

The figure 1 reveals that when compared to the period of 1970-1990, the Finnish unemployment rate has remained higher during 1990-2013. In addition, as the graph shows, the highest peak of unemployment that Finland experienced during this period was around 1995-1996. From there it has decreased. However, Finland has not been able to gain its low levels of unemployment similar to the period of Mark.

Since 2008 the growth of Finnish economy has been lower than the average of euro area, while in 2013 the Finnish GDP was 5% smaller than in 2008 (Honkajarju 2013, 1). Moreover, figure 2 illustrates changes in volume of gross domestic product by quarter 1991-2015.

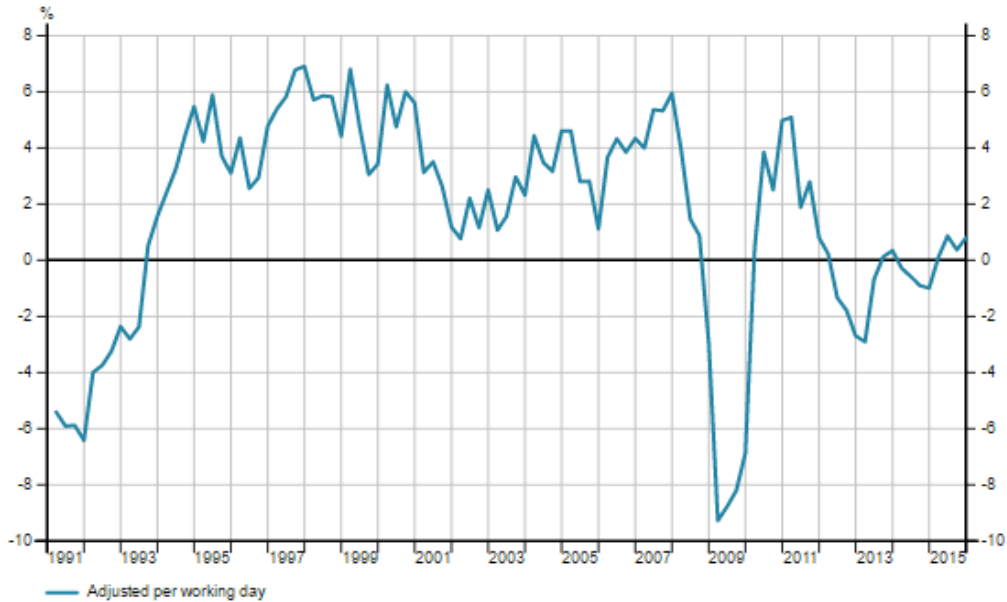


Figure 2. Changes in Volume of Gross Domestic Product by Quarter 1991-2015 in the Finnish GDP

Source: Statistics Finland / Quarterly national accounts (2015)

What can be noted from the graph 2 is that the Finnish GDP growth rate was lowest in 2009 right after the financial crisis, being close to -9. Furthermore, Finland experienced GDP growth in 2011 where the GDP growth rate was around + 5. However, after 2011 it has decreased and remained close to 0. What can be seen from the figure is that the Finnish GDP was experiencing decrease period in the beginning of the 1990's, then increased in 1993-1997 with a good rate and, maintained at a good level during the beginning of the millennium and then decreased again in 2007-2008 even further than in the beginning of the 1990's. However, after 2009 GDP has increased again to some extent. However, what is determined in the figure 2 is that Finland's GDP growth rate was around -9 in 2009. Additionally, the figure shows a double dip recession. Double dip recession, or W-shaped recession does occur when the economy has experienced a recession, continues to a growth phase and then falls to another recession (Elwell 2012, 1).

Honkahrju (2013) notes that Finnish exports have decreased, as in 2013 they were 1/5 smaller than before the global financial crisis (p. 1.). Figure 3 illustrates Finnish exports and imports together with trade balance from 1990-2015.

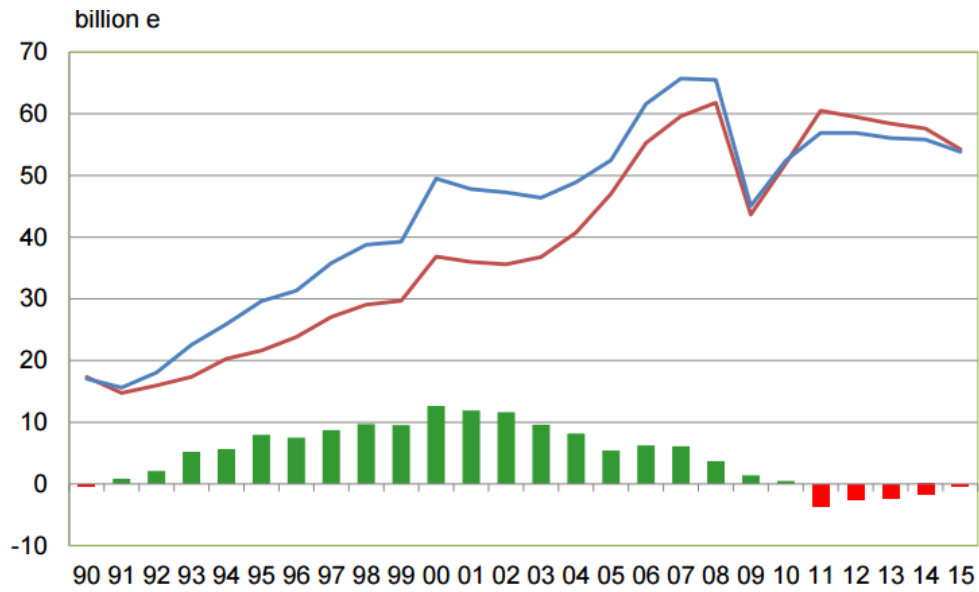


Figure 3. Finnish Exports and Imports and Trade Balance During 1990 till 2015  
 Source: Suomen Tulli (2015)

In figure number 3 on Finnish exports and imports the red line indicates Finnish imports and the blue line indicates exports. Furthermore, the figure reveals that after the year 2011, Finland has experienced negative trade balance. In addition, despite a short term increase period during 2010-2012, the Finnish trade has been mainly in a decreasing mode.

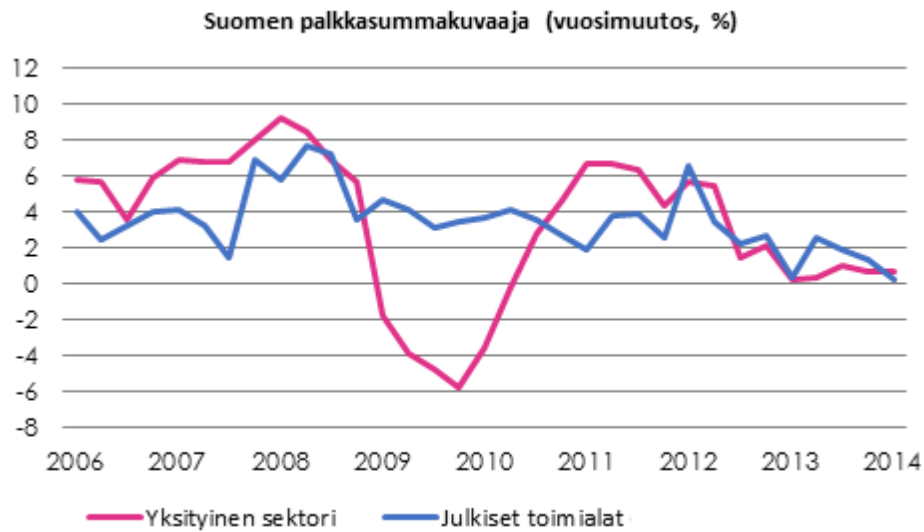


Figure 4. Wage and Salary Division in Finland, Public and Private Sectors

Source: Statistics Finland (2014)

Figure number 4 illustrates the annual changes in Finnish wages between 2006-2014 both in the private and public sectors. The red line represents private sector, while the blue line is for public. One can note that generally the wage level has been decreasing from 2008 till 2014. This decrease has occurred especially in the private sector represented by the red line.



Figure 5. Finnish Household Final Consumption (% of GDP) between 2011-2014

Source: Trading Economics (2016)

Figure 5 illustrates changes in Finnish consumption rates from the year 2011 till the year 2014. During this period in year 2012 the consumption rate was the highest in Finland, over 56 % of GDP. However, in 2014 the consumption rate was under 55 % from GDP, more precisely 54,97 % % of GDP. For this reason, it is easy to state that the general level of consumption has decreased in the Euro period. Moreover, this figure shows that after 2012 the consumption of Finland has been in a decreasing mode, and therefore one could state that during the Euro period the long-term consumption of Finland has been decreasing.

The following statistic published by European Commission reveals changes in the Finnish economy since the year 2014. Furthermore, it shows a forecast made in 2016 and published in February 2016.

<b>European Economic Forecast Winter 2016</b>				
<b>Forecasts for Finland</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>
<b>GDP growth (% , yoy)</b>	-0,4	0,0	0,5	0,9
<b>Inflation (% , yoy)</b>	1,2	-0,2	0,1	1,5
<b>Unemployment (%)</b>	8,7	9,5	9,4	9,3
<b>Public budget balance (% of GDP)</b>	-3,3	-3,2	-2,8	-2,5
<b>Gross public debt (% of GDP)</b>	59,3	62,7	65,0	66,2
<b>Current account balance (% of</b>	-0,9	0,0	0,4	0,7

Figure 6. European Economic Forecast For Finland, Winter 2016, by European Commission  
Source: European Commission (2016)

Figure 6 includes data until the year 2015 and a forecast made by European Commission for years 2016-2017. What can be noted from the figure is that unemployment

has increased in Finland from 8,7 % to 9,5 % in 2015, and it is forecast to decrease to 9,3 % in 2017. The gross public debt as a percentage of GDP has increased from the year of 2014 from 59,3 to 62,7 % and the European Commission forecasts that it will increase to 66,2 %.

In 2014 the GDP growth rate of Finland was negative, -0,4, however, in 2015 there was a 0,0 % growth rate and EC's forecast is optimistic as it forecasts 0,9 % growth rate for Finnish economy in 2017. These statistics reveal a rather positive outlook for the Finnish economy for following years.

However, all of these economic indicators reveal that the Finnish economic performance on various sectors has decreased and the increases in the Finnish growth rate forecast by the European Commission is likely to remain low. The main question evaluated in this thesis is whether or not Finnish economy would grow faster without being tied to the euro zone and whether or not Finland would not have experience any declines during the 2000's if Finland had not been tied to the Euro. This will determine if Finland should resign from the Euro.

## **1.2 Macroeconomic comparison of Finland**

After seeing data on the Finnish economy, it is important for this thesis to compare important macroeconomic indicators of Finland to other European countries in order to get an understanding of where Finland stands. These indicators include GDP levels, economic growth, and unemployment rate.

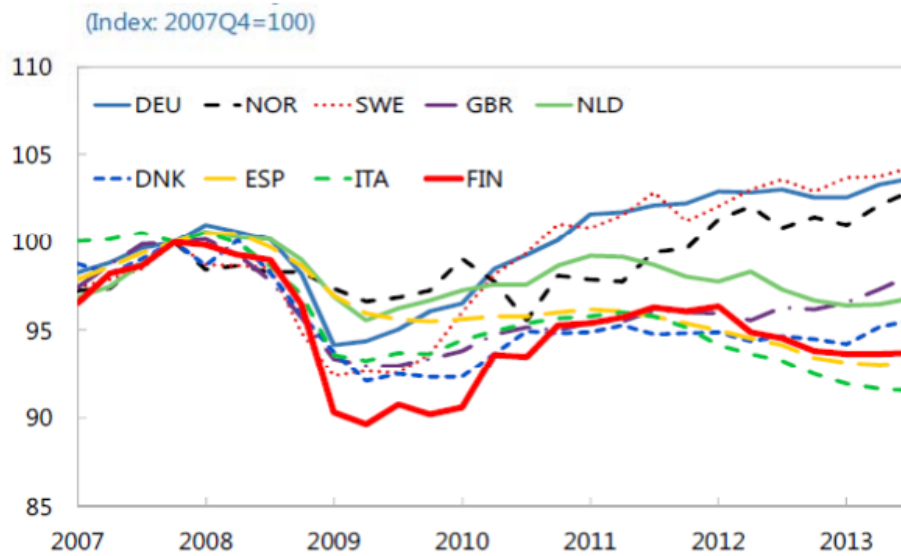


Figure 7. Real GDP for selected countries

Source: Borg, Vartiainen, 2014, p. 32

From figure 7 one may infer that Finland has faced a notable decrease in real GDP when compared to some of these nations of Europe. From this one could additionally conclude that during the Euro period Finnish economy has not grown to extent that was expected while joining to the Euro. By looking at this graph one could argue that Sweden, a country with its own currency had a better performance than Finland. Additionally, Denmark and Norway have performed better than Finland and these two Nordic countries have their own currencies as well. Furthermore, Germany being the biggest economy of Europe had better performance than Finland even it had the Euro.

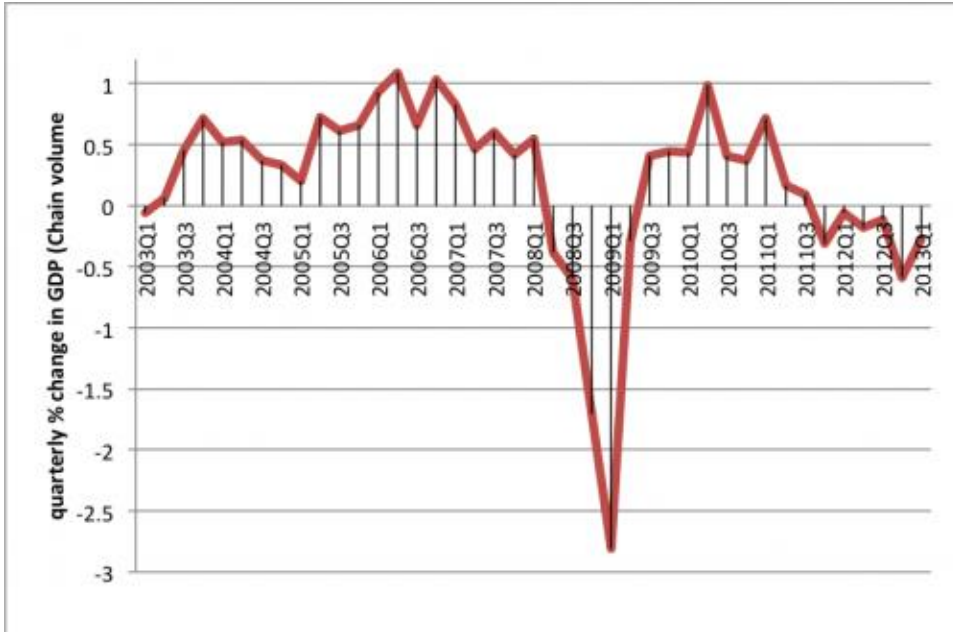


Figure 8. Euro Area Economic Growth: Quarterly Changes in GDP

Source: ECB-ESA95 (2016)

The figure number 8 shows the European average of GDP growth and the quarterly changes in the GDP. When we compare this graph to the figure number 2 illustrating the Finnish GDP changes one could determine that the global crisis hit Finland much harder. On average during the crisis period the European average of lowest GDP growth rate was a bit more than -2,5.

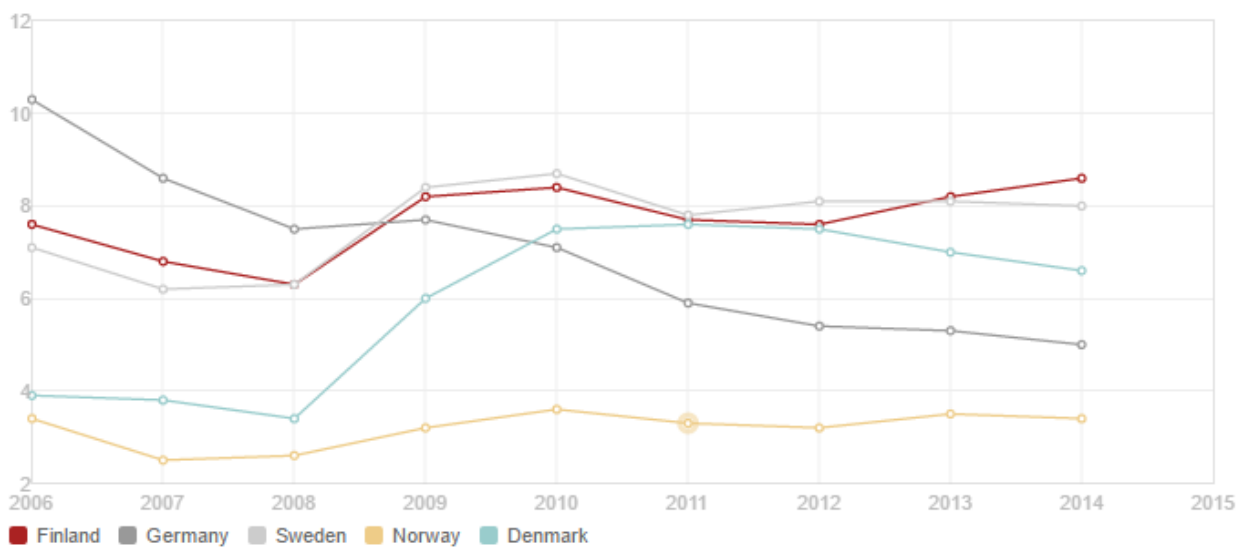


Figure 9. Unemployment rate Finland Germany, Sweden, Norway and Denmark



Source: The World Bank (2016)

Figure 5 illustrates the unemployment rates of Finland, Germany, Sweden, Norway and Denmark. When compared to these 4 other nations of Europe, Finland had the highest unemployment rate in 2014. Furthermore, Finnish unemployment rate is the most increasing more so than in other countries.

All of these figures reveal that Finland has had the worst economic declines of economy measured by the macroeconomic variables when compared to chosen European countries. This supports the view presented in the section 1.1 of declining economic performance of Finland.

## **2. PRO-EURO IDEAS**

While debating whether to join the Euro, one of the main arguments made by the supporters of the Euro was that it would bring more efficiency in the economy, more certainty over exchange rates, lower costs for currency exchange and more competition (Liikanen 2006, 1). Therefore, from an economic perspective, the Euro was seen as a stabilizing factor in Europe that would additionally contribute the economy. Another economic reason was that because of being a small economy, Finland depends on world demand and its main trading partners Nordic countries and Russia (OECD 2014, 8). Being part of the integration process together with the rest of the Europe did mean closer relations with the European countries, more trade possibilities and becoming less depend on the trade with the closest neighboring countries. This was believed to lead to an increase of Finnish trade and by this a strengthening of the economy.

What should be noted is that Finland did lose an important trade and export partner when the Soviet Union collapsed (Kanniainen 2014, 135) and due to economic reasons joining the Euro was thought to give better trade possibilities for Finland. Additionally, belonging to a currency union was thought to help Finland in trading as now Finland had a same tool of trade in the form of same currency. The Finnish side believed that the Euro was beneficial for the balance of budgets, referring to a situation in which a state has equal or higher revenues than expenditures (Poterba 1995, 331), stabilizing factor for the economy and hence these were other motives to adopt the Euro. Furthermore, the Finnish government did not believe strongly in Keynesian demand management.

Despite the difficulties after the financial crisis of 2008, in the current situation a majority of the Finns wants to keep Euro (Ala-Peijari 2015, 22) and the general attitude towards the EU and the Euro has been positive in Finland. As was previously mentioned, one of the main reasons why Finland wanted to adopt Euro and still remains a Euro positive country is that being a small nation means being dependent on trading partners and the Euro

membership provides a tool of trade in the form of same currency. The supporters of the Euro have emphasized that without the Euro Finland would have not been able to maintain an adequate level of trade during the 2008 crisis. Therefore, it is easy for the pro-Euro thinkers to voice their ideas of how liberalization of markets and common currency will bring benefits to a small country that is dependent on trading such as Finland. This is an important reason for why Finland should not resign from the Euro.

Additionally, political factors supported the idea that Finland should join the common currency. The common currency brought security in a situation where the Soviet Union had collapsed and after a long period of recession in the beginning of 1990's. Inevitably Finland did not fear of losing its financial autonomy while entering the currency union as being a small country it did not have and still does not have much of decision power or autonomy when looking at the bigger picture. In addition, being able to devalue was not held as an important priority. More likely it was thought to harm the economy long-term due to the absence of stabilizing organization such as the ECB.

The European Central Bank (ECB) has the capacity to prevent fear and panic in so that the countries are not pushed to bad equilibrium (De Grauwe 2013, 10). This does mean that the Euro zone and ECB bring exchange rate stability to small economy such as Finland. Kirby, Thorhallsson (2011) state that for smaller states economic alliances are of importance due to the fact that smaller states are generally more vulnerable to different economic fluctuations it economic organizations provide shelter for states with small economies (p. 1-2). This kind of a financial stability can be seen as an important benefit of the Euro from the perspective of Finland. Furthermore, states with small economies may be hit more radically by economic crisis when compared to larger states (Kirby, Thorhallsson 2011, 2) More precisely, Euro is believed to bring both financial and exchange rate stability and these are another strong opinion against the resignation of Finland from the Euro.

Korkeamäki (2012) states that an important aim of the Euro was to bring market integration, and remove the risks of exchanges rate changes (p. 3). The main risks in the exchange rates are that firms are easily vulnerable for the changes in the exchange rates, and this can affect to the value of their assets and profit margins (Papaioannou 2006, 1). Having a currency union such as the Euro removes this as every country has the same currency with same value and exchange rate means that there are no major fluctuations of exchange rates. Integration and having same exchange rate can be seen as an important

benefit supported by the pro-Euro side.

According to the current statement made by the Minister of Finance and previous Prime Minister of Finland Alexander Stubb in 2013: “Without the Euro the position of Finland would have been worse, mostly due to the fact that it is the most stable currency that exists (Ala-Peijari 2015, 9). During the Euro, Finland has been participating to decision making regarding to what happens to Euro” (Ibid.). Furthermore, according to Stubb devaluation of a currency is similar to using doping and says that during a long term period devaluation is not beneficial (Soininvaara, 2015, pp. 4). This reference to doping means that by decreasing the value of the currency is not advisable because it encourages the domestic firms to rely too much on the demand and hence there is less incentive for improvement, productivity and cutting of costs. This statement made by Alexander Stubb additionally reveals that the Euro is believed to bring security for the economy not only after the 1990's recession, but additionally in the current situation the Euro should be preserved.

Sixten Korkman continues to extend this idea, and optimistically stated in 2011 in Helsingin Sanomat: ”Europe is like a small village with small density, if a fire occurs somewhere, the whole village can burn down, when the children's diseases have disappeared, the Euro will be even stronger, all that is not for death, makes stronger” (Ala-Peijari 2015, 8). This further supports the idea of the Euro supporters that without the Euro Finland would have faced even more significant troubles during the 2008 financial crisis and throughout the 2000's. The reason for this is in the idea that the EMU membership bring financial and exchange stability.

Adopting the Euro has had its concrete benefits. Finnish companies have benefitted from the common currency, because of a reduction in the financing costs which has made it able to companies to invest easier (Korkeamäki 2012, 2). This is a major benefit gained when trade partners use a same currency. Any reductions in financial uncertainty, for example such that are brought by different currencies will increase companies increase companies' investment capabilities (Korkeamäki 2012, 3). This mean that Euro has brought better investment opportunities for Finnish firms. Lower financing costs and reductions of equity have contributed to the competitiveness of Finnish companies (Korkeamäki 2012, 8). Salo (2006) lists another major effects of EMU for Finland as it has resulted in improved credibility of monetary policy (p. 6).

As for political reasons supporting of Euro membership, the general idea of

Euro was to be part of the European integration process. More precisely, one of the main reasons for the creation of common currency and single market was to make Europe more integrated after the two world wars of 20<sup>th</sup> century (Kanniainen 2014, 9) and by this eventually to create internal relations in which the European countries benefit from each other so that there is no reason for conflicts. Hence, a positive vote for the Euro can be seen as a positive vote for European integration (Hobolt 2007, 4). Moreover, the general fear among the Finnish decision makers is that resigning from the Euro membership would disintegrate Finland from the Europe to certain extent.

In addition, having financial independence brought by own currency would mean lesser of decision power for Finland in the Europe especially on financial matters. This would mean isolation of Finland from the other EU countries if it was to lose power. Kari Nars stated in *Suomen Kuvalehti* in 2011 that "returning to Mark would cost too much, it would create a decline of the international appreciation of the Finns, and would mean a smaller voice for Finland on the international stage. Certainly, this sense of unity is an important factor for why Finland should not resign the Euro".

For anti-Euro sentiments it is easy to argue against euro as current financial aid packages include concrete prices (Korkeamäki, 2012, p. 3). Therefore, together with having unity inside Europe especially after the World Wars one could argue that in the current atmosphere where populist sentiments against the Euro have arisen, it is important that the Euro is maintained in the European countries in order to promote peaceful relations and to keep radicalism as low. Ala-Peijari (2015) argues that leaving the Euro would represent a shift towards populist political economy in Finland (Ala-Peijari 2015, 9). Therefore, Euro can be seen as a tool of peace to certain extent as it forces for international cooperation.

Furthermore, one of the benefits of a monetary union is that is it argued to be beneficial for wage moderation due to the fact that increased credibility would lower inflation expectation (Ala-Peijari 2015, 9). Additionally, since Finland adopted the Euro, the increases of prices have been small (Salo 2006, 5). This indicates that the having the Euro has reduced price fluctuations in Finland as rather small and can be seen as a benefit of the Euro. The idea is that when European countries have a common institution deciding on exchange rates and prices, no single country can have a possibility to change its prices significantly. Furthermore, this idea indicates that common currency means price equality. All of these reasons listed above are why Finland still remains in the Euro despite having experienced negative growth,

wages, and increasing unemployment.

## **4. AGAINST THE EURO**

This section will evaluate the arguments against being part of the common currency union and analyze whether the fears of the Euro opponent have become true.

Analyzing the arguments of the opponents of the Euro, when entering a monetary union, it was feared that traditional methods of handling unfavorable asymmetric shocks, and problem in competitiveness such as devaluation of the currency would no longer be possible and that Finland would lose its economic independence (Liikanen 2006, 2). The opponents feared that Finland would be too depended on the European Central Bank and lose its sovereignty at the same time while its economic independence. However, these opposing arguments were not considered as not significant enough when compared to the supporting arguments of the Euro, and therefore Finland joined the Euro.

Not being able to devalue the currency has more negative consequences than benefits. More precisely, being able to devalue has a couple of important benefits for the economy. If the country has its debt denominated in its own currency, it means that while devaluating it lowers the real value of the debt that the county owns externally (Batabyal 2012, 1). This shows how the argument against devaluation made by Alexander Stubb is not true. In Finland's case this would apply to next possible crisis and not decrease the already existing debt. Devaluation additionally creates positive terms-of-trade adjustment, meaning that while devaluating the country's exports will be cheaper and imports will be of higher price and this means fiscal surplus for the government due to the increase in exporting gained by the decrease in the price exports (Batabyal 2012, 1). In Finland's case, devaluation would be possible only if it had its own currency. Additionally, in a crisis situation it would be easier for foreigners to invest to Finland because devaluation affects to the price of exports.

Currently, the problem with the Euro is that Finland is more depend on the Euro's exchange rate than other Euro area countries (Salo 2006, 6). This is because Finnish foreign trade is one of the smallest in the Euro area, and for this reason the Euro zones exchange rate

holds higher significance for Finland when compared to the other nations (Ibid.). This is mainly due to the size of Finland and its trade. Having Mark back would mean being more independent with trade matters. Kanniainen (2014) states that even if Finland had its own currency, it would not be in as good position than Swedish krona, but its own currency would bring Finland the exchange rate it deserves (p. 55). Therefore, the argument against the Euro would be that if Finland had its own currency, it would control its own exchange rate.

The main benefits of own currency according to Ala-Peijari (2015) would be that the country would gain its own macroeconomic political instrument, its own currency and the decision power regarding to its own finance policy (p. 25). The opponents fear that this would create financial and exchange rate instability. However, when having the possibility of deciding upon its own exchange rate, Finland would be able to boost its economy by devaluation as discussed above and the benefits of being able to devalue will lead to better economic outcomes than having an institution that stabilizes the economy. Therefore, Finland should rather have its own currency than being a member of the Euro.

Soininvaara (2015) states that if Finland would have had its own currency Mark in 2007, the flotation would have re-evaluated and by this maintained wage levels in an adequate level and not too high, meaning that in 2009 the latest the general competitiveness would have been regained (pp. 6). Therefore, one can argue that by having Mark Finland would have been able to recover quickly from the global financial crisis of 2007, and it probably would have not affected Finland as significantly as it did. This shows the effectiveness of devaluation and controlling one's own exchange rate and the importance of being able to change the exchange rate when needed.

Simulation conducted by GnS economics (2012) show that almost immediately, the value of Euro would have decreased to 5,5 Mark per one Euro (p. 3). In addition, during the period of 2009 one Euro would have been 7,4 Marks, and during the financial crisis of 2008-2009 Finnish Mark would have devalued in comparison to Euro by 20 % (Ibid.). This shows that devaluation would have been possible if Finland had had its own currency during the global crisis.

An important question to consider is that what conditions are required for a currency union to be beneficial. According to GnS economics (2012), an optimal currency union where countries would receive significant economic benefits, requires that the workforce needs to be able to move freely inside the currency union and issues such as



working conditions, visas or language differences cannot limit the free movement of workforce (p. 5). Furthermore, the countries inside the currency union needs to have active trade between each other (GnS economics 2012, 5). And lastly, cyclical differences and changes should be and remain in balance in the region of common currency (Ibid.). There is additionally a requirement for the existence of financial institutional mechanism that would balance the income of countries (Ibid.). One of the problems for Euro zone is that it does not currently fulfil all of these three requirements for optimal currency union (Ibid.). Kannianen (2014) notes that successful common currency union have either been operating for a long time or between federal states or confederacies (26). Additionally, one may determine from the falling economic indicators of Finland that the Euro zone does not fulfil the requirements of optimal currency union, and therefore Finland should seek to resign from the Euro.

The monetary policies are centralized in the Eurozone (De Grauwe 2013, 6). Monetary unions can make booms and busts worse at the national level, because the interest rate of ECB is too low for countries that have recession (Ibid.). This is the main reason why inflation occurred in Greece, Spain and Ireland when their economies started a boom phase (Ibid.). Therefore, for Finland, in order to prevent further crisis having its own currency would be beneficial as belonging to a monetary union has been shown to create problems, especially when noting the interest rate of the ECB. The boom and bust phase intensified mostly due to the existence of a monetary union in the Europe (De Grauwe 2013, 9). During the global financial crisis, the Eurozone started measures of stabilization at the level of member states, and the member countries had no other option than to issue debt in a currency, over which they had no control over (De Grauwe 2013, 8). This argument proves the idea of the importance of Euro's stability as less important that is generally thought. The control of the Euro is in the hands of ECB. As an example, if Greece had pulled out of EMU it could had quick positive growth path already with its own currency (Kannianen 2014, 45). It is easy to argue that if Finland had its own currency, it would have been able to weather the global financial crisis better.

Another argument against the Euro is that the Finland's independence is limited by the currency. One of the main problems for Finland is that being a small member, its relative weight and decision making power is modest inside the monetary union, only 1,8 % from European Central Banks capital key (Kannianen 2014, 49) To gain financial independence and decision power over one's own economy is a significant reason for why

Finland should exit the Euro. Rather, stability of EMU is more about countries with bigger decision making power setting the exchange rates and policies according to their benefit. And for this reason EMU membership is not beneficial for Finland even it is argued to bring economic stability via common determinants of economic indicators.

According to the parliament of Finland, Finland has followed the bailout strategy of the EU that violates the Maastricht 1.0 treaty (Kanniainen 2014, 129). More precisely on this treaty, the EMU has not established a mechanism for assistance, as the fundamental idea was that the union would not be a “transfer union (Ross n.d, 179). Therefore, EMU has been strongly against bailouting. Furthermore, the expectation is that no country belonging to the EMU should have the need for bailouts. However, as an example the membership of Greece shows that this is not the case. Therefore, if the monetary union was to strengthen its policies and its characteristics, the union would not be beneficial for Finland as it would mean that Finland being a small economy with rather strong welfare would have to give more from its gains to the common benefit (Kanniainen 2014, 131). This would mean that the growth levels of Finnish economy would remain low, as there would be constant income transfers to other nations (Ibid.).

Already now Finland is in the position of supporting other European nations due to the common monetary union. Therefore, one could argue that without being tied to the bailout programs of the Euro, Finland would be able to keep its money inside the country and it would have no obligation to support others. Having the Mark would mean a shift of responsibility more on Finland’s own economy. Ala-Peijari (2015) argues that a common currency union is not advisable for Finland because Finland would be and is a creditor country and in a currency union Finnish economic gains would be divided with the other European country (p. 22) This would be especially in a current situation where Finland maintains a high economic level and is a welfare economy (Ibid.).

The situation has made most of the debtor countries to reduce wages, prices, measures of internal devaluation (De Grauwe 2013, 18). This has resulted in lost output and reducing employment rates in the debtor countries (De Grauwe 2013, 18). This has been the case with Finland even though it is a creditor country, and one may see it from the increasing unemployment rates and how the government tries to make cuts from the budget.

In the beginning of the Euro era, about 34 % of exports was to the Euro region, but in 2011 the same figure was 31 % (Kanniainen 2014, 134) This means that after the

adoption of the Euro the amount of expected increase in the Finnish trade was different than to what was expected, and therefore the Euro did not increase exports of Finland. Furthermore, as is shown by figure 3 representing the Finnish exports and imports and trade balance, one can determine that the general level of trade has decreased in Finland from the period of 2006-2008 until 2012-2014. The trade balance of Finland has been negative since the year 2011. Therefore, it is easy to argue that adopting the Euro has not made an impact in increasing Finnish trade long-term. And for this reason one could argue that figures show no signs of significant increase in trade created by the Euro membership. Despite being a country depending on exports, EMU countries account only 30 % and the share has fallen after the adoption of Euro (Kanniainen 2014, 54).

One of the current issues in the Finnish economy is the governments way of engaging in internal devaluation and austerity. Austerity refers to the debt reduction policies of a nation and it can mean packages of debt reductions including tax increases or as commonly is understood, austerity can refer to spending restraints that extent to social reforms (De Rugy 2013, 1). Fiscal retrenchment, has not been only used by Germany which is most known for its austerity measures and handling of the economy, but additionally Finland has used it to combat debt and restore economic confidence (CES 2013, 2). In the 2011 elections, despite the generally low debt level of the Finnish government when compared to the other European nations, the conservative National Coalition Party took the lead and promised to pursue austerity measures (CES 2013, 3). Furthermore, this party is currently in the government of Finland and has suggested further savings in the economy.

Moreover, government debt relative to GDP is still increasing in Finland due to weak economic growth (Danske Bank 2014, 1). Together with Germany, the center-right government of the Netherlands and Finland have formed a pro-austerity group in the Euro zone (CES 2013, 4). Furthermore, the government estimated total of austerity measures to be 3,3bn EUR, meaning around 1,3 % of GDP (Danske Bank, 2014, 1). There exist several reasons for why Finland has adopted austerity, one being trying to combat deb (Ibid.). The second reason is that the Finnish government fears to lose its tripe AAA-rating and wants to address the gap of sustainability caused by ageing society (Ibid.). Another reason for austerity measures and internal devaluation in Finland has been the increase of unemployment to 8,4 % in 2010 (Granados, Rodriguez 2014, 942). However, the problem with austerity is that when the government budget is decreased, the welfare merits of Finland such as free education,

health care and social services suffer. This will have a direct effect on the living standards of the Finnish citizens. Own currency means that a country can be via flexible currency return its competitiveness without the measurements of internal devaluation and unemployment that creates unemployment and deflation (Ala-Peijari 2015, 26). This means that Finland should exit from the Euro in order to prevent having the need for budget cuts.

Moreover, the wage setting system is centralized in Finland (Lubenets, Maiväli 2007, 1). This means that the government has power to influence the wages, and their rates. This equally means that Finnish government has significant amount of power over wages, and if necessary the Finnish government can cut the wages in order to get revenue from the public sector. Currently, Finland has engaged to internal devaluation and cut its wage rates. Figure 4 represents the changes in the wage levels of public and private sector in Finland from 2006 till 2014. From figure 4 presented in the section 1 it is easy to note that in both sector, private and public the wage levels have dropped from the period of 2006-2008. The decrease in the wage level of the public side of the Finnish companies proves the savings from wages made by the Finnish government.

The centralized wage bargaining trend of Finland seems to favour aggregate wage moderation, additionally to that of being consistent with the ECB's price stability objective (Lubenets, Maiväli 2007, 6). This method is used instead of devaluation. With its own currency, instead of internal devaluation Finland would be able to devalue its currency, and boost its economy. Devaluation would be vital especially in crisis situation where it is advisable to use devaluation to attract investing by making the exports of Finland as higher and by this devaluation will generate revenue for Finland in a crisis situation.

Additionally, having the necessity for large budget savings in the form of austerity would be unnecessary if Finland had the chance of devaluation. Instead of internal devaluation, as the Finnish consumption has decreased significantly, it would be important to boost the economy and to maintain the levels of consumption. This would be easier for Finland, if it had its own currency.

The main problem with large wage cuts that have been executed in Finland is that it is not supportive enough to maintain an effective level of consumption. And the evidence shows that austerity has not helped recovery in Finland: the country has fallen into a triple-dip recession (CES 2013, 7). Figure 5 presented in the section 1 illustrates changes in the Finnish rates of consumption from the year 2011 till 2014. It was concluded that the

Finnish consumption has decreased from 2010 till 2014. Together when noting the falling wage levels of Finland, it is easy to argue that falling wage level can be seen as a reason for why the consumption has equally decreased.

The report made by Valtioneuvosto reveals the current austerity measures and budget cuts made by the Finnish government under the Prime Minister Juha Sipilä in 2015: financial aid for Finnish students is cut by 25 million Euros (Valtioneuvosto 2015, 6). Furthermore, from the child benefit that is provided to under 17-year-old-children the government has planned cuts by over 120 million Euros (Ibid.). The budget support provided straight to Finnish universities is cut by 30 million Euros (Ibid.). And lastly, unemployment benefit is cut by 120 million Euros (Ibid.). The total planned cuts and austerity measures in the 2015 government plan were 959 million Euros (Ibid.), meaning that many of the target groups under the cuts, such as unemployed people or students will not be able to consume at the same rate than before.

A federation and stronger Euro zone means decline of sovereignty for Finland (Kanniainen 2014, 50). Hobolt (2007) elaborates that own national currency can be tied to national identity and sovereignty (p. 5). Even if nationality in its radical sense should be avoided in any nation, Finland would benefit from having one notable symbol for the nation. In addition, Kanniainen (2014) argues that a strong federation would be great for Finland if it had significant economy comparable to USA or Germany (Kanniainen 2014, 51), meaning if Finland was big enough with its economy so that it would have decision power. Having own currency would have a positive effect for the Finnish national sense and unify the Finns internally, and make the country to stand out globally. Furthermore, with this argument one should note that Finland is still part of the EU. Therefore, resigning from EMU would not directly mean populism in Finland as it already belongs to a union that unites the European nations. Moreover, the argument of the Euro supporters that being outside of the Euro union is not valid as long as the country stays in the EU.

Moreover, it is important to note that despite the fact that the Euro supports integration the EU still consists of nations that are different and cannot be integrated via a common currency. Additionally, even if the 2000's has been rather peaceful, for Finland, resigning the Euro would not bring any consequences for a neutral country such as Finland that has maintained peaceful relations after the Second World War. The anti-Euro sentiments that were raised in Europe after the financial crisis of 2008 prove that the atmosphere of

Europe has not been fully peaceful or that forthright.

Furthermore, being part of the EU is actually enough for Finland to be integrated to the European country and a common currency does not play a significant part in unifying countries if they share same policies, similar to that what the European countries currently have. This does have an effect on preventing possible populism rather than it would be tied to EMU membership. For these reasons, the Euro membership cannot be seen as an important factor in unifying Finland to the rest of the Europe, nor can the Euro be seen as a peace maintaining currency. Furthermore, the idea of market integration maintaining relations is not valid enough. The importance is on political integration.

If adopting own currency brings 1 % regular increase in the national GDP, the shift to own currency will bring major increases in welfare despite the costs of adopting a new currency (Ala-Peijari 2015, 28). Even if GDP would increase 0,5 % in a regular time the gains would cover costs (Ibid.). This proves that considering and adopting Mark would be advisable for Finland.

The history of the Eurozone additionally shows us that common currency union can include negative incentives, such as neglecting contracts, driving for national interests rather than the common good for the whole region, and loss of morals (Ala-Peijari 2015, 26). The loss of morals indicates here that countries in the Euro zone are different, and therefore there is a significant possibility that countries function in their own interests. Neglecting contacts would mean that loss of interest especially with the case of Finland that does not really have significant decision power in the EMU region. Without the Euro, Finland could focus on its own economy and not be exposed to the policy measures of other economies. Furthermore, Finland would not be exposed to these negative incentives.

Since the period Euro has been in use, many feel that it caused major increases in prices (Liikanen 2006, 4). Even despite the fact that Finland has not experienced major increases in prices brought by the Euro, survey results suggest that the consumers' perceived inflation has been higher after the introduction of the Euro in Finland (Liikanen 2006, 5). Certainly this has affected to the consumer spending rates in Finland and created stagnation due to the fact that people have been less confident with their spending. The statistics support this view: when comparing the public expenditures of Finland, their share of GDP have fallen gradually and have been lower than in Sweden and in Denmark (Salo 2006, p 4).

## 4. CASE STUDIES

This section will analyse the chosen countries that have their own currency. Furthermore, figure 10 shows a comparison of the GDP growth rates in these case study countries to Finland. This data will be used further in this thesis.

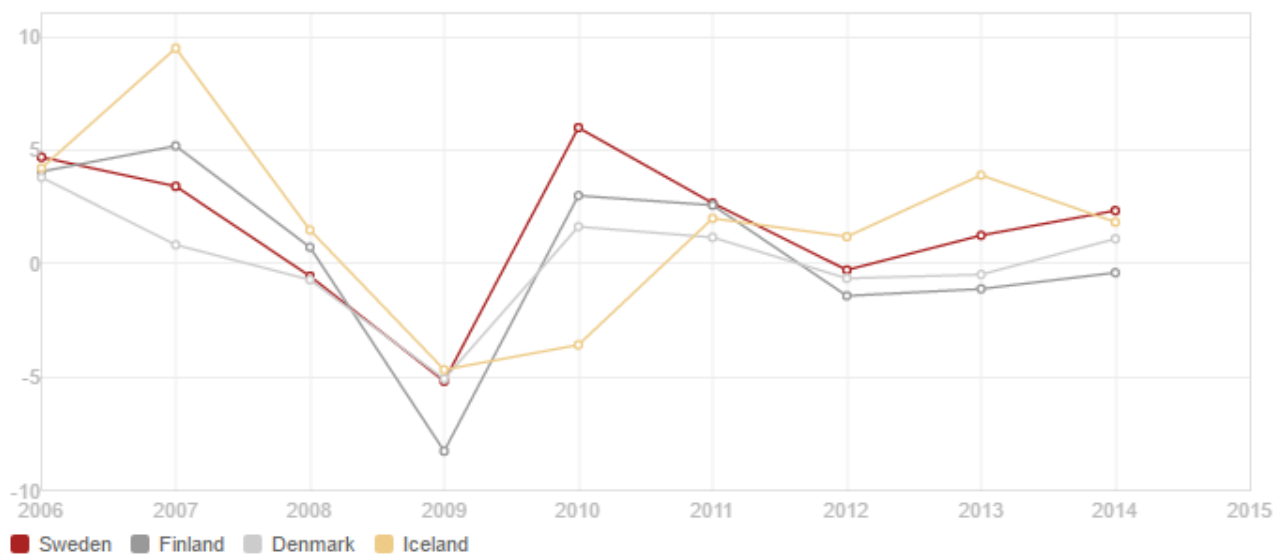


Figure 10. The GDP Growth Rates of Sweden, Finland, Denmark and Iceland

Source: The World Bank (2016)

### 4.1 Sweden

When the Euro was created, the Swedish government established a commission of experts and led by Lars Calmfors (Hobolt 2007, 16). According to the report of this commission published in 1996 economic arguments were not in favour of the Euro (Hobolt. 2007, 16). As Sweden adopted a policy of wait- and- see over 1999 and see whether the

criteria of Calmfors Commission were approved or denied, the plan was to see then how the public of Sweden feels about the Euro (Hobolt 2007, 16). On 14<sup>th</sup> of September 2003 the Swedish population rejected the Euro with a 56 % majority (Breuss 2003, 147). In Sweden, it appeared that the strength of their own currency made the public support keeping it (Hobolt 2007, 27). Without a doubt Swedish politicians and economists respected the views of the citizens.

However, the Swedish Krona cannot be described fully as an example of a success story. The 2008 crisis did harm the Swedish economy. To analyze how beneficial, it has been to Sweden to maintain its own currency, one must analyze how Sweden has managed its economy and exchange rates during the crisis periods. During the global financial crisis Swedish banks did suffer, the Swedish GDP fell by 5 % and when compared to other industrialized nations the decrease was larger (Helaba 2014, 2). In addition, the Swedish Krona actually proved one of the weakest currencies of industrialized nations in 2014 when it faced a 4 % loss against Euro (Helaba 2014, 2).

Sweden has experienced growing employment, growing wages making private incomes to increase and maintaining a solid level of consumer spending (Helaba 2014, 2). Figure 10 illustrates the changes in the Swedish GDP from 2006 until 2014. Furthermore, this figure indicates how the global financial crisis affected Sweden.

Figure 10 shows that the GDP of Sweden decreased significantly before 2009, and in 2009 the growth rate of Swedish GDP was -5. This proves that certainly with the case of Sweden, the own currency has not had any straight rescuing effect on the Swedish economy during the global financial crisis. Still when comparing the unemployment rates of Finland and Sweden from the figure 9, one could determine that currently Sweden has had lower unemployment rates. Furthermore, one could determine the fact that Sweden performed better than Finland after the global financial crisis of 2008 as it has had a better growth rate. In 2010 Finland had a growth rate of +2 and Sweden +6.

The reason for the better growth of Sweden is that it has the control over its exchange rate via its own currency, and therefore Sweden can either devalue, peg or float its exchange rate and by this cushion the possible effects of an economic crisis. Furthermore, this can be seen as the reason for why Sweden has been able to grow after the year 2013.

There are certain strengths in this currency, as the Swedish economy was able to grow by 1,6 % in 2013, and 2 % in 2014 (Helaba 2014, 2). One reason for this was that when



the euro zone had difficulties, Sweden was attractive to investors due to its stable economy (Helaba 2014, 2). Therefore, while the Euro was suffering Sweden has benefitted from investors and due to its own currency Sweden was seen more attractive. Many Swedish felt that due to their strong economic performance, they have been able to remain outside the Euro area (Hobolt 2007, 7). Sweden has been able to recover with a good GDP growth. More precisely Swedish GDP growth has been higher than the Finnish after the year 2013. Due to the fact that Sweden has its own Krona, it is easy to state that having own currency has had a beneficial effect on the fast recovery of Sweden as it has brought the possibility for Sweden.

As was previously presented, Sweden has been an example of a boom country with high economic growth being above the average of Europe, with low rates of inflation and increasing employment rates (Jochem 2010, 1). Despite having its own currency, Sweden has been open for foreign markets, and being able to have social cohesion, maintain welfare and include a mix of public and private forces (Jochem 2010, 1). Sweden has additionally showed efficient crisis management already in the beginning of 1990's. The bank resolution of Sweden made in the early 1990's did attract international attention and has been regarded as a success (Jonung 2009, 2). The Swedish used pegged krona during the crisis, differently from what other nations such as Great Britain and Finland (Jonung 2009, 5). Therefore, Swedish case of 1991-1992 crisis does not prove the effectiveness of a floating exchange rate. Rather it shows the effectiveness of how having own currency lets you decide upon the exchange rate and keep it fixed or floated depending on the situation. This is a major benefit of being financially independent from any monetary union or institution.

Certainly the financial crisis brought challenges to the monetary system of Sweden (Jochem 2010, 11). One of the problems was that the Swedish financial system undermined the value of Krona (Ibid.). In the beginning of the 2008 the Riksbank allowed the Krona to float freely and began to fight against inflation (Jochem 2010, 11). This flotation led to depreciation of the Swedish Krona (Jochem 2010, 12). An important reason for the Swedish recovery of 2008 was the depreciation of Swedish currency Krona, and the level of depreciation was about 30 % (Jochem 2010, 8) This was used together with expansive fiscal policy (Ibid.). This left to lessened pressure on the banking system and strengthening of balance sheets (Ibid.).

The case study on Sweden proves that having own currency can make the country attractive to investing, gives the nation the benefit of financial independence on

decision making and similarly represents effective economic policy making.

## 4.2 Iceland

The Icelandic example of 2008 crisis response has been often mentioned in the media and used for economic researches due to the fact that the 2009 global financial crisis hit Iceland extremely hard. In addition, the media described the Icelandic economic success as a "miracle" or "invasion" (Kirby, Thorhallsson 2011, 9). The researchers suggest that the reason for Iceland's quick recovery was that it had its own currency (Kanniainen 2014, 45). This is the main reason for why Iceland is used as an example country in this thesis.

After the Icelandic financial sector was privatized in 2003, it has fully used the liberalization and for example the free movement of capital inside the EEA (European Economic Area), (Kirby, Thorhallsson 2011, 7). The leading party consisting of Conservatives emphasized the economic success of Iceland from the mid-1990's (Kirby, Thorhallsson 2011, 8). They said that both the country's economy and living standards had increase significantly and making it as the non-member of the EU (Ibid.).

Iceland experienced a growth rate that rose to average of 6,3 % in four years to 2007 and during the same year for the first time the Icelandic banking sector made more contribution to the GDP than the fishing industry (Kirby, Thorhallsson 2011, 8). Overall, before the global crisis Iceland experienced an economic boom similarly with many other nations. Figure 10 illustrates more the changes in the Icelandic GDP. As can be seen from the figure, the GDP of Iceland was high during the boom of 2007-2008. However, after this until the year 2010 it has decreased significantly. Furthermore, the Icelandic GDP grew by 3,1 % in 2011. When we compare this figure to the figure number 2 illustrating the Finnish GDP changes and to the figure 10, one can see that the Icelandic growth rate has been better already after the year 2011. Finland had a GDP growth rate of -2 in 2013 and Icelandic GDP growth rate was around +4.

Before the crisis Iceland kept its interest rates high in order to control inflation which eventually resulted in an influx of capital, and increasing interest rate for the country's currency, leading to a trade deficit (Kirby, Thorhallsson 2011, 9). After becoming dependent on financial services, the global crisis began to affect Iceland in 2007 (Edmonds et al, 2009,

3). Furthermore, when the inflation increased, Iceland increased its interest rates in 2007 and the Icelandic krona collapsed almost 20 % in the beginning of the year (Edmonds et al 2009, 3). The IMF stated in August 2008 that Iceland experienced financial turbulence in the beginning of 2008 and between December 2007 and March 2008 the krona depreciated by 30 % (Edmonds 2009, 3). Finally in October 2008 Iceland's three main banks collapsed and the country was in a "de facto bankruptcy" (Edmonds et al 2009, 5). When the Icelandic Krona started depreciation, the three main banks of Iceland, Kaupthing, Glitnir and Landsbanki, informed that they were unable to finance debts to an equivalent to €50bn (Oxfam 2013, 2)

However, in March 2008 the króna began to depreciate when market trust towards the state declined, and by the late September during the same year Glitnir Bank was the first bank to experience default and the government tried to assist the Bank in order to save it from collapsing (Kirby, Thorhallsson 2011, 12). More precisely, the Icelandic krona depreciated by around 48 % between 2007-2009 (Ibid.) The GDP of Iceland decreased dramatically by 6,8 % and the general government debt increased from 28 % to 96 % from the GDP in 2010 (Kirby, Thorhallsson 2011, 14). As the Icelandic government kept the interest rates elevated in order to maintain inflation in control, making the Króna overvalued which lead to an increase in the investments made by Icelandic companies to abroad, and therefore the high net foreign ration made Iceland even more vulnerable (Kirby, Thorhallsson 2011, 22-23).

There have been varied views as to whether or not Iceland was able to succeed due to its financial independence and own currency. According to Kirby, Thorhallsson (2011) EMU membership was a protecting factor in mitigating the effects of the global financial crisis of 2008 of European nations, and if Iceland were a part of EMU during the crisis period, it would have gained needed institutional support, and liquidity support from the ECB and by this recovered even quicker (p. 23).

An important mistake that was made in Iceland was that the state-run banks were privatized to political favourites, which did not share any relevant experience from running a financial institution (Kirby, Thorhallsson, 2011, 24). Additionally, the foreign currency that was on shortage in Iceland and its necessity was underestimated in Iceland and this contributed to the financial crisis and its severity sentences (Kirby, (Kirby, Thorhallsson, 2011, 24). However, when noting the fast growth rate of Iceland one could argue that having own currency has had its effect in contributing to the Icelandic success after the financial

crisis. Moreover, the measures that Iceland did in order to save its economy presented in the following sections will prove that Iceland would have not benefitted from the EMU membership, and Iceland was able to save its economy independently and without the EMU.

The International Monetary Fund (IMF) approved a 1,6 billion euros stand-by arrangement to support Iceland, mainly to restore the country's confidence in the economy, to stabilize the economy and exchange rate, to create a collaborative strategy to restructure banks, and to ensure fiscal sustainability for medium term (Kirby, Thorhallsson 2011, 15). In addition, Iceland got assistance loans from the Nordic states and Polish and Faroese governments totaling 1.775 billion Euros (Kirby, Thorhallsson 2011, 16). Surely from this one could see that having own currency was not the only factor contributing to the success of Iceland, but the support Iceland received was equally important.

Another reason why Iceland was able to succeed in 2008 was its effective method of economic management. Because Iceland is not tied to the euro zone or the EU it has more flexibility when it comes to deciding on financial issues (Oxfam 2013, 1). The main issue saving Iceland was its capacity to devalue its currency which promotes exports (Ibid.). Furthermore, increase in exports means increase in the economic growth. Therefore, similarly with the case of Sweden, Iceland was able to be attractive invest location due to its capacity to devalue and its own currency. The public cuts and budget savings did affect to higher income groups more than lower income groups, as there were increases in the minimum pensions, the minimum wages, and allowances of social assistance (Oxfam 2013, 3) Furthermore, the Icelandic government implemented flat rate unemployment benefit, and tax rate was lowered from the lower income groups meaning that the tax burden shifted to the wealthier citizens in Iceland (Ibid.) This shows that not only the own currency has benefitted the Icelandic economy, but additionally adequate economic measures were made in order to make the economy to recover.

From the states were affected by the crisis, and Iceland surely was not the only one to save its main banks, but efficiently Iceland placed the largest banks in receivership, however, guaranteeing all the liabilities of banks to foreign creditors was not possible for Iceland's banks as their loans and assets accounted for more than ten times of the country's GDP (Kirby, Thorhallsson 2011, 12). In figures, the total costs of saving the banks and trying to re-establish them was close to 346 billion ISK, about 22,5 % off the Icelandic GDP (Kirby, Thorhallsson 2011, 13). This method of bank saving additionally was a reason why Iceland

was able to recover fast from the financial crisis.

In a conclusion, Iceland was able to float its currency in a crisis situation, use correct methods of austerity and do budget cuts so that it would not affect the capability of consumers to invest. Furthermore, foreign investment to Iceland was high due to its own currency. These economic management methods would have not been possible if Iceland had the Euro. Together with aid provided by the IMF and Iceland's Nordic partners, Iceland was able to recover in a rather quick time period. Additionally, some capital controls in the form of budget saving and directing the money to the relevant groups was used to save Iceland from the crisis.

### **4.3 Denmark**

Denmark similarly with Sweden and Iceland has its own currency and similarly with the other Nordic nations is a rather stable economy. Internationally, the monetary instruments of Denmark and the Danish way of managing the economy has been unique (Morten, Toftdahl 2014, 51). The monetary instruments that Denmark's Nationalbank use have been unchanged since 1992, and by this efficient use of policy instrument Denmark has been able to keep the Krone close to its central rate (Morten, Toftdahl 2014, 51). These policy instruments have additionally helped Denmark to overcome 2008 financial crisis and the sovereign debt crisis, similarly as with European currency crisis in 1992-1993 (Ibid.). The Krone started to strengthen in 2011 after the financial crisis and at the end of the same year the exchange rate of the Krone reached kr. 7,4330 (Ibid.). The figure 12 illustrated the changes in the Danish growth rate of GDP.

From figure 10 one can see that Denmark was actually less affected by the financial crisis than for example Iceland. Furthermore, compared to Sweden and Finland well the GDP fluctuations in Denmark have been more stable. It did not face as significant GDP reduction as Finland did in 2009. However, the financial did make the Danish GDP to decrease below 0 already in 2008.

Denmark has used a fixed exchange rate policy since 1982, and first it was against Germany's Mark and then from 1999 against the Euro (Morten, Toftdahl 2014, 50). The fixed exchange rate of Denmark is within the framework of the European Exchange Rate

Mechanism called ERM II (Morten, Toftdahl 2014, 51). This means that the exchange rate of Krone might fluctuate only by up to 2,25 % (Ibid.). This is the unique way how Denmark manages its economy and the main difference when compared to Sweden or Iceland. Moreover, this is one reason for the stable GDP growth rate of Denmark. When the ECB changes the interest rates, the Danish Nationalbank responds by additionally making changes that are similar (Ibid.). However, what needs to be remembered is that Denmark has its independence to make required changes in the economy without being tied to the ECB. The figure 11 illustrates how the interest rate of Denmark and the Euro area goes accordingly.

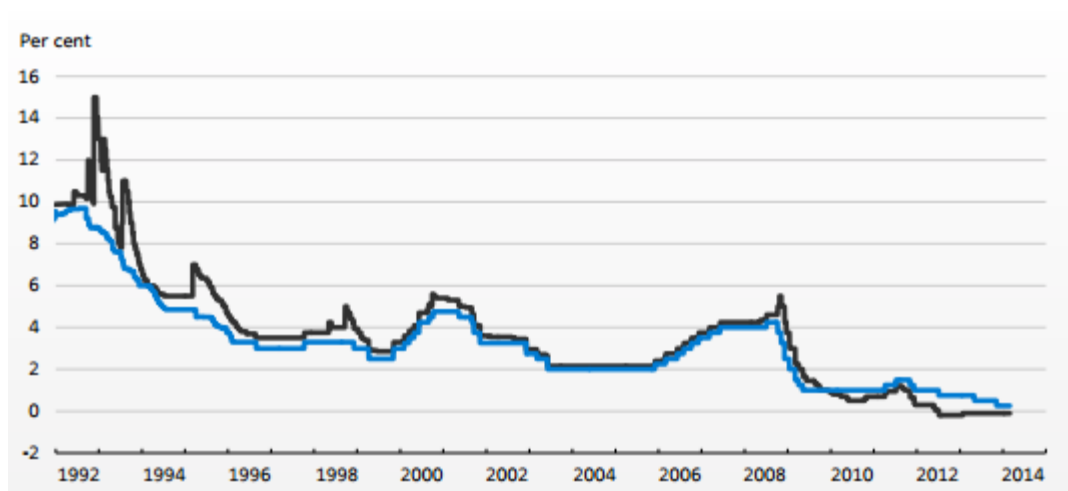


Figure 11. Monetary Policy Interest rates in Denmark and in the Euro area

Source: Morten, Toftdahl, 2014, p. 51

Maintaining the krone stable against the Euro actually means low inflation (Morten, Toftdahl 2014, 50). Furthermore, the National Bank of Denmark takes quick and consistent action according to the deviations from the central rate (Ibid.). Being able to set the exchange rate in accordance with the one of the Euro is a strong indication of a benefit of being able to decide independently on financial policies. This is an important asset of having own currency. Furthermore, one could argue that because Denmark has been able to maintain its exchange rate in accordance with its own preferences, mostly with the one of Euro, it was less affected by the financial crisis and has had a stable economy.

The centre-left government of Denmark decided to establish a referendum on joining the Euro in 2000 (Hobolt, 2007, 13). In addition, the main opposition parties were in favour of this referendum (Ibid.). The no-Euro side of Denmark focused less on explaining

economic aspects but rather argued about the decrease of sovereignty, and a possible threat of a political union (Hobolt, 2007, 13). One theory that is used to explain the rejection of Euro by the Danish people is that it was seen as too "elite" for the society that is commonly characterized as rather egalitarian (Hobolt 2007, 5). Additionally, the Danish government was not able to convince the Danish people to be in favour of Euro as they felt that adopting Euro would mean a loss of sovereignty and identity (Ibid.). In addition, the media had its part in giving a bad reputation for the Euro as the decline of Euro against dollar was mentioned in Danish newspapers widely (Hobolt 2007, 14). In Denmark, the value of Euro had importance for public support (Hobolt 2007, 27). In 2000 the Danish people rejected the Euro with a 53 majority (Breuss 2003, 147).

The case of Denmark shows that own currency has its importance on maintaining national identity and not only economic considerations should be taken into account. This can be applied to Finland, as Finland could benefit of some form of national feeling similarly that has been experienced in Denmark. More precisely, Mark would give Finland a national symbol and differentiate Finland from the other Euro countries.

## CONCLUSION

The Euro was adopted in Finland as it was thought to bring important benefits for the Finnish economy. Finland can be described as a country that "has done everything right but still suffers from the current economic situation" (Soininvaara, 2015, pp. 3). One reason was that the Euro was seen as a stabilizing factor for the Finnish economy and after the financial crisis in the beginning of 1990's. Additionally, political reasons were supportive for the membership of the Euro zone. The Soviet Union had collapsed before the 1995 Finnish EU membership, and the Euro membership in 1999.

Both EU and Euro membership was considered as part of a larger integration of the European nations. The Euro was expected to increase the trade of Finland and give an important tool in a form of a same currency. Having a same currency with its main trading partners was believed to make investing easier. Currently, taking the Mark could be considered as sparking some form of nationalism and mean political isolation of Finland from the European matters. The Euro is believed to stabilize the exchange rate and by this less of price fluctuations.

However, the arguments against the Euro in Finland appear strong. The main argument is that Finland would be financially independent without the Euro and have the possibility to control exchange rate, monetary and fiscal policies without being tied to ECB. Without its own currency Finland cannot change its exchange rate like the case study countries except Denmark did during the crisis period. Therefore, it has no possibility of devaluation if needed. There are significant benefits in devaluation.

The idea of financial no obligation for bailouts, meaning that Finland would not be required to assist European nations with worse economies. Being tied to bailout programs is not beneficial for Finland as Finland has to give from its gains for countries with lower economic performance or in a crisis situation, for example Greece.

Moreover, without the Euro Finland would not have the need to take measures of internal devaluation or austerity, as having own currency gives the possibility to devalue its own currency which would lead to increased revenues gained from exports as devaluation



gives positive balance (Batabyal 2012, 1). One could argue that having a common currency has made Finland to engage to austerity measures and internal devaluation including wage cuts. The problem of austerity is that it decreases the consumption rate of Finland when the budget cuts are directed to the citizens. This has happened in Finland and therefore without the Euro Finland could benefit from increasing demand and purchasing power. The measures of austerity additionally decrease the welfare state characteristics.

Furthermore, the problem of Finland in the euro zone is that it does not have enough of decision power when it comes to economic decisions. Finland has prioritized having the stabilization brought by the Euro rather than independence. Especially during financial crisis period, it is important that the country has the possibility to fix its economy and this is an argument that is strong enough to support the idea that Finland should exit the Euro. Therefore, there exists no indications that would Finland would have benefitted from the strengthening of the trade relations provided by the Euro.

Hobolt (2007) notes that a democratic government has to gain the support of people when trying to adopt another currency, and understanding the benefits and economic costs is not enough (p. 2). Furthermore, the case study on Denmark supports this view and the public made the final decision on whether or not Denmark should join the Euro. If Finland is to change its currency into Mark back, the Finnish policy makers need to know relevant measures that contribute to the economy.

Currency, which strength is traditionally measured by its exchange rate, carries additionally symbolic value (Hobolt 2007, 3). For example, in Denmark the public rejected the Euro due to the fact that it was considered as a loss of symbol of national identity. If Finland was to exit the Euro, it would stand out more globally by having its own currency.

GnS economics (2012) concludes that a common currency union with other Nordic countries would be more advisable as the regional differences are significant between Nordic and South countries (p. 5). The other Nordic nations are rather similar with their economic models. The problem with Europe is that its countries are different from Finland and this makes the currency union not as beneficial for Finland.

If the European economic situation continues to deteriorate, Finland should exit from the Euro. For a monetary union to be successful, Europe would need significant productivity gains and not only money transfers and trade between the countries belonging to the union (Ala-Pejari 2015, 14). As a conclusion, Finland should resign from the Euro and

similarly with its Nordic partners have its own currency.

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