Did Sweden gain or lose from not joining the European Monetary Union?

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Abstract

The result of the decision whether to join the European Monetary Union, an irreversible policy choice for several European Union members, presents potentially significant costs and benefits. With a focus on the second largest EU economy outside of the euro, Sweden, this paper applies the novel synthetic control method of estimation to evaluate whether there are costs or benefits associated with EMU membership and how these have developed over time since 1999. Findings indicate that Sweden would have borne substantial costs from currency union membership, exemplified by 10-12% lower labour productivity, 10% lower net exports, and 7% greater government expenditure for the year 2013, following from even greater peaks in the crisis years. The robust results suggest the costs may be permanent, persisting (and in some cases growing) until the end of the data series. Consistent with the notion that the EMU is intended to fit any and all EU members (and not tailored to specific countries) and having regard to the growing literature highlighting the shortcomings of this monetary union, it is suggested that these insufficiencies, or design flaws, may have presented a cause of the observed costs.

Keywords: European Monetary Union, Sweden, Synthetic control method

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