Title: Political independence through monetary dependence? The case of Montenegro.

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Biographical note: I graduated in political science at the University of Bologna in 2013 where I focused mostly on Italian electoral politics at the regional level. Over time, my main interests have shifted towards international relations and political economy. I received a MA in International Relations from the University of Bologna in 2016 and a MA in International Political Economy from the London School of Economics in 2017. I am currently a PhD candidate at the University of Virginia, Politics department. My main interests lie at the intersection of political economy of finance and political communication. I study on how actors in financial markets process information through the media. I have related interests in the political economy of money and trade and, more specifically, on how political considerations affect the decision to adopt a foreign currency as legal tender (i.e. dollarization) or a national currency and how security concerns influence the pattern of trade relations. My main regional focus is Western Europe.

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Abstract
As an economic policy, currency substitution – the use of a foreign currency in lieu of a domestic currency - is rarely associated with nationalism. This is due to a natural tendency to equate nationalism with economic mercantilism and with the political need to foster nationalist feelings among the population. This needs not to be the case, though, as the case of the newly independent Montenegro demonstrates. How can we explain the apparent inconsistency between nationalist leaders fighting for independence and opting to use the currency of the European Union (EU), the quintessential supra-national entity? This paper suggests that conventional explanations needs to be complemented with a contextual historical analysis of nationalism. By incorporating the fluid and multifaceted nature of nationalism which, in the hands of skilful political elites, can be reframed to include apparently contradictory positions, I suggest that euroization has been extremely consistent with nationalist goals. As the content and directionality of nationalist discourse shifted, the euro was transformed into a symbol of national identity in this Newly Independent Country.

Keywords: currency substitution, nationalism, monetary sovereignty, European Union, the Euro, Balkans.

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Introduction

States deploy visual symbolism on official products to construct and reinforce feelings of nationhood and legitimise power itself. Within this symbolic realm, a national currency holds a special place (Norkus, 2018). Indeed, as Hewitt (1994: 11) succinctly reminds us, money 'offers an unparalleled opportunity for officially sanctioned propaganda, to colour the recipient's views.'

Recognizing the link between identity and money, some scholars have focused on cultural explanations to develop a 'nationalist' approach to International Political Economy that is distinct from standard views of economic nationalism (Helleiner, 1998; 2020). In doing so, two recent strands in the nationalism literature have proved particularly useful. First, starting with the pathbreaking work of Billig (1995), scholars have emphasised the 'banal' aspects of nationalism. Second, a related strand of the literature – 'everyday nationalism'– have emphasised 'the agency of ordinary people, as opposed to elites' in the reproduction of national symbols (Knott, 2015, p.1). While neither Billig nor most everyday nationalism scholars dwelled on the specific role of national currencies in spreading banal and/or everyday forms of nationalist discourse, others have placed national monies at the forefront of their analysis (e.g. Gilbert & Helleiner, 1999; Penrose, 2011; Fetzer, 2020; 2022).

Overall, this literature emphasises how currencies can infiltrate national feelings in the everyday life of individuals in a way that makes it look 'banal', but nonetheless effective (Billig, 1995). Ruling elites often view these artefacts as unobtrusive vehicles for indoctrination and/or as a 'cheap' way to gain political legitimacy (Wallach, 2011). At the same time, ordinary citizens' nationalist feelings limit the choice of currency (Abdelal, 2005). According to these scholars, the formation of national currencies is often a deliberate attempt to shape the process of state-making and nation-building (Gilbert & Helleiner, 1999).

As the literature suggests, though, the symbolic dimension of money deeply intersects with its material aspects. Strong currencies are more likely to be associated with national pride, while weak or fluctuating currencies can undermine it, as they threaten money's representational capacity to stand for value (Nelms & Maurer, 2014). For example, the Deutsche Mark – the strong currency *par excellence* –, acquired a symbolic value as a national identity-maker for Germany's prosperity, while the Franc and the Lira – with their many devaluations– were not seen as potent identity symbols for Italians and French (Risse, 2003; Kaelberer, 2004). Similarly, Banducci *et al.* (2003) quantitatively analyse public support for the Euro in prospective eurozone members and find that citizens are more willing to hand over their national currency when its exchange values is low. Interestingly, purely material considerations cannot account for this variation as the economic benefits of a strong (or weak) currency are a function of the country's economic structure (Hall, 2018). The intersection between the materiality of money and its symbolism leads to link a strong currency to more solid and secure futures in citizens' collective imagination (Nelms and Maurer, 2014).

Moreover, the complex relationship between the symbolic and the material is further compounded in the case of Newly Independent Countries (NICs). After all, scholars of nationalism have often emphasised the political/organizational aspects of modern nation-building, including its monetary component. As Mann (1984) reminds us, the whole concept of a 'national political economy' is permeated by the notion of territoriality, with a national currency embodying the nation's spatio-temporal identification (Balaskas, 2019). A successful identification with the territorial political economy largely depends on the degree to which 'state-seeking' nationalists claiming an 'autonomous political status, or even a separate state' (Tilly, 1994) assert and defend an autonomous economic role of the nation. Historically, such assertion has taken place in many ways, such as an active support for 'indigenous capital and labour' as well as for 'the value of a state's currency' (Mann, 1984: 210).

For these reasons, and since nationalist feelings are usually at their strongest following independence, policymakers in NICs tend to be particularly interested in national currencies. Indeed, as Berg and Borenstein notice (2000: 18) 'Countries introducing their own currencies have done so […] in the context of newly gained independence.' Against this backdrop, a particularly interesting case of NICs diverges from the expected trend, namely Montenegro. The country officially euroised[1] at the turn of the century. The decision to detach from the Serbian state is not particularly puzzling *per se*. Security and economic concerns strongly suggested to cut monetary dependency from Serbia. Opting for the Deutschmark first and then the Euro (the transition was automatic) was a logical choice, given the lack of formally independent status. What is more interesting, though, is that Montenegro has continued to use the Euro even *after* gaining independence in 2006. This paper aims at explaining what may be called, following Strange (1986), a 'non-decision', i.e. the decision *not* to issue a national currency upon obtaining independence. In a nutshell, my argument is that, while other political

[1] I will use the terms euroization and dollarization interchangeably.

and economic factors made the choice in favour of sustained euroization attractive, only an elite-driven identity shift in the *directionality* and *content* of nationalism explains the 'thinkability' of a currency arrangement that is, at first sight, inconsistent with nationalist goals. In other words, rather than hindering independence, the euro was seen as a to preserve political independence.

The contribution of this paper is three-fold. First, I contribute to a renewed debate on the relationship between economic liberalism and nationalism (Fetzer, 2020; 2022). Second, I move beyond previous studies to highlight an alternative channel through which nationalists may not want a national currency (Helleiner & Pickel, 2005). It is not necessarily because of political expediency and strategic short-term calculations, but also for the purpose of building a national identity. Third, I contribute to a growing research agenda on the role of currencies as a banal symbol of national identity by showing how a similar analytical framework can be applied to a supranational currency (Raento *et al*., 2004; Penrose 2011; Norkus, 2018).

Section 1: NICs and National Currencies: The Puzzle of Montenegro

History shows that the vast majority of NICs opt for national currencies right after independence (Berg & Borenzstein, 2000). To be true, some NICs – such as Panama, East Timor, and Namibia – issued a foreign currency upon independence. Nonetheless, those countries adopted a foreign currency *alongside* their own. Thus, monetary symbolism was at least partially preserved.

To explore the phenomenon more systematically, I collected data on the year of adoption of the first national currency since 1945. I coded the first instance of a national symbol on either coins or banknotes, regardless of whether other currencies circulate as well. The data were collected from several sources, such as the Encyclopaedia Britannica, Word Atlas, and

Central Bank websites. As Fig. 1 shows, most countries had their own currency in circulation by the end of the independence year and all NICs that issued a national currency did so by the eighth year.

Fig 1

What about the 20 'censored' countries? They can be divided in two groups: 1) Ex *colonies* (e.g. some former French African colonies); 2) *Micro-states* (e.g. Palau). As Cohen (1998) reminds us, though, these cases are not particularly puzzling. Modest size and an history of colonialism constitute formidable structural constrains. For these countries, adopting an independent currency would simply be too costly.

Montenegro, though, does not neatly fit into neither of these categories. Two oft-cited threshold to defines a micro-state are an area of less than 1000km and an overall population of fewer than 100,000 people (Sutton, 2011). Indeed, Montenegro - with a population of over 600,000 and extending for 13,810km - is not usually referred to as a micro-state (see, for example, Kurecic *et al.*, 2017). Likewise, Montenegro is neither a former colony nor a dependent territory of any EU state as defined by the UN (Article 73e). Moreover, whether international interference explains the 'non-decision' remains an empirical question to investigate as an alternative explanation.

As such, the research question is: *How can we explain the apparent inconsistency between nationalist leaders fighting for independence and then accepting to use the currency of the European Union (EU), the quintessential supra-national entity?*

Section 2: The argument

What could explain the 'non-decision' underlying sustained euroization? There are no doubts that economic and political considerations made euroization an attractive choice. Nevertheless, I argue that it was the identity shift in the *content* and *directionality* of nationalism in Montenegro that allowed sustained euroization to be taken into consideration. In this context, we can think of *content* as the meaning of a collective social identity (Abdelal *et al.*, 2006). The content of national identities can take different non-mutually exclusive forms but is usually characterized around a minimal set of inter-related features, such as the constitutive norms that define group membership and the social purpose and goals shared by the members of the in-group. Moreover, the content of national identity is *inherently* directional since identities are defined by what they are *not* as much as by what they *are* (Abdelal, 2002). While *directionality* often features both components (negative and positive), nationalism may shift over time regarding its emphasis either *towards* or *away from* a nation's "other". This way, nationalists may interpret their country's economic dependence on some states as a "security threat" while, at the same time, dependence on other states as mutually beneficial (Abdelal, 2005). In the Montenegrin context, nationalist identity emerged in the 90s primarily in opposition to Serbia and informed a set of political and economic policies *away from* Serbia. As the independence movement gained strength, though, the directionality of nationalist identity shifted away from a "negative" definition (Montenegrins are not Serbians) and towards a "positive" definition of identity (being Montenegrins are Europeans). The crux of my argument is that these changes in nationalist content and directionality made the use of "someone else'scurrency a 'thinkable' policy option. Unlike most previous nationalist movements, though, the choice in favour of the euro has not signalled an attempt to tie the citizenship to a convergent and often 'invented' national *past*. It signals, instead, an attempt to tie the citizenship to a specific *future*.

But who are the agents behind the connection of this material artifact to a wider meaning, thus turning the Euro into a material symbol? The argument sketched here suggests this to be mostly an elite-driven process. At the same time, though, 'everyday nationalism' scholars are correct in emphasizing how the reproduction of identity cannot be studied solely from a top-down perspective (Knott, 2015). Symbols are not infinitely malleable and may not be interpreted as their designers meant them to be interpreted. For the Euro to be accepted as an identity marker, there needs to be a predisposition and desire to see oneself as European. Hence, the top-down and the bottom-up are mutually constitutive (Malešević, 2013

Empirically, the argument above suggests two main *loci* of inquiry. On the one side, we have the political elites. These political elites can be empirically identified as politicians in positions of power (e.g. heads of the executive), their advisors, and public intellectuals Malešević & Uzelac, 2007). On the other side, it is important to empirically verify whether and to what extent civil society accepted the new directionality and content of this nationalist discourse. Mundane nationalism could not exist without the elaborate organizational structure of 'official' nationalism; at the same time, though, any state-sanctioned attempt at shaping national identity outside the boundaries of a population's perception of self would be viewed as illegitimate Malešević (2013). As such, I will also pay attention to how non-elites viewed the euro and the EU.

To summarise, the argument suggests that the choice of sustained euroization has been consistent with the nationalist ideal. The currency is still an element of Montenegrin identity, but such identity is not restricted to the classic sense of 'one nation, one currency'. The extent to which adopting "someone else's" promotes or hinders independence is determined by how political leaders within the country frame the issue. Framing the euro as enhancing the cause of independence was part of a broader strategy that allowed policymakers to shape an environment conducive to the ‘thinkability’ of a currency arrangement that is, at first sight, inconsistent with nationalist goals.

Methodologically, the paper fits into an established research design tradition known as *deviant case analysis* (Gerring & Cojocaru, 2016). A sizable literature and my own data (Fig. 1) point toward a well-developed expectation regarding the relationship between the establishment of NICs and the issuing of a new currency. Hence, the case of Montenegro is ‘deviant’ relative to some general trend. Given the argument sketched above, the challenge is how to identify and investigate the *content* and *directionality* of nationalism. The two concepts are interdependent and cannot be investigated separately. Take the example of an actor suggesting that the euro “makes them feel more European.” Such statement entails both (identity-based) content and (positive) directionality towards Europe. In a way, its content *is* its directionality and vice versa. Nevertheless, if my argument is correct, the evidence should reveal two contemporaneous shifts in nationalist discourse. First, we would find evidence that Montenegrin nationalism has shifted from being defined in negative directional terms (anti-Serbia) to positive directional terms (pro-European). Second, Montenegrin nationalists’ emphasis should move away from material and instrumental considerations and towards identity-related arguments.

While the case study in this paper is only tentative in nature and cannot prove causality, I implement three methodological strategies to buttress the plausibility of the argument. First, I follow a “multiple implication” approach by using the argument to predict other aspects of the case, thus gaining more data points to assess the plausibility of the argument (Campbell, 1975). Substantively, I rely on survey evidence to show that the “symbolic-identity” dimension of Europeanness is stronger among Montenegrins relative to other comparable Balkan countries, while the “instrumental-material” dimension does not differ. Second, I explore the validity of alternative explanations to show that they offer, at best, an incomplete interpretation of the phenomenon. Third, in the final section, I provide some suggestive complementary evidence to show how the core argument may apply to the similar case of Kosovo.

Section 3: The Case of Montenegro

Montenegrins have not always shared the nationalist content and directionality that they currently do. They have not always defined themselves in opposition to Serbia, nor they have always aspired to become an independent state and have only recently committed to European-ness. For this to happen, the role of political elites, embodied first and foremost by Milo Djukanovic, was essential. As the five-time Prime Minister and two-time President of Montenegro since 1991, Djukanovic's role in the process of independence could hardly be overstated.

Throughout the 19th century, Montenegrin and Serbian seemed indistinguishable from each other to the casual observer (Roberts, 2007). While the newly gained statehood in 1878 contributed to consolidating a distinct Montenegrin identity, the feeling that Montenegro was 'the bastion of the Serbs' was still prevalent. It was the inclusion of Montenegro in the Kingdom of Slovenes, Croats, and Serbs in 1918 that marked a first step in the building of a Montenegrin identity (Morrison, 2009). To some, the way unification was implemented – with the Serbian army surrounding the Montenegrin National Assembly – discredited the idea of Serbs as 'brothers' (Pavlović, 1999). Montenegrin nationalism had 'found its other' (Morrison, 2009, p.39). The division between pro-unionist, *Bijelaši* (White), and pro-independence, *Zelenaši* (Green), took shape and a civil war broke up.

With the end of the war and the establishment of the SFRY, Montenegrins were encouraged to think of themselves as Montenegrins without rejecting their Serbian roots. As

Milovan Djilas (1946) - a famous Montenegrin intellectual - articulated, Montenegrins were just 'different Serbs than other Serbs.' Notwithstanding its supposed trans-nationalism, though, it was the communist state that created the 'institutional tracks and unwittingly laid the foundations for the emergence of fully fledged nationalist doctrines' for both Serbians and Montenegrins (Malešević & Uzelac, 2007: 702). A state-led modernization transformed a rural society into a more urban, industrialised Republic, thus creating the underlying condition for the transformation of 'peasants into Montenegrins'. At the same time, the communist leadership created the infrastructure of high culture, which would become a locus of politicization for the elites (Malešević & Uzelac, 2007).

This process culminated in the 1974 constitutional revision, which contributed to consolidate a greater feeling of a distinct Montenegrin identity. At the same time, economic conditions dramatically worsened. By the mid-80s, the old divide between White and Green was revived, and the new and young leader Djukanovic emerged among the 'unionist' (Ramet, 2018). Nevertheless, the victory of the 'unionists' in Montenegro in the first independence referendum (1992) shows how the consolidation of national identity had not yet come at the expense of the historical link with Serbia.

By the mid-90s, though, with the Federation plagued by hyperinflation and war, Djukanovic started taking a different route. On the one side, he began to incorporate a more nationalist rhetoric of independence. As he declared, the question of Montenegrin statehood was all about 'whether we want to enter the twenty first century as a democratic and free Montenegro or become some insignificant appendage to an undemocratic regime' (Hedges, 1998a). On the other side, he would substantiate the point by emphasizing the stark differences between Belgrade and Podgorica's approaches towards the EU. As he said at the Montenegrin Assembly in July 1996, his government approach was different because: 'We wish to come closer to Europe in all aspects, and we wish to become an institutional part of the united and developed Europe *as soon as possible*.' (Morrison, 2009: 144). In other words, it is at this point that Montenegrin elites start re-defining their national identity not only in opposition with their most significant "other", Serbia, but also in positive terms as a "return to Europe". Nevertheless, while the two-way directionality in social identity is taking shape, most nationalist discourse from this time is still instrumental in nature.

The political situation precipitated in 1997 when the Djukanovic's party split in pro- and anti- Milosevic factions (Džankić, 2014). In the run-up for the 1998 parliamentary elections an escalation of tension was visible. At rallies, Djukanovic's detractors were chanting 'Milo the Turk!', alluding to Montenegro's Albanians support for Djukanovic, to which the Prime Minister's supporters retorted 'This is not Serbia!' (Hedges, 1998b). Seizing the opportunity to break away with the (and his) past, Djukanovic released a programmatic paper on April 3rd, 1998. In this document, the national question and the European destiny are clearly interlinked, albeit mostly in an instrumental fashion:

> '*Europe is our only possible choice* […] This initiative is a way of seeking response to the question: *what are so-called higher national interests?'*. (emphasis added)

By this time, the government of Montenegro had decided to distance itself from Belgrade. One of the first steps was to lessen monetary dependence. Such decision was influenced by an epistemic community of free-market intellectuals. Among them, the most famous was John Hopkins professor Steve Hanke. Djukanovic appointed Hanke as Advisor to the President on July 13, 1999. Interestingly, though, Djukanovic took his advisor's suggestion in favour of a currency board system one step forward. For Hanke, dollarization was conceived solely as a temporary measure to gain leverage over Belgrade, after which a new currency would have followed. As Hanke acknowledged on Jan. 3, 2000:

> As President Djukanovic's economic adviser, I recommended that Montenegro adopt the German mark as legal power to hire and tender. […]. I have also recommended that Montenegro install an orthodox Currency Board System. […] *Under my proposed setup, Montenegro would produce its own currency, the Marka*. (emphasis added).

Arguably, Djukanovic had understood that there was no need of another national symbol. Europe, and thus the euro, was becoming already a symbol of Montenegrin nationalism. As the governor of the Central Bank of Montenegro remarked on the day of the euro transition: 'Everything that you will see tonight in Bilijarda is the confirmation of an historical fact; the confirmation of our right to [choose the] type of money and its use by ourselves" (CBoM, 2001).

As the pro-independence movement gained momentum, Djukanovic switched emphasis regarding nationhood, depicting Montenegro as part of the 'European family' and including the euro currency in his rhetoric for independence. This rhetoric complemented his own previous focus on material considerations. In the late 90s, he repeatedly explained Montenegro's decision to switch to the euro as a result of 'the constant and shameless printing of dinars in a central bank in Belgrade' (Vijesti, 2012). Few years later, instead, he would recall the same policy decision by emphasizing its identity and evaluative dimension. As he stressed in a 2005 interview: 'We have created an institutional system with the aim of protecting our *identity*. To do so, *we have strengthened our independence*, even after Milosevic's fall, *by introducing the euro*' (Krivokapic, 2005, emphasis added).

Material and symbolic arguments are now fused in a coherent nationalist rhetoric to sustain and foster the independence momentum. As the economist (and Djukanovic's advisor) Vukotic noticed: "The deutschmark was very, very positive for our economy but it's *psychologically* very, very important when we say, 'the euro is *my* currency.'" (Anderson, 2002, emphasis added). After all, it would have been hard to say 'the deutschmark is our money'. At the same time, during the currency changeover in 2002, government-sponsored billboards were already visible in Podgorica proclaiming 'The Euro. Our money!' and 'Closer to Europe with the euro' (Mlatisuma, 2001; Andrews, 2002). Clearly, Montenegrin leadership's change in tone did not happen in a vacuum. Indeed, the introduction of the euro had been welcomed warmly. As one shopkeeper said in a BBC interview: 'We can hardly wait […] The euro will speed up our integration into Europe.' (Anderson, 2002).

The psychological effect of bringing Montenegro closer to Europe via the euro was magnified by memories of hyperinflation among the population, as the literature previously discussed suggests. As an Associated Press interview during the euro crisis reveals, for example, Montenegrins would still say: 'With the euro, at least you know where you stand' (Stojanovic, 2010). The government-sponsored billboards mentioned above also showed the exchange rate between the Euro and the Deutschmark, in a powerful nod to the currency (expected) ability to retain its value in stark contrast with the hyper-inflated Dinar. Here we can see how the material and the symbolic intersect in both government-sponsored rhetoric as well as among Montenegrins. 'The euro will make our business deals and transactions with EU countries much easier,' said a business owner standing by the 'The Euro. Our money!' billboard. 'It will be better when we travel with euros in our pockets. *That makes you feel European,*' echoes a social worker in Podgorica (Mlatisuma, 2001, emphasis mine).

As the independence referendum approached, 'Europe' appeared ubiquitous. Not surprisingly, the pro-independence campaign focused on the 'European destiny' of Montenegrins while the pro-unionist stressed the 'unbreakable cultural and ethnic bonds' between Serbians and Montenegrins (Morrison, 2009: 209). By the same token, on economic issues, the pro-independence campaign called the people to vote for 'European standards' and ‘faster European integration’. As the referendum approached, Djukanovic was again the most vocal. As he wrote in the columns of the *Financial Time* when criticizing the EU’s cold reception of a possible pro-independence victory (Financial Times, 2006):

> ‘Today our aspiration for restoring statehood is not derived solely from national and historic sentiments. It is about the *future*. We want to take charge of our *European destiny* […] If a substantial majority of my fellow countrymen and women vote for independence, do not take this as a sign that we are small-minded, inward looking, Balkan nationalists. […] Instead, accept the result of the referendum as a welcome victory for democracy, tolerance, and, above all, *for European values’* (emphasis added).

On May 21st, 2006, the elections were held. As Montenegro became independent, Montenegrin governments continued the nation-building process, adopting new state symbols, altering the national anthem, erecting monuments, and making Montenegrin the official language (Džankić 2014). The deep divisions within Montenegrin society were reflected in the politicization of these symbols. Still in 2012, a fierce debate over possible changes of the flag and anthem ensued, with opposition leaders claiming that ‘The civic concept of Montenegrin state was destroyed when the language of the linguistic minority was declared the official language’ (Milosevic, 2012). One of the most important symbols of the state, though, has remained uncontested: the euro. Since then, the currency issue has remained subdued. The low salience of the issue, though, speaks in favor of the overall argument presented here. Consistent with the expectations, what at first appeared ‘new’ gradually became unremarkable, thus turning the European ‘background space’ into a mundane ‘homeland space’ (Billig, 1995).

Section 4: From the Elites to the People

As argued previously, political actors – and Milo Djukanovic in particular – have been instrumental in framing the euro as a constituent part of Montenegro. Nevertheless, elites issue framing does not appear in a vacuum. Indeed, any efforts by the government to shape national identity beyond the populace's self-perception would be regarded as illegitimate. Therefore, it is important to examine the citizens' perspectives to determine the degree to which civil society embraced the new directionality and content of the nationalist discourse. Indeed, at least in principle, the Euro could symbolise also economic development, macroeconomic stability, as well as other material goals.

Without denying the multifaceted symbolism of the euro, in what follows I provide an additional piece of evidence to back up my claim regarding a shift in the content and directionality of nationalism among Montenegrins. In so doing, I expand the "implication space" of my theory to make an ancillary prediction. If my claim is correct, we would expect a greater degree of identification with being European among Montenegrins; instead, if my claim is incorrect, we would expect to see an "instrumental" approach towards the European Union.

Empirically, I rely on a survey conducted in 2011 as part of a project on symbolic Nation-Building in the Balkans (Kolstø, 2016). In particular, I utilise the following two questions, "Do you think that European integration is a good thing for [COUNTRY]?" and "How do you identify with Europe?" It seems reasonable to expect that the respondents would interpret the first question in a utilitarian fashion (material dimension). The latter is unambiguously concerned with the identity dimension.

Figure 2 presents the percentage of respondents who answer "Yes" to the first question (red bars) and the combined percentage of those who identify "Extremely strongly" and "very strongly" with Europe in response to the second question (blue bars). An interesting pattern emerges, with two groups of comparable countries along the material dimension: first, Albanians and Kosovars show a high percentage of respondents (92.9 and 90.2%, respectively) who see Europe as "a good thing"; second, Bosnians, Macedonians and Montenegrins are less enthusiastic, although they feature a clear majority of favourable respondents (69, 68 and 69.5%). Croatia is an outlier and not easily comparable to any other country. Interestingly, Montenegrins distinguish themselves in terms of European feelings relative to their most comparable counterparts (blue bars). While the differences between Montenegro and Bosnia/Macedonia along the material dimension are minimal (+1 and +1.5%, respectively), the gaps across the identity dimensions are remarkable (+14.9 and +10.1%). Interestingly, a similar pattern is visible in the case of Kosovo, the only other country that is officially euroised.

Fig 2 here

While it is not possible to make any causal claim from this observational data, the evidence is suggestive of some systematic differences within the Balkan region. Respondents in the only two countries - Kosovo and Montenegro - that have decided to adopt (and maintain) the euro also exhibit stronger feelings towards the EU.

Section 5: Alternative Explanations

The previous section has provided some suggestive evidence that the Montenegrin elites framed – and Montenegrins accepted – the euro as a material symbolic to foster political independence. Nevertheless, one may argue that other factors have been paramount in this 'non-decision'. One possibility is that the economic rationale for euroization was stronger than any other consideration. A related argument suggests that the costs of changing the currency status quo was too high. Second, it may be argued that the EU forced the use of its currency in Montenegro. Without denying that some (or all) of these factors may have played a role, in what follows I briefly discuss each and provide evidence to suggest that they are best incomplete explanations.

Domestic alternative explanations: Aggregate welfare, state capacity, and path dependency.

A mature body of literature in economics has focused specifically on the country-level factors that characterise so-called Optimal Currency Areas, aka currency unions. While most OCA literature studies the case when a group of countries creates a new currency (e.g. the eurozone), the same criteria apply to the case in which client countries adopt the currency of a large anchor country, i.e. dollarization (Alesina & Barro, 2002). In what follows I will focus on the main factors underlined in the literature, i.e. inflation reduction, trade integration, and the loss of monetary autonomy. If, according to these criteria, it turns out that Montenegro is an "optimal" partner to the eurozone and/or has disproportionately benefited from euroization, the case for non-economic explanations would be severely weakened.

Regarding inflation, the OCA literature suggests that inflation-prone countries stand to gain more from dollarization. By definition, a new state has no independent inflation history, although one may claim that Montenegro would have inherited the Serbian troubled history of inflation. While reasonable, the argument applies equally strongly to other former Jugoslav republics which, instead, managed to restrain inflationary tendencies with their own currencies. Indeed, a comparison of inflation performances between Balkan countries casts doubts on whether different arrangements can be linked to systematically different outcomes. As figure

3 shows, the inflation performances of Balkan countries are comparable in levels and converging over time. Arguably, while dollarization helps with keeping inflation under control, it is not the only way to achieve that goal.

Figure 3 here

As for the gains derived from reduced transaction costs, according to OCA scholars, countries that trade more with each other are more likely to adopt the same currency. As Fig. 4 and 5 show for the period post-independence (no data available before), Montenegro has been clearly oriented towards the Eurozone. Nevertheless, the percentage level of imports/exports has not differed much from that of other Balkan countries.

Figure 4 here Figure 5 here

Finally, we should also bear in mind the non-trivial *costs* of dollarization, mostly the loss of an autonomous monetary policy. A standard approach to quantify such costs is to estimate the business cycle synchronization between anchor and client (Alesina & Barro, 2002). The intuition is straightforward. The more the shocks are related the more the monetary policy selected by the anchor will be appropriate for the dollarised country as well. The shocks can be measured in terms of both prices and outputs. Here, I borrow the econometric framework proposed in Alesina *et al.* (2002) to compare the synchronization coefficients among Balkan countries. The computation of *price* co-movements goes as following:

1) For each time period t, divide each country i and the anchor j 's (the eurozone) PPP GDP by the US dollar exchange rate to obtain the relative price of each country (and anchor) relative to that of the US.

2) Divide the value obtained for each country *i* by the value for the anchor *j* to compute relative prices between countries and the eurozone (P_{it}/P_{jt}).

3) For every country-anchor pair, compute the following second order autoregression (Eq. 1):

$$ln\frac{P_{it}}{P_{jt}} = b_0 + b_1 ln\frac{P_{i,t-1}}{P_{j,t-2}} + b_2 ln\frac{P_{i,t-2}}{P_{j,t-2}} + \varepsilon_{tij}$$

The estimated residual, ε_{tij}, measures the part of relative prices that cannot be predicted by previous values of relative prices. Then, one can calculate as a measure of co-movement the root mean squared error:

$$MPSE = \sqrt{\frac{1}{T-3}\sum\nolimits_{t=1}^{T} \varepsilon_{tij}^2}$$

Intuitively, the greater the co-movements, the smaller the MPSE coefficient. After replacing relative prices with real per capita GDP expressed in 2015 US $, I re-estimate Eq. 1 to compute a measure of *output* co-movements. All three measures needed for these calculations come from the *World Bank* for the period 1997-2021. I select the countries analysed in two recent studies using the same (or similar) methodology – Saucedo Acosta & Diaz Pedrosa (2016) and Razmi (2022) - to ease comparisons with their estimates. Given the short time frame, it is hard to obtain consistent estimates on individual time series. Hence, I estimate the parameters on the pooled sample with the Arellano and Bond GMM dynamic estimator, thus accounting for country-level effects. The results are displayed in Table 1.

Table 1: Eurozone – Balkans co-movements

MPSE	**Montenegro**	**Albania**	**BiH**	**Bulgaria**	**Croatia**	**FYROM**	**Serbia**	**Average**	**Average (no Serbia)**
Price	0.0459	0.0347	0.0196	0.0226	0.0340	0.0207	0.3581	0.0765	0.0296
Output	0.0647	0.0274	0.0278	0.0352	0.0362	0.0260	0.0457	0.0376	0.0362

While there is no agreed threshold to consider a country sufficiently synchronised with the anchor to be a potential OCA member, the evidence underlines the low correlation of shocks between Montenegro and the Eurozone relative to other countries. Montenegro's price co-movement is the least synchronised to the eurozone after that of Serbia. On the output side, Montenegro is less synchronised with the eurozone than any other country in the sample. Overall, the analysis suggests that Montenegro may be incurring a high cost of giving up monetary independence relative to other Balkan countries.

The patterns suggested above, while only descriptive, are in line with more rigorous empirical research. Among the few studies including Montenegro, Saucedo Acosta & Diaz Pedrosa (2016) conclude that all Balkan countries would benefit from using the euro according to the price stability criterion. Nevertheless, in terms of trade, they find that Montenegro is the *least* exposed to the eurozone, and the *most* exposed to the other Balkan countries. Likewise, Montenegro is found to be the least synchronised country relative to the eurozone business cycle. Using an alternative decomposition, Razmi (2022) finds that the demand and supply business cycle synchronization estimates for Montenegro fall in the lower end of the range of previous studies on prospective eurozone countries. Moreover, Montenegro's supply side shocks are *less* synchronised with the eurozone compared to the average Balkan countries' estimates, while Montenegro's demand shocks are by far *the least* synchronised in the region.

Overall, the cost-benefit calculus of maintaining the euro is not clear-cut. While on balance the benefits may outweigh the costs, it is hard to claim that they do so overwhelmingly. Nevertheless, a related domestic-level argument may stress that abandoning the euro is simply too costly due to institutional path dependency and low state capacity (Cohen, 2003).

While the path dependency argument has its merit, it should not be overstated. Leaving any exchange rate arrangement is conceivable, albeit at some price, as former colonies of European countries demonstrated. De-dollarization strategies can and have been successfully adopted in several contexts (Brand, 1993; Windischbauer, 2016). Not only de-dollarisation policies are possible, but they are 'often the result of a struggle for independence'(Fabris et al., 2004: 24) and have been historically implemented mostly by governments 'with strong nationalist orientations' (Gilbert & Helleiner, 1999: 151). Even low state capacity countries have proven it possible to implement 'soft' de-dollarization measures. Shifting to currency boards, for example, has 'allow[ed] economic liberal goals to work hand in hand with more nationalist objectives (Gilbert & Helleiner, 1999: 151).

Moreover, the low-state-capacity argument can be empirically scrutinised. To do so, I rely on Hanson and Sigman's (2021) composite state capacity index. The authors use Bayesian Latent analysis to summarise information across 21 indicators of extractive, coercive, and administrative capacity. Table 2 compares the Montenegro's state capacity to that of the 'censored' countries in Figure 1, i.e. the other NICs that appeared not to have issued a national currency (the data is available only for eight countries). The first row shows the index of state capacity the year *after* independence. Since we know that independent countries adopt some form of national currency by their 8th year (Fig. 1), the second row shows the average state capacity index over the same time frame. Higher values indicate stronger capacity. Clearly, Montenegro enjoys greater capacity than any other country in the sample, thus shedding doubts on the argument that Montenegro could have not issued its own money, if it had wanted to.

Table 2: State Capacity

Description	Montenegro	Senegal	Mauritania	Cameroon	B. Faso	Gabon	Togo	Niger	Benin
1st Year	0.71	-0.42	-0.43	-0.52	-0.52	-0.55	-0.56	-0.65	-0.82
8-Year av.	0.52	-0.46	-0.57	-0.49	-0.64	-0.65	-0.75	-0.78	-0.84

To conclude, material benefits certainly played major roles in the decision to officially euroise in the late 90s. Nevertheless, it seems at best an incomplete explanation for sustained euroization *after* independence. As Lakić *et al*. (2016: 52) conclude: “For the most part, Montenegro fulfilled the theoretical preconditions for the successful implementation of euroization, […], but whether or not it would achieve better results by applying the monetary and exchange rate arrangements based on the currency board remains an open issue”. Likewise, while concerns about the ‘costs of exit’ may have played a role at the margin, they can hardly be interpreted as unsurmountable obstacles.

International Explanations: External Pressure

At the international level, the EU may have forced sustained euroization upon Montenegro. An oft-mentioned benefit for the issuing economy concerns *seigniorage* gains corresponding to the loss of seigniorage benefits for the dollarised state (Cohen, 1998). Moreover, the political dimension might provide further incentives to the issuing country to foster the official use of its currency abroad (Cohen, 2003).

As it concerns the possibility that the EU may have imposed sustained euroization to benefit *economically*, we can dismiss it quickly. Indeed, the consensus among specialists is that strictly economic benefits for the issuer are negligible in the case of small countries (Winkler *et al.,* 2004). Nevertheless, there could be *political* reasons. Such case, though, is dramatically weakened by the decidedly cool EU reaction. As public officials have repeatedly argued, unilateral euroization undermines the process of convergence and weakens the process of multilateral assessment of new candidates (European Commission, 2009). Indeed, the EU has been particularly active in discouraging such move on the ground that ‘it would run counter to the underlying economic reasoning of EMU [European Monetary Union] in the [EC] Treaty, which foresees the eventual adoption of the euro as the *endpoint* of a structured convergence process within a multilateral framework.' (ECOFIN, 2001). Somehow more cynically, one may argue that euro membership is seen as a final 'reward' that can be used to pressure would-be euro members towards macroeconomic stability. In line with this reasoning, and as a reaction to the euroization debates taking place in Eastern Europe in the early 2000s, the EU unambiguously indicated currency board arrangements as the preferred choice and described unilateral euroization as "not compatible with the Treaty and [not a possible] way to bypass the convergence process foreseen by the Treaty" (ECOFIN, 2001). Consistent with the ECOFIN position, the ECB has fully subscribed to this view as expressed, among others, by former Executive Board member Jürgen Stark: "Allowing a Member State or a future Member state to take a "short-cut" to the euro, rather than following the official roadmap, could be detrimental to that country and possibly the euro area" (ECB, 2008).

In summary, the available evidence suggests that euroization was not encouraged and was at best tolerated. As such, external pressure from the EU is at best an incomplete explanation of Montenegro "non-decision" to issue its own currency.

Section 6: Nationalism and Currency Choices beyond Montenegro

What does the Montenegrin case tell us about other instances of nationalists' (potential or actual) currency choices? Recently, Scotland and Catalonia have taken centre stage in debates concerning secession and independence in the EU. Until recently, both secessionist movements advocated for keeping their current currencies. Lately, the position of the Scottish National Party on this issue has shifted significantly and, since at least 2019, has moved towards supporting an independent currency (Paloni, 2022; Mnyanda, 2022). According to many analysts, issuing a national Scottish/Catalan currency would likely lead to an unpredictable depreciation of the exchange rate as well as capital flights (Lavelle, 2013; Brunet, 2022; Paloni, 2022). Nevertheless, others have argued that capital flights may occur under other currency arrangements as well (Armstrong and Ebell, 2014; MacDonald, 2022), which may partly explain Scottish nationalists' turnabout on this issue.

Importantly, in the Catalan and Scottish cases the importance of maintaining the currency - or changing it - is emphasised exclusively in terms of economic benefits and costs (Anderson & Keil, 2016). References to the symbolic – or even just the political – significance of such choice are hard to find. Indeed, these two cases are more in line with Helleiner's explanation for why Quebecois nationalists did not favour a national currency (Helleiner & Pickel, 2005). In a nutshell, Quebecois nationalists were driven by short-term strategic considerations regarding the possibility of capital flights that would have weakened their own case in the wake of the independence referendum. Overall, such considerations should be paramount in the case of financially advanced secessionist regions. After all, upon independence, Catalonia would retain one of Spain's four major stock exchange, the Barcelona Stock Exchange. In the case of Scotland, a stock market exchange does not currently exist, but a change in currency would risk undermining the on-going plans to re-establish one, an idea that has constantly resurfaced since the late 90s among SNP's members and that has gained more momentum since the (unsuccessful) independence referendum in 2014 (Turner, 2014).

In contrast to the above-mentioned cases, the literature on the economic development-financial market nexus casts doubts on whether any (non-EU) Balkan country – and Montenegro above all – has been particularly reliant on their capital markets (Chupetlovski *et al.*, 2021). Looking at the financial depth of the poorest countries in Europe for which we have data on the national exchange market total market capitalization reinforces the point.[2] As of May 2006, when the independence referendum was held, only two countries – Armenia and North Macedonia – had a lower capitalization than Montenegro. Likewise, studies on

[2] I consider the 15 poorest countries based on GDP per capita as of 2006. Of these, there is data available for 11 from the CEIC database.

Montenegrin capital markets before the independence referendum concluded that Montenegro's stock market turnover (4% of GDP) was much lower than that of comparable countries (Popović, 2004). Overall, then, the cases of Catalonia and Scotland do not have much in common to that of Montenegro. In the former cases, due to their relatively advanced stage of economic and financial development, nationalists have downplayed the symbolic in favour of the material in their currency debates. By contrast, rather than downplaying the symbolic role of a national currency, Montenegrin nationalists embraced the symbolic value of the euro.

Nevertheless, two other nearby cases – Bosnia & Herzegovina (BiH) and Kosovo - might be more relevant. To some extent, the case of Bosnia & Herzegovina is still different given the division of the country between the Republic of Srpska (RS) and the Federation of BiH. In the former, the EU is often seen as a process that could jeopardise the existence of the RS, while in the latter the EU is seen as a guarantee for the continuation of BiH as a state (Turčilo, 2013). This division reflects a somehow ambivalent attitude towards the European Union, which would have made unilateral euroization unlikely. At the same time, though, a portion of the population and its elites is often found to underline their European identity (Moll, 2013), and the symbolic dimension of currency still played some role. Indeed, Bosnia selected the same designer of the euro currency for its own banknotes (Robert Kalina). Scholars have described the resemblance in architectural design between the two currencies as striking (Fishman and Messina, 2006). The choice is clearly not accidental as acknowledged by the Bosnia Central Bank Governor's suggestion that the design symbolises Bosnia's desire to have a currency "with strong links to the euro" (cited in Fishman and Messina, 2006: 23).

Finally, while an in-depth discussion of Kosovo is beyond the scope of this paper, it seems likely that the explanation proposed for Montenegro's "non-decision" generalises to this case as well (although the external influence of the EU likely played a stronger role). After all, Kosovo is the only other European country that had euroised before its own independence referendum in 2008. Likewise, the history of Kosovo nationalism is deeply intertwined with that of Serbia, its most significant "other". Interestingly, Kosovar nationalist discourse also shifted in the 90s in ways reminiscent of the Montenegrin case. Rather than mobilizing directly in favor of independence *or* reunion with Albania, they started mobilizing in favor of EU integration to achieve independence. For Kosovars, this was an opportunity to finally play on equal foot with all other ex-Yugoslavian nations. Kosovar nationalism undertook 'a process of diversification after a period where the Albania ethnie has been mobilised and united against Serbia' (Andersen, 2002: 5). In other words, the previous negative directionality of Kosovar nationalism started being complemented with a positive one towards Europe. Importantly, in the months after independence, Kosovo adopted a new flag. The new official flag is blue with a gold map of Kosovo surrounded by six stars and its resemblance with the EU flag is hardly coincidental. Likewise, the legislative branch's choice for the new anthem was that of composer Mengjici, tellingly titled 'Europe'. As Andersen (2002: 141) noted during the first debate about the future flag, there is little doubt that 'the political elites are actively engaged in both emphasizing newly appeared sentiments and slowly contribute to changing the mainstream nationalistic sentiments.' Not surprisingly given the above discussion, Kosovar's political elites at the time rarely, if ever, questioned the role of the euro as Kosovo's currency, even if the Euro-crisis would soon reveal its possible shortcomings. Overall, the trajectory of Kosovar nationalism, and its handling of national symbols, seems to suggest that similar mechanisms might explain Kosovo's 'non-decision' to sustain the euro as its national currency also on non-material grounds.

Conclusion

Dollarization is hardly one of those policies traditionally associated with economic nationalism (Helleiner & Pickel, 2005). As this study arguably demonstrates, though, this needs not to be the case.

Nationalism is not a fixed concept with a fixed set of economic policies (Helleiner, 2020). A more in-depth analysis of the *content* and *directionality* of Montenegrin nationalism shows that euroization has been consistent with nationalist goals. The surrendering of monetary sovereignty should not necessarily be interpreted as a rejection of nationalism. Instead, it can be framed as an assertion of it. As Helleiner and Pickel (2005) notice, there is no nationalist *a priori* preference towards fixed or floating exchange rate, but for economic growth broadly conceived, which would enhance the cause of independence. Likewise, there is no nationalist *a priori* preference for issuing a national currency or adopting an existing one, but for a political decision (or 'non-decision') that would enhance an identity building process consistent with independent statehood. When that happened in Montenegro, the official currency did not cease to be a symbol of banal nationalism. Rather, the content and directionality of nationalism shifted in such a way to allow the euro – a supra-national currency - to become a national symbol.

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