Loss of Monetary Policy Autonomy and Public Attitude toward Monetary Union

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Abstract The paper investigates the public’s attitude towards monetary union arrangements associated with different levels of monetary policy autonomy. The results indicate that support for monetary union declines significantly with expected loss of autonomy. Survey data from Kenya shows that public support for the proposed East African Community monetary union is highest in an arrangement where the country assumes the role of anchor and lowest where the country assumes a client role. A more favorable appraisal of the effects of monetary union by the public increases the likelihood of voting for a multilateral monetary union but decreases the likelihood of voting for a client role in a unilateral dollarization arrangement. This suggests that for countries without clear differences in monetary policy credibility, but with political systems where voter preferences matter, multilateral monetary union would be a more stable arrangement.

Keywords: Loss of autonomy, monetary union, public attitude, survey data, East African community

JEL Classification: E52, F33

1. Introduction

Monetary union is a major policy shift that has considerable social, political and economic implications. A number of advantages have been cited. A large set of literature suggest currency union reduces transaction costs thereby enhancing trade (Rose 2000; Frankel and Rose, 2002; Rose and Stanley, 2005). By adopting the currency of a low-inflation country a higher inflation country can import credibility (Herrendorf, 1997; Alesina and Barro, 2002). In this sense currency union may be more credible than fixed exchange rate as it is harder for a country to reintroduce her currency than to abandon a peg. Alesina and Barro (2002) show that a small open economy heavily trading with one large partner, with a history of high inflation and with business cycles highly correlated with that of the potential anchor is likely to gain more from giving up its currency. Inflation stability might be enhanced even in a multilateral currency union where none of the member countries has a history of credible monetary policy. This applies if the opportunistic objectives of one country’s policymakers are kept in check at the union level by other members with disparate objectives (Buigut and Valev, forthcoming). Monetary union is also seen as a way to solidify gains in other fields such as trade, to strengthen regional solidarity and harmony. For the promoters of the Euro, potential increase in European political unity trumped
any other economic costs (Miles, 2006). Political and social unification improves monetary union outcomes as it provides conditions under which alternate adjustment mechanism (labor mobility and cross-regional fiscal transfers) is facilitated (Goodhart, 2007).

The main cost of monetary union is the loss of monetary policy autonomy. By adopting the currency of an anchor country, the client country loses the ability to use monetary policy to stabilize country specific shocks. This cost is higher the more dissimilar the client and anchor country shocks are and if wage rigidity and restricted labor mobility hamper alternative ways of adjustment. However, the effective loss of monetary policy control may be lower. Recent literature suggests that formation of a large currency union area may reduce the actual monetary autonomy of a country that stays out of the union. The larger share of imports from the currency union renders a close alignment of monetary policy to the interest rate set by the union necessary if countries outside the union want to impede the import of inflation or declining competitiveness (Plumper and Troeger, 2006). They argue in their paper that the European currency union reduced the de facto monetary policy autonomy of European Union (EU) countries abstaining from the euro.

Except when the country is the anchor in a dollarization scheme, monetary union involves ceding control over monetary policy at the national level. In the case of multilateral union that allows for joint control through a supranational institution there is a partial loss of control, whereas a country cedes total control of monetary policy when it assumes a client role in a dollarization scheme. Public support is crucial for the success of a policy change the magnitude of a monetary union. Public attitudes through political behavior shape and provide the foundation for integration. Thus public opinion is crucial for elected officials, as their stance on the issue directly leads to rewards or punishment in the polls. It is therefore important to understand how public support for monetary union is affected by loss of autonomy. Gabel (1998) studies why citizens vary their support for European integration by looking at five prominent theories of support for integration; cognitive mobilization, political values, utilitarian appraisals, class partisipanships and support for government. The results suggest that the utilitarian theory is the strongest and most robust predictor for integration. Kalthenthaler and Anderson (2001) seek to explain variations in public support for common currency across member states. They develop a model of support of EU monetary policy that incorporates utilitarian and multilevel governance components. Their findings suggest that variations in attitudes toward common currency are driven by considerations of costs and benefits, as well as the interaction of European level politics and the domestic level politics of the member states. Hayo (1999) analyzed the relationship between objective knowledge of EU and people’s attitudes towards the EMU, and argued that higher level of EU knowledge could influence people towards further monetary integration. These studies use data from the Eurobarometer survey also. Using data from three national surveys (carried out 2001, 2003 and 2004) Valev (2006) concludes that support for early euroization in Bulgaria (a country seeking to join the Eurozone) is affected by concerns about currency devaluation and perception of how widely the euro is used, while the opposition comes from attachment to national currency. However, no study has modeled the public’s attitude toward loss of monetary policy autonomy.

This article contributes to the literature in three ways. First the paper analyzes if the public exhibits an aversion to loss of monetary policy autonomy, and whether this does significantly influence their support for monetary union. Secondly, the paper seeks to analyze the factors that
influence the level of the public’s aversion to loss of autonomy. We use data from a survey carried out in Kenya April, 2008. Thus in addition, the paper captures the level of public support for specific arrangements (client, multilateral, anchor) of the proposed East African Community (EAC) monetary union. No such work has been carried out.

The stated objective of the EAC integration effort is to achieve a monetary union by the year 2012 and a federation of East African States to follow (EAC, 2007).¹ The community currently is negotiating a common market targeted for implementation 2010.² Public goodwill takes on an even more crucial role in the EAC proposal given the history of the integration scheme in the region. The EAC has experienced a reversal in a similar integration effort in the past with the collapse of the sterling pound-backed monetary arrangement in 1996 and the original EAC in 1977.³ This study provides an opportunity to gauge public attitude toward the revived monetary union proposal. We derive an indicator of and provide evidence that aversion to loss of autonomy is a significant factor influencing the public’s support for a monetary union. This is the first paper to empirically provide this evidence from survey data. The rest of the paper is structured as follows. Section 2 provides evidence of the public’s aversion to loss of autonomy, while section 3 describes the data and variables used. In section 4 the results of the probit models are discussed. A conclusion is provided in section 5.

2. Loss of Autonomy and Support for Monetary Union

In this section we show that public support for monetary union diminishes significantly with the expected loss of monetary policy autonomy. The data used is from a survey conducted April, 2008 in Kenya (the largest member country of the EAC in terms of GDP)⁴. The survey asks the respondents a series of questions designed to gauge their level of support for the proposed monetary union. Three key questions presented to the respondents relevant to the loss of monetary policy autonomy are discussed below. The first question helps to determine support for a multilateral monetary union that leads to the introduction of a new currency with monetary policy under the joint control of all participating member countries. The question read as follows (coded jeurrency1):

As you may be aware the EAC governments (Kenya, Uganda, Tanzania, Rwanda, and Burundi) have proposed the introduction of a “new” common currency in the near future. This proposed currency, if adopted, will be used in all the EAC countries (Kenya, Uganda, Tanzania, Rwanda, and Burundi). Suppose you were asked to vote whether Kenya should abandon the Kenya Shilling for a new common currency that will be under joint control of all the EAC governments, how would you vote?

The respondents were then asked to choose one from three available options.

(1) If in favor of abandoning the Kenya Shilling for a new common East African currency
(2) If indifferent about the choice of currency to use
(3) If not in favor of abandoning the Kenya shilling for a new common East African currency
The set up depicted here is basically a multilateral monetary union. Each country abandons their national currency. In addition the new currency is jointly controlled, which means there is some loss of autonomy, though not total as in a unilateral dollarization arrangement.

The respondents also answered two variants of this question. The first follow-up question read as follows (coded kenanchor):

Suppose instead of introducing a new common currency for the EAC under joint control of all EAC governments, the proposal was for the other member countries to abandon their own currencies and to instead use the Kenya shilling solely controlled by Kenya. Suppose you were asked to vote on this proposal, how would you vote?

Again the respondents were required to pick one of three options.

(1) If in favor of the Kenya shilling being used by other EAC countries  
(2) If indifferent about the choice of currency to use  
(3) If not in favor of the Kenya shilling being used by other EAC countries

The aim is to capture support for a unilateral adoption of the Kenyan currency by EAC member countries. Kenya assumes the role of anchor country. Kenya’s control over her monetary policy is in no way affected.

The second follow-up question (coded otheranchor) read as follows:

Suppose instead of introducing a new common currency for the EAC under joint control of all EAC governments, the proposal was for Kenya to abandon its own currency and to instead use one of the other EAC member country currencies (i.e. Uganda Shilling or Tanzania shilling) solely controlled by the other country. Suppose you were asked to vote on this proposal, how would you vote?

As in the other two cases respondent was to pick one of three choices:

(1) If in favor of abandoning the Kenya shilling to use another EAC country currency  
(2) If indifferent about the choice of currency to use  
(3) If not in favor of abandoning the Kenya shilling to use another EAC currency

This captures the support for a unilateral adoption of another EAC currency by Kenya. Kenya loses her national currency (as in jcurrency1) and cedes full control over monetary policy to another EAC country which plays the role of anchor. If the public is averse to loss of monetary control, it would be expected that, on average, support for currency union by the Kenyan public is stronger for the case of unilateral adoption of the Kenya currency compared to the case where Kenya has to cede control of its monetary policy to another other EAC member country.

The distribution of the level of support for monetary union for each of the three scenarios discussed is given in Table 1. Table 1 indicates there is a substantial erosion of public support for monetary union with the decline in the country’s control over the monetary policy. The proportion of respondents in favor falls from 61.5% to 30.4% under joint control, and further to
only 9.3% when the country cedes total control to another country. The proportion of those who are not in favor increase from 29.6% to 61.8% under joint control and to 80.7% when there is total loss of control. The change in the level of support when the arrangement shifts from one where the country has full control to one where there is joint control or another country has full control are taken as indicators of the public’s aversion to loss of monetary policy autonomy. The aim is to show that the loss of autonomy does significantly influence public attitude toward monetary union. A one way ANOVA shows that the three sets of responses indicating the level of public support for the three forms of monetary union that correlate with different degrees of autonomy (kenanchor = full control, jcurrency1 = shared control, and otheranchor = total loss of control) are significantly different (F value = 280). The F test is very large, indicating that the responses are distinctly different for the three forms of monetary union. Public support is lower for monetary union arrangements that lead to greater loss of monetary policy autonomy.

From the responses to the three questions, two related (but not identical) ordinal measures of aversion to loss of monetary policy autonomy are generated. The first variable (flcontrol1 = kenanchor – jcurrency1) can take the integer values -2, -1, 0, 1, 2, where -2 indicates the greatest aversion to loss of autonomy. This is obtained for individuals who are in favor (category 1 in Table 1) of currency union when their country is fully in charge of monetary policy in the union and not in favor (category 3) of currency union when there is joint control of monetary policy. However the variable (flcontrol1) captures more than just the effects of a partial loss of monetary autonomy (i.e. from full control to joint control). It also captures the public’s dislike of loss of the national currency. The higher the attachment to the national currency the higher this resentment will be, and the lower the public support. Thus this variable likely overstates the dislike of loss of autonomy. The second variable (flcontrol2 = jcurrency1 - otheranchor) also can take the integer values -2 to 2. Unlike flcontrol1 however, flcontrol2 only captures the effects of the loss of monetary autonomy; from a position of joint control to a total loss of monetary policy control. It would therefore be expected public support will on average decline in flcontrol2 by less than in flcontrol1.

For a shift from full control to joint control (flcontrol1), 41.73% of respondents (see Table 2) indicate a fall in their support by two levels (-2), 6.04% a fall by one level (-1), while 37.41% show no change in their level of support (0). A minority of respondents indicate an increase in their level of support. Only 3.45% show a one level (1) increase in support and 11.37% show an increase of two levels (2). The mean of flcontrol1 (which is -0.633) indicates that overall there is a decline in the level of public support. The decline in support is relatively smaller for flcontrol2. The corresponding values are 21.73%, 6.91%, 64.17%, 4.03% and 3.17% respectively. The mean of flcontrol2 (at -0.4) is smaller than flcontrol1 but still a substantial decline in public support. If the response level were similar we would expect that on average the mean change in the level of support would be zero; i.e. the mean of flcontrol1 and flcontrol2 would be zero. Individually the mean of flcontrol1 (-0.633) and flcontrol2 (-0.4) are different from zero. The t-values are -12.37 and -10.84 respectively. In addition, the means of flcontrol1 and flcontrol2 are significantly different from each other at 1% (t value = -2.93).

Kenya and the two members of the EAC (Tanzania and Uganda) mentioned in the questionnaire with regard to control of monetary policy are roughly of similar economic size. In addition none of them has a long or particularly successful history of monetary policy, with only a nascent claim to central bank independence. The central banks of Uganda and Tanzania delivered a
slightly lower inflation rates and marginally higher real growth rates over the period 2000-2007. But this comes after performing relatively worse than Kenya over the seventies and eighties. Thus imported credibility would not feature directly as part of the gains of any of these countries from a monetary union between them, though indirect gain from mutual restraint is shown in Buigut and Valev (2009). Thus resistance to a move from a multilateral union to a client role in a unilateral monetary can be attributed mainly to aversion to loss of autonomy measured by fcontrol2 on the part of the public.

It may be argued that other EAC member countries (Uganda and Tanzania) mentioned in the questionnaire have had marginally less credible monetary policy than Kenya over the longer run. In that case the derived variable (fcontrol2) may overestimate the fear of loss of autonomy by capturing the Kenyan public’s apprehension at being exposed to a less successful monetary policy. It is however debatable that the Kenyan central bank has been more credible or successful than its counterparts even over longer period. Nonetheless the respondents were also asked how they would vote if the Euro was the anchor currency. The European Central Bank is unquestionably a much more credible institution than any of the EAC central banks. Still the results indicate the respondent’s prefer a jointly controlled East African currency than adopt a much more credible euro. The distribution of fcontrol8 (jcurrency1 – euroanchor) is similar to that of fcontrol2; -2 = 19.74%, -1=5.19%, 0=58.21%, 1=4.61, 2=12.25. The mean response is (of -0.156) is significantly different from zero (t value =-3.52) at the 1% level, as opposed to -0.4 obtained for fcontrol2. Thus public support is still significantly lower for a unilateral adoption of the euro relative to a new jointly controlled EAC currency, though not as low as for a unilateral adoption of an EAC country currency. It is expected the respondents’ true level of aversion to loss of monetary policy autonomy is more closely captured by fcontrol2 (=jcurrency1 - otheranchor) than fcontrol8 (=jcurrency1 - euroanchor) or fcontrol1 (kenanchor – jcurrency1). In section 4 the determinants of fcontrol1 and fcontrol2 are analyzed.

3. Methodology

3.1 Data

The survey was administered by enumerators using a structured questionnaire. Since the survey was only administered in Kenya, in translating to the national language, Kiswahili, the primary concern was with comparability of meaning and description of the monetary union scenarios. Thus we opted for the interpretive equivalence approach (Hui and Triandis, 1985; Okazaki and Sue, 1995; Johnson, 1998). Locals fluent in both English and Kiswahili were recruited for the purpose. Interviews were carried out in six of eight provinces, chosen on the basis of voter population. These are Nairobi (which hosts the nation’s capital), Rift Valley, Central, Eastern, Nyanza, and Western provinces. A total sample size of 700 responses was achieved. The proportion of the sample from each province is based on the weight of the province’s registered voters in November, 2007 provided by the Electoral Commission of Kenya (ECK) with an adjustment made to capture concern for diversity; regions with more diverse communities being given an additional weight. The final proportions achieved were Nairobi 29.2%, Rift Valley 23.1%, Central 16.2%, Eastern 15.8%, Nyanza and Western 7.9% each. Only the adult population (>18 years) were interviewed. A municipality/city (of at least 100,000 people) was chosen at random from each province. Random sampling was then applied with roughly half the
subsample from within the municipality itself and half from the rural environs around it to achieve a mix of urban and rural population. The interviews took place over the month of April 2008, with the respondents presented with closed-ended questions. The focus of the questionnaire was to capture the respondents’ views about the proposed monetary union (see Section 2 for the discussion of the monetary union questions relevant to this paper).

3.2 Independent Variables
To help describe the factors influencing the public’s aversion to loss of monetary policy autonomy, a set of socio-demographic variables were collected and included in the analysis. A gender variable (Gender coded: male = 1, otherwise = 0) is included to capture gender disparity in the political landscape in the country. Since this variable might also be linked to other factors like differences in perceived economic benefits, it would not be easy to state a priori the direction of influence of this variable. Age is measured based on an increasing six point bracket scale (1 to 6). Older respondents were found to be less supportive of euroisation in Valev (2006). In the current set up it is hypothesized older people are more conservative, and therefore resistant to loss of autonomy. Education (Educ1) is captured using a three point scale (primary school = 1, High school and further post primary training = 2, and college diploma/university education = 3). Education makes individuals more aware of international affairs, including comparable integration schemes. This likely would promote the need for regional integration and thus reducing aversion to loss of autonomy. It may however also make respondents more aware of the importance of monetary policy and hence increase resistance to loss of autonomy. The effect of education is therefore ambiguous. A respondent who shares a language or culture (cultlinks coded: 1 = if there are communities in other EAC countries that share culture/language of respondent, 0 = otherwise) with other EAC communities would be pro-integration generally and thus likely to be less averse to loss of autonomy. By increasing exposure to and interaction with foreigners, travel (travelout) likely will reduce xenophobic tendencies and hence reduce aversion to loss in autonomy. Employment which includes both formal and informal employment (Employed coded: employed=1, unemployed =0 ) could have influence through several distinct routes e.g. income level and sector of employment. Thus the direction of the effect of this variable a priori is not postulated. Also included is a variable to capture the citizens’ appraisal of the effects of monetary union on their country. The survey asks the following question: “Overall which of the following choices reflects your view of the effects of a common currency for EAC on Kenya?” The respondents could pick one of five choices [appraisal coded: very bad thing = 1, relatively bad thing = 2, neither good nor bad (no effect) = 3, relatively good thing = 4, very good thing = 5]. Gabel and Hix (2005) suggest that the general evaluation of EU membership is highly and positively related to support for Britain joining the euro. It is hypothesized that a more favorable evaluation of currency union will reduce the aversion to loss of autonomy.

3.3 Ordered Probit Model
The aim is to explain the publics’ aversion to loss of monetary policy autonomy. The dependent variables (fcontrol1 and fcontrol2) derived in section 2 are ordered response variables taking on the five values (-2, -1, 0, 1, 2). Thus an ordered probit model is used to capture the ordinal nature of the dependent variable. We assume a continuous unobservable random variable, 3⁴, called ‘fear of loss of autonomy’ determined by;
\[ y^* = X\beta + \varepsilon, \quad \varepsilon|X \sim \text{Normal}(0, 1) \]  \hspace{1cm} (1)

where \( \beta \) is \( K \times 1 \) and \( X \) a vector of the independent variables discussed in section 3(b) (without a constant). The observed responses (\( y = \text{flcontrol}1 \) and \( y = \text{flcontrol}2 \) however takes five values and is related to \( y^* \) as follows;

\[
\begin{align*}
y &= 2 \quad \text{if } y^* > \alpha_4 \\
y &= 1 \quad \text{if } \alpha_1 < y^* \leq \alpha_2 \\
&\quad \ldots \ldots \quad \text{else} \\
y &= 2 \quad \text{if } y^* \leq \alpha_1 
\end{align*}
\hspace{1cm} (2)
\]

There are four unknown threshold parameters (cut off points), \( \alpha_1 < \alpha_2 < \alpha_3 < \alpha_4 \), to be estimated together with \( \beta \). The interpretation of the coefficients is in terms of the underlying variable \( y^* \). For example suppose a positive value of one of the coefficients \( \beta_k \). Then it means \( y^* \) increases if the \( x_k \) independent variable increases. Accordingly the probability that \( y = 2 \) will increase, while the probability that \( y = -2 \) will decrease. The effect on the intermediate categories, however, is ambiguous. To check that the results are not dependent on how the variables (\( \text{flcontrol}1 \) and \( \text{flcontrol}2 \)) are coded a second set of dependent variables are used (\( \text{sovereign1 } \) and \( \text{sovereign2} \)). These are also ordinal variables but takes only three values -1, 0, 1 and are basically the \( \text{flcontrol} \) variables recoded such that -2 and -1 in \( \text{flcontrol}1 \) is equal to -1 in \( \text{sovereign1} \), while 1 and 2 in \( \text{flcontrol}1 \) is equal to 1 in \( \text{sovereign1} \), and similarly for \( \text{sovereign2} \). There will be only two threshold values in this case.

4. Explaining the Public’s Fear of Loss of Monetary Policy Autonomy

Table 3 provides descriptive statistics of the respondents’ demographics. About 61% of the respondents are male and the average level of education is a high school diploma. A notable 47.5% of them share a language or culture with another EAC country. Some 49% of the respondents have travelled outside Kenya at least once and 82% were employed (informal and formal employment included). In a scale of 1 to 5, the mean appraisal of the effects of monetary union is a 2.9. Appendix 1 presents a correlation matrix. First note that the two dependent variables are very closely but negatively correlated (correlation coefficient of -0.625). The correlations among the explanatory variables are very small (all below 0.4) and indeed most of them are substantially lower than that. This is reassuring as it means multicollinearity will be minimal.

The results of the ordered probit models are given in Table 4 and 5. Table 4 gives the results when the dependent variables are \( \text{flcontrol}1 \) and \( \text{flcontrol}2 \). Only two variables significantly affect the public’s fear of loss of autonomy. The citizens’ appraisal of the effects of monetary union is positive and highly significant in model 1. A more favorable evaluation of the effects of monetary union leads to a higher probability of multilateral monetary union (less aversion to the loss of autonomy and national currency). This would suggest that when the public evaluation of effects of monetary union is favorable they are willing to sacrifice the national currency and
some policy autonomy for a multilateral monetary union. Positive appraisal increases the
likelihood of a shift to a multilateral monetary union. However, in model 2 the appraisal variable
is highly significant but carries negative sign, indicating that a more favorable evaluation of the
effects of monetary union decreases the probability the public would accept a client role in a
unilateral monetary union (greater aversion to loss of autonomy). This suggests that when the
evaluation of effects of monetary union is more favorable, the public is less willing to cede total
control over monetary policy to another country. The conclusion from the two results is that
when the evaluation is more favorable the public is more likely to accept joint control in a
multilateral monetary union, but less likely to cede total control of monetary policy to another
country in a unilateral currency union. Thus the effect of appraisal on the fear of losing
autonomy is not linear. Another variable significant in Table 4 is the gender variable. The gender
variable is significant in model 2 though not in model 1. It has a negative coefficient suggesting
that males exhibit a greater fear of a total loss of autonomy. In model 1 this variable carries a
positive sign though not significant. Thus gender is not a significant factor influencing a shift to
a joint control arrangement but being male leads to a lower likelihood of accepting a total loss
of autonomy.

Table 5 gives the results when the dependent variables are sovereign1 and sovereign2. The
results are very similar to those seen in Table 4. The same two variables significantly impact the
fear of losing policy autonomy. Appraisal is significant in both models and as in the previous
case the sign changes from positive (model 1) to negative (model 2). The conclusion from these
results is that when the evaluation is more favorable the public is more likely to accept joint
control in a multilateral monetary union, but less likely to cede total control of monetary policy.
The gender variable is again not significant in model 1 but negative and significant in model 2.
Thus gender is not a significant factor influencing a shift to a jointly controlled monetary
arrangement but being male lowers the likelihood of ceding total monetary policy control to
another country.

5. Conclusion

The survey data analyzed reveals that public support for specific arrangements of monetary
union differ for different levels of monetary policy autonomy. Anova results suggests that public
support for the three monetary union arrangements analyzed diminishes significantly as the
expected loss of monetary policy autonomy increases. Public support is highest in an
arrangement where the country assumes the role of anchor and lowest where the country assumes
a client role, with multilateral control somewhere in the middle. Two variables (the public’s
appraisal of the effects of monetary union, and gender) significantly influence the fear of losing
monetary policy autonomy. But equally important, the effect of these variables on the fear of
losing autonomy is not linear. Public appraisal of the effects of monetary union initially is
positive and highly significant for a shift from full control (monetary anchor) to a multilateral
control of monetary policy. However the effect of this variable reverses as more monetary policy
autonomy is lost. A positive appraisal leads to lower likelihood of ceding total control of
monetary policy to another country (i.e. client country in a unilateral monetary union) relative to
multilateral union. The conclusion from these results is that when the appraisal is more favorable
the public is more likely to adopt joint control in a multilateral monetary union, but less likely to
cede total control of monetary policy to another country. Similarly, gender is not a significant factor influencing a shift to a joint control arrangement but being male reduces the probability of ceding total control of policy autonomy to another country.

The implication of these results is that in a political system where voter preferences matter, joint control in a multilateral monetary union seems to be the more stable arrangement. When monetary union is considered beneficial by voters in member countries, the public is more likely to be willing to cede some policy autonomy for membership in a jointly controlled (multilateral) monetary union but less likely to accept to be the client country in a unilateral dollarization arrangement. This result therefore adds another perspective to the stabilizing role of multilateral monetary union stemming from mutual restraint discussed in Buigut and Valev (forthcoming); that multilateral monetary union can enhance price stability for member countries even if none of them has a long history of stable prices and independent monetary policy. The positive effect obtains because the opportunistic objectives of one country’s policymakers are kept in check at the union level by other members with disparate objectives.

**Endnotes**

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1. The EAC currently comprises five member countries. Three of them (Kenya, Uganda and Tanzania) participated from the beginning in the initiation and the signing of the Permanent Tripartite Agreement in 1993 to revive the defunct EAC that collapsed in 1977. The three countries ratified the treaty to re-establish the EAC in 1999. Two neighboring countries, Rwanda and Burundi, were admitted July 2007.


3. Kenya, Uganda and Tanzania participated in the old EAC arrangement started under British rule. It survived the transition to independence early 1960’s but finally collapsed in 1977. The community shared a common currency (the East African Shilling) linked to the Sterling pound in a currency board arrangement that lasted till 1966 when each country started issuing its own currency. The main contributing factors cited for the collapse are differences in the distribution of benefits and the political ideologies pursued at the time by the leadership in the three countries.

4. The EAC covers a total area of 1,817,945 KM² and has a total combined population of 127 million (2007 estimate). The 2007 GDP estimate (2000 prices) is only 45.3 billion US dollars (with Kenya contributing 37.8%, Tanzania 36%, Uganda 18.6%, Rwanda 5.7%, and Burundi 1.9%). Population and GDP estimates are sourced from the African Development Bank, Selected Statistics on African Countries at http://www.afdb.org/pls/portal/docs
5. The average inflation rates for the period 2000 to 2007 were 9.2%, 5.6% and 4.9% while the real growth rates were 4%, 6.7%, and 5.6% for Kenya, Tanzania and Uganda respectively. Inflation and GDP growth estimates are sourced from the African Development Bank, Selected Statistics on African Countries at [http://www.afdb.org/pls/portal/docs](http://www.afdb.org/pls/portal/docs).

6. A small team of interviewers from the country, fluent in both English and Kiswahili was recruited and trained (including a trial run during pretesting) for the purpose. English is the official language and the language of instruction in all learning institutions in the country, but not the first language. As such most people who have gone through some level of schooling have a very good command of the English language. As proficiency in English is linked to formal education, linguistic problems were anticipated from those who have not gone through formal education (or only had few years). In such cases where interpretation was necessary the questions were presented in Kiswahili the national language.

7. The North Eastern province which is the least developed province, with the smallest (and most sparse) population was excluded on the basis of its remoteness. Coast province, has the second lowest population and also contains a high proportion of communities heavily represented in the other provinces included in the interviews.

References


### Table 1. Distribution of Level of Public Support for Three Monetary Union Arrangements

<table>
<thead>
<tr>
<th>Scenarios</th>
<th>Category 1 (in favor)</th>
<th>Category 2 (indifferent)</th>
<th>Category 3 (not in favor)</th>
<th>Mean Response</th>
</tr>
</thead>
<tbody>
<tr>
<td>Unilateral adoption of Kenya currency: Kenya in control of monetary policy (Kenanchor)</td>
<td>61.5%</td>
<td>8.9%</td>
<td>29.6%</td>
<td>1.68</td>
</tr>
<tr>
<td>Multilateral monetary union: Joint control of monetary policy (jcurrency1)</td>
<td>30.4%</td>
<td>7.8%</td>
<td>61.8%</td>
<td>2.31</td>
</tr>
<tr>
<td>Unilateral adoption of an EAC currency: Other EAC country in charge of monetary policy (otheranchor)</td>
<td>9.3%</td>
<td>10.0%</td>
<td>80.7%</td>
<td>2.71</td>
</tr>
</tbody>
</table>

### Table 2. Shifts in Level of Public Support for Monetary Union under Different Arrangements

<table>
<thead>
<tr>
<th>Category</th>
<th>controFll1 = (Kenanchor – jcurrency1)</th>
<th>Flcontrol2 = (jcurrency1 – otheranchor)</th>
</tr>
</thead>
<tbody>
<tr>
<td>-2</td>
<td>41.73%</td>
<td>21.73%</td>
</tr>
<tr>
<td>-1</td>
<td>6.04%</td>
<td>6.91%</td>
</tr>
<tr>
<td>0</td>
<td>37.41%</td>
<td>64.17%</td>
</tr>
<tr>
<td>1</td>
<td>3.45%</td>
<td>4.03%</td>
</tr>
<tr>
<td>2</td>
<td>11.37%</td>
<td>3.17%</td>
</tr>
</tbody>
</table>

### Table 3. Summary Statistics of Variables Used in the Probit Models

<table>
<thead>
<tr>
<th>Variable</th>
<th>Mean</th>
<th>Std. Dev</th>
<th>Min</th>
<th>Max</th>
</tr>
</thead>
<tbody>
<tr>
<td>fcontrol1</td>
<td>-0.633</td>
<td>1.349</td>
<td>-2</td>
<td>2</td>
</tr>
<tr>
<td>fcontrol2</td>
<td>-0.4</td>
<td>0.973</td>
<td>-2</td>
<td>2</td>
</tr>
<tr>
<td>sovereign1</td>
<td>-0.330</td>
<td>0.720</td>
<td>-1</td>
<td>1</td>
</tr>
<tr>
<td>sovereign2</td>
<td>-0.214</td>
<td>0.559</td>
<td>-1</td>
<td>1</td>
</tr>
<tr>
<td>Gender</td>
<td>0.610</td>
<td>0.488</td>
<td>0</td>
<td>1</td>
</tr>
<tr>
<td>Age</td>
<td>2.138</td>
<td>1.037</td>
<td>1</td>
<td>6</td>
</tr>
<tr>
<td>Educ1</td>
<td>2.268</td>
<td>0.683</td>
<td>1</td>
<td>3</td>
</tr>
<tr>
<td>Cultlinks</td>
<td>0.475</td>
<td>0.500</td>
<td>0</td>
<td>1</td>
</tr>
<tr>
<td>Travelout</td>
<td>0.493</td>
<td>0.500</td>
<td>0</td>
<td>1</td>
</tr>
<tr>
<td>Employed</td>
<td>0.824</td>
<td>0.381</td>
<td>0</td>
<td>1</td>
</tr>
<tr>
<td>Appraisal</td>
<td>2.926</td>
<td>1.533</td>
<td>1</td>
<td>5</td>
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</table>
Table 4. Determinants of the Fear of Loss of Monetary Policy Autonomy (flcontrol)

<table>
<thead>
<tr>
<th>Explanatory variables</th>
<th>Model 1: Dependent variable = flcontrol1</th>
<th>Model 2: Dependent variable = flcontrol2</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Coeff</td>
<td>z-value</td>
</tr>
<tr>
<td>Gender</td>
<td>0.134</td>
<td>1.29</td>
</tr>
<tr>
<td>Age</td>
<td>0.048</td>
<td>1.00</td>
</tr>
<tr>
<td>Educ1</td>
<td>-0.030</td>
<td>-0.44</td>
</tr>
<tr>
<td>Cultlinks</td>
<td>0.080</td>
<td>0.83</td>
</tr>
<tr>
<td>Travelout</td>
<td>0.041</td>
<td>0.41</td>
</tr>
<tr>
<td>Employed</td>
<td>0.006</td>
<td>0.04</td>
</tr>
<tr>
<td>Appraisal</td>
<td>0.292</td>
<td>9.62***</td>
</tr>
<tr>
<td>Cut1</td>
<td>0.83(0.24)</td>
<td>2.28(0.30)</td>
</tr>
<tr>
<td>Cut2</td>
<td>0.95(0.24)</td>
<td>2.06(0.29)</td>
</tr>
<tr>
<td>Cut3</td>
<td>2.13(0.24)</td>
<td>0.34(0.28)</td>
</tr>
<tr>
<td>Cut4</td>
<td>2.29(0.24)</td>
<td>0.70(0.29)</td>
</tr>
</tbody>
</table>

Notes: The results are from ordered probit models with robust standard errors and the dependent variable is flcontrol. The * indicates significant at the 10% level, ** at the 5% and *** at the 1% level.

Table 5. Determinants of the Fear of Loss of Monetary Policy Autonomy (sovereign)

<table>
<thead>
<tr>
<th>Explanatory variables</th>
<th>Model 1: Dependent variable = sovereign1</th>
<th>Model 2: Dependent variable = sovereign2</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Coeff</td>
<td>z-value</td>
</tr>
<tr>
<td>Gender</td>
<td>0.117</td>
<td>1.11</td>
</tr>
<tr>
<td>Age</td>
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<td>0.62</td>
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<tr>
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<td>Cultlinks</td>
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<td>1.10</td>
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<tr>
<td>Travelout</td>
<td>0.022</td>
<td>0.21</td>
</tr>
<tr>
<td>Employed</td>
<td>0.036</td>
<td>0.26</td>
</tr>
<tr>
<td>Appraisal</td>
<td>0.300</td>
<td>9.64***</td>
</tr>
<tr>
<td>Cut1</td>
<td>0.91(0.25)</td>
<td>-2.09(0.29)</td>
</tr>
<tr>
<td>Cut1</td>
<td>2.09(0.25)</td>
<td>0.31(0.28)</td>
</tr>
</tbody>
</table>

Notes: The results are from ordered probit models with robust standard errors and the dependent variable is sovereign. The * indicates significant at the 10% level, ** at the 5% and *** at the 1% level.
## Appendix 1. Correlation Coefficients among Variables

<table>
<thead>
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<th></th>
<th>flcontrol1</th>
<th>flcontrol2</th>
<th>gender</th>
<th>age</th>
<th>educ1</th>
<th>cultlinks</th>
<th>travelout</th>
<th>employed</th>
<th>cntrybnfts1</th>
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</thead>
<tbody>
<tr>
<td>flcontrol1</td>
<td>1</td>
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<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
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<td></td>
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<tr>
<td>gender</td>
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<td>-0.106</td>
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<td>0.055</td>
<td>-0.04</td>
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