

POLAND AND THE EURO: BETWEEN LOCK-IN AND UNFINISHED TRANSITION¹

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In the otherwise rich debate on the eastward expansion of the Eurozone, fragmented approaches prevail, leaving several conceptual avenues of this process underexplored. The case of Poland – initially a fervent enthusiast of the euro adoption and a somewhat assertive endorser today – offers in this context an opportunity to add to the debate and deepen our understanding of the logic behind eastward expansion of the Eurozone. In what follows, Poland’s prospective Eurozone entry is examined from the broader angle of the historically determined conceptual and policy-making context of systemic transition. To this end, a conceptual nexus between Eurozone expansion and transition is established and examined through the historical institutionalist perspective. It is argued that rather than being solely a function of Poland’s EU membership, both the decision to adopt the euro and the attainment of real and nominal convergence are predominantly a function of the, as yet unfinished, transition process. Interestingly, as this paper suggests, the inconsistency inherent in the execution of the Maastricht convergence criteria not only creates disincentives that effectively delay Poland’s Eurozone entry but also triggers reform-drift and backsliding, thus casting a shadow on the prospect of the completion of the Polish transition and its sustainability.

Keywords: Eurozone, Poland, transition, historical institutionalism, policy reform process

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1. INTRODUCTION

Constituting part of *acquis communautaire*, the prospective introduction of the euro was inscribed in the European Union (EU) Accession Treaty which Poland signed in 2003. Since – contrary to the case of the United Kingdom and Denmark – an ‘opt-out’ was not an option for Poland, the prospect of adopting the euro has defined Poland’s political and economic strategies devised since its entry into the EU in 2004. The Eurozone crisis altered the cost-benefit analysis of euro area membership, while doubts about integrity of the currency union forced a re-think of the hazards and perils of Eurozone membership by prospective members, mostly by the new member states (NMS). Irrespective of the perceived risks though, several NMS countries joined the euro area, e.g. Slovakia (2009), Estonia (2011) and Latvia (2014), Lithuania is on a track to adopt the euro in 2015, whereas the Czech Republic reiterated its commitment to join in 2020. The process of the Eurozone’s eastward expansion remains nevertheless unfinished with Hungary rejecting the idea of an imminent Eurozone membership outright, Poland implementing a “wait and see” approach, and several other countries missing the convergence criteria altogether. This prompts urgent questions about the logic behind the unfinished process of eastward expansion of the Eurozone and its country-specific dimensions. Nevertheless, the otherwise rich literature on the subject fails to offer a broader conceptual perspective appropriate for an examination of a country’s decision to postpone the introduction of the euro. In this sense, it is imperative that such a framework be established to deepen the debate on the Eurozone’s eastward enlargement. This plea is particularly valid today given the fact that – as a result of the Eurozone crisis – the euro area lost part of its credibility and its power of attraction faded. As several NMS, initially very optimistic about introducing the euro, and essentially able to meet the Maastricht nominal convergence criteria, decided to postpone their Eurozone entry, macroeconomic and political science approaches to the rationale behind Eurozone expansion need to be elaborated again. This paper seeks to respond to that call.

In this context the case of Poland appears particularly useful in that – by showing how an initial fervent enthusiast of the euro adoption was transformed into an assertive endorser thereof – it offers an insight into the logic behind this change. Given the fact that Poland is one of the biggest countries in the region of Central and Eastern Europe (CEE), a showcase of both successful systemic transition and EU integration-driven economic convergence, and finally, a thriving economy that raises viable claims to leadership in the region, an insight into Poland’s change of heart toward the euro bears spectacular potential to enrich – both conceptually and empirically – the debate on eastward expansion of the Eurozone. The argument is structured as follows. By reviewing selected literature on the sub-

ject, the first section maps the conceptual approaches employed to the study of eastward expansion of the Eurozone in order to point to some of the neglected avenues of conceptualizing this process. In the next move, the unexplored potential of the existing approaches to the problem at hand is elaborated and a way of tapping into it is suggested. In what follows the empirical purchase of a historical institutionalist (HI) approach to eastward expansion of the Eurozone is tested on the example of Poland. A critical evaluation of lessons that the Polish case offers concludes the discussion.

2. MAPPING EASTWARD EXPANSION OF THE EUROZONE: A SELECTED LITERATURE REVIEW

In the early 1990s and before the December 1997 European Council decision to launch the accession negotiations with the CEE countries, the possibility of them adopting the euro, not least them joining the EU, was approached either with distrust and irony or in the best case as a really long-term scenario (e.g. Baldwin 1995). Displaying a considerable shift in attitudes, the literature of the early 2000s (Gros 2000; Bolle – Jacobsen 2001; Siebert 2001) considered eastward expansion of the Eurozone as a risky, yet a viable option. In a disciplined fashion two sets of questions were thus examined, i.e. on the one hand, the CEE countries' ability to catch-up with the rest of the EU and, on the other hand, Eurozone membership notwithstanding, their ability to continue the reform process associated with transition and transformation. To a large extent, the latter set of questions was driven by a concern about (or disbelief in) stability and continuity of political institutions in the CEE countries. As regards methodology, this early research on Eurozone expansion comprised a balanced blend of strictly quantitative and qualitative methodologies. At the level of the conceptual frameworks employed, references to Mundell's work (1961) prevailed.

Subsequent research, frequently resorting to modelling and quantitative analysis, that examined the CEEs' ability to meet the *Optimum Currency Area criteria*, stipulated that *overall* adopting the euro should not be particularly challenging for the CEE countries (Błaszczewicz – Woźniak 2003; Lavrac – Zumer 2003; Lavrac 2004; Bukowski 2006). In particular, taking into account *business cycles' synchronization*, it was suggested that several of the CEE countries are more synchronized with the Eurozone core – and thus less prone to adverse shocks – than the old periphery members, such as Greece, Portugal and Spain (Darvas – Szapáry 2004). It was also argued that the still erratic business cycle synchronization (Broz 2008) increases the likelihood of the occurrence of asymmetric supply shocks (Arfa 2009). Overall, however, an unspoken consensus emerged that *after all* the

CEE countries represented a case of ‘clustered convergence’ (Dyson 2007) and thus constituted a differentiated group of countries each at a different level of economic advancement and business cycles similarity. This required country/sub-regional case-studies analysis to determine the degree of structural fit of specific economies to the Eurozone average (e.g. Fidrmuc – Korhonen 2006). Accordingly, *the Samuelson-Balassa effect* turned into a prominent conceptual tool to approach potential risks associated with the introduction of the euro (Natalucci – Ravenna 2002; Borowski – Brzoza-Brzezina 2004).

A related avenue of research focused explicitly on *sectoral risks and benefits* of eastward enlargement (Jacobsen et al. 2003; Kemmerling 2003; Żukrowska – Sobczak 2004) and the optimal policy strategies (De Grauwe – Schnabl 2005; Orłowski 2004; Darvas and Szapáry 2008) necessary to mitigate the scale of potential shocks on the advent of the CEE countries joining the Eurozone. Drawing mostly on quantitative research methods and modelling, the cost-benefit analysis of Euro area membership developed to become a considerable subfield of the debate on Eurozone expansion. To a certain extent it was promoted by comprehensive reports (commendable for their methodological zeal, including modelling and scenario building/testing) on that issue published by central banks of the NMS (National Bank of Hungary 2002; National Bank of Poland 2004; 2009; National Bank of Slovakia 2006) upon their entry into the EU. Notably, by making their voice heard, the central banks (representing specifically the Visegrád group) as if in anticipation that their independence might be compromised, sought to recast themselves as key actors conditioning the process of euro adoption. Indeed, today the notion of central bank independence (see Johnson 2006; Epstein – Johnson 2010; Bohle – Greskovits 2012: 173–181), a fundamental prerequisite of Eurozone membership, constitutes one of the key issues on the list ‘to do’ for the future members of the Eurozone.

The cost-benefit analysis literature blends with the question of the *optimal timing* of the Eurozone entry. Depending on the economic circumstances at the time of conducting research, either bold or more cautious euro adoption strategies were suggested (Brzoza-Brzezina et al. 2012; Krajewski 2012; Gorynia – Jankowska 2013). In this context the role of market expectations was highlighted (Csajbók – Rezessy 2005). The optimal timing of the Eurozone entry remained nevertheless contingent on a variety of political and economic factors. Moreover, it was stressed that the lack of a “uniformly accepted basis among economists for assessing the costs and benefits of joining a monetary union” as well as – specifically in the case of the CEE countries – the lack of a “satisfactory model to estimate all relevant effects jointly within a unified framework” (Backé – Wójcik 2002: 33) constitute serious limitations to such a discussion.

Following the 2004 enlargement of the EU, the debate on Eurozone expansion acquired a new twist in that the concept of conditionality, otherwise extremely popular in the literature on eastern enlargement of the EU (Schimmelfennig 2001), was successfully transposed therein (Johnson 2008). Given the fact that contrary to initial expectations several NMS did not opt for a fast euro entry, and thus split into the ‘pacesetters’ and ‘laggards’ (Dyson 2006), one of the questions examined was that of “Why did the conditionality of Maastricht prove less potent than that of Copenhagen?” (Johnson 2008: 827). It was suggested that, particularly for big NMS, the nominal convergence criteria of EMU entry “have not only allowed but encouraged the laggards to further delay their entry” (Johnson 2008: 826). Certainly, several factors were at play in this process. Dyson (2007) argued that the euro area accession was shaped by combinations of “extreme ‘formal’ and ‘informal’ conditionality” and “of extreme [Europeanization] with limited Europeanization” (Dyson 2007: 417). As a result, “the NMS [were given] a temporal room for manoeuvre in managing ‘misfit’ with EMU conditionality requirements but not a room for manoeuvre in redefining and renegotiating ‘fit’” (Dyson 2007: 441).

In fact, many of the NMS, especially the Visegrád countries, lobbied for “a more flexible inflation rule, shorter waiting time in ERMII, and widening of the exchange rate band within the ERM” (Bohle – Greskovits 2012: 173); in vain. The unwillingness of the Eurozone members to make the nominal convergence criteria more flexible (Darvas 2010), discouraged the NMS from sustained reform drive and encouraged “minimalism in institutional and structural reforms” (Csaba 2013: 157). The really interesting observation at this point is that by not rendering the Maastricht convergence criteria any more flexible for the NMS, the Eurozone members resorted in fact to *‘selective inflexibility’*. This is because simultaneously several Eurozone members were in clear breach of these criteria. Paradoxically, but not surprisingly, the ‘selective inflexibility’ and the ‘temporal room for manoeuvre’ (Dyson 2007), both manifestations of a serious inconsistency inherent in the execution of the Maastricht convergence criteria, have had adverse impact on the process of euro adoption by the NMS.

Given increases in competitiveness in the Eurozone core prior to the Eurozone crisis and the implications of the financial and the Eurozone crises on the CEE countries (PWC 2012; Visvizi 2012), the institutionally induced decision to postpone euro adoption resulted in ‘backsliding’ of the NMS’ economies (Ugur 2013) and has had a substantial adverse impact on the NMS structural fit with the Eurozone today. The complex interplay between domestic and EU-level specific factors influencing a country’s decision to adopt the euro was highlighted by Epstein and Johnson (2010). They argued that the decision to introduce the euro by the NMS was a function of the level of ‘continuity’/‘discontinuity’ of domestic

political institutions and the degree of international credibility of the EMU (Epstein – Johnson 2010: 1256). Undeniably, the Eurozone crisis undermined the credibility of EMU, thus conditioning the ‘temporal dimension’ of the euro adoption. On the one hand, it provided arguments against the introduction of the euro, and thus induced a new dynamic to the domestic political ‘continuity’ process. On the other hand, by fuelling the emergence of differentiated multiple cores of integration in the EU (Schweiger 2013), it triggered questions of the efficiency of governance in the EU/Eurozone, of sovereignty (Vilpišauskas 2013), and, overall, of economic security of the NMS (Stryjek 2013). In this sense, as the literature reviewed here suggests, the prospect of introducing the euro is no longer a mere question of a country’s structural fit and ability to meet the requirements of EMU membership. Given the dynamics of developments that shape the Eurozone today, there is much more at stake than that. The question is though in which way and to which extent this realization influences the ‘pre-ins’ strategies toward the euro adoption.

Undeniably, the debate on eastward expansion of the Eurozone contributed to the emergence of a rich field of study that, on the one hand, addresses the macroeconomic aspects of the process, and, on the other hand, deals with a multitude of issues specific to political science. These include, among others, policy transfer/learning vis-à-vis conditionality and its efficiency as well as the impact of domestic policy changes on a country’s ability to meet the nominal convergence criteria. Advanced quantitative research methods and equally sophisticated qualitative approaches provide a comprehensive methodological framework for this debate. Overall, however, the otherwise extremely revealing contributions to the question of eastward enlargement of the Eurozone, particularly as regards the policy-making process, build only a fragmented image of the process, i.e. one that is largely detached from its broader historically determined conceptual and policy-making context.

To put it differently, there is a tendency in the literature, with perhaps the exception of Epstein and Johnson (2010), to build the argument about the euro entry against the backdrop of the NMS’ accession to the EU. In this way, the CEE countries’ joining of the EU is treated as the t_0 of the analysis and their decision to delay the introduction of the euro is seen as a function of their EU membership status. As a result, the salience of the process of systemic transition, its variability across the region of CEE and its impact on the euro entry process are ontologically reduced. That is, the content, the sequencing and the timing of reforms that each of the NMS introduced is not taken into account in an explicit manner. In this way, the emphasis on EU membership conditionality and its fading efficiency on the domestic policy (reform) process, fails to consider the (negative and positive) spillover effects that may be unfolding at the cross-section of conditionality, do-

mestic politics and transition-induced reform-drive. Consequently, the debate on eastern expansion of the Eurozone remains fragmented into research-clusters dwelling on specific issues, and – given the striking absence of an explicit conceptual connection to the process of systemic transition – a significant factor that makes these clusters of knowledge ‘hang together’ is bracketed in the analysis. This in turn hinders the potential of the debate on eastern enlargement to uncover the logic behind the variability of the process of euro entry.

As a means of addressing this sensitive issue, in the following section a conceptual nexus between the decision to introduce the euro, i.e. eastern expansion of the Eurozone, and the process of systemic transition is established. Such a *Eurozone expansion-transition nexus* (Figure 1 serves as its graphic depiction) embodies the assumption that the decision to adopt the euro is predominantly a function of systemic transition, rather than solely of EU membership. In this way systemic transition is brought back to the analysis and its features as a (policy-making) process, i.e. contingent on actors’ preferences and conditioning impact of institutional structures, are emphasized. Accordingly, the influence of transition on the eastern expansion of the Eurozone is restored in the analysis and the diverse streams of the debate are bridged.

3. THE EUROZONE EXPANSION-TRANSITION NEXUS: THE VALUE-ADDED OF HI

The unique and unprecedented nature of transition of the CEE countries is frequently emphasized in the literature (Żukrowska 2010b). It is stressed that apart from transition to democracy, the CEE countries had to reinstate the institutions of a market economy. This task was particularly daunting given the fact that (i) private property essentially did not exist and resources in the the command-rule economy were negligible; (ii) democracy and market economy had to be reinstated simultaneously; and obviously (iii) there was no parallel in history as to how to design and implement a peaceful switch from one economic and political system to another, i.e. from a single-party totalitarian dictatorship with centrally planned economy to a market economy and democracy. Thus, there was no reference point that would ascertain the (suddenly liberated) voters about the appropriateness of the political measures taken by respective reformist governments; let alone that the voters were not used to free elections and expressing their opinion freely. In this sense, from the beginning, transition² was beset by a *twin uncer-*

² It is necessary to highlight that confusion prevails in the literature regarding the content and application of the terms ‘transition’ and ‘transformation’. On the one hand, it is common to find

tainty concerning the policy-outcome and the support of voters. As such, transition constitutes a challenge to both democratic theory and to political economy. With reference to the latter, further research and debate are necessary if the nuanced and complex nature and implications of transition and its variability across the region are to be understood. This paper inserts itself in this context in a twofold manner. First, in order to denote the sequence and temporal dimension of reforms specific to systemic transition, it employs Csaba's (2007) typology of three stages of transition. Second, by employing historical institutionalism – a distinctive approach to studying politics (Hall – Taylor 1998; Hay – Wincott 1998; Steinmo 2008; Hall 2009) – it seeks to elaborate the connection between eastward expansion of the Eurozone and the subsequent stages of transition, thereby adding to our understanding of the complex vector of policy-making that they produce.

The value added of HI for this study is derived from three observations. (i) HI makes it possible to examine how (formal) institutions shape future political behaviour of actors involved in the policy-process. As Pollack (2004: 139) explains, “What makes historical institutionalism so distinctive [...] is its emphasis on the effects of institutions on politics *over time*, and in particular its rejection of the usual *functionalist* explanation for institutional design”. In other words, HI enables to acquire an insight into the ‘unintended consequences’ of specific ‘policy-setting’ decisions on future political actions. To this end, the central explanatory concepts of HI such as ‘path dependence’ and ‘lock in’ (Pierson 1996), facilitate demonstrating that “institutional choices taken in the past can persist, or become ‘locked in’, thereby shaping and constraining actors later in time” (Pollack 2004: 139). (ii) Institutions, in this perspective, are seen as resistant to change “both because of the uncertainty associated with institutional design, and because

references to ‘the political economy of transition’ (Rolland 2002; Csaba 2011); indicatively, the EBRD (2013) annually produces a ‘Transition Report’. It is not infrequent though that these concepts are employed interchangeably, with Freedom House (2013) going as far as to title one of its annual reports ‘Nations in Transit’. On the other hand, while pointing to differences between these two concepts, some authors argue that it is more accurate to talk of *transformation* rather than of *transition*. Żukrowska (2010a: 11ft) for instance suggests that *transition* is the process of replacing one economic system with another. *Transformation* in this reading is the next step that implies a series of reforms that aim at modernizing the institutions of political and economic life of a country that thereby evolves. For the sake of transparency and accuracy of the argument developed here, the term *transition* is regarded as a broader term implying a complex and spread-in-time process of breaking with one economic and political system and moving toward another one. In this view, processes and reforms associated with *transformation* are seen as fundamental components of *transition* in that they are necessary to establish functioning institutions of the alternative economic and political system. This implies that transformation is an equally challenging process that requires considerable amount of time to be accomplished. The guiding assumption behind the process of transformation is that it will lead to the emergence of a self-sustaining political and economic system conducive to sustained and sustainable growth.

national constitutions and international treaties can create significant transaction costs and set high institutional thresholds (such as supermajority or unanimous agreement) to later reforms” (Pollack 2004: 140).

In this view, HI points not only to the constraining impact of institutions on political choices governments can afford, but also to political competition that drives the stakes of the political power game high, thus limiting the space for politically costly policy (reform) choices. (iii) Notably, recent additions to institutionalist theory suggest that institutional change rather than being solely the result of exogenous shocks, as usually debated in the literature, may also be the outcome of “endogenous developments that often unfold incrementally (...) Gradual changes can be of great significance in their own right; and gradually unfolding changes may be hugely consequential as causes of other outcomes” (Mahoney – Thelen 2009: 2–3). By endowing HI with the gradualist twist, it gains the capacity to account for processes of change that have been unfolding in the shadow of rupturing events/exogenous shocks such as the EU entry or Eurozone crisis.

Certainly, by employing the HI perspective, this paper follows the trail already blazed by others. That is, applied to the study of the EU, HI led to further critique of intergovernmental analyses and raised thoughts on why national executives might not be entirely in control of the process of integration (George – Bache 2001: 22). In context of the EMU specifically, Verdun (2007) demonstrated that HI could be very helpful in examining the correlation between the evolution of the concept of EMU, the successive generations of actors involved with the policy-making process at the EU level and the institutional context in which the EMU was established. In this paper, HI is employed to show how the policy decisions of the early 1990s triggered political strategies that successive Polish governments followed in a path-dependent way and how these have impacted the process of euro adoption. The aim here is also to highlight how the incremental/gradual and yet radical change that has taken place in the Polish political, economic and social system coincided with the Eurozone crisis-related rupture in the institutional setting of the Eurozone.

In order to account for the impact of transition on euro adoption, the year 1989 is treated as t_0 of the analysis. In order to denote the evolution of the institutional context in which respective policy processes related to the euro adoption unfold, the discussion is then divided into two parts. The first part examines the period from the beginning of transition in 1989 up to 2004, i.e. Poland becoming EU member. The second part discusses the period from 2004 until today. Moreover, it is assumed that both the EU entry and the Eurozone crisis, each for its own specific reasons, represent breaking points on the trajectory of the policy reform process associated with systemic transition. In line with the premises of HI, in the discussion particular attention is paid to: (i) the institutional context, (ii) instances of

‘lock in’, ‘path dependence’, and incremental change, and (iii) key instances of institutional resistance and their impact on the policy-making/reform process associated with meeting the Maastricht convergence criteria.

4. PUTTING HI TO WORK: INSTITUTIONALIZATION OF EXTERNAL RELATIONS, TRANSITION, AND THE EURO

By means of overcoming the communist past (both in terms of political isolation and economic regress), in the early 1990s, the reformist governments in Poland embarked on a purposeful strategy aimed, on the one hand, at integrating Poland in the world economy and, on the other hand, at institutionalizing³ Poland’s external relations. Poland’s EU membership bid was part of this strategy. *Figure 1* offers a graphic overview of the processes conditioning systemic transition. Due to mechanisms specific to institutionalization of external relations, such as membership requirements and conditions, conditionality, aid sequencing and cumulative membership management (see Visvizi 2010), a powerful supporting frame for the transition process was established. This external anchor served as a tool of mobilizing the reformist elite in Poland to continue the reform process and as a beacon highlighting the path to follow. Finally, this external anchor was conducive toward the consolidation of a broad reform-path that has eventually shaped the overall content and direction of the policy-setting decisions taken by subsequent governments, frequently of a different political orientation. It may be argued that institutionalization of external relations, apart from the objectives attached to them by the reformist governments, produced a number of unintended positive consequences that in a path-dependent manner influenced a variety of political actions taken by key actors on the Polish political scene throughout the 1990s and beyond.

Due to the external anchors and their mitigating impact on the *twin uncertainty of transition*, initially, the incremental reform process remained immune to frequently abrupt changes on the domestic political scene. Poland’s commitments vis-à-vis its international partners locked successive generations of decision makers in a consensus about the appropriateness of the direction of reforms under-

³ Institutionalization in this particular context is understood as a process of establishing official relations with organizations of multilateral cooperation in the fields of politics, economy, and security. In the 1990s Poland has thus established relations with (in a chronological order): IMF (1989), WB (1989), Council of Europe (1989/1991), CSCE (1990), EBRD (1990/founding member), NATO (1991/partner status), EEC (1992/1994), CEFTA (1992/founding member), EFTA (1992), WEU (1993/associated member), OSCE (1995/founding member), OECD (1996), NATO (1999), EU (2004).

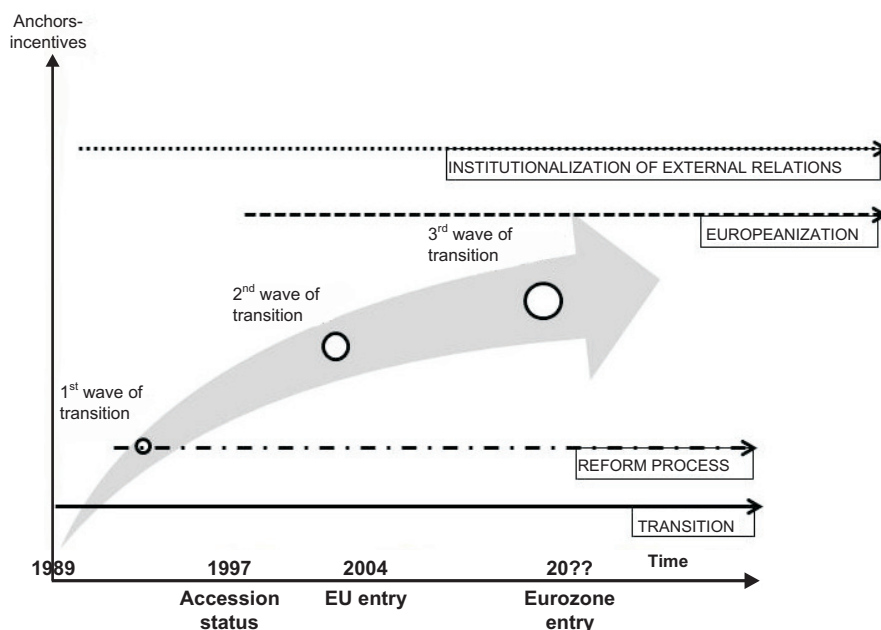


Figure 1. Graphic depiction of the Eurozone entry – transition nexus

Source: The authors.

taken. That is, even governments that did not entirely subscribe to the course of political reform of the preceding establishment, were locked-in in institutional choices made in the past and thus did not have the option to introduce substantial changes as regards the content and direction of the reform process. In this way, although there was no continuity in political ideology of successive governments, paradoxically there was continuity as regards the actual reform path followed by these governments. As a result, until Poland's accession to the EU, no backsliding and no reform drift had taken place. Rather, the country remained the showcase of successful transition.

In these circumstances, Poland was in the position to accomplish the first and the second wave of transition. The first one, concluded in the mid-90s, was characterized by attaining political stabilization, liberalization, institutional reform and privatization. The second wave of transition that followed – and was symbolically framed by concluding the EU membership negotiations – included the reform of the welfare system, privatization of network industries, pension reforms to address the inter-generational implicit debt, as well as administrative reform (Csaba 2007: 152–153). The possibility of attaining the final, to employ Csaba's (2007) typology and arguments, third stage of transition would require the accom-

plishment of reforms consistent with fulfilling the nominal and real convergence criteria of EMU membership.

Approaching the turn of the millennium, positive spillover effects were still in place and exerted beneficial influence on the speed and depth of the reform process in Poland. That is, following the initial abrupt break with the command economy (referred to in terms of a ‘shock therapy’), a process of gradual incremental institutional change was induced. Interestingly, as – due to institutionalization of external relations and most specifically due to the EU membership bid – Poland was under constant supervision of its international partners, rather than passing unnoticed, this incremental change leading to fundamental institutional reconfiguration of the Polish political and economic scene was registered both domestically and internationally. This in turn resulted in positive feedback that Poland received from its international partners and enabled the reformist elite to capitalize on it; both domestically (and thus continue the ambitious reform process) and internationally (and thus to raise viable claims for EU membership and attract foreign direct investment).

5. PUTTING HI TO WORK: EU MEMBERSHIP, THE EUROZONE CRISIS, AND THE EURO

The developments had taken quite a different turn following Poland’s entry into the EU. At this stage the mobilizing and supporting influence of EU membership conditionality vis-à-vis the reform-drive faded, while incentives associated with membership in other global/regional settings lost their relevance. It is not to say that no steps were taken to adopt the euro in the years following EU entry; quite the contrary. At the organizational level a considerable effort was done to set a system to coordinate the process of the prospective euro adoption (Ministry of Finance 2010: 107–113). Simultaneously though, these process-related structures notwithstanding, it became possible for successive Polish governments to postpone politically costly reforms associated with fulfilling the convergence criteria. In absence of both external and domestic stimulus, *lock-in* not only enabled policy (reform) drift, but also gradually triggered backsliding. The key point here is that in the first years after the EU accession policy drift was concealed by the EU-entry ‘hype’ and by an inflow of structural funds. Markedly, the relatively few instances of backsliding specific to the period right after the EU accession gained in strength over the years, especially following the global financial crisis.

Specifically, in absence of an imminent need to meet the convergence criteria, fast economic growth between 2003 and 2007 discouraged Polish decision-makers from fiscal reforms. Indeed, over the period of 2003–2007, Poland’s general

government debt to GDP ratio increased from 42.2% (2002) to 57% (Eurostat 2013). Simultaneously, the net international investment position (*Figure 2*), which mirrors dependence on foreign capital in relation to GDP, worsened considerably, rendering Poland vulnerable to external shocks (see also: PWC 2012). Moreover, over the period of 2004–2010, no major improvements in Poland's competitiveness were recorded. Indicators depicting the implementation of the Lisbon Strategy goals and objectives reveal a picture of Poland's economy falling behind respective goals and objectives (Blanke – Kinnock 2010: 15). Weaknesses in core determinants of Poland's competitiveness, such as expenses on R&D, higher education, labour market imbalances or inefficient public sector were highlighted as hindrances to sustainable growth and development (Koczor – Tokarski, 2011; European Commission 2014c). As a result, Poland scores very low in the innovativeness rankings today (European Commission, 2014a).

Another issue of concern is that of the productivity of the agricultural sector, traditionally one of the biggest sectors of the Polish economy. Poland failed to use the EU accession as an impulse to thoroughly reform this sector. Specifically, direct payments and a generous insurance system (KRUS) discourage small farms to consolidate, thus hampering the modernisation of the sector, affecting its efficiency and sustainability. Another challenge that the successive governments have largely ignored is that of a sharp decline in the natural birth rate and the demographic challenge that it will lead to. Regardless of the declarations to the contrary, Poland (similarly to other countries for that matter) failed to introduce incentives to boost fertility rate, which would be necessary for sustainable economic growth in the future. The massive outflow of workers to other EU countries following EU accession has aggravated the problem. By 2060 the number of inac-

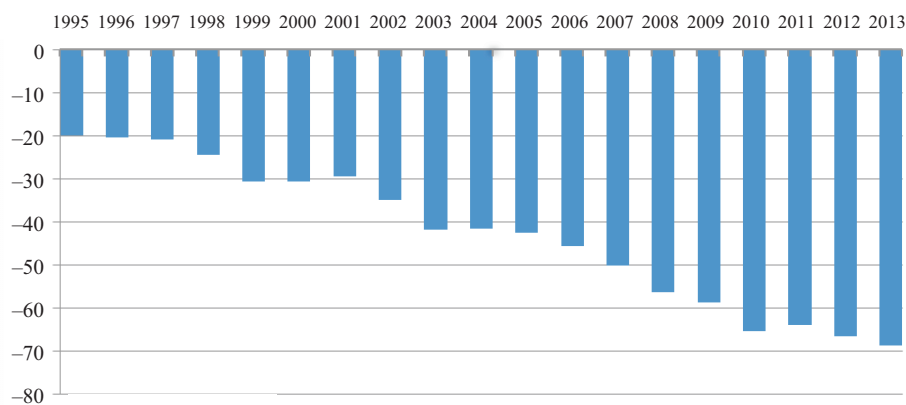


Figure 2. Poland: Net International Investment Position (% of GDP)

Source: Eurostat.

tive workers (65+) to total employment (15–64) will exceed 90%, one of the highest ratios in Europe (European Commission 2012: 71). This in turn will affect public finance and economic growth. Think for instance of the implications thereof for the labour market, i.e. labour shortages in selected sectors (construction and agriculture), and the social insurance system.

Finally, it should be noted that in absence of continued structural reforms, EU membership and the structural funds at Poland's disposal may prove a mixed blessing. That is, between 2010 and 2012 more than 50% of public investments in Poland were co-financed by cohesion policy funds (European Commission 2013). Although EU funds have had a positive impact on infrastructure development and the pace of economic growth until now, the concern is that in the absence of a reform-drive, the same funds may contribute to problems such as overheating of the economy, public finance imbalance (Rosenberg – Sierhej 2007), and 'addiction' to EU funding. Further research is needed, however, to explore these concerns in detail.

6. PUTTING HI TO WORK: EUROZONE CRISIS, INSTITUTIONAL RESISTANCE AND TRANSACTION COST

Overall, following EU entry, as a result of a mismatch between Maastricht conditionality and domestic politics, the propensity to postpone the decision to introduce the euro strengthened, the reform-drive slowed down, and the prospect of accomplishing the third wave of transition has become increasingly uncertain in Poland. The Eurozone crisis added a new twist to this status quo. That is, it revealed plainly the advantages of a flexible currency exchange regime as a tool of absorbing external shocks (Bandasz 2013). Additionally, as the assumption that it was possible to accommodate different economic models in a rigid framework of a currency union was undermined, the relevance, purposefulness and political benefits of euro adoption were questioned. These concerns were further reinforced by the dramatic overhaul of the Eurozone's architecture and its implications for prospective members.

From the HI perspective, the above represents a very unusual situation. On the one hand, the Eurozone crisis can be seen as an endogenous shock for the Eurozone, a rupture that requires dramatic institutional adjustment. On the other hand, Poland, locked-in in policy setting decisions dating at least a decade earlier, is legally bound to join the Eurozone no matter what. In this sense, the obligation to join the third stage of EMU demonstrates how "institutional choices taken in the past can persist, or become 'locked in', thereby shaping and constraining actors later in time" (Pollack 2004: 139). The problem is that the post-crisis Euro-

zone is not exactly the same to what it was in the early 2000s. As a result of institutional choices taken prior to joining the EU, Poland has no alternatives regarding the euro. Even if Poland might have preferred to avoid the obligation of euro adoption, it cannot. This generates very specific problems for the Polish government, whereby many of them can be explained in terms of the domestic level *institutional resistance* and *increased transaction costs* related to reforms necessary for the attainment of the structural, nominal and legal fit necessary for joining the Eurozone.

In other words, in line with recommendations of the European Commission (2014b) and the European Central Bank (2014) prior to adopting the euro, it is mandatory that changes in the Polish Constitution as well as in other laws concerning the transfer of monetary policy to the ECB and independence of the National Bank of Poland are introduced (Gostyńska 2013: 94–97; Belka 2014). Further amendments in the existing legal framework will have to follow as a consequence of changes introduced by the new EU economic governance reforms (Ministry of Finance: 2014b: 14–16). This relatively rarely talked about requirement of attaining legal convergence with the Eurozone demonstrates that whereas domestic level institutional resistance may be the product (of intended and unintended outcomes) of political competition, it may also be employed instrumentally by political adversaries (thus representing ‘path-dependent’ action) to limit the spectre of what is politically possible for the governing elite.

Indeed, in order to be approved, the necessary amendments of the Polish Constitution require a two-thirds majority in the Polish Parliament. This fact alone drives the stakes of the political power game high and efficiently limits the Polish government’s capacity to proceed with politically costly reforms. Specifically, the main Polish opposition party, *Law and Justice* (PiS), is against Eurozone entry. Already during the 2005 electoral campaign PiS argued that Eurozone membership would harm the competitiveness of the Polish economy (PiS 2005: 62–63). Markedly, steady deterioration of the public’s attitude towards the euro is observable, i.e. 58% against and 30% in favour in 2013 (Ministry of Finance 2013), and 72% against and 21% in favour in 2014 (PAP 2014). Given the arguments employed in 2005, PiS is likely to capitalize on it during the 2015 Polish parliamentary elections and the presidential vote. In these circumstances, the ruling coalition government consisting of the *Civic Platform* (PO) and the *Polish Peasants’ Party* (PSL) cannot afford pursuing any amendments of the Constitution. In fact, as a means of surviving until the 2015 elections, the ruling coalition has been forced to resort to inaction.

Apart from the structural reforms and legal convergence, another fundamental policy-field that serves as a good case of backsliding is that of fiscal policy. The global financial crisis and increased public spending aimed at mitigating its im-

pact on the Polish economy, affected Polish fiscal balance. In line with the Stability and Growth Pact, Poland – similarly as other 16 EU members – was subjected to the Excessive Deficit Procedure (EDP) in 2009. Given the domestic institutional resistance and related high transaction cost, the government proved unwilling to pursue decisive economic policy reforms necessary for meeting the EDP requirements. Instead of reforms, the government sought refuge in ambivalent practices that although aimed at improving Poland's fiscal balance, resulted in backsliding. Specifically, since 2010, the deficit in the Social Insurance Institution (ZUS) has been financed from the so-called Demographic Reserve Fund,⁴ rather than through direct payments from the general budget. In 2013, in a move highly contested by leading Polish economists (FOR 2013), the government took over and cancelled sovereign bonds managed by so-called Open Pension Funds (OFE). While the constitutionality of this move was questioned, the attempted quick fix of public finance was declared by the Council as a one-off transfer “which [would] not be counted as deficit-reducing under ESA 2010” (Council 2013a). It was considered unsustainable and therefore insufficient in view of lifting the EDP for Poland. Accordingly, in November 2013, Poland was prompted to bring an end to the excessive government deficit by 2015 “in a credible and sustainable manner” (European Commission 2013: 5). Consequently, Poland's fiscal position did not improve; more importantly, the sustainability of the Polish pension system was put at stake (see also Aslund 2013). In what ensued, rather than reviewing and curbing public spending, the PO-PSL government amended the national fiscal rules (the debt-break) for the fiscal years 2013 and 2014. That is, a temporary suspension of sanctions for exceeding the threshold of 50% of general government debt to GDP was introduced.

Following the Eurozone crisis, the ability of Poland to meet the convergence criteria had fallen hostage to the lack of political resolve whereas bold structural and fiscal reforms were replaced by ambivalent political practices. In May 2014, out of the four Maastricht criteria, Poland fulfilled the long-term interest rate and nominal price stability benchmarks, while the general government debt to GDP ratio at the level of 57.0% remained below 60%. However, with the general government deficit ratio at the level of 4.3% of GDP, Poland failed to meet the fiscal criterion. Since Poland is not a member and has not indicated any concrete date concerning its ERMII entry, the exchange rate reference mark has not been met either (Ministry of Finance 2014a).

⁴ The Demographic Reserve Fund builds on revenues from privatization. Initially, it was meant to serve as a source of emergency funding to cover ZUS' additional transfer obligations related to possible future change in demographics.

Institutional resistance and increased transaction costs, as the following quote suggests, rendered the euro adoption process a victim of the political cycle. “The process [of euro adoption] will have to be launched after the 2015 elections, so that the new government could take an appropriate decision” (Komorowski 2013). In short, lock-in, institutional resistance, and increased transaction costs create a situation where “neither reform nor Eurozone entry” is in sight. In this view, the Maastricht conditionality, rather than creating incentives for reform-drive, continues to foster backsliding. Indeed, the most recent “tapes affair” brought to the light attempts of the ruling PO-PSL coalition to receive support from the National Bank of Poland before the 2015 parliamentary elections. While the content of the tapes highlights how high the stakes in the political game in Poland are, they also reveal an attempt of breaching the fundamental rule of the central bank’s independence (Skolimowski 2014). As such, the “tapes affair” demonstrates that the outcomes of transition should not be taken for granted. From a different angle, it may also suggest that had Poland been a Eurozone member by now, there would be no political room for this instance of backsliding. Indeed, “the farther is the perspective of joining the Eurozone, the graver is the risk of aggravating myopia in the policy conduct of the NMS, further delaying painful but necessary changes” conducive to stimulating sustainable growth in the CEEs (Csaba 2011: 37).

7. CONCLUSIONS

The objective of this paper was to rethink the logic behind Poland’s assertive stance toward the euro adoption and – given the economic and political gravity of Poland both regionally and on the EU level – to draw lessons that the case of Poland may offer as regards the evolving dynamics and features of European integration. It was argued that in the otherwise rich debate on eastward expansion of the Eurozone, fragmented approaches to the subject-matter prevailed, thus rendering several questions in the difficult process of Eurozone expansion underexplored. As a means of bypassing this weakness of the literature, in this paper Poland’s prospective Eurozone entry was examined from the broader perspective of the policy reform process associated with systemic transition. To this end, the major theoretical move that was advanced in this paper was consistent with the establishment of a Eurozone expansion-transition nexus. Accordingly, it was argued that rather than being solely a function of Poland’s EU membership, the decision to adopt the euro and the attainment of real and nominal convergence are predominantly a function of transition, a factor usually downplayed in the literature on the subject.

In order to conceptually frame the analysis and to acquire the opportunity to develop a more complete, holistic picture of Poland's Eurozone accession, HI was employed. Given the fact that HI allows to account not only for instances of institutional ruptures, but also for incremental institutional change, HI proved consequential for identifying institutional change that had taken place in Poland starting from 1989 up until the Eurozone crisis. Specifically, the value added of the application of HI for the purposes of this paper is that it enabled the identification of institutional lock-ins, instances of institutional resistance and path-dependent behaviour influencing the subsequent waves of transition in Poland. At the same time, by accounting for both incremental and abrupt institutional change, it was possible to examine the implications thereof for the prospect of Poland's Eurozone entry. One of the perhaps most interesting observations that HI enabled us to make was that up until Poland joining the EU, the membership conditionality and indirectly the Maastricht convergence criteria constituted a source of positive spillovers for the unfinished process of systemic transition in Poland. In this way the first wave and the second wave of transition were accomplished.

The situation changed dramatically in the period following Poland's EU entry. Bound by the *acquis communautaire*, Poland found itself obliged to adopt the euro at some point. However, as the Eurozone member-states were unwilling to make the Maastricht convergence criteria any more flexible for the CEE countries, the significant "temporal room for manoeuvre" (Dyson 2007) that these criteria generate, triggered negative spillovers vis-à-vis the policy reform process associated with the attainment of both nominal and real convergence. The Eurozone crisis and its implications for the credibility of the single currency increased the transaction costs of the policy reform process in Poland, thus reinforcing the negative spillovers already in place. In this sense, the ambiguity inherent in the execution of the Maastricht convergence criteria has had detrimental impact on the prospect of Poland accomplishing the third wave of transition.

Overall, the findings of this paper suggest that the reasons behind Poland's assertive stance toward Euro adoption go beyond sheer economic or political arguments. Any cost-benefit calculations of Eurozone membership require nuanced approaches capable of including a variety of frequently subtle factors and causal relations. The case of Poland highlights that although due to its legal commitments Poland is bound to introduce the Euro in the future, paradoxically, the inconsistency inherent in the execution of the Maastricht convergence criteria, i.e. selective inflexibility and temporal room for manoeuvre, not only creates disincentives that effectively delay Poland's Eurozone entry but also triggers reform-drift and backsliding thus casting shadow on the prospect of the completion of the Polish transition and its sustainability. This calls for two observations. On the one hand, the Maastricht convergence criteria and especially the way of their

execution need careful consideration under the new procedures and processes that the EU economic governance framework puts in place. On the other hand, the process of (eastward) expansion of the Eurozone needs to be conceptually recast so as to account for it in terms of a complex political challenge rather than a matter of legal commitments and economic convergence.

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