Economics and politics of the currency convergence: The case of Poland

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ARTICLE INFO
Article history:
Available online xxx

Keywords:
Integration
Currency convergence
European Union
Eurozone
Poland
Economic policy
Competitiveness

ABSTRACT

Of the 11 post-socialist states that have already become European Union members only five have joined the common currency Eurozone. The other six, including Poland, the region’s largest economy, have, pursuant to accession treaties, the right and obligation to adopt euro as their currency. They fail to exercise their right and meet their obligation, which has both causes and consequences. These are economic and political in nature and that is why there is no certainty about how the situation will evolve in future. However, from both of those perspectives, and especially for economic reasons, Eastern European EU members should join the Eurozone, as the resulting benefits, not only for Poland, significantly outweigh the conversion costs. Thus, new countries, especially Poland, adopting euro would have a positive impact on the European integration process, which is experiencing a serious structural, institutional and political crisis.

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Political decisions regarding the economic sphere always require a compromise as they are enmeshed in conflicting interests. It seldom happens that a given envisaged theoretical solution has virtually only pros and totally no cons. If that were the case, economists would be unnecessary as there would be no matter subject to comparative analyses, or their task would be as easy as it seemingly is to assess which of the good and defect-free scenarios is better.

Reality, however, is far more complicated, to such an extent, at times, that no wonder even the most professional circles, rational in their assessments, are unable to reach a consensus. This is all the more obvious if a problem is complex, multi-layered, likely to generate conflict, goes beyond one country’s borders and the time horizon typical of politics, and, most of all, when benefits and losses intersect. Estimating their balance is difficult and risky as it must rely not only on correct economic models but also on making various assumptions, which are controversial by their nature.

This is exactly the situation of the common multi-state currency areas. Some of them have been successfully functioning for years. Curiously enough, this happens in poor, sometimes very poor countries, as is the case of CFA (XOF) franc used by 14 African states, or of the East Caribbean dollar (XCD) bringing together six countries and two dependent territories (Kolodko, 2011). However, the most important common currency area is that of the euro (EUR), which has been circulated for 15 years now in currently 19 European Union member states and in 11 countries and territories which do not belong to the EU. Moreover, currencies of some other states are more or less strictly linked to euro. While other common currency zones are faring quite well, serious problems are mounting in the Eurozone. It’s not surprising then that some — recently more often due to the world financial crisis — are predicting the collapse of the common European currency (Brown, 2012) or calling for its controlled elimination and for returning to national currencies.

Certainly, the Eurozone reality is far from what is theoretically assumed for the so-called optimum currency area (Mundell, 1961) and it is been a known fact for a while that macroeconomic tensions as well as structural and institutional weaknesses at the time euro came to being where greater than it was presented (Mundell, 2000, 2003; McKinnon, 2002). Neither the

http://dx.doi.org/10.1016/j.postcomstud.2017.06.003
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situation is as good as others claim: “The idea that the euro has ‘failed’ is dangerously naive. The euro is doing exactly what its progenitor (…) predicted and planned for it to do” (Palast, 2012).

In the opinions and projections I express, I am far from the nationalist megalomania, such as nurturing a pipedream of Poland becoming a “great power” (Friedman, 2009) or even a “European economic power”. We are in for nothing of that sort and while such illusions provoke more amusement than anger, we need to be aware of how great Poland’s contemporary significance is in geopolitics, especially on the continental scale. Undoubtedly, it is greater in the context of politics than economy, but the intersection of those two elements is truly stronger than ever before. In this very context, it is worthwhile and necessary to look at the challenges facing Poland in relation to euro. Other post-socialist countries also have similar dilemmas, and as the European Union expands, there will be more of these, but here let me focus on threats and opportunities shaping up for Poland in this area.

Of course, the future of its economy will depend on many other factors and the potential euroisation, that is, putting the euro into circulation, is not the most important matter, but definitely one deserving special attention. The reason is: the measures aimed to improve the economic structure, the institutional reinforcement, the macroeconomic stability and the pro-growth economic policy may bring even better effects if they are coupled with being part of the common euro currency zone.

Thus, first I address the issue of recent Eurozone turbulence and its impact on the world economic and financial affairs and the risk of globalization’s reverse. Second, claiming that the globalization is irreversible process, I argue why regional integration processes, among which the European Union is the most advanced one, are a positive response to the challenges of globalization. Third, I’m considering the particular case of Poland’s euroisation and its implication not just for further development of this country, but for the Eurozone future as well, taking into account also the possibility of accession to the common currency of the remaining post-communist EU member countries, which thus far don’t belong to the euro zone (Bulgaria, Croatia, Czech Republic, and Romania). Fourth, I argue, that from both economic and political perspective, that at this turn, when post-communist transformation and the European Union integration are deepening, the accession of Poland to the euro zone would have positive influence on economic efficiency and catching-up with the richer countries. Finally, using comparative economics methodology, I briefly discuss the case of the Greek crisis and a risk of so-called Grexit, since it has very important implications for the euroisation of Poland and other post-communist countries of Eastern and Central Europe.

1. Global turbulences and European drift

The build-up of crisis phenomena and processes in the global economy and its various regions are already significant. Hence, while not long ago it was the ambition of nearly every luminary of social sciences, especially of the economics, to write a text about globalization and European integration, now the pendulum is swinging back. We are in for a crop of publications about the move away from globalization, isolationism and nationalisms, protectionism and, as, regards our continent, about the prospect of the breakup of the European Union. Neither the globalization reversing, nor the Union’s breakup is by any means inevitable, but both are possible, which has its obvious implications. Hence a few fundamental questions should be asked in science, and a few assumptions made in politics. The nightmare is that times and again, theory is failing to provide on time guidance for practice and it becomes increasingly risky, or even fatally wrong.2

Firstly, it should be determined whether globalization is indeed in reverse or even has ceased, or it is and will be continued (Kolodko, 2011; 2014a). There is no absolute certainty, but I believe that despite the growing protectionist tendencies and various nationalisms, sometimes referred to as the economic patriotism, it is an irreversible process. This is due to the nature of the contemporary and future technological progress, and, most of all, due to the supranational networking of economies and of the system of powerful interests of trans-national corporations. If so, we may turn our back at the world, but instead, we should integrate with it in a smart manner, that is, by maximising, in economic terms, our own benefits and minimising the inevitable attendant costs. This is true of large and smaller countries alike, especially the latter ones as they should develop the most in the open economy. Curiously enough, and also surprisingly to many, currently China is becoming the champion of opening and free trade and the advocate for globalization, while the United States, under the new administration, may take the opposite positions.

Secondly, being situated where Poland is — at the heart of Europe — one needs to strengthen the scientific case for the far-reaching European integration and adopt an assumption in the development strategy and policy that it is not only desirable but actually unavoidable to continue this process. Moreover, for medium size and small countries participation in a regional integration, especially in the one that have such an advanced form as the European Union, is the best way to adapt to the challenges, that is, to threats and opportunities involved in the inevitable globalization. Specific conclusions follow from this observations for non-European countries that are enmeshed in their attempts at regional integration.

The fact that in some of the old EU members the integration, and especially the enlargement, fatigues have been getting momentum does not imply that the integration process won’t continue. In my train of thought I presume that the Brexit is a

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1 Nuti (2006) explores more of some specific factors inherent in the accession of this group of economies to the Eurozone.

2 This observation is true of many countries, presently including the still most important economy of the USA, due to the threats involved in what will certainly go down in history as “Trumponomics”. If only some of the new US president, Donald Trump’s announcements as regards the unconventional economic policy are implemented — especially the protectionist practices, violating the free trade treaties and going back on the previous arrangements on climate policy to prevent global warming — in the long run it will harm not only the US, but also the entire global economy.
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