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Adopting the Euro in the Central Europe: Cross-national variations in the strategies of the Czech Republic, Hungary, Poland and Slovakia

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Abstract

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This thesis argues that the prospect of joining the euro-zone plays a predominant role in designing monetary and fiscal policies in the so-called Visegrad countries: the Czech Republic, Hungary, Poland and Slovakia. Despite generally agreeing with the objective of European Monetary Union (EMU) membership and being shaped by common features, cross-national variations persist in the Visegrad countries' strategies for the adoption of the euro. The puzzle solved here is why the new EU members respond in *country-specific ways* to the objective of joining the euro-zone. The analytical framework applied focuses on domestic-level accounts of interests, ideas and institutions.

The argument is that countries are not materially-driven generic units or unitary actors within the international system. Cross-national variations in approaching the euro-zone entry have to be understood by reference to a domestic-level analysis of interests, ideas and institutions. Evidence of this argument is provided by analysing the preferences of political parties and individuals on European integration and the euro. Opportunistic and economic interests help to understand the turns the Visegrad countries have made in their approach to adopting the euro, but interests do not explain why EMU accession acquired different meanings in the countries under review. Interests do not account for actor's ideas and therefore cannot motivate policy-makers' actions. This is not to claim that interests do not matter, but rather that ideas provide road maps for the euro-adoption strategies that fit different interests. Moreover this thesis argues that interests are constantly expressed through and mediated by institutions and demonstrates how institutional constraints arising from the electoral system, the degree of central bank independence and industrial relations affect the euro-adoption strategy. This thesis analyses the interplay of interests, ideas and institutions for each Visegrad country examined, and demonstrates their relative significance in understanding cross-national variations in their euro-adoption strategies.

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List of Acronyms

ANO	Aliancia Nového Občana (Liberal Alliance of New Citizen)
ASZSZ	Autonóm Szakszervezetek Szövetsége (Autonomous Trade Union Confederation)
AWS	Akcja Wyborcza Solidarność (Solidarity Electoral Action)
AZZZ SR	Asociácia Zamestnávateľskych Zväzov a Združení Slovenskej Republiky (Federation of the Employers Association of the Slovak Republic)
BEPG	Broad Economic Policy Guidelines
CAP	Common Agricultural Policy
CBI	Central bank independence
CCEB	Candidate Countries Eurobarometer
CDU	Christlich Demokratische Union Deutschlands (German Christian Democratic Party)
CEECs	Central and Eastern European Countries
CKA	Česká konsolidační Agentura (Czech Consolidation Agency)
CMEA	Council for Mutual Economic Assistance
CMKOS	Českomoravská Konfederace Odborových Svazů (Czech-Moravian Confederation of Trade Unions)
CNB	Czech National Bank
CSFR	Česká a Slovenská Federativní Republika (Czech and Slovak Federal Republic)
CSKOS	Česká a Slovenská Konfederace Odborových Svazů (Czech and Slovak Confederation of Trade Unions)
CSSD	Česká Strana Sociálne Demokratická (Czech Social Democratic Party)
CSU	Christlich Soziale Union (Bavarian Christian Social Union)
DM	Deutsche Mark
DS	Demokratická Strana (Democratic Party)
DU	Democratic Union
EA	Europe Agreements
EBRD	European Bank of Reconstruction and Development
EC	European Communities
ECB	European Central Bank
ECOFIN	Economic and Finance Council
EFTA	European Free Trade Association
EIU	Economist Intelligence Unit
EMS	European Monetary System
EMU	Economic and Monetary Union

ERM	Exchange Rate Mechanism
ESA	European System of Accounts
ESCB	European System of Central Banks
ESZT	Confederation of Professional Trade Unions
ET	Erdekegyezteto Tanacs (Interest Reconciliation Council)
EU	European Union
FAZ	Frankfurter Allgemeine Zeitung
FDI	Foreign direct investment
FIDESZ	Fidesz- Magyar Polgári Szövetség (Hungarian Civic Union)
FKgP	Független Kisgazda, Földmunkás és Polgàri Párt (Independent Smallholder Party)
FPÖ	Freiheitliche Partei Österreichs (Austrian Freedom Party)
GDP	Gross Domestic Product
GMT	Grilli-Masciandaro-Tabellini Index
HST	Hegemonic Stability Theory
HZDS	Hnutie za Demokratické Slovensko (Movement for a Democratic Slovakia)
IMF	International Monetary Fund
IPE	International Political Economy
IR	International Relations
KDH	Kresťanskodemokratické Hnutié (Christian Democratic Movement)
KDNP	Kereszteny Demokrata Néppárt (Christian Democratic People's Party)
KDU-CSL	Křesťanská a Demokratická Unie- Československá Strana Lidová (Christian Democratic Union-Czechoslovak People's Party)
KET	Közszolgálati Érdekegyeztető Tanács (Public Service Interest Reconciliation Council)
KOZ SR	Konfederácia Odborových Zväzov Slovenskej Republiky (Confederation of Trade Unions of the Slovak Republic)
KSČM	Komunistická Strana Čech a Moravy (Czech Communist Party of Bohemia and Moravia)
KSS	Komunisstická Strana Slovenska (Communist Party of Slovakia)
KZPS	Konfederace Zaměstnavatelských a Podnikatelských Svazů ČR (Confederation of Employers' and Entrepreneurs' Associations)
LS-HZDS	L'udova Strana - Hnutie za Demokratické Slovensko (People's Party-Movement for a Democratic Slovakia)
LPR	Liga Polskich Rodzin (League of the Polish Families)
MDF	Magyar Demokrata Fórum (Hungarian Democratic Forum)
MGYOSZ	Munkaadók és Gyáriparosok Országos Szövetsége (Confederation of Hungarian Employers and Industrialists)
MIEP	Magyar Igazság és Élet Pártja (Justice and Life Party)

MPC	Monetary Policy Council
MSZMP	Magyar Szocialista Munkáspárt (Communist Hungarian Socialist Workers' party)
MSZOSZ	Magyar Szakszervezetek Országos Szövettsége (National Confederation of Hungarian Trade Unions)
MSZP	Magyar Demokrata Fórum (Hungarian Socialist Party)
NBH	National Bank of Hungary
NBP	National Bank of Poland
NBS	National Bank of Slovakia
NBU	Národní Bezpečnostni Úřad (National Security Office)
NSZZ Solidarność	Niezależny Samorządny Związek Zawodowy (The Independent and Self-Governing Trade Union Solidarity)
OCA	Optimum Currency Areas
ODS	Občanská Demokratická Strana (Civic Democratic Party)
OECD	Organisation for Economic Co-operation and Development
OET	Országos Édekegyeztetö Tanács (National Interest Reconciliation Council)
OPZZ	Ogólnopolskie Porozumienie Związków Zawodowych (All-Poland Alliance of Trade Unions)
PBC	Political Business Cycles
PC	Porozumienie Centrum (Centre Agreement)
PEP	Pre-accession Economic Programme
PiS	Prawo i Sprawiedliwość (Law and Justice Party)
PKPP	Polska Konfederacja Pracodawców Prywatnych (Polish Confederation of Private Employers)
PO	Platforma Obywatelska (Civic Platform)
PL	Porozumienie Ludowe (Peasants Agreement)
PP	Porozumienie Polskie (Polish Agreement)
PR	Proportional Representation
PSL	Polskie Stronnictwo Ludowe (Polish Peasant Party)
PSNS	Pravá Slovenská Národná Strana (Real Slovak National Party)
PZPR	Polska Zjednoczona Partia Robotnicza (Polish United Workers' Party)
RFE/RL	Radio Free Europe/Radio Liberty
RHSD	Rada Hospodárskej a Sociálnej Dohody (Council for Economic and Social Accord)
RMS	Republikani Miroslava Sladka (Republicans of Miroslav Sladek)
ROH	Revolucni Odborove Hnuti (Revolutionary Trade Union Movement)
RUZ SR	Republiková Únia Zamestnávateľov Slovenskej Republiky (National Union of Employers of the Slovak Republic)
SD	Stronnictwo Demokratyczne (Democratic Party)

SDK	Slovenská Demokratická Koalícia (Slovak Democratic Coalition)
SDKU	Slovenská Demokratická a Kreťanská Únia (Slovak Democratic and Christian Union)
SDL	Strana Demokratickej Ľavice (Party of the Democratic Left)
SdRP	Socjaldemokracja Rzeczypospolitej Polskiej (Social Democracy of the Republic of Poland)
SDSS	Sociálnodemokratická Strana Slovenska (Social Democratic Party of Slovakia)
SGP	Stability and Growth Pact
SLD	Sojusz Lewicy Demokratycznej (Alliance of the Left)
SMD	Single Member District
SME	Small and Medium-sized Enterprises
SMK	Strana Maďarskej Koalície (Party of the Hungarian Coalition)
SMP	Single Member Plurality
SNS	Slovenská Národná Strana (Slovak National Party)
SOP	Strana Občianskeho Porozumenia (Party of Civic Understanding)
SPCR	Svaz Průmyslu a Dopravy ČR (Confederation of Industry of the Czech Republic)
SPR-RSC	Sdružení Pro Republiku – Republikánské Strany Československa (Association for the Republic-Republican Party of Czechoslovakia)
SZDSZ	Szabad Demokraták Szövetsége (Alliance of Free Democrats)
SZEF	Szakszervezetek Együttműködési Fóruma (Forum for the Cooperation of Trade Unions)
SZS	Strana Zelenýčh na Slovensku (Party of the Greens)
TEC	Treaty establishing the European Community
UP	Unia Pracy (Labour Union)
US-DEU	Unie Svobody-Demokratické Unie (Freedom Union-Democratic Union)
UW	Unia Wolności (Freedom Union)
VAT	Value-added Tax
VOSZ	Vállalkozók Munkáltatók Országos Szövetsége (National Association of Entrepreneurs)
VPN	Verejnost' Prosti Násiliu (Public Against Violence)
WB	World Bank
WTO	World Trade Organisation
ZChN	Zjednoczenie Chrześcijańsko-Narodowe (Catholic-nationalist Christian National Union)
ZRS	Zdruzenie Robotnikov Slovenska (Association of Slovak Workers)
ZSL	Zjednoczone Stronnictwo Ludowe (United Peasant Party)

Chapter 1

Introduction

This thesis analyses why the new EU member states have chosen different strategies for adopting the euro in the course of the transition process. The requirements for joining the euro-zone as such promote fiscal and monetary policies convergence amongst the Central and Eastern European Countries (CEECs). However, despite generally agreeing with the objective of Economic and Monetary Union (EMU) membership and being shaped by common features, the CEECs display a cross-national variation in the strategies pursued for the adoption of the euro. This thesis seeks to solve the puzzle of why the new EU members respond in *country-specific ways* to the objective of euro-zone membership by applying an analytical framework of discussion that focuses on domestic-level accounts of interests, ideas, and institutions. It is argued that the relationship between interests, ideas, institutions and policy outcomes gives valuable insights into the national strategy chosen for advancing towards euro-zone entry.

This thesis concentrates on the so-called Visegrad countries: the Czech Republic, Slovakia, Hungary and Poland. The Visegrad countries joined the EU on 1 May 2004 as "Member States with a derogation" (Art. 122 of the Treaty establishing the European Community, TEC) and have to introduce the euro as soon as they meet the Maastricht criteria. Adoption of the Economic and Monetary Union is part of the EU's *acquis communautaire* requirement for EU accession.[1] In fact, participation in the euro-zone is mandatory, for the clauses that permitted the United Kingdom and Denmark not to adopt the euro were provided under specific circumstances and were not applicable to the new member states.

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[1] The *acquis communautaire* is the body of common rights and obligations deriving from EU treaties, laws, and regulations and binds all EU member states together. It consists of more than 80,000 pages and comprises the content, principles, and political objectives of the treaties, the legislation adopted in application of the treaties and the case law of the Court of Justice, the declarations and resolutions adopted by the EU, measures relating to the common foreign and security policy, measures relating to justice and home affairs, and international agreements concluded by the Community or by the Member States among themselves in the field of the Union's activities (European Commission 2000a).

The Visegrad countries form a relatively homogenous group in a very distinctive political and economic landscape in Central and Eastern Europe: first, the then Czechoslovakia, Hungary and Poland were the frontrunners of the political debate on the integration into the European Community, having begun discussions on a common approach to their 'return to Europe' as early as April 1990.[2] Second, following the close cooperation on this debate, the countries formed the so-called Visegrad Group at a meeting in Visgerad, Hungary in February 1991 in order to encourage economic and political cooperation especially with regards to issues on joining the European integration process. Third, the Visegrad countries were among the first states with which the European Community started to negotiate the Europe agreements. They have been able to establish strong political links and the closest economic ties with the EU since the collapse of the communist regimes. Fourth, they have the largest economies of the region in US dollar terms and very open economies, attracting between 70 percent and 90 percent of all the foreign direct investment (FDI) in Central and Eastern Europe. The Czech Republic is the regional leader in terms of aggregate FDI per head, followed by Hungary. Poland is the leader in attracting FDI in absolute terms (EBRD 2004: 45). Fifth, the Visegrad countries are the region's main trading partners for the EU and especially for the EU's largest economy, Germany. Yet, the Visegrad countries experience greater difficulties to adhere to the Maastricht criteria than smaller CEECs like Estonia, Lithuania and Slovenia that first joined the Exchange Rate Mechanism II and are expected to join the euro-zone well before the Czech Republic, Hungary, Poland or Slovakia.

Despite occupying similar systemic positions and being exposed to the same external constraints, the Visegrad countries display a cross-national variation in their strategies pursued for the adoption of the euro, that is, their preferences deviate from what systemic theories would predict. This thesis rejects systemic approaches that

[2] While Slovakia provides a special case because it separated from the Czech Republic in 1992 and experienced different democratisation and market reforms, the Visegrad countries still share crucial similarities (see above and cf Vachudova 2005: 8-9). In addition, although the new independent Slovakia was created on 1 January 1993, it might still be argued that all Visegrad countries "undertook a democratic revolution in 1989 in conditions of establishing state sovereignty. Even in Slovakia [...] Bratislava was the centre of Slovak politics in 1989" (Vachudova 2005: 9).

focus on the political and economic structure of the international system to explain monetary cooperation and integration. Instead of arguing that the systemic-level is the exogenous source of state preferences, this thesis takes preferences on the adoption of the euro as endogenously given (cf Sandholtz 1993). Thus, the argument is that the euro-adoption strategies depend on domestic politics and actors' perceptions; they depend on conditions and circumstances.

This thesis focuses on a period between the beginning of the transition process in 1989/90 and February 2005, when the President of the Czech Republic, Vaclav Klaus, appointed three new members to the Czech central bank board all of whom are well known for their sceptical views on the adoption of the euro. Certainly, euro-zone membership was far from being on the political agenda at the outset of the transition process and therefore the empirical chapters of this thesis focus for the most part on developments since the late 1990s. Nevertheless, it is necessary to refer to the period of the early 1990s in order to make sense of the developments that eventually led to the respective euro-adoption strategies. In addition, the complex and dynamic process of enlargement started well before the opening of accession negotiations, as the Visegrad countries' political and economic cooperation began with the EU's first Europe Agreements on 16 December 1991. This chapter therefore starts with a description of pre-accession relations, the EU accession process and the implications of EMU membership for the Visegrad countries. It then discusses economic and International Relations approaches to monetary cooperation and points to the main shortcomings of the discussed systemic approaches for understanding cross-national variations in the euro-adoption strategies of the Visegrad countries. Subsequently, the chapter introduces the analytical framework adopted in this thesis as further developed in the following chapter and finally lays out the thesis structure.

Pre-accession relations, EU accession and implications of EMU

The Europe Agreements (EAs) of 1991 were an important step toward economic and political cooperation and integration between the CEECs and the EU. The EAs called for the EU to increase its economic and financial assistance to CEECs in an attempt to promote economic and political convergence. The EAs did not commit the CEECs to monetary integration: they merely required a successive liberalisation of financial markets and capital mobility, while not interfering in the monetary sovereignty of the associated countries. The EAs covered trade liberalisation, political dialogue, various forms of economic, financial, and technical cooperation, and the approximation of CEECs laws to EU law, most especially in the fields of competition law, state subsidies, customs, product standards and intellectual property rights (see Temprano-Arroyo and Feldman 1999: 744). The most notable step toward an enlarged Europe was then made at the Copenhagen Summit held in June 1993. The European Council laid down how accession would be granted once each applicant fulfilled the relevant economic and political criteria. These preconditions – the so-called Copenhagen criteria – included:

1. The achievement of stable institutions guaranteeing democracy, the rule of law, respect for human rights and the protection of minorities.
2. The existence of a functioning market economy.
3. The capacity to cope with the pressure and market forces likely to be faced within the Union.
4. Full acceptance of the *acquis communautaire*, i.e., the ability to take on the obligations of EU membership, including adherence to the aims of political, economic and monetary union (cf Conclusions of the Presidency SN 180/1/93).

Accession negotiations then began in March 1998 with the following "first wave" countries: Poland, Hungary, Czech Republic, Estonia, Slovenia and Cyprus. At the Helsinki Summit in December 1999, the EU decided that six more states would be officially registered as candidates for EU membership; these included Slovakia, Latvia, Lithuania, Bulgaria, Romania and Malta. Not until October 2002 did the European Commission reveal a possible accession date, stating that 10 applicant countries (all but Bulgaria and Romania) would be ready to join the EU by May 2004.

As the Copenhagen criteria included the ability of the Visegrad countries to *adhere* to the aims of EMU, the Directorate General for Economic and Financial Affairs of the European Commission launched its pre-accession fiscal surveillance mechanism for the accession countries in 2001. This mechanism comprised screening in the area of fiscal and monetary policy with respect to EU and EMU accession requirements and was divided into an annual debt and deficit notification and a pre-accession economic programme (PEP) (European Commission 2000b: 5).

In addition to the Copenhagen criteria and in an effort to facilitate the integration of the accession countries into the single European market (cf Smith 2004: 122) and to develop the financial sector and ensure monetary and fiscal discipline, the Visegrad countries had to fulfil the following EMU-related conditions during the pre-accession phase:

- Establishment of independent central banks and monetary authorities (Art. 108 TEC).[3]
- Prohibition of direct public-sector financing by the central bank (Art. 104a TEC) and of privileged access of the public sector to financial institutions (Council Regulation TEC No. 3604/93 specifying definitions for Art. 104a TEC).
- Liberalisation of capital movements (Art. 56 TEC).

Upon accession, the CEECs went straight into stage three of EMU.[4] However, as member states with a derogation, the new member states remain outside the euro-zone until they meet the convergence criteria. From the day of their accession the new member states had to adopt the following policies (see European Commission 2000a: 37):

- Treatment of exchange rate policy as a matter of common interest and in light of the expected participation in the exchange rate mechanism (Art. 124 TEC).

[3] All articles refer to the Treaty establishing the European Community as amended by the Treaty on European Union signed in Maastricht on 7 February 1992, the Treaty of Amsterdam signed on 2 October 1997 and the Treaty of Nice, signed on 26 February 2001.

[4] Stage one started for the then member states in 1990 with the complete abolition of capital controls as under Article 56 of the TEC. In stage two (1 January 1994 - 31 December 1998) member states had to implement measures to achieve compliance with the EMU requirements to be able to enter EMU on 1 January 1999. Stage three of EMU began on 1 January 1999 with the introduction of the euro on financial markets.

- Avoidance of excessive government deficits and adherence to the relevant provisions of the stability and growth pact (Art. 104 TEC).
- Participation in the European System of Central Banks (ESCB) from the date of accession (Art. 109 TEC).[5]
- Progress toward a high degree of sustainable convergence (Art. 121 TEC) and the Maastricht convergence criteria.
- Treatment of economic policies as a matter of common concern and coordination of economic policies among member states through participation in Community procedures (Art. 98 and 99 TEC).

The latter point of participation in the EU's economic policy coordination contains the Broad Economic Policy Guidelines (BEPG) (Art. 99 (2) TEC) and the multilateral surveillance (Art. 99 (3)). The BEPG is the central reference document for the annual assessment of economic policies in the EU. If the Guidelines are not followed the Council can issue recommendations to the country concerned (Art. 99 (4) TEC). Multilateral surveillance is the procedure that allows the EU to monitor and assess national economic developments and policies. The multilateral surveillance of economic policy also comprises the two regulations (Council Regulation (EC) No 1466/97 and No 1467/97) that form the Stability and Growth Pact (SGP). While member states with a derogation are not bound by the full provisions of the SGP, they have to submit annual medium-term convergence programmes in preparation for EMU in accordance with the procedures of the SGP (see European Commission 2001a: 25). These annual programmes are monitored by the European Commission and peer-reviewed in the Council of Ministers of Economics and Finance (ECOFIN); they are subject to the excessive deficit procedure but not submitted to procedure according to which the Council may apply sanctions.

[5] Art. 7 of the Statute of the ESCB and ECB requires full political and functional independence of member banks and prohibits direct fiscal financing (see also Art. 104a and 108 TEC). Political independence means that the central bank "has freedom to decide how to pursue its goals and [...] that its decisions are very hard for any other branch of government to reverse" (Blinder 1998: 54). Functional independence means that the central bank can freely use instruments and techniques to influence monetary and exchange rate policies (Masciandaro and Spinelli 1994, Blinder 1998).

Their status as member states with a derogation gives the Visegrad countries some leeway in setting the target date since there is no fixed timetable for the adoption of the euro. Of particular importance for setting the target date is the requirement for participation in the Exchange Rate Mechanism II (ERM) for at least two years and within a 15 percent fluctuation range against the euro before adopting the single currency. Therefore, the earliest possible date for an enlargement of the euro-zone by the new member states that first joined ERM II on 28 June 2004 (Estonia, Lithuania and Slovenia), would be the end of 2006 or the beginning of 2007, given that the convergence test[6] can only take place after the two years of ERM II membership (thus after June 2006).[7] The ERM participation requirement is one of the convergence or Maastricht criteria, as described in article 121 (1) TEC. The following convergence criteria need to be fulfilled in order to qualify for euro-zone membership:

- *Price stability*: for a year before assessment, the inflation rate must not exceed by more than 1.5 percent that of the three best-performing member states.
- *Budget deficit:* the budget deficit must not exceed 3 percent of GDP.
- *National debt:* government debt must not exceed 60 percent of GDP.
- *Long-term interest rates:* the long-term interest rate should not exceed by more than 2 percent the average of the three member states with the lowest inflation rates.
- *Participation in the Exchange Rate Mechanism:* the currency must stay within the narrow ranges of the ERM, with no realignment for at least two years.

Whereas the Copenhagen criteria set standards related to a functioning market economy, the capacity to cope with market pressures within the EU and to adhere to the aims of political, economic and monetary union, the Maastricht criteria were de-

[6] Following the reports from the European Commission and the European Central Bank and after the consultation of the European Parliament, the Council of Ministers of Economics and Finance (ECOFIN) will decide on a qualified-majority basis whether the criteria are sufficiently met and will accordingly announce the date for the introduction of the euro. The irrevocable conversion rate between the respective national currency and the euro will then be set by the Council on the basis of a decision taken unanimously by the current euro-zone members and the country concerned.

[7] The current members of the euro-zone introduced a transition period of three years between EMU accession and the introduction of euro cash. The new member states have indicated their intention of following a so-called "big bang" scenario in which the adoption of the euro will happen at the same time as the introduction of euro coins and bills (see European Commission 2004: 2-5).

signed to achieve price stability, low long-term interest rates, low public deficits and exchange rate stability. Thus, whereas the Copenhagen criteria focus on real and legal-institutional convergence, i.e., on convergence in the economies' structural and institutional characteristics, the Maastricht criteria place emphasis on nominal convergence.[8] Accordingly, the Copenhagen and Maastricht criteria follow two distinctive aims and types of benchmarks. In addition, whereas the Copenhagen criteria are also accession criteria, meeting the Maastricht criteria is not a precondition for EU accession. Nevertheless, prior to their EU accession, the Maastricht criteria put pressure on the Visegrad countries, since they had already paid close attention to the requirements when designing domestic fiscal, monetary and exchange rate policies. This was because the Maastricht criteria had a meaning for the Visegrad countries beyond that of defining the overall framework for a sound monetary and fiscal policy: fulfilment demonstrated readiness for EU accession and the definitive break with the communist past (Lavrac 1999: 116). In addition, in their efforts to fulfil the Maastricht criteria, the Visegrad countries are driven by the desire not to be "second-class" countries and citizens after EU accession. Moreover, after EU accession, the commitment to the Maastricht criteria develops a further dimension as the Council can decide not to provide funds for new projects to the new member states if they "have failed to take action to correct an excessive deficit or has not respected the Stability and Growth Pact" (Jones forthcoming). Certainly, EMU membership brings benefits and would enhance the Visegrad countries' economic and political credibility, which are especially important for attracting international investors, but the adherence to the Maastricht criteria also entails adjustment costs (Buiter and Grafe 2004). Here, the Visegrad countries face a policy dilemma arising from the intention to meet the Maastricht criteria at an early stage of transition, on the one hand, and the need for structural reforms, on the other. This is because the Visegrad countries still encounter special transition problems that require high levels of public spending and investment (e.g. on infrastructure), but stand

[8] The real convergence parameters of the Maastricht criteria are only secondary in nature (see Backé 1999: 121).

in conflict with the EMU's budget criterion.[9] In addition, bringing down the inflation rate and meeting the Maastricht Treaty's stable exchange rate criterion are to a certain extent incompatible.[10] During the catching-up process, the Visegrad countries will either be under enormous inflationary pressure or have an appreciating nominal exchange rate, deriving from the need to reform expenditure and from faster growth than in the euro area.[11]

The technical implications of EMU accession have a considerable impact on the Visegrad countries' economies and politics. However, the current literature on the implications of EMU accession focuses almost exclusively on economic aspects (Begg et al. 1999, 2003, Boone and Maurel 1999, de Grauwe and Lavrac 1999, Krenzler and Senior Nello 1999, Temprano and Feldman 1999, Artis and Zhang 2002, Buiter and Grafe 2002, 2004, Eichengreen and Ghironi 2003, Backé et al. 2004, Angeloni et al. 2005). The broader context of politico-economic interdependence is rarely mentioned.[12] This is surprising, since the prospect of EMU membership is already guiding and constraining today's new member countries' monetary and fiscal policy. A politico-economic account is needed because the real difficulty in reforming the economy is political, given that policy adjustment involves significant costs, especially at the outset of reforms. Problems are related to questions of how actors are affected by institutional constraints in implementing the necessary policy reforms, how to share adjustment burdens, that is, how to implement the reform programme without creating new social

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[9] Given that the Maastricht criteria were not designed for transition economies, scholars argue that the convergence criteria and the SGP miss "the economic realities of countries that differ from the EU average as regards to their expected inflation and real GDP growth rates and their inherited stocks of environmental and public sector capital" (Buiter and Grafe 2004: 68).

[10] This can be explained by what is called the Balassa-Samuelson effect. The Balassa-Samuelson effect describes the mechanism by which an increase (larger than in other countries) in productivity of tradable goods relative to nontradable goods causes an appreciation of the exchange rate (Balassa 1964, Samuelson 1964). If productivity growth in one country is higher than in another, inflation will be higher in the former. Thus, as the Visegrad countries catch up with higher GDP growth rates, their price level also catches up, so that their inflation rates are higher as well.

[11] There is a growing discussion among economists about the extent to which the exchange rate appreciation and inflation in CEEC is attributable to the Balassa-Samuelson effect (see Egert 2002a,b, Egert et al. 2003, Mihaljek and Klau 2004).

[12] The only exceptions so far have been Kemmerling (2003) and the Berlin Group of Ezoneplus (2004), focusing on socio-economic aspects of EMU Eastward enlargement. Dyson (forthcoming) analyses the effects of EMU on policies, politics and public institutions in CEECs.

divisions and social unrest and without putting the government's re-election at risk. In addition, the adoption of the euro touches upon issues of state sovereignty and culture (Jones 2002: 23), as giving up its national currency is related to the risk of losing a 'symbolic marker in nation-building efforts' (Risse 2003: 487). Therefore a further obstacle to joining the euro-zone might stem from the countries' reluctance to transfer some of their newly regained sovereignty to the European level. This thesis starts at this point and argues that different *institutional constraints and opportunities* for the implementation of reforms designed to fulfil EMU accession criteria, variations in *interests and preferences* in joining the euro-zone, as well as *divergent meanings* of EMU membership in the Visegrad countries, are the sources of cross-country variations in approaching euro-zone accession. This thesis aims to understand why the Visegrad countries have adopted different strategies towards the adoption of the euro and why they have had to readjust their initial strategies in the course of the transition process.

Indeed, while all euro-adoption strategies as such aim to fulfil the Maastricht criteria, the strategies of the Visegrad countries differ in terms of their target dates for the adoption of the euro. In fact, the target dates, on which this thesis focuses and defines the strategies, have not been static, but have changed on a number of occasions. Until the end of the 1990s the Czech Republic, Hungary and Poland were keen to join the euro-zone as soon as possible. By the late 1990s target dates for entry into the euro-zone had been announced for 2005 and 2006. However, given that at that time accession negotiations had not been concluded and no date for EU accession had yet been set, the target dates for 2005 were quite optimistic and, as later became clear, unrealistic. In 2002 the first Visegrad country, the Czech Republic, gave up plans for a quick approach to euro-zone entry and the Spidla government announced that the adoption of the euro would only be possible by 2010 or 2011. It should be noted that at that time the other Visegrad countries were still aiming to adopt the euro by 2006 or 2007, much earlier than the Czech Republic. Gradually, the other Visegrad countries readjusted their strategies too and, in August 2003, Hungary presented its official euro-adoption strategy, which called for euro-zone entry by 2008. In May 2004, the Hungarian government readjusted its strategy again and stated that, with the present macroeconomic problems encountered by the Hungarian economy, euro-zone entry would be possible only by 2010. Slovakia published its accession strategy in Summer 2003 and announced that it wanted to join the euro-zone as soon as possible and no later than the other Visegrad countries. While in the 1990s under the Meciar governments, the EMU was a far distant project, Slovakia now advocates an early entry to the euro-zone that could happen around 2008. Poland, in contrast, has not set a target date for the adoption of the euro nor has it presented a draft strategy for adopting the euro. Official announcements concerning euro-zone entry are not consistent, and target dates vary from 2007 to 2011.

This thesis argues that a political-economy approach that focuses on interests, ideas and institutions can demonstrate why the Visegrad countries' euro-adoption strategies are idiosyncratic, i.e. why they vary across time and space. The approach applied in this thesis does not aim to predict policy outcomes, but to provide a framework for discussion of cross-national differences in approaching the adoption of the euro in the Visegrad countries. The thesis approaches this issue through a politico-economic analysis based on the following research question: *Why – despite generally agreeing with the objective of EMU membership and being shaped by common features – do the Visegrad countries display a cross-national variation in their strategies pursued for the adoption of the euro?*

Economic and International Relations approaches to monetary cooperation

To start with, it is necessary to consider the existing literature on monetary cooperation and integration. Economic approaches and research fields in International Relations (IR) and International Political Economy (IPE) have traditionally concentrated on the political and economic structure of the international system in approaching questions of international economic cooperation and integration, thereby stressing the prevailing significance of the systemic-level to explain foreign economic policies. This is most prominently represented in the work on the theory of optimum currency areas and the theory of hegemonic stability.

In the IR literature, what is called hegemonic stability theory (HST) has attracted much attention for the study of international monetary relations. In fact,

> much of the international relations literature concerned with prospects for international monetary reform can be read as a search for an alternative to hegemony as a basis for international monetary stability (Eichengreen 1989: 286).

HST offers 'the most parsimonious and widely employed explanation of (regime) dynamics" (Haggard and Simmons 1987: 500). The theory focuses on the distribution of power among states (Lake 1993, Gilpin 1981, 1987, Kindleberger 1973). The international system is an anarchic system in which states try to maximise their power relative to each other. Cooperation occurs only if the system is dominated by a hegemonic state able and – more importantly – willing to wield its power to ensure political and economic stability, i.e., to provide public goods (Kindleberger 1973). In view of this, the hegemon functions as the "stabiliser" of international cooperation; a benign provider of public goods. In turn, the absence of a hegemon or a decline in hegemonic power correlates with a collapse in cooperation. In addition to the economic power of the hegemon, Gilpin (1981) and Ikenberry and Kupchan (1990) identify the military and ideological factors of hegemony and thus malign aspects of cooperation. Correspondingly, with respect to EMU, Cohen (2001) stresses that an analysis of European monetary cooperation concentrating on economic variables (such as the optimum currency area criteria) is doomed to failure. He argues that these criteria are by nature only secondary. What really matters is "whether a local hegemon or a fabric of related ties exists to neutralise the risks of free-riding or exit" (Cohen 2001: 196).[13] Thus, to bind governments to durable arrangements, a single powerful state (hegemon) or a fabric of related ties is required that can provide "incentives", like side payments or sanctions. Cohen is rather optimistic about the sustainability of the EMU, because the euro-zone

[13] The "fabric" refers to institutional linkages reflecting the sense of solidarity within the community and in which the individual units are defined in relation to each other (Keohane and Hoffmann 1991 use the term "network" instead of referring to institutional linkages).

includes a 'monetarily' dominant state, in this case Germany, which is willing to use its power to promote the euro and because its member states have the "political willingness" to commit to the EU (Cohen 2001: 196, see also Walsh 2000). Consistent with the HST therefore – but including, as Cohen does, international institutional opportunities and constraints – is the interstate bargaining model (Garrett 1992, Krasner 1991), showing that a policy outcome depends on the preferences of the most powerful states. Among the latter, the state with the fewest expected benefits from the new institution has the most power to decide on the institution's rules (e.g. see the European Central Bank (ECB) design and German preferences). The principle source of power provided by the most powerful state is, in turn, the credible threat of preferring the status quo to participation in the new institution (Schelling 1960). Other countries come to accept some rules because the rules may distribute costs away from themselves (Cohen 1977, Gilpin 1987). The underlying assumption of studies using an interstate bargaining approach is that governments trade-off objectives. Given that issue linkages are of specific importance within the EU bargaining structures, interstate bargaining models interpret the creation of EMU as the result of cross-issue deals while other scholars additionally point to the importance of issue linkages as an engine for further European integration (Martin 2001).

However, the interstate bargaining model and especially the HST have been widely criticised on both empirical and theoretical grounds. First, regarding the interstate bargaining approach, it is hard to specify explicit links between issue areas. Moreover, the success of issue linkages requires different values on different issues because similar preferences leaves "little room for trading-off concessions" (Eichengreen and Frieden 2001: 19). In addition, issue linkages as such make credible threats and promises difficult "for not only must commitments on each dimension be credible, but the commitment to link dimensions must be credible as well" (Eichengreen and Frieden 2001: 19). For the HST, as the different variants of the theory show, the definition of the relevant structure (military, ideological, economic) of cooperation dynamics is prone to be arbitrary. Empirically, the theory neglects monetary aspects and fails to explain why a country like Germany without military dominance and with no overwhelming economic control over the EU (in 1990, Germany's GDP was 25 percent of the total in the EU, whereas France's share was 20 percent) but with the strongest currency in Europe, should be able to ensure cooperation stability (McNamara 1998: 26-27). Second, since the structure alone is a 'poor predictor' of national policies and cooperation stability, "structural theories must continually revert in an ad hoc way to domestic political variables" (Haggard and Simmons 1987: 501). Thus, in the context of the research of this thesis, hegemonic stability theory might explain why CEECs are willing to join the EMU, e.g. since the EMU provides public goods such as price stability, but hegemonic stability theory does not sufficiently explain why the Visegrad countries have chosen divergent paths on their road to euro-zone accession.

Systemic scholarship neglects how domestic forces shape policy preferences on international cooperation and likewise how international cooperation impact on domestic structures and policy preferences. Beginning in the mid-1980s, in an effort to integrate systemic opportunities/constraints and foreign economic policy with domestic structures (Katzenstein et al. 1998: 668), scholars shifted to a more comparative approach that focused on economic cooperation by arguing that there is a second game in progress, namely on the domestic level (Putnam 1988, Dyson 1994, Moravcsik 1993). According to Moravcsik (1993, 1997), governments use the interplay between the inside (domestic politics) and the outside (international politics) as a "two-level" game played on two different playgrounds (see Putnam 1988) in international monetary integration to gain more power vis-à-vis their domestic politico-economic actors (see also Dyson 1994). This is because the two-level game enhances the autonomy of political leaders, since the decision-making process in an international monetary regime is more insulated from domestic pressures than the decisions on national monetary policies are. However, missing from this literature is a classification of domestic structures (Katzenstein et al. 1998: 669) and like other system-centred scholarship on international monetary cooperation (Moravcsik 1998, Henning 1998) these approaches help to clarify the EMU process and to understand why countries are willing to agree to monetary integration (Verdun 2000: 9), but fail to explain why the countries pursue different policies of macroeconomic convergence.

Equally, economic approaches to international monetary cooperation and integration fall short of explaining cross-national variations in approaching the adoption of the euro. However, like the interstate bargaining approach and the HST, they do provide explanations of why countries are willing to join a monetary union. They also help to explain where adjustment costs of prospective monetary union membership are likely to reside. In this respect, they point to potential conflicts as well as to advantages and benefits that can be generated from macroeconomic considerations. To understand respective strategies for the adoption of the euro merely on the basis of weighing the economic costs and benefits of EMU membership would be desirable but is a reckless undertaking, as the real costs and benefits are political in nature and therefore a purely economic analysis would overlook the political reality. But although economic approaches might not be useful in explaining cross-national variations in approaching EMU accession criteria, they nevertheless provide important insights into the nature of monetary unions and therefore cannot be neglected in a thesis dealing with EMU.

Among economic approaches, the theory of optimum currency areas (OCA) and the related capital mobility hypothesis have led the debate on monetary integration. Economic accounts of monetary integration usually start with a cost/benefit analysis, which is discussed at great length in the literature on the theory of OCA. It is from this literature that much of the debate, e.g. the arguments against and in favour of monetary unions, has developed. OCA theory as such implies a critical approach to the constitution of a monetary union. This is because OCA theory formulates a large set of preconditions for the constitution of a monetary union and thus establishes a framework of prerequisites that have to be met in order to establish a successful monetary union. The OCA theory was developed in the 1960s, most prominently by Mundell, McKinnon and Kenen, who defined an OCA as "an economic unit composed of regions affected symmetrically by disturbances and between which labour and other factors of production flow freely" (Eichengreen 1997: 51). Mundell (1961) focuses on factor mobility, McKinnon (1963) on trade integration and economic openness, and Kenen (1969) on the diversification of industrial production.[14] Mundell assumes that the higher the mobility, the lower the costs of a monetary union. Referring to a study on the USA and Canada, Mundell proves that a fixed exchange rate system (e.g. a currency union) would have substantial problems if labour were immobile, wages inflexible and labour markets rigid. McKinnon (1963) considers another source of tension in a monetary union, which he attributes to the extent to which the participating economies are open. According to McKinnon, small and open economies will benefit from a monetary union, since greater openness means that most domestic prices are linked to prices on markets and to the exchange rate which makes it difficult to tackle real exchange rate depreciation by means of nominal devaluation. A further condition for an optimum currency area was developed by Kenen (1969), who underlines the notion of the pattern of production in the participating economies. He argues that external shocks have a smaller effect on countries with a high degree of product diversification and an extensive export profile, because particular demand shocks on export goods can be compensated and counterbalanced by adjustments elsewhere in the economy. Consequently, similar patterns of production and diversification should lead to the reduction of costs in a monetary union.

Economists and political scientists widely criticise OCA theory. For example, the theory emphasises external shocks and downplays shocks caused by the union itself, or, conversely, as argued by Frankel and Rose (1998), neglects the fact that OCA criteria are likely to be satisfied *ex post* as a monetary union stimulates growing trade links that reduce asymmetries (also referred to as the endogeneity of the OCA). Likewise, OCA theory neglects differences in social standards and living conditions; however, differences in levels of GDP per head certainly have implications for the functioning and stability of a monetary union (Lythe 1995). But the central weakness of OCA theory

[14] Other approaches to the constitution of an OCA do exist and are also important. For further details, see Ishiyama (1975), who has reviewed Kenen's (1969) approach, and the following authors who have reassessed and backed up the work on the theory of OCA: Corden (1972), Ingram (1973), Canzoneri and Roger (1990), Mélitz (1995), Tavlas (1993), Bayoumi and Eichengreen (1994), Bofinger (1994), Eichengreen (1997), de Grauwe (1997). For a survey of the literature on currency unions, see Masson and Taylor (1992).

remains its inability to deal with political factors in understanding the stability of a monetary union and the rationales for its creation. Obviously, EMU came into being because of political rather than economic considerations (Risse et al. 1999). As Risse et al. conclude (1999: 150), "to accept 11 EU countries into 'Euroland' was mainly a political decision and did not have much to do with economic criteria for optimum currency areas" because, following the reasoning of OCA theory, the EU is clearly not an optimum currency area. Instead, Risse et al. (1999: 148) argue that EMU is about political ideas and interstate bargaining, rather than merely lowering transaction costs or providing for a stable exchange rate. Nevertheless, it is in this regard that the theory offers some important insights on how to approach the inclusion of CEECs in the EMU. It becomes obvious that appropriate adjustment instruments for CEECs rely not on traditional monetary and exchange rate policy, nor – for political reasons – on labour mobility or fiscal transfers, but on the flexibility of labour markets. Thus, while the OCA theory points to the benefits of a single currency for small and open economies such as the CEECs, it also gives important clues as to where the costs of adjustments in a monetary union are likely to reside and consequently points to potential sources of conflicts.

Other economic approaches to analysing the costs and benefits of monetary unions also fail to explain cross-national differences in reforms that are related to EMU accession criteria. However, they explain why the Visegrad countries have no other choice but to join the EMU and point to potential costs and benefits of non-participation. Here, research on business cycle correlation has attracted the most attention in recent years. With regard to special transition problems encountered by the Visegrad countries, business cycle analysis may be more valuable in assessing the costs and benefits of inclusion in the EMU. Boone and Maurel (1999) assess the cost of pegging currencies to the euro by analysing the degree of (a)symmetry of business cycle fluctuation between CEECs and EU member states. They state that similarities in business cycles are more crucial than the Maastricht criteria for a successful EMU, since

> during a transition process there are specific sources of inflation, interest, and exchange rate instability which are less related to the costs of adopting a common monetary policy and may explain the current failure to fully satisfy the Maastricht criteria (Boone and Maurel 1999: 3).

Boone and Maurel's results show the extent to which a common shock, i.e., an EU-wide shock, explains unemployment (see also de Grauwe and Aksoy 1999, Artis et al. 1999, 2004, Artis and Zhang 1998, Fidrmuc and Korhonen 2001, and Backé et al. 2003).[15] Boone and Maurel (1999) conclude that CEECs' business cycles correlate with European business cycles and especially with German business cycles. Hence, the likelihood of external asymmetrical shocks will diminish over time for CEECs, since trade structures between CEECs and the EU are becoming more integrated and convergent. However, while this study might also say a lot about the sustainability of EMU and the costs and benefits of membership, it does not explain cross-national variation in approaching EMU accession.

Related to OCA theory and the literature on business cycle correlation is the capital mobility hypothesis or Mundell-Fleming model. Monetary cooperation and integration are a result of the structural power of economic interdependence and financial markets (Dyson 1994). As Dedek (1999:168) states:

> if the country has submitted voluntarily to the pressure of the external discipline, it is mainly the façade of autonomy that will be lost at the time of entering a monetary union.

Economic interdependencies increase the costs of macroeconomic conflicts; since interdependence has become a constant of the international system, governments place more and more emphasis on avoiding macroeconomic conflicts (de Macedo 2000). Economic interdependencies call for policy convergence, since a beggar-thy-neighbour policy, e.g. seeking an exchange rate that puts the country at an advantage over neighbouring countries, would cause excessively costly macroeconomic conflicts. This is because interdependence and capital mobility preclude misalignments directed against neighbouring states; this fact is explained by the Mundell-Fleming model, which describes fiscal and monetary policy in a flexible or fixed exchange rate regime. The

[15] For a literature review on business cycle correlation between the new member states and the euro-zone see Fidrmuc and Korhonen (2004).

model is also known as Mundell's "assignment problem", the "impossible trilogy", or the "unholy trinity", which implies that policy-makers can obtain only two of three policy options at any time: free capital flows (i.e., full financial integration), a fixed exchange rate, and full monetary policy autonomy. This is because a country that wants to maintain full capital mobility and to fix its exchange rate has to adjust its domestic interest rate to the rate of the anchor currency. Consequently, monetary policy is decided not at home, but abroad. This makes monetary policy less and less effective; monetary policy becomes merely a tool for maintaining the exchange rate. Given that European countries have agreed to abolish capital controls, the choice was between freely floating exchange rate regimes and monetary union. The alternative option

> of letting exchange rates float was never acceptable to Europeans. The perception is that markets are too integrated to allow for sizable relative price changes. The exchange rate and trade wars from before World War II are still remembered as an example of a Jack that must absolutely be kept in the box. [...] The choice is not between EMU and heaven. It is between EMU and freely-floating exchange rates, with possibly poorly coordinated monetary polices, within an area gradually becoming as tightly integrated as the US (Wyplosz 1997: 4-10).

Thus, economic interdependencies and political reasons explain why the alternative of floating exchange rates was not an option for European states that vividly remember the fatal consequences of the beggar-thy-neighbour policy of the inter-war period. It is in this regard that EMU has to be seen as "the outcome of constrained optimisation. The constraint is the impossible trilogy" (Wyplosz 1997: 8). Thus, the capital mobility hypothesis explains why EMU was an unavoidable and logical step following the European Monetary System (EMS). It explains why the EU member states were willing to agree to the EMU, even though from an economic point of view monetary union was not a good idea, since the EU does not comprise an OCA (Eichengreen 1997, de Grauwe 2000). The Visegrad countries face the same policy impasses, given their economic interdependence and taking into account that from the day of their EU accession they have been obliged to accept free capital flows. However, whereas the Mundell-Fleming model justifies EMU accession, it does not explain why the Visegrad countries approach euro-zone entry in country-specific ways. The objective – euro-zone membership – may be common to all Visegrad countries, but their paths to realise this are significantly different.

In conclusion, systemic approaches to monetary cooperation might explain why the Visegrad countries have no other choice but to join the EMU. They also point to potential benefits, costs and sources of conflict in a monetary union. But they fail to explain why the Visegrad countries have chosen different paths to euro-zone membership. The main shortcoming of these systemic theories is that they focus on the political and economic structure of the international system – e.g. the degree of state interdependence on international trade and on multipolarity, bipolarity or hegemony (see also Waltz 1979, Keohane and Nye 1977, Baldwin 1980) – but they neglect dynamics deriving from the impact that domestic interests, ideas and institutions have on political decision-making. Thus, these "systemic arguments were at best incomplete" (Katzenstein et al. 1998: 648) as they neglect how "variations in domestic structures [...] would lead to different national and corporate responses to the same external pressure and opportunities" (Katzenstein et al. 1998: 648). The theories described do not explain why countries in similar economic and political situations and with similar structural features (thus countries that occupy similar systemic positions) do not react identically, but rather very differently. As Haggard and Simmons (1987: 513) explain, domestic political processes have been ignored, "in part because of the lure of parsimonious systemic theory". Not only from the methodological but also from the theoretical point of view, there are several "reasons to open the black box of domestic politics" (Haggard and Simmons 1987: 513). As Gourevitch (1986) states, systemic reductionism – parsimony – ignores the fact that states do have choices:

> unless the international situation is completely coercive, as may be the case with foreign occupation, countries do have choices. The selection they make from among those choices depends on domestic politics, on the distribution of power within countries and various factors that influence it – societal forces, intermediate institutions, state structure, ideology. The international economy affects national policies by acting upon domestic actors (Gourevitch 1986: 65).

Thus, in contrast to the statist literature of the state-as-a-unitary-actor, domestic approaches account for the state-society relationships to define the content of policy (see

Zysman 1983 and Katzenstein et al. 1998: 667). Scholars have increasingly turned to the relevance of domestic sources in international cooperation and monetary integration[16] and extensive work has been conducted on the underlying reasons for the creation of EMU ranging from country-specific case studies (Kaltenthaler 1998, Jones et al. 1998, Walsh 2000, Verdun 2000) to more theoretical arguments (Sandholtz 1993, Frieden 1994, 2002, Frieden and Jones 1998, McNamara 1998, Dyson and Featherstone 1999, Verdun 2000, Frieden and Eichengreen 2001). Common to all these approaches is that while taking into account systemic constraints, they focus on the dynamics within the political economy; however, they attribute different degrees of influence to economic actions, domestic factors of interests, ideas and institutions to explain policy outcome. Having rejected systemic scholarship, the conceptual framework applied in this thesis takes the same approach but integrates the different perspectives on domestic interests, ideas and institutions into one analysis as it is argued that one factor alone is not sufficient to elucidate why the Visegrad countries pursue different strategies for the adoption of the euro.

Interests, Ideas and Institutions

This thesis follows a domestic-level approach to political economy in order to understand the persistence of cross-national differences with regard to the euro-adoption strategies of the Visegrad countries. In doing so, this thesis incorporates insights of interest-, idea-, and institution-oriented approaches. Policy outcomes are inherently linked to the complementary and competing effects of interests, ideas and institutions. The argument is that interests, ideas and institutions are intrinsically mutual and therefore one factor alone is not able to address questions of policy variation with regards to euro-zone entry. An analysis integrating these three approaches does not separate the facts from meaning and processes, but integrates them in one analytical framework. This approach is problematic, because the analysis might end up with "an almost end-

[16] Certainly this shift has to be understood in the context of the end of the Cold War and the decreasing ability of the nation-state to shield its domestic side from international developments. For a review how EMU and the end of the Cold War challenge the neo-realist research programme as well as for an amended neo-realist argument to explain the creation of EMU see Grieco (1995).

less list of domestic conditions, institutions, bargaining tactics, personalities, and factors that might 'matter'" (Simmons 1994: 283) resulting in a separate model for each country, which would hinder a comparative analysis. While Hall (1997: 198) argues that following this approach "at times [...] can be frustrating", this thesis makes the case that an integrated analysis is best able to provide a framework for the discussion of cross-national variations in approaching euro-zone accession. In this respect, this thesis contributes to research that endeavours to determine the value of such approaches. It also contributes to the current debate about the relative importance of interests, ideas and institutions, as it seeks to demonstrate the interactive effects of these factors and highlights their impact on the Visegrad countries' euro-adoption strategy.

This thesis adopts a qualitative methodology based on a comparative case study of the Visegrad Four. Some of the data used in this thesis may be quantified, but the analysis itself is based on a qualitative research method (Corbin and Strauss 1990). Just as a qualitative method allows for an adequate analysis of complex politico-economic processes, a comparative case study allows for an in-depth study that reveals insights into underlying causal forces of the euro-adoption strategies (cf Vachudova 2005: 8). The first priority is to design a framework of reference that allows further application to similar case studies. Although the differences between the case studies might outweigh the similarities, the first aim of the analysis is to show how politico-economic processes are conducted and to understand policy outcomes. This analytical framework pays tribute to the complexity and sophistication of politico-economic processes, since understanding cross-national differences in approaches to EMU is not a one-dimensional undertaking (cf Levi 2004). The complexity of the goals of politics makes politics inherently ambiguous (Pierson 2000). However, complexity does not mean that politico-economic processes resulting in policy divergence/convergence do not follow specific patterns. Policy variation has its own logic which is apparent in the deeply embedded domestic differences that produce different national responses to the same external opportunities and constraints (Katzenstein et al. 1998: 648, Jones 2003: 141, Lenschow et al. 2005: 797). It is the purpose of this thesis to reflect systematically the complex nature of politico-economic processes and to demonstrate the resulting inner logic (e.g. critical junctures/moments) that is behind policy variation, i.e. to show why and how domestic factors intersect and/or come to prevail over others and under which conditions (thus when) they impede or generate policy changes that affect the euro-adoption strategies. This thesis shifts away from overly parsimonious theoretical assumptions (see Pierson 2000 and Hay 2002) and general theories toward a more "Weberian" approach that examines the Visegrad countries' diverse strategies for achieving the same objective, or as Weber would say, the same phenomena: why do cross-national differences persist even though all these countries share the objective of EMU accession and are all confronted with similar difficulties in policy reforms? According to the Weberian definition, the state is not a unified actor, as assumed by the HST and systemic-centred economic approaches, but a collection of rules and institutions. This definition of the state focuses on institutions, actors' preferences and perceptions and therefore provides insights into the institutional, rational and ideological roots of actors' behaviour in order to analyse why countries choose different paths to euro-zone entry. Applying this definition to the research question of this thesis, it follows that the same pressure and objective to qualify for the euro-zone may result in different accession strategies because (1) actors differ in their interests and positions towards the objective of EMU (interest approach), (2) the ideas actors hold about European integration and macroeconomic policy may vary (ideas approach), and (3) the existing organisational framework differs (institutional approach).

Focusing on interests, this thesis analyses whether the euro-adoption strategy depends on the balance of power between the winners and losers in the reform process (Haggard and Webb 1994: 8). This balance of power is expressed in the preferences of the actors involved. In addition, the analysis of positions toward EMU has to take into account the distributional consequences of reforms related to the adoption of the euro. Domestic distributional issues are crucial in understanding whom the EMU affects and might therefore indicate why the Visegrad countries approach the EMU in country-specific ways (cf Jones 2002: 11). However, a "purely" distributional approach, i.e., the attempt to explain the euro-adoption strategies by referring to distributional issues and the interests of the actors involves several problems and limitations (cf Haggard and Kaufman 1992, Nelson 1992). The first limitation has to do with the problem of collective action itself. The amount of political influence that an individual or a group of individuals gains depends on their capacity to organise, "but organisation does not follow from shared economic interest alone" (Haggard and Kaufman 1992: 28). Diffuse interests, for instance, create difficulties in channelling interests and organising collective action. Second, it is difficult to generate interests solely on the basis of an individual's or a group of individuals' position in the economy, because their positions have multiple causes. For instance, an individual can occupy several positions within the economy at the same time, and may have different religious and ethnic identifications that may affect his/her economic interests. Finally, while interest-based approaches account for positions and preferences, they neglect the effects of how interest is translated into policy outcomes (Gourevitch 1986: 113-119). Even if distinct interests are identified as important for the making of the euro-adoption strategy, they do not necessarily explain policy outcomes because interests cannot only be understood as the result of aggregate material preferences of individuals, or groups of individuals but also as the result of ideas and institutionalised norms.

Therefore, the analytical framework applied in this thesis integrates idea-oriented approaches because a purely interest- or institution-based study misses most of the turns the Visegrad countries have made in their strategies during the transition process; it would fall short in explaining why EMU accession took on different *meanings* in the countries under review. Such approaches do not grasp people's beliefs and therefore cannot explain how individual actions are motivated. There is much in the making of the euro-adoption strategy that cannot be explained by power, interests and institutional constraints alone. Interests are not formed in a vacuum, but are the product of discursive formations, of a belief system and of material forces. Ideas help to solve problems of collective co-ordination; they serve as focal points for political action (Goldstein and Keohane 1993: 12; see also Schelling 1960, McNamara 1998). By introducing ideas into the analysis of cross-national variations in approaching EMU accession, this thesis accepts ideas as a mediating variable between interests, institutions and policy outcomes.

By the same token, interests and ideas are expressed through institutions and can thus be "mediated" by them. As Haggard and Kaufman (1992: 18) put it: "political institutions, like markets, structure the incentives to political action and can have a profound impact on the relative standing and power of different groups." In the same tenor, Eichengreen and Frieden (2001: 11) state:

> since institutions can magnify the political influence of some groups while diminishing that of others, similar interest may be expressed differently when, for example, parliaments are chosen by proportional representation than when members come from single districts in a first-past-the post system (see also Rogowski 1987 and Farrell 2001).

Institutional constraints are ubiquitous in the policy-making process. Therefore, an analysis of the euro-adoption strategies has to take into account the fact that institutions endogenously and exogenously affect actors' preferences and therefore impact on policy outcomes. Thus, it has to explore whether different domestic structures and institutions produce distinctive patterns of policy outcomes and therefore whether institutional constraints and opportunities are able to highlight cross-national variations in the euro-adoption strategies of the Visegrad countries. Yet, as argued above, this analysis of institutions has to be complemented and combined with one of interests and ideas in order to be sufficient to explicate variations in the euro-adoption strategies across time and space.

In short, perceptions of and incentives/constraints faced by political actors in different national contexts are the key this thesis uses to address the research question. Different preferences, institutional capacities and willingnesses to implement EMU-related policies are the origins of the persistence of cross-national differences. This thesis highlights the variations through the use of an analytical framework that integrates interest-, idea- and institution-oriented approaches.

Thesis Structure

This thesis proceeds as follows. Chapter 2 reviews interest-, idea- and institution-oriented approaches and relates them to the research question in order to frame the conceptual starting point of this thesis. Chapter 3 gives an overview of the development of fiscal and monetary policy in the Visegrad countries from 1990-2004. In doing so, Chapter 3 provides the necessary background on fiscal and monetary policy that is relevant to the discussion of cross-national variations with regard to the euro-adoption strategies. Having framed the analytical backdrop for the analysis of cross-national variations in approaching EMU accession, Chapter 4 applies interest-based approaches to the case studies. The following interests and preferences are analysed: the interests of and positions taken by *political parties* on EMU (part A), and *public support* for and opposition to the euro (part B). Chapter 5 then analyses the following ideas: (1) *ideas that actors hold on European integration,* i.e. do they support further and deeper EU integration or do they oppose it?; (2) *Ideas that actors hold on macro-economic policy*, i.e. do they support the idea of a fixed exchange rate regime for a transition economy (and therefore implicitly of fixing the exchange rate irrevocably through EMU membership) and do they perceive euro-zone membership as a means of achieving real convergence, or should accession follow at the end of the transition process? Chapter 6 provides the institution level of analysis and concentrates on the following institutions in the Visegrad countries, which are regarded in the literature as the key factors in instituting policy reforms designed to meet EMU criteria: *electoral systems, central banks* and *industrial relations*. The final chapter, 7, summarises the main arguments and findings, points to the challenges an integrated analysis has to face and makes recommendations for further research.

Chapter 2
Interests, Ideas and Institutions: The Political Economy of the Euro-adoption Strategies in Central Europe

Having outlined systemic approaches to monetary integration, it is now clear that domestic factors must be taken into account when trying to understand cross-national differences concerning euro-adoption strategies. Political economy defines three major areas of domestic constraints and opportunities: interests, ideas and institutions. Scholars of domestic approaches to political economy all highlight domestic forces as sources for variations in national responses to common challenges; however, they attribute different degrees of influence on economic actions to domestic factors of interests, ideas and institutions. Consequently, at the centre of the debate lies the disagreement about the relative "weights assigned to these factors and the linkages that are said to exist between them" (Schonhardt-Bailey 2001: 198).

Therefore, whilst bearing these concerns in mind, the following chapter presents an analytical framework for discussing how the interactions of interests, ideas and institutions could affect the euro-adoption strategies of the Visegrad countries. In doing so, this chapter first outlines the three approaches; then it identifies which interests, ideas or institutions matter for the euro-adoption strategies of the Visegrad countries; and finally it relates them to the research question of this thesis. The empirical chapters on interests, ideas and institutions then show why, how, and when these factors influence these countries' euro-adoption strategies and highlight the interactions and dynamics that exist between them.

Interest-based approaches

According to interest-based approaches to political economy, policy outcomes reflect the interests of competing actors or groups of actors. In other words, economic policy outcomes are the product of individual and collective interests' influence. A politico-economic perspective should therefore start with the questions of "whose voices are heard in the political process" (Hall 1997: 196) and *why* they are heard. Interests are crucial to the research question of this thesis because they show how individuals are affected by EMU in terms of the distribution of costs and benefits and how politicians may react to the strategic environment of party competition to gain or maintain office and votes. Interests provide a crucial link between attitudes and politics and may therefore manifest themselves in different levels of support for, and opposition to, the EMU.

Interests are either political or economic. Political interests are defined as opportunist interests to gain or maintain office and votes (see p. 40). Economic interests are defined as the real material interests of individual actors or groups of actors to maximise their income and wealth. According to interest-based approaches focusing on economic interests, interests are important because a policy can be sustained only if it serves the interests of a significant segment of society (Haggard and Kaufman 1992). Such approaches show that economic policy affects the interests of individuals or groups of individuals differently, depending on the position they hold within the economy. Interest-based approaches therefore not only demonstrate how some individuals or groups benefit from, while others lose out to the same economic policy, but they also explain political struggles for economic policy designs. Since interests directly relate to the distributional consequences of political decisions, they are strongly affected by changes in the economic environment. Therefore, interests account for how key groups can shift their support for certain policies due to changes in the international economic environment (Milner 1988, Gourevitch 1986). However, many of these interest-based analyses tend to focus on the international economy when explaining changes at the domestic level, neglecting other domestic factors as sources of adjustment, such as domestic institutional frameworks for interest intermediation or cultural and historical legacies (see Hall 1997: 178). In addition, interest-based approaches pose several empirical problems since it is not entirely evident that the distributional consequences of economic policies can be traced to the interests of specific individuals or groups (see chapter 1). Interests are especially difficult to determine with respect to monetary policy since changes in exchange rate policy, for instance, have an impact on various other policies, such as social, wage, and fiscal policy, with consequences at the international and domestic levels (see McNamara 1998: 35-6, see also Jones 2002: 21-22). Also in regard to monetary policy, a weakness of interest-based approaches is that they ignore how monetary integration policy, at both the national and European levels, is made with a high degree of insulation from the influence of pressure groups. Instead, they are formulated exclusively at the elite level of government where, according to McNamara (1998), ideas exert a strong influence. For example, McNamara asserts that the EMU came into being because of policy shifts that mainly followed new ideas arising in the economic profession, making epistemic communities the main driving force in transmitting new ideas to a transnational level (see also Haas 1992 and Goldstein 1993). By the same token, the complexity of monetary integration and cooperation makes it impossible to see the country's euro-adoption strategy as being only related to the interests of the actors involved. Interest-based approaches also fall short of explaining other factors, such as collective action problems due to coalition formation (Hall 1997: 178), and why and how political conflict can result in new coalitions and new interests that influence the policy outcome. This "heuristic limitation of considerable significance" (Hall 1997: 196) exists because the analysis neglects the endogenous impact that the process of political conflicts itself may have on the creation of interests. It neglects the fact that interests are "not generated entirely by the antecedents to that conflict" (Hall 1997: 197; see also Gourevitch 1986 and chapter 1).

For the reason that historical compromises among interest groups are virtually nonexistent in CEECs and that interest groups in the Visegrad countries experience substantial problems in formulating common interests (see chapter 6), this thesis does not apply to the strand of interest-based approaches that focus on producer groups as their units of analysis (Rogowski 1989, Frieden 1991, 1994; for a critique see Kalthenthaler 1997, McNamara 1998, Walsh 2000). Rather, this thesis concentrates on interest-based approaches that focus on the electoral and individual levels as their unit of analysis, thus it concentrates on the interests of political parties/politicians and at the individual level on public opinion. In particular, the findings of political business-cycle scholars (Nordhaus 1975, Hibbs 1977, Alesina 1994), public opinion scholars (Gabel 2001) and class politics and cleavage scholars (Evans 1999, Mateju et al. 1999) yield important insights into the research question of this thesis.

Political business cycle and Party strategy

One school of interest-based scholars takes an *electoral approach*, which focuses on the electoral arena and thus on political actor and party strategies to gain/maintain office and votes (see Hall 1997). With regards to the quest for office and votes of governing parties, it stresses politicians' opportunistic interests in being re-elected. Political business cycles (PBCs) are of central importance to this approach, the literature concerning which has developed since the 1970s. Whereas William Nordhaus' (1975) work is devoted to the development of opportunistic cycles, Douglas Hibbs' (1977) work emphasises partisan cycles. Two critical driving forces are considered: a) politicians' incentives to be re-elected (opportunistic model) and b) the degree of societal polarisation and social conflict that puts pressure on politicians' decisions (partisan model).

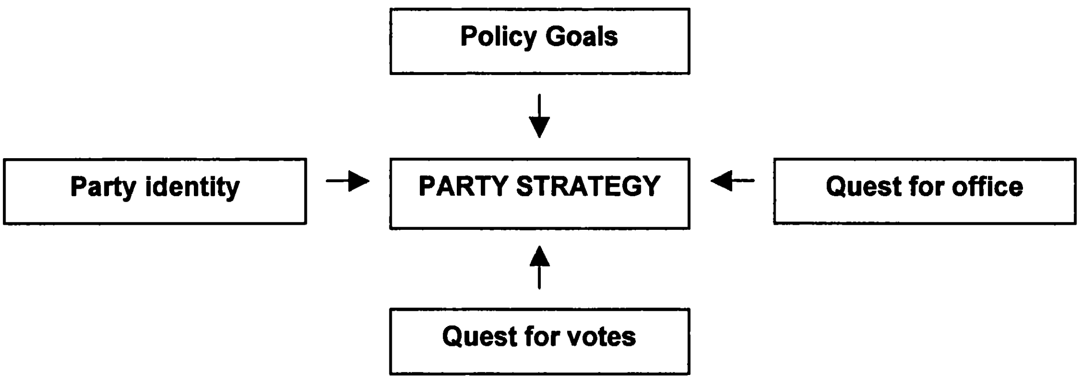
According to Nordhaus, governments' macroeconomic policies depend not only on the party in office, but also on the date of elections. Politicians tend to conduct expansive economic policies before an election to "massage" the economy and to increase their prospects of re-election. Once in office, politicians then introduce restrictive policies to reduce the inflation rate and the budget deficit caused by expansionary policies because voters, at this time, are not able to punish them (Nordhaus 1975). However, for the Nordhaus model, evidence unexpectedly showed that parties whose policies resulted in high unemployment rates – which would have rendered them non re-electable in the 1950s and 1960s – were confirmed in office (Alesina 1987). Taking these shortcomings into account, Barro and Gordon (1983), Rogoff and Sibert (1988) and Persson and Tabellini (1990) developed rational opportunistic models based on the assumption that voters are well aware of politicians' opportunistic ambitions and will therefore punish opportunistic politicians. Consequently, rational opportunistic models are better at explaining short-lived political and irregular business cycles than the Nordhaus model.

Building on the seminal work done by Kirschen (1964), Hibbs (1977) analysed class-based organisations of economic preferences and showed that there is a left-right split over inflation and unemployment policies. Hibbs' model is based on the following assumption: since parties have different distributional preferences, they also have divergent views on how macroeconomic policies should best be conducted. It follows that the more these distributional preferences diverge, the more volatile the macroeconomic policy becomes (Hibbs 1987). While the left traditionally favours an economic policy devoted to solving problems of unemployment, right-wing parties are more concerned about inflation and are more willing to implement anti-inflation policies at the cost of higher unemployment rates. Left-wing politics are often characterised by higher government spending, higher rates of economic growth, and lower rates of unemployment (Garrett 1998: 25). However, these policies are implemented at the cost of higher inflation rates, higher budget deficits and higher interest rates. Right-wing politics are often characterised by weak labour unions, small deficits, lower interest rates, lower growth rates, lower inflation rates and higher unemployment rates (Garrett 1998: 25). However, as was the case for the Nordhaus model, Hibbs' results were not replicable in later studies (Hood 1994, see also Jones 2002). Evidently, the weak point of the Hibbs model is that it does not take into account governments' economic interdependence. Consequently, Alesina (1987, 1994) developed the rational partisan model. The rational partisan theory explains why differences in growth rates and unemployment are only temporary. This is because, once in office, left-wing parties will devote their attention to reducing unemployment and will find themselves trapped in a high-inflation equilibrium with no benefits on the unemployment side but higher costs. Differences in growth and unemployment between left-wing and right-wing governments will therefore disappear in the second half of the legislative period after a change of government (Alesina 1994: 45).

Insights from the PBC models are relevant to this thesis because they address the question of whether policy reforms, specifically reforms related to the EMU accession project, are subject to the timing of elections or the type of party in power. EMU accession criteria place a heavy burden on politicians to implement strict fiscal consolidation programmes and on the central bank to follow a restrictive monetary policy. The question is whether the Visegrad countries' governments tend to loosen their insistence on fiscal consolidation in the run-up to general elections or whether the countries experience fiscal cycles under left-wing governments in the short-run after the elections (Alesina 1994). PBCs would therefore help to understand possible sources for fiscal cycles that may influence or jeopardise the country's approach to adopting the euro.

As mentioned above, the PBC literature analyses opportunistic interests of politicians in office and therefore explicitly refers to governing political parties' strategies to maintain office and gain votes. However, as figure 1 shows, apart from the quest for office and votes, a party's strategy – whether in office or in opposition – is influenced by the party's identity/ideology and its policy goals. These four strategic objectives form the framework in which parties come to 'politicised' issues of European integration.

Figure 1 Party Strategy



Source: Batory and Sitter (2004: 525)

To approach the question of the relative importance of interests in understanding governing and opposition parties' preferences on EMU that may affect the countries' approach to adopting the euro, this thesis analyses the extent to which the political party's position on the euro and European integration is driven by the party's partisan interests (i.e. the responsiveness to its electorate), and its relationship to other parties or electoral strategies/coalition politics (cf Batory and Sitter 2004: 543). Interests in this context are defined firstly by strategic electoral interests in gaining office and votes and secondly, by the need to address partisan interests of the party's voter base (see Table 1, p. 49). The argument is that the motivation behind the political party's position on the euro provides information on possible sources for variations in the Visegrad countries' strategies to adopting the euro.

Public opinion and distributional issues

Given that organised interests still have substantial problems pressing for their demands in the Visegrad countries, Matthew Gabel's study (2001) on public opinion is of particular importance in understanding cross-national differences in euro-adoption strategies. This approach points to the relevance of distributional consequences of international economic policies for *individual voters* – rather than organised interests – as the central domestic factors.

Gabel (2001) analyses the relationship between public opinion and public support for the EMU and individual economic interests, and shows that public opinion about the EMU is consistent with economic interests. According to Gabel, economic interests are closely related to issues such as exchange rate stability, low inflation and capital mobility. Agreeing with Baldwin (1989), Gabel refers to the economic self-interest approach and, using Eurobarometer surveys, shows that the distributional consequences of the EMU account for a specific pattern of political conflict over the EMU (Gabel 2001: 49). The following policies were expected to result in support for, or opposition to, the EMU: (1) trade-related distributional consequences of exchange rate stability, where it is assumed that the public sector and the domestically oriented service sector are less supportive of the EMU than the (export-oriented) industrial sector (see Frieden 1994, 1996); (2) distributional consequences of inflation policy (such as higher inflation policy versus flexible labour markets and restrictive monetary policy) where manual workers and left-wing party supporters are less likely to support the euro than managers and right-wing party supporters (Oatley 1997); (3) distributional consequences of cross-border shopping where residents of border regions are more supportive of the EMU; (4) distributional consequences of capital market liberalisation, with more support for the EMU from those citizens whose income, amount of capital assets and level of occupational skills are high relative to the national average; and (5) distributional consequences of the Maastricht criteria, where it is assumed that public employees, national industry and the poor will lose from convergence criteria, whereas the rich will gain.

Gabel has not found empirical evidence of the Maastricht criteria's distributional consequences and their effect on voters' behaviour. However, empirical data confirmed all his other assumptions. Thus, the overall result of the study is that EU citizens vary in their support for EMU in accordance with their economic interests and the distributional consequences of EMU. These findings not only confirm the economic self-interest hypothesis formulated by Baldwin but they also explain variations in voters' support for EMU, providing further insight into euro-related cleavages, changes in public attitude and potential political difficulties.

While Gabel's study was applied to the old EU member states, Rodrik (1995) provides a model of transition economies to explain the dynamics of public support for reform policy in CEECs. The overall re-emergence of the popularity of post-communist parties is often associated with, and explained by, growing unemployment rates in CEECs (Aghion and Blanchard 1993, Sachs 1993). As unemployment rose, the popularity of reformers declined. Rodrik (1995), however, states that the relationship between the level of unemployment and the level of support for economic reforms is not evident at all. This is because the unemployed group is much too small to contribute decisively to the huge success of post-communist parties. Moreover, there is no clear evidence that unemployed workers would best benefit from less reform. In fact, as Rodrik (1995: 22) points out, "[t]he unemployed workers themselves are a force for reform, not a source of opposition". Policies that increase subsidies in the public sector at the cost of reducing the rate of job creation in the emergent private economy would harm unemployed workers. To approach the question of how political support for reforms changes during the various stages of transition, Rodrik designed a model of an economy in transition. He arrived at the conclusion that the dynamics result from the preferences of state-sector workers. According to Rodrik, workers employed in the public sector are confronted with a trade-off connected to an increase in subsidies, which would be beneficial to them but would result in two distinct losses. First, subsidies would reduce the creation of new jobs in the private sector and therefore reduce state-sector workers' chances of finding a job in the much better paid private sector. Second, subsidies would reduce after-tax income in the private sector and therefore also reduce the income of the state-sector worker if s/he moves toward employment in the private sector. Consequently, at the outset of the transition process, public sector employees are more supportive of economic reforms because the likelihood that they will lose their jobs is particularly high at the beginning of the transition process. However, the likelihood of being laid off diminishes in later stages of the transition process. Therefore, the dynamic of political support for reform in economies in transition is mainly driven by state-sector workers.

To summarise, individuals support or oppose the EMU according to their perceptions of how it might affect their individual welfare rather than how it might affect the welfare of the nation or the entire EU. Domestic distributional issues are therefore crucial in understanding how EMU affects groups or individuals. The applicability of Gabel's study and Rodrik's findings to the research question needs to be investigated in order to identify the factors responsible for strong opposition to, or support for, the euro.

Since Gabel's and Rodrik's approaches focus on individual – rather than organised – interests as the central domestic factor, individual interests are perceived as having far-reaching consequences for decision-makers because voters will punish or reward incumbents for economic performance (see Fiorina 1981; for opposing views see Magee et al. 1989). This leads to the question of how public opinion influences voting behaviour. In exploring this question, scholars have pointed to the relevance of political cleavages.

Cleavages and the strategic environment for political parties

Related to public opinion and distributional issues is an interest-based approach that focuses on voting behaviour in terms of cleavages, classes and party identification. Cleavages may indicate societal divisions over policy reforms. Cleavages also reveal the strategic environment in which political parties compete for votes and political legitimacy (see Hix 1999). To study party responses and voter alignments is therefore particularly helpful in understanding cross-national variations in approaching EMU accession. This is even more important as the relationship between political parties and their electorates is still in a state of flux (as highlighted, for instance, in the high volatility levels of voters' support and party formation/disintegration), thereby creating considerable opportunities and incentives for the actors involved to shape actively the strategic environment of party competition.[1]

The structure of individual political preferences that creates competition among political parties can be explained by a cleavage-model in which *political cleavages* are defined as "a fault line through a political community which affects how citizens vote" (Henderson and Robinson 1997: 285). Some scholars have argued that the most significant bases for political cleavages are classes (Rose and Urwin 1970, Rose 1974). Related to the analysis of cleavages is therefore the issue of class politics and class-based voting, i.e. the relationship between voting behaviour and social position.

In contemporary Western European politics, the importance of social classes, as a basis for political partisanship and an indicator of voting behaviour, is largely contested. Political scientists are divided over the degree to which class politics has de-

[1] It should be noted that definitions of cleavages vary and are often blurred since scholars are unable to agree on a coherent characterisation of what cleavages actually are (see Römmele 1999: 4). The literature distinguishes between political and social cleavages. Broadly speaking, social cleavages are "defined in terms of social attitudes and behaviours [...]; political cleavages are [...] defined in terms of political attitudes and behaviours" (Römmele 1999: 4; see also Lipset and Rokkan 1967, Gallagher et al. 1992, Bartolini and Mair 1990, Rose and Urwin 1970). According to Arendt Lijphart (1984), the following cleavages are crucial to politics in democratic countries: socio-economic, religious, cultural-ethnic, urban-rural, regime support, foreign policy and post-materialism (see also Inglehart 1977). Cleavages can be mutually reinforcing when a variety of features determine voting behaviour, such as the fact that rural areas are often tradition-oriented and religious.

clined. Clark and Lipset (1991: 397), state that “class analysis has grown increasingly inadequate in recent decades as traditional hierarchies have declined and new social differences have emerged”, concluding that today’s politics are more organised by "other loyalties" than by class. In contrast, Geoffrey Evans (1999) points out that current developments do not equal the end of class politics, even though societies are in transformation – or, as Inglehart (1977) says, are experiencing a ‘Salient Revolution’ – due to new post-industrial societal cleavages, values, life changes, and so on. Evans (1999) states that the only evidence of dramatically declining class-voting relations comes from Scandinavia. Other studies, such as the work carried out by Mateju et al. (1999), confirm that class politics plays a crucial role in post-communist societies as classes' economic stances polarise along the classic left-right axis, and parties distinguish themselves as representing different class interests. Mateju et al. show that, between 1992 and 1996, the societal cleavage orientations in the Czech Republic were transformed. This was especially true for the relationship between social classes and political partisanship, and a new perception of the relationship between state and market:

> [v]oters on the left have thus become more egalitarian in their views of distributive justice while those on the right of the political spectrum display more anti-egalitarian attitudes (Mateju et al. 1999: 231).

This might explain why the Czech Social Democratic Party (CSSD) succeeded in building a strong left-wing opposition. It received 26 percent of the vote during the 1996 election – four times as much as they received in the 1992 election. Mateju et al. (1999) provide an explanation of the relationship between voting behaviour and social position in terms of a distinction between winners and losers of the transition process. They conclude that:

> post-communist countries experiencing the early stage of capitalism are likely to be characterised by class polarisation between disadvantaged classes – the working class and peasants – and those who benefit more obviously and immediately from marketisation – the professional and entrepreneurial classes (Mateju et al 1999: 233).

Szelenyi et al. (1996, 1997) argue similarly, stating that post-communist countries have experienced social divisions along two cleavages (also referred to as the theory of the two axes). According to this view, post-communist societies are generally split along a liberal-conservative cleavage and a left-right cleavage. Whereas the liberal-conservative cleavage provides the basis for political struggles over norms, orientations, and so on (the politics of symbols), the left-right cleavage provides the basis for political struggles over economic preferences and interests (the politics of interests). But post-communist countries are currently undergoing a shift from the liberal-conservative axis to the left-right axis (Szelenyi et al. 1996, 1997). That is to say, the politics of identity, liberty, and community, which were not dominated by class politics, are shifting to a politics of economic interests, in which class attitudes prevail. As Szelenyi et al. explain:

> [...] the closer the former state socialist countries move to the model of democratic market societies, the more meaningful the notion of Left and Right becomes and the greater the role economic interests and class cleavages play in electoral politics (Szelenyi et al. 1997: 212).

According to Mateju et al. (1999), it is precisely this change from symbolic to interest-driven voting behaviour that leads to an increased alignment in class voting. In this sense, the ongoing debate on class politics in post-communist states is not primarily occupied with the decline of class divisions during the transition from industrialism to post-industrialism, but with an increase in class divisions as the former classless communist countries undergo a transition process from command economies to market economies. This thesis sees and uses the study of Mateju et al. as a useful starting point to explain different levels of public support for the euro in the Visegrad countries. The relationship between voting behaviour and social position has to be related to attitudes toward the adoption of the euro. Since voters' attitudes are directly linked to *political parties'* positions on the EMU, a further polarisation between socio-economic classes and class politics would certainly influence EMU-related policies as parties come under pressure to fulfil partisan expectations and the Maastricht criteria at the same time (Mateju et al. 1999, Evans 1999). Left-wing parties in particular are trapped by their commitments to fiscal consolidation programmes and low inflation rates, as well as pre-election promises to reduce unemployment rates by introducing expansionary fiscal policies.

For the research of this thesis, it is therefore necessary to analyse whether this polarisation is common to all of the case studies or whether there are factors that are country-specific. As this illustrates, an analysis of cleavages needs to be accompanied by one of class politics in order to demonstrate the relationship between attitudes toward euro-zone accession and classes, cleavages, and party identification; or, to put it differently, between voting behaviour and social position. Identified cleavages in the Visegrad countries might explain different levels of support for, and opposition to, the euro and therefore must be included in the framework of analysis.

Table 1 Interests

	Position on the adoption of the euro driven by
Political parties	Strategic electoral interests to gain/maintain office and votes Partisan interests
Assumed implications of the cleavage structure: Polarisation between socio-economic classes puts pressure on left-wing parties committed to adhering to the Maastricht criteria	
Public Opinion	Economic self-interest

However, as pointed out in chapter 1, interests are not formed in a vacuum but are intimately related to a belief system, to actors' ideas. This thesis reasons that it is impossible to conceptualise interests without analysing the ideas an actor holds, arguing that ideas help to explain the decisions made by the Visegrad countries in their euro-adoption strategies. Ideas provide a powerful tool to understand cross-national approaches to adopting the euro when they become persuasive, i.e. when they are seen to solve problems that fit different interests.

Idea-oriented approaches

Interest- and institution-oriented approaches address questions of cross-national differences in strategies towards the adoption of the euro. They focus either on the interests of actors or on the organisational frameworks of a country's political economy. However, both approaches neglect the way ideas shape policy-makers' values and cognitive templates. Policy outcomes are also subject to policy-makers' ideas about economic policies. Political leaders are often divided over the way macroeconomic policy should be carried out because they subscribe to different ideas and ideologies on economic policy. Any approach that seeks to explain cross-national differences in the euro-adoption strategies pursued in terms of economic interests and conditions or institutional capacities must, to some extent, rely on the way ideas shape actors' cognitions and values (Haggard and Kaufman 1992: 22, Evans 1992, Waterbury 1992, Williamson 1994; see also Hood 1994).

Although idea-oriented approaches have gained attention, no single definition has been developed and so scholars are deeply divided over the extent of the role played by ideas in the process of policy reforms. At the heart of the disagreement lies the concern regarding the causal effects of ideas. The question of how important ideas are in understanding policy outcomes touches upon the classic debate over ideas versus interests. On the one hand, there are 'materialist' scholars who suggest that ideas do not have causal effects on policies at all (see Odell 1982 for a comprehensive review of this 'materialist' school; see also Hollis and Smith 1991). They argue that ideas are merely a means to legitimise actions that are taken in the individual's or group's self interests. On the other hand, at the opposing end of the spectrum, there are those scholars who hold that ideas have an autonomous impact on political outcomes (Sikkink 1991, Ziegler 1997, Blyth 1997, 2002, Hay 2002). In contrast to the materialist researchers who treat ideas as unimportant or epiphenomenal, they claim that ideas are of causal primacy because they are "constitutive of the most basic meaning systems that make individual or collective action possible" (Hall 1997: 184-185). Therefore, without having a cognitive template of ideas, interaction simply could not take place. As Sikkink (1991: 243) puts it: "ideas are the lens, without which no understanding of interests is possible". Haas continues: "interests cannot be articulated without values. Far from (ideal) values being pitted against (material) interest, interests are unintelligible without a sense of values-to-be-realised" (Haas 1990: 2).[2] However, traditional IR scholars usually start with an analysis of the material forces, i.e. of power and interest, and "bring ideas only to mop up residual unexplained variances" (Wendt 1999: 371). Ideas are seen "as a mere rhetoric, a cover or justification for other things" (Barker 2000: 223). "Ideas are just hooks" (Goldstein and Keohane 1993: 4) that are merely used to legitimise actors' interests and do not drive political action. The great influence of interest-oriented approaches encouraged:

> a kind of 'hyper-determinism' in which political action is understood as an expression of the dynamic of interests narrowly conceived and redefined with no significant intervening process of intellectual or communicative deliberation; interests just manifest themselves as unmediated action-in-the-world (Finlayson 2004: 532; see also Hindess 1988 and Hay 2002).

Yet, there is much about the euro-zone accession strategy that cannot be explained by power and interests alone. Rather "power and interest have the effects they do in virtue of the ideas that make them up" (Wendt 1999: 135). Sikkink (1993) and Katzenstein (1993) go a step further and argue that normative beliefs are the reason why states react to similar material circumstances in country-specific ways. Hence the decision to treat ideas in their own right as an aspect of political action that has a dynamic force to transform social action (Finlayson 2004: 531). But while this thesis shows that ideas might become causally consequential for the making of the euro-zone accession strategy, it also argues that the impact of ideas varies in all four countries. Ideas 'do not float freely' (Risse-Kappen 1994) and the impact of ideas depends on whether the idea fits domestic coalitions supporting or opposing EMU accession.

Thus, this thesis treats ideas not as an exclusive explanation about individual behaviour; rather it takes Goldstein and Keohane's (1993) approach and suggests "that ideas as well as interests have a causal weight in explanations of human action" (Goldstein and Keohane 1993: 3-4; see also Weber 1968).[3] Goldstein and Keohane's approach recognises that it is "futile to try to distinguish interests and ideas analytically"

[2] Haas defines values as a function to identify ideally desired interests: "one's interests are shaped by one's experiences. But one's satisfaction with an experience is a function of what is ideally desired, a function of one's values" (Haas 1990: 2). Values are thus not given but acquired through the process of learning from past experiences.

[3] For a review and critique of Goldstein and Keohane's approach see Blyth (1997).

(Goldstein and Keohane 1993: 26) as "people need to attach meaning to their behaviour, even if that behaviour is motivated by self-interest" (Kingdon quoted in Marks 1997: 30). This approach allows a focus on the interrelationship between interests and ideas. Interests are not formed in a vacuum but are the product of discursive formations, a belief system and material forces. Ideas help to solve problems of collective co-ordination; they serve as focal points for political action. By introducing ideas into the analysis of cross-national variations in approaching EMU accession, this thesis accepts ideas as a mediating variable between interests and policy outcomes.

As stated above, definitions of ideas vary and ideational approaches use a broad range of terms to "substitute for, or to be synonymous with 'idea': norms, belief, paradigm, value, habit, tradition, narrative and even culture" (Finlayson 2004: 530). A more narrow definition is given by Risse-Kappen (1994: 186), who defines ideas as knowledge, values and strategic concepts. Similarly to Risse-Kappen, this thesis applies the Goldstein and Keohane (1993) definition of ideas as beliefs that can range from general moral principles to more specific applications of (scientific) knowledge (Goldstein and Keohane 1993: 7). Goldstein and Keohane (1993: 8) distinguish three different types of beliefs: 1) worldviews, 2) principled beliefs and 3) causal beliefs.

Worldviews are defined as the beliefs an actor holds about his or her identity and culture. Worldviews deeply affect the "modes of thoughts and discourse" (Goldstein and Keohane 1993: 8) because they manifest themselves in cultural symbolism. Religion, for example, belongs to worldviews. Principled beliefs are defined as normative ideas – ideas about what is right or wrong. Therefore, principled beliefs "translate fundamental doctrines into guidance for contemporary action" (Goldstein and Keohane 1993: 9). Principled beliefs and worldviews have the deepest impact on political actions. A change in these two sets of beliefs has profound implications for human action (Goldstein and Keohane 1993: 9). Causal beliefs consist of strategies that emerge from beliefs about the cause-and-effect relationship, providing guidance for actors on the means to achieve their objectives (Goldstein and Keohane 1993: 10). In contrast to worldviews and principled beliefs, causal beliefs can change more frequently. This is because "specific policy shifts can often be traced to such [causal belief] changes particularly when technical knowledge is expanding" (Goldstein and Keohane 1993: 10). However, it should be noted that the three sets of beliefs are tightly interrelated since causal beliefs "are themselves valued because of shared principled beliefs and [they are] understandable only within the context of broader worldviews" (Goldstein and Keohane 1993: 10).

Goldstein and Keohane describe three ways through which ideas exert their power. Ideas affect policy when they become institutionalised, by providing causal road maps and by affecting strategies where there is no unique equilibrium (Goldstein and Keohane 1993: 8). Ideas influence policy when they become legally embedded within institutions prescribing organisational rules, laws and procedures (see also Yee 1996: 88 and Sikkink 1993). Institutionalised ideas influence the operation of the institution and also describe the incentives of the actors within the institution and of those whose interests are served by the institution (see Goldstein and Keohane 1993: 20). But in doing so, institutionalised ideas constrain and therefore limit the choice of the actor's behaviour (Garrett and Weingast 1993; see also Goldstein and Keohane 1993: 13).

Second, ideas exert their power through providing causal road maps. Since ideas provide an understanding of cause-and-effect relationships, ideas help actors to choose among political strategies to attain their goals. Road maps were especially important at the outset of the transition process because the collapse of the communist regimes destroyed the political discourse of the nations or the 'prevailing set of political ideas' (Hall 1989). New ideas and conceptions of economic, political and security interests had to fill a political space that had been occupied by a dismissed ideology. Ideas served as road maps that guided actors' behaviour and coalesced expectations when the Visegrad countries experienced a unique period of convergence and consensus. It was a period of geo-political uncertainty that bound various groups to a common goal, namely the transformation of the command economy into a market economy. During this period of 'extraordinary politics' (Balcerowicz 1994, Rose 1999), differences between politically-divided groups were overlooked because shared beliefs prevailed about the way the economy should be managed. Ideas here were essentially causal because they stipulated not only how to conduct transition policies but they also prescribed how to reform the economy in an ideologically correct way.

Third, and related to the aspect of uncertainty, ideas affect strategies in the absence of a unique equilibrium. Ideas serve as focal points that provide guidance to find cooperative solutions "or act as coalitional glue to facilitate the cohesion of particular groups" (Goldstein and Keohane 1993: 12; see also Schelling 1960, McNamara 1998). Focal points play an important role for actors' behaviour in the resolution of multiple equilibrium problems in which the actors involved have no preferences among the potential outcomes (see Garrett and Weingast 1993: 185). Thus, ideas help to overcome problems associated with incomplete information and "when there are no objective criteria on which to base choice, ideas focus expectations and strategies" (Goldstein and Keohane 1993: 18).

The factor of uncertainty cannot be overestimated when studying the foreign policy of new democracies. According to Marks, "under these conditions of uncertainty, the idea of Europe exerts a strong influence in one way or another in all the CEECs" (1997: 135). In turn, some scholars argue that the idea of Europe or the 'return to Europe' is embodied in the wish to become a member of the EU (see Brada 1991, van Brabant 1994).[4] Becoming a member of the EU implies that the Visegrad countries have to join the single currency as soon as they fulfil the EMU requirements (see chapter 1). But although the countries share the same objectives and similar conditions, their euro-adoption strategies differ. This thesis argues that euro-adoption strategies are influenced by country-specific historical and politico-economic experiences that produced distinctive meanings of, and thus ideas on, the EMU. To explain why the Visegrad countries approach EMU accession differently touches not only upon the

[4] In contrast, Judy Batt states that there is not a clear definition of a 'return to Europe' (Batt 1991). The 'return to Europe' might imply more than the mere adaptation of Western principles (Ners et al. 1992: 32, see also Marks 1997: 136). Feffer (1992) argues that the notion of the return to Europe was more an abstraction for many citizens of the CEEC (see also Marks 1997: 138 and Garcia 1993). In this sense, it is not the prospect of EU membership that drove the Visegrad countries to adopt Western norms, but rather the wish to break with the past fifty years of communist rule. According to Batt (1991), this was an important aspect especially at the outset of the transition process, when the political elite and the public were more influenced by emotional appeals than by interest-based arguments (Batt 1991: 50, Marks 1997: 136).

question of how ideas exert their power but also on the question of why the actors come to adopt new ideas or readjust old ones. Here, the concepts of policy failure and learning as well as persuasiveness are helpful when attempting to understand why the Visegrad countries hold different ideas about how to approach EMU accession.

Odell (1982) and Hirschman (1982) argue that the critical moment for an individual to change his cognitive template is found in dramatic *policy failure* or disillusionment.[5] Cognitive change is triggered by "a major failure of past policy, or rather extreme or accumulated evidence that can be readily interpreted as a consequence of past policy" (Odell 1982: 371). Like Hirschman (1982: 10) and Odell (1982), Goldstein and Keohane (1993) argue that policy failure is one of the main reasons why a pre-existing consensus can be destabilised and replaced by another. Accordingly, new ideas can change the constitution of interests and:

> this change can come about when an existing set of ideas is discredited by events or when a new idea is simply so compelling that it captures the attention of a wide array of actors (Goldstein and Keohane 1993: 16).

Related to policy failure as an important aspect of the impetus of cognitive change is the critical moment of *learning* from success and past experience. As Wendt (1999) argues, actors' preferences for a policy option are not given but acquired (see also Haas 1990: 2-7, Goldstein and Keohane 1993: 13). Learning from others' success leads to a redefinition of ideas and to a preference for certain policy options.[6] As Goldstein puts it: "nothing establishes the legitimacy of a policy like success" (Goldstein 1989: 71). When communist principles collapsed, the Visegrad countries were keen to adopt and eventually institutionalise Western policy practice because they believed they 'work' and are successful (Goldstein 1989: 71, Johnson and Kowalska 1994).

Related to policy failure and learning, Hall (1989) identifies *persuasiveness* as another factor to explain changes in ideas. Ideas become persuasive if they provide a tool to solve today's economic and political problems (Hall 1989: 369-70, Hall 1993). As

[5] See also Hirschman (1982) for an analysis of the aspect of "disappointment" as one of the main factors that drives social action.

[6] It should be noted that policy learning and failure do not automatically result in the adoption of new ideas. As Risse-Kappen (1994: 191) stated: "even large-scale failure does not necessarily result in the adoption of the competitor's approach to the problem".

Sikkink puts it: "success and failure are interpreted in terms of what are perceived as the most pressing problems facing a country at a particular time" (Sikkink 1991: 247). Sikkink continues that persuasiveness depends on the degree to which the idea "fits with existing ideologies" (Sikkink 1991: 2). However, as this thesis shows, political leaders are able to shape the 'interpreted persuasiveness' (Yee 1996: 91) because they can frame their ideas within the context of existing ideologies and use symbols to appeal to commonly held beliefs (Yee 1996: 139 and Sikkink 1991: 20-21).[7] For example, politicians may use existing myths and historical memories to make EMU accession unattractive to people.[8] Hence, because the fit with existing ideologies may reinforce the persuasiveness of an idea, political leaders may "garner political support" (Yee 1996: 91) by framing their ideas in accordance to commonly held beliefs and myths. Politicians are able to do so because conventional wisdom and ideas about the international order are embedded in myths of national history and identity.[9] Thus, the "persuasiveness [of ideas] is neither coincidental nor covert" (Finlayson 2004: 536).

This thesis argues that ideas may become causally consequential when they match with existing beliefs and when they are powerful enough to create winning coalitions. Consistencies between ideas and political action suggest that ideas may have played a causal role in actors' behaviour (George 1979). The analysis therefore has to start with the identification of the ideas being described by the policy-makers and the respective policy outcomes. It is necessary to analyse variations in beliefs and how these variations account for different political actions under conditions that are other-

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[7] This means that the persuasiveness of an idea does not necessarily have to match its scientific veracity (Finlayson 2004: 536, Hay 2002: 202).

[8] According to Norman Davies (1997: 141) "myths are the sets of simplified beliefs, which may or may not be approximate to reality, but which give the sense of our origins, our identity, and our purposes. They are patently subjective, but are often more powerful than the objective truth – for the truth can be painful".

[9] As Wallace (2001: 9) argued: "states in their foreign policy rest upon national identity and its components: myths and memories, traditions and national purpose, of national friends and enemies". For example, historical memories have shaped to a great extent the mistrust of a purely European influence and explain why the Visegrad countries "have developed almost an obsession with the idea of joining the NATO. Their interest in NATO membership, however, is not based on a thoughtful consideration of whether the alliance can in fact counter the threats facing central Europe, but rather on an emotional urge to ensure American presence in the region [...] The east Europeans have become prisoners of their historical memory. Looking to the past for insights into their traumatised present, they tended to draw wholesale and inappropriate historical parallels. They fear that Europe without America might become what it had been before the US anchored itself there – a scene of bickering and bloodshed" (Lunak 1994: 128, see also Marks 1997: 137).

wise similar (see Goldstein and Keohane 1993: 26). Ideas are always interpreted within the political and economic context they have been inserted in; it is a political and economic context at a particular time.[10]

The Visegrad countries were also constrained in their choice of economic models by their position in the international economic order, the size of their domestic markets and the pressure of international organisations. For example, the countries under review have had to adopt a range of economic policies that were not automatically internally persuasive but were dictated by international organisations, such as the IMF or the EU. Likewise, the approach to adopting the euro was constructed within a matrix of international and domestic constraints and opportunities. The constraints are part of the policy-makers cognitive template, i.e. the constraints are perceived by policy-makers in accordance with their conceptual framework (Sikkink 1991: 19). For example, it depends on the policy-makers' ideas on macroeconomic policy if they believe that EMU has to be introduced at the end of, or to be seen as a means to achieve, real convergence. It becomes clear that the question of how and why ideas have an effect on the policy outcome is not an abstract one but:

> must be understood as *practical* in nature: it can be asked and answered only in relation to *specific* ideas as it concerns how such come to have effectivity through being persuasive to particular people at particular times (Finlayson 2004: 531-532, italics in original).

This thesis therefore concentrates on the *specific* ideas of *particular* policy-makers who express the dominant political discourse on EMU accession. Specifically, this thesis concentrates on former and current leading members of the Visegrad governments and central banks, and analyses the conceptual language used when making the case for or against euro-zone membership.

The following ideas are discussed in this thesis: the idea of a national currency touches upon national sovereign identity (Risse 2003) and is thus embedded within

[10] The economic context also includes putative macroeconomic constraints arising from the need to fulfil the Maastricht criteria.

ideas on European integration per se.[11] This thesis therefore analyses the ideas held by key actors about European integration, i.e. do they support further and deeper EU integration or do they oppose it? Indeed, ideas on European integration are especially revealing because there is a positive correlation between opposing/supporting EU integration and opposing/supporting EMU membership (see chapter 4). The argument is that ideas on European integration influence the position of key actors on euro-zone membership that may affect the country's approach for the adoption of the euro. Second, the actors' ideas on macroeconomic policy are analysed. For example, what ideas do they have about an explicit fixed exchange rate regime for a transition economy and therefore implicitly about fixing the exchange rate irrevocably through euro-zone membership? Do they perceive euro-zone membership as a means to achieve real convergence or should accession follow at the end of the transition process? The argument is that if actors perceive a fixed exchange rate regime as an inferior solution for an economy in transition and/or perceive euro-zone membership as a hurdle in the catching up process, they are more likely to favour staying outside the euro-zone for as long as possible (see Table 2b).

As Table 2a shows, this set of ideas involves all three types of beliefs. In the first instance, they consist of worldviews because the idea about European integration is embedded in a larger conception of the role and function of the Nation State, i.e. the idea of a (supranational) political state or a looser entity whose main preoccupation is trade and economic integration. Ideas on European integration are related to the fundamental debate over the nature of sovereignty and do not change frequently; they are more stable over time. However, most of the ideas analysed in this thesis are categorised as principled and causal beliefs, as values and knowledge. They are principled beliefs because they translate ideas on European integration (illustrated in the debate about whether the EMU is a legitimate aim of state interests) into guidance for political

[11] According to Risse (2003: 488): "money is among the most important identity markers in people's daily lives" (see also Jones 2002: 170). Jürgen Habermas, for instance, speaks of a DM-Nationalism in the Federal Republic of Germany. According to Habermas, a strong DM substituted for state attributes such as security and trust. This "currency-Nationalism" replaced the obsolete German national pride after World War II with a strong DM (Jürgen Habermas, DIE ZEIT 30/03/1990).

action. They are causal beliefs because macroeconomic ideas about how to stabilise the economy and how to achieve real convergence and growth are essentially based on cause-and-effect relationships within a given macroeconomic policy. For example, it depends on actors' ideas on macroeconomic policy if they perceive shock therapy measures as a means to achieve real convergence or as a means to create greater and explosive socio-economic discrepancy. Because ideas on macroeconomic policies are essentially based on cause-effect relationship, they alter more frequently than ideas on European integration.

As Table 2a shows, ideas exert their power through the three ways mentioned above. In particular, road maps are important as they provide actors with the necessary means-goal strategy for euro-zone entry, especially in times of uncertainty and in the absence of a unique equilibrium. Although the chapter on ideas does not explicitly refer to the role of institutions, it is important to bear in mind that the ideas of central bankers are essentially influenced by the design and function of an independent central bank.

Table 2a Ideas

	Worldviews	Principled beliefs	Causal beliefs
	Changes are induced by policy failure/learning and persuasiveness		
Road maps	**Ideas on European integration**		**Ideas on macro-economic policy**
Absence of unique equilibrium			
Institutions			

Table 2b Ideas

	Actors' attitudes on euro-zone membership related to their
European integration	**principled beliefs on European integration** (correlation between positive/negative ideas on European integration and positive/negative ideas on euro-zone membership)
Macroeconomic policy	causal beliefs on **EMU as a means or obstacle to achieve real convergence** and causal beliefs on **flexible or fixed exchange rates**

However, it should be noted that there are several difficulties when attempting to measure something as normative and abstract as an idea. It is extremely difficult to trace the processes of learning and socialisation that determine actors' ideas and ideologies that then shape policy contexts. The approaches have to "engage in attempts at VERSTEHEN, the interpretation of meaning through empathetic understanding and pattern recognition, made possible by shared language and shared tradition" (Goldstein and Keohane 1993: 27, emphasis in original). This of course is methodologically very difficult. Any idea-approach has to deal with problems relating to the interpretation of the actors' beliefs. In particular, it is difficult to distinguish between random behaviour and specific action, and between behaviour that reflects genuine belief and pretend behaviour. Similarly, it is difficult to distinguish between actual beliefs and tactical comments which are purely self-interested and short-term goal related. For example, choices of ideas by policy-makers may simply reflect the interests of the actors (see Goldstein and Keohane 1993: 11). Moreover, idea-oriented approaches are often very restricted since they point to a particular individual point of view within a particular structural setting without taking into account how the importance of the same individual position might strongly vary in different situations. For example, during a crisis the individual standpoint is more influential since the mechanism of political control is weakened (Larsen 1993: 11). Problems of idea-approaches are also related to the imprecise specification of ideas. Ideas and beliefs can be both general and specific. For instance, they can be embodied in specific programmes, issue-areas and doctrines, as well as policy paradigms, ideologies and cultures. Ideas are also held by different social entities, such as policy-makers, organisations, professional (epistemic) communities, social groups and societies (cf Yee 1996: 70 and Hall 1992: 91-2), to which scholars attribute varying degrees of importance for policy outcomes. In addition to these problems that arise from the different units of analysis, it is difficult to distinguish the factors that determine why some ideas come to prevail over others (Hall 1997: 198). Related to this is the reproach that "ideas are a dime a dozen" (Garrett and Weingast 1993: 203) because there are so many ideas in actors' minds but only one may play a role at any particular time. As Yee puts it: "since causes are usually multiple and indeterminate in the social world, [ideas are] generally only one of many probable partial causes of policies" (Yee 1996: 70). It is often impossible to explain the outcome by way of political discourse or other structural elements alone. This is because the "level of abstraction is simply too high" (Larsen 1993: 44). The value of ideational approaches therefore lies in their ability to create a "structure or a frame which can link up [the] different free-floating elements" (Larsen 1993: 44) of interest- and institution-based approaches. Again, this stresses the need for this thesis to undertake an integrated analysis.

Institution-oriented approaches

Interest and idea-based approaches are valuable when attempting to understand the different preferences and concepts of the actors involved in the process of policy formulation. Interest and idea-based approaches are useful tools to identify those preferences and meanings of the euro that are central to the policy-making process of the Visegrad countries' euro-adoption strategies. However, while idea-approaches point to the significance of institutionalised ideas for policy outcomes (see Goldstein and Keohane 1993: 20), interest-based approaches have neglected institutions in their analysis – yet interests are constantly mediated by, and expressed through, institutions. Unquestionably, interests are therefore influenced by the institutional structure through which they are articulated. As Martin states:

> [policy] outcomes cannot be explained solely in terms of efficiency or through the interest of the most powerful states [or actors]; they are in large part shaped by the opportunities and constraints created by institutional arrangements (Martin 2001: 132; see also Katzenstein 1976).

Even if distinct interests are identified as important for the making of an euro-adoption strategy, they do not necessarily explain policy outcome. Interests are not only the result of aggregate material preferences of actors but also the result of institutionalised norms (see chapter 1). Therefore, the analysis has to account for the impact of institutions on cross-national variations in policy (Hall 1986). Institutional approaches to political economy focus on rules, procedures and the formal organisation of institutions.

Different national structures and institutions may produce distinctive patterns of policy outcomes. Accordingly, institution-oriented approaches aim to analyse how institutions affect economic policies and performances (Katzenstein 1976, Hall 1986, Zysman 1983, Henning 1994, Walsh 2000).

Building on insights from earlier work on how institutions affect economic policy and performance, neo- (or new) institutionalism developed during the 1980s (for classic institutionalism, see Finer 1954, Johnson 1975; for new institutionalism, see March and Olsen 1984). In contrast to traditional institutionalism that defines political institutions as organisations, new institutionalism understands institutions more broadly to "refer to a stable recurring pattern of behaviour" analysing "the way in which institutions embody values and power relationships", while not only concentrating on the impact of institutions but focusing on "the interaction between institutions and individuals" (Lowndes 2002: 91). In other words, new institutionalism takes into account a potential *interdependency* between actors and institutions and in doing so, it points to the potential of integrating actors' interests and ideas with institutions to explain policy outcomes (see Hall and Taylor 1996: 938).[12]

Institution-based approaches have pointed to a range of institutionalised structures that matter for economic policy outcomes: structures of industrial relations, electoral systems, central banks or vocational training and systems of education and the structure of inter- and intra-firm relations (Cox 1996, Hall 1986, Scharpf 1991, and Zysman 1983). As Hall concludes:

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[12] This is especially true for historical institutionalism which adopts insights of the different schools of new institutionalism. Apart from historical institutionalism, Hall and Taylor (1996) distinguish between rational choice institutionalism and sociological institutionalism (see also Immergut 1998). All of these approaches agree that institutions reduce uncertainty by providing actors with efficient frameworks. Rational choice institutionalism points to the role institutions play in solving collective action dilemmas since institutions provide actors with information on other actors and how they are likely to behave. Historical and sociological institutionalism claim that institutions determine an actor's action, i.e. his/her very identity, because social choices (the actor's preferences) are shaped, mediated and channelled endogenously through institutions. Rational choice institutionalism sees institutional developments as the result of "an effort to reduce the transaction costs of undertaking the same activity without such an institution" (Hall and Taylor 1996: 943; see also North 1981, Keohane 1984, Axelrod 1984 and Oye 1986). In contrast, historical institutionalism understands institutional developments in the context of historical forces, path dependency and unintended consequences (see also Hall 1997: 191 and Steinmo 1989). In contrast, sociological institutionalism focuses on culturally-specific practices in order to explain the development of institutions: "even the most seemingly bureaucratic of practices have to be explained in cultural terms" (Hall and Taylor 1996: 947). Peters (1999: 97) describes seven separate varieties of new-institutionalism (normative, rational choice, historical, empirical, international, sociological and network institutionalism).

> [t]hese features interact and present a national matrix of sanctions and incentives resulting in a distinctive pattern of strategies that lead to particular patterns of aggregate economic performances and policy (Hall 1997: 181; see also Hall and Franzese 1998, Soskice 1990).

A comparative case study of institutional features in the Visegrad countries provides relevant answers to the research question of why the CEECs respond to euro-zone accession requirements in different, country-specific ways. Adopting an integrated analysis, this thesis concentrates on institutional features of the Visegrad countries associated with reforms designed to fulfil EMU accession criteria. In the first instance, these are the operating electoral systems, central banks and tripartite institutions.

Electoral systems

First, the electoral system is of great importance when analysing different patterns of euro-adoption strategies and policies. This is because fiscal policy outcomes are influenced by the institutional design of electoral systems that determine the number of parties in parliament, the degree of social representation (such as the number of women and ethnic minorities who are members of parliament), the likelihood of coalition governments, the style of party campaigning, as well as organisation and electoral choices that are open to voters (Farrell 2001: 192, Roubini and Sachs 1989, Alesina 1994). Scholars of institutionalism and electoral systems have also demonstrated that electoral systems shape party structures, candidate behaviour and voter behaviour (Duverger 1954, Taagepera 1997, 1998, Rae 1967, Lijphart 1977, 1985, 1999, Haggard and Mccubbins 2002). In recent years, the seminal work by Douglas Rae (1967) on the consequences of electoral systems has been developed further, most notably by Richard Katz (1980, 1997), Arend Lijphart (1990, 1994, 1999), Michael Gallagher et al. (2001), and Rein Taagepera (1998). These authors argue that, broadly speaking, electoral systems can be divided into proportional and non-proportional systems. Whereas proportional systems try to translate as closely as possible the votes received by parties into the number of seats in parliament, non-proportional systems aim to give one party a clear majority of seats over its competitors. The Visegrad countries all opted for a proportional or a mixed system with a strong PR element (Hungary). Continental

Western European democratic forms of government were taken as a blueprint to establish a parliamentary system in the Czech Republic, Hungary and Slovakia, as well as a semi-presidential system in Poland.[13] Indeed, in all Visegrad countries, PR systems were seen as the most democratic electoral system, closely reflecting variety within societies, and best suited to the dissidents' "long-standing normative commitment to pluralism" (Birch et al. 2002: 69). Surprisingly, none of the newly founded democracies (including those in Latin America and Africa) adopted a system of single member plurality (SMP) as it exists, such as in the UK (see Farrell 2001: 2).

SMP is often associated with simplicity (the system is easy to understand), stability (coalitions are nearly unheard of) and constituency representation. In comparison, it is often said that having a representative assembly – elected through a proportional system – comes at the cost of instability and a low degree of efficiency in government. This is because proportional electoral systems are more likely to produce coalition governments, which require consensus among coalition parties, each having a veto (see Alesina 1994: 51). Farrell (2001), however, provides counterexamples. Austria, Sweden, and Norway, for instance, have proportional electoral systems yet they have also experienced high degrees of government stability. In contrast, countries that have non-proportional electoral systems, such as Japan and India, have experienced government instability. In a recent study, Lijphart (1999) comes to a very similar conclusion, stating that proportional electoral systems can provide the same degree of government stability as a non-proportional system can (see also Gallagher et. al 2001). For the purposes of this thesis, it is of interest to analyse whether proportional electoral systems in the Visegrad countries provide stability or instability and whether these electoral systems hinder or support policy reforms. Given that the Visegrad countries have experienced broad coalition governments and following the reasoning that in this case "only inter-party collaboration can overcome legislative stalemate and executive inertia" (Kitschelt et al. 1999: 346), this thesis analyses whether these coalition governments

[13] However, given that the Polish Presidency lost much of its political power to the Prime Minister under the 1997 constitution "Poland can be seen as moving away from the semi-presidential model" (Gallagher et al. 2006: 39).

tend to hinder rather than stimulate policy reforms. Since durable majorities are rare, governments might tend to have a shorter time horizon and might be likely to postpone adjustment measures related to EMU accession (see also Garrett and Lange 1991, Simmons 1994).

Since non-proportional electoral systems support two-party systems, it might be expected that proportional representation leads to fragmented party systems. In fact, Maurice Duverger (1954) proved that proportional electoral systems coincide with multi-party systems (also known as 'Duverger's Law'). Multi-party systems are more likely to emerge in divided societies (e.g. ethnically or religiously divided). This is confirmed by the case studies: all Visegrad countries possess a multi-party system although with varying degree of party fragmentation. The number and composition of coalition parties – both important indicators of a stable government – also differ from country to country. Whereas there is a trend towards a domination of socio-economic cleavages in the Czech Republic and the Czech party system (Evans and Whitefield 1998, Mateju et al. 1999, Kitschelt et al. 1999, see also Lewis 2004: 135-6), in Hungary, the cleavage structure is not so much determined by issues of distribution as by ethnic rights, the protection of Hungarian minorities abroad and attitudes toward the Roma (Evans and Whitefield 1998: 134; cf Evans and Whitefield 1995). In Poland, a society divided in multiple crosscutting cleavages along not only socio-economic lines, but also authoritarian religious lines (especially concerning attitudes toward Catholicism and issues of religious education and abortion), as well as attitudes toward the former communist regime (cf the battles between Solidarity and communists during the 1980s) is shaped by a strong fragmented party system (cf the 1991 parliamentary election when no less than 27 parties received a place in the Sejm (parliament)). Slovakia's multiparty system is heavily polarised with a main cleavage along issues of Slovak nationhood (such as insecure and contested national identity) and along ethnic lines (vis-à-vis the Hungarian and Roma communities). In particular, there is a strong polarisation between an anti- and pro-Meciar camp- between "what might be called Westernisers and Slavophiles" (Wightman 2001: 136; see also Meseznikov 1997). In both Poland

and Slovakia, the high number of parliamentary parties increased the need for multi-party coalitions. Scholars have argued that in societies with fragmented and polarised partisan alignments, politicians are more likely to try to make a case for distributional issues and/or broader populist stances because they have to respond to their respective constituencies (see Haggard and Kaufman 1992). For this reason, it is of particular importance for this thesis to analyse political alignments and the structure of party systems as studied by cleavage and class politics scholars (see p. 46). Indeed, the obligation to conduct restrictive monetary policy and fiscal policy in line with the EMU has led to societal tensions over the ways in which reforms should be carried out. This has opened the door to populism, making life difficult for the Visegrad governments committed to adhering to the Maastricht criteria.

Taking this into account and relating the shape of the party system to reforms associated with EMU accession, the studies by Alesina and Perotti (1994), Grilli et al. (1991) and Roubini and Sachs (1989) are of particular importance. These studies point out that fragmented party systems have more difficulties in attaining low budget deficits and that these party systems also have a deep impact on the nation's level of debt and deficits. Therefore, multi-party systems and coalition governments might have difficulties in designing fiscal consolidation programs and, as Alesina concludes, "the institution of proportionality may not be conducive to swift fiscal reforms when they are needed" (Alesina 1994: 53; for empirical results, see Roubini and Sachs 1989 and Grilli et al. 1991).[14] In contrast, stable governments, defined by a one party government or a low number of coalition parties and a cohesive cabinet, succeed much better in implementing fiscal consolidation programmes. Given that all Visegrad countries have coalition governments, looking at the number and coherence of the coalition parties is a valuable starting point in understanding the differences in euro adoption strategies. It is therefore argued that the electoral system is an effective variable when not only trying to understand the degree of policy reform related to early euro-zone entry but also

[14] For a critical review of Sachs and Roubini's results see Edin and Ohlsson (1991).

when trying to trace sources of difficulties in implementing fiscal reforms by means of an analysis of governments' stability and time horizons in the Visegrad countries.

Central bank independence

Central bank independence (CBI) is both a dependent and independent variable in the analysis of cross-national variations in the Visegrad countries' euro adoption strategies. On the one hand, CBI is a dependent variable because it is a prerequisite for EMU accession, whilst, on the other hand, it is an independent variable because a low inflation rate (which is a central convergence criterion for euro-zone entry) is influenced endogenously, namely through the degree of independence of the central bank (Cukierman et al. 1994, Grilli et al. 1991). The degree to which the central bank has an independent status is highly important when analysing institutional constraints on country specific monetary and fiscal policy. This is because the status of the central bank has several consequences for governments' economic policy choices.

Rogoff (1985), building on the work of Barro and Gordon (1983), demonstrates that governments committed to independent monetary institutions enjoy higher credibility than states without independent monetary institutions. An obvious advantage of independent central banks is that they are able to guarantee monetary stability and so reduce the problem of time-inconsistency usually associated with monetary policy.[15] A country suffering from a lack of credibility is likely to experience problems when it needs to borrow money from the market (see also Simmons 1994). In these regards, requirements concerning the independence of central banks ensure international credibility for the Visegrad countries by demonstrating that they have fully adapted to the

[15] The time-inconsistency problem derives from the fact that economic actors' behaviour today depends on their expectations of the central bank's decision over time. It is thus related to the uncertainty about the future development of monetary policy and in particular about the rate of inflation. Because of the time-inconsistency problem, economic actors are inclined to agree on higher nominal wages since a potential higher inflation will lower real wages and therefore returns (see Barro and Gordon 1983). An independent central bank committed to particular policy rules will enhance the credibility and therefore economic actors (i.e. wage-price bargainers) will lower their anticipation of price-level changes so that they are also more inclined to agree on moderate wage increases. Other scholars have pointed out that in particular discretionary monetary policy faces the key problem of inflation bias. This relates to the idea that policy-makers (central bankers) can take advantage of existing expectations to create "inflation surprises" that increases short-term output. However, agents can adapt to theses policies and revise their expectations of prices (Barro and Gordon 1983, Kydland and Prescott 1977).

process of liberalising their economies.[16] Furthermore, following Simmons' reasoning (see footnote 16), this would suggest that the overall success of policy reforms in CEECs depends primarily on the credibility of their governments.

According to Cukierman et al. (1994) and Grilli et al. (1991), there is an obvious correlation between central bank independence and low inflation.[17] Their studies confirm that the lower the inflation rate, the greater the central bank's independence (see also Scharpf 1991, Eijffinger and de Haan 1996). This is because, under CBI, central bankers can follow their monetary policy aims without being disrupted by political influence or decisions (Alesina and Summers 1993, Cukierman 1992, Rogoff 1985). An independent central bank places far-reaching constraints on the government's economic policy decisions. The greater the central bank's political independence and commitment to low inflation, the more the government comes under pressure to choose options of financing other than the monetarisation of the budget deficit, such as cutting public spending or increasing taxes (see Alesina 1994: 54). Certainly, this would again increase pressure on affected socio-economic groups (such as the business community with tax increases; or the public sector with cuts in public spending).[18] Governments come under pressure to find other ways to counteract economic downturns rather than, for instance, through cutting interest rates. Accordingly, the position of the respective central bank is fragile, illustrated by some Visegrad governments' constant efforts to undermine the independence of their central banks and to force them to cut interest rates (see chapter 5 and 6). The debate is directly related to issues relevant to euro-zone accession. Since the Visegrad countries already pay great attention to the

[16] Simmons (1994) states that a government's ability to make credible commitments depends on the degree of political stability, the degree of social and labour unrest, the political orientation of the government, and the dependent or independent status of the central bank. According to Simmons, it was the lack of credibility of some states in the interwar period that led to the respective countries' difficulties in tying themselves to norms set by the gold standard.

[17] See also Persson and Tabellini (1994) for a collection of the theoretical literature on central bank independence.

[18] Consistent with the Mundell-Fleming model (see chapter 1) and following the reasoning that an independent central bank constrains the government in its scope to reflate the economy, Clark and Hallerberg (2000) and Hallerberg et al. (2002a,b) found empirical evidence that two factors determine whether transition countries experience a fiscal or monetary cycle prior to elections: first, the relative independence of the central bank and, second, the country's exchange rate regime. The study reveals that independent central banks can eliminate monetary cycles under flexible exchange regimes; however, this is done at the expense of fiscal expansion.

Maastricht criteria and consequently to attaining low inflation rates (see chapter 1), central banks are even more reluctant to cut interest rates because this creates inflationary pressure. Controversies about CBI are therefore of significance to this thesis, both at an abstract level, concerning the relationship between central banks and governments, and at the CEECs-specific level where governments lack respect for CBI. It should be stressed that governments' efforts to undermine CBI – whether successful or not – do not strengthen the credibility of the central bank and its ability to deliver low inflation. This is an important aspect to keep in mind given that sole inflation expectation can create inflation inertia (cf Moghadam 1998, Dvorsky 2000). It should also be kept in mind that the disinflation process in a transition country might go beyond the direct control of the central bank as "inflation data are likely to reflect very specific, temporary developments related to that particular year in the transition process" (Dvorsky 2000: 27). Therefore, this thesis does not correlate the CBI to the disinflation process per se (see also Dvorsky 2000: 25) but it explores whether the central bank pursues a restrictive monetary policy and whether the resulting constraints for the government to conduct economic policies have consequences for the euro-adoption strategies of the countries concerned. To look at the monetary policy in practice is even more important given that while the countries may score well in CBI indices, the actual behaviour of central banks may deviate from the law (Cukierman et al. 1994: 3). Thus indices of legal CBI might rather describe what is desirable and they therefore "may at times be misleading or insufficient to fully explain the real institutional status or the actual independence of central banks" (Angeloni et al. 2005: 35).

Besides the problems associated with CBI indices as a reliable measure of the disinflation process, political economists disagree on whether low inflation is due more to actual CBI or to other economic institutions responsible for the organisation of wage bargaining; thus to industrial relations (Hall and Franzese 1998, Posen 1998).

Tripartite institutions and wage bargaining levels

Institution-oriented scholars claim that tripartite institutions are central in explaining institutional constraints that affect economic performance. It might therefore be argued that tripartite institutions also affect the euro-adoption strategy of the Visegrad countries. After the breakdown of the communist regimes, the Visegrad governments were keen to apply Western practices of industrial relations and tripartite meetings were established in all Visegrad countries. Hence, corporatist models of interest representation were supported by the governments.

Since the adoption of the euro requires profound macroeconomic adjustments it is important to examine the social partners' capacity to support compliance with the Maastricht criteria and hence to influence the respective euro-adoption strategy. This is all the more important as the Maastricht criteria place limits on wage developments and therefore influence the agenda of the national-level tripartite social dialogue. Indeed, as recently happened in Hungary and Slovakia, the prospect of EMU membership was used by the governments to warn the social partners against an escalation of wages:

> the need to comply with the Maastricht criteria is put forward whenever escalation of wages brings threat of macroeconomic imbalances and the government seeks to curb inflation and the state budget deficit through wage restraints (Toth and Neumann 2004b: 7).

An analysis of the social partners' role in the economic policy-making process shows whether they are able to influence the pace and content of the euro-adoption strategy concerned and therefore whether the strategies vary in accordance to different institutional tripartite settings. Related to this last point is also the role of the wage-bargaining level in attaining wage restraints.

The literature on corporatism, in particular, has discussed at great length the different structures of wage bargaining (decentralised or centralised) and their impact on economic performances (see Schmidt 1987, Goldthorpe 1984, Katzenstein 1985, Schmitter 1974, Schmitter and Lehmbruch 1979). Scholars have argued that centralised wage bargaining does a better job of resisting inflationary pressures and of delivering strong economic performances. Hood (1994: 70) summarises that corporatism is more likely to succeed in delivering effective wage restraint policies, thereby creating favourable conditions for capital accumulation, as well as affecting policy through the demand side. In other words, unemployment becomes more sensitive as a political issue in corporatist states than in liberal ones (see also Katzenstein 1985, Wilensky and Turner 1987).

Geoffrey Garrett (1998) states that macroeconomic performance is as good or often better in countries with strong centralised labour movements and powerful left-wing parties.[19] Opponents of centralised bargaining say that centralised bargaining is too rigid and therefore unable to respond quickly to changes in production processes and technology. On the other hand, economists claim there is a reversed U-shaped curve (the so-called hump-shaped hypothesis) for wage inflation resulting from the degree of centralised wage bargaining (Calmfors and Driffill 1988, Barro 1988, Flanagan et al. 1983, Layard et al. 1994, Jackman 1995). That is to say, both fully centralised and fully decentralised wage bargaining structures are able to deliver wage restraint and thus to reduce inflationary pressures. In a centralised bargaining system, real wage restraint occurs because "union leaders will internalise the externalities of wage increases" (Garrett 1998: 33). Union leaders "understand that economywide wage restraint today will improve the material well-being of all workers in the longer run" (Garrett 1998: 32).[18] This is because trade union leaders are aware of the wage-price spirals that result in higher inflation which in turn negatively affects the "employment prospect of all workers" via economic growth constraints (Garrett 1998: 32). Thus, social partners develop a consensus "about the appropriate 'going rate' for nominal wages which is then implemented without requiring unemployment to eliminate the wage-price [...] spirals" (Layard et al. 1994: 98). However, in a decentralised bargaining system, market forces impose wage restraint too (see Calmfors 1993: 8). This is because in decentralised bargaining systems "isolated groups of workers do not have the organisational clout to bid up wages above market-clearing levels" (Garrett 1998:

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[19] For a critique of Garrett's arguments see Hay (2000).

[18] For a discussion of various wage externalities see Calmfors (1993: 6-8).

33); or, to put it differently, "in the absence of trade unions there would be no externalities to internalise" (Garrett 1998: 32). By contrast, mixed systems of wage bargaining are likely to increase wages and therefore inflationary pressure. This is because trade unions in mixed intermediate systems are strong enough to push for higher wages but are "not sufficiently centralised across regions and industries to internalise general macroeconomic consequences" (Bell and Mickiewicz 1999: 132; see also Calmfors and Driffill 1988, Garrett and Lange 1996: 52).[20]

When compared with their Western European counterparts, wage bargaining in the Visegrad countries is rather decentralised. For example, most of the wage bargaining in the Czech Republic, Hungary and Poland takes places at the company level whereas in Slovakia this occurs at the sectoral level. Similarly, collective wage bargaining coverage is highest in Slovakia and lowest in the Czech Republic. Furthermore, union density is highest in Slovakia and lowest in Poland and Hungary. It is therefore of interest to analyse whether the variation in the wage bargaining levels and trade union densities account for variations in the euro-adoption strategies of the Visegrad countries. Together with insights from research focusing on institutional constraints arising from tripartite institutions and their consequence on wage setting structures, the dynamics of political support from the social partners are therefore added to the analytical framework for analysing and explaining different approaches to reforms related to EMU membership in the Visegrad countries.

[20] The hump-shaped hypothesis has been criticised for its rigid focus on the wage bargaining level without paying attention to the actual strength and internal structure of trade unions (Golden 1993). For example, lower wage bargaining levels have to adhere to the agreements, however, poor coordination within the trade union would open the door for free riders to agree on higher local wage payments (e.g. overtime payments and bonuses). A higher union authority, thus high union density, for example, is able to mitigate these so-called wage drifts (see Garrett 1998: 33).

Table 3 Institutions

	Assumed implications for fiscal and monetary policy reforms
Electoral system	Stable and coherent coalition governments perform better in implementing fiscal policy reforms
Central Bank independence	High CBI contributes to lower inflation and inflation expectations
Industrial Relations	Tripartite institutions important for compliance with Maastricht criteria (social pacts). Decentralised and centralised wage bargaining level contributes to wage restraint

Having outlined the main advantages and disadvantages of the three approaches to political economy, it becomes clear that a study of the research question – why the Visegrad countries respond in country-specific ways to the challenge of EMU membership – cannot be based on one approach alone. Instead, an integrated approach that takes into account the strengths and weaknesses of each of the three approaches oriented toward interests, institutions, and ideas must be adopted. The next chapter reviews the development of fiscal and monetary policies in the Visegrad countries that is relevant to the analytical framework for discussing policy variations in approaching the adoption of the euro.

Chapter 3

Fiscal and monetary policy in the Visegrad countries, 1990-2004

Having outlined the analytical framework applied in this thesis, the following chapter explores the development of fiscal and monetary policy in the Visegrad countries from 1990 to 2004. It provides the necessary background on fiscal and monetary policy reforms that is relevant to the discussion of cross-national variations in regard to eurozone accession.

This chapter shows the different starting conditions for the Visegrad countries and the details of the reform programmes adopted. The Visegrad countries' approaches to macroeconomic stabilisation share important similarities but differ in their ways of implementation and in the problems encountered. The overall aims of the reforms are to achieve price stability, low public deficits, and exchange rate stability, thus to comply with the Maastricht criteria. Indeed, these objectives gained a predominant role in designing monetary and fiscal policies as EU accession rose on the political agenda. But while the objective of EMU membership is common to all Visegrad countries, their strategies for the adoption of the euro differ. This chapter discusses the development of fiscal and monetary policy that led to the adoption of the respective euro-adoption strategy. Chapters 4-6 then apply the analytical framework described in chapter 2 to highlight the rationale behind these variations. This chapter is structured in five parts including the four case studies and a conclusion. Each study is divided into a monetary and fiscal policy section. The conclusion summarises the analysis and relates the findings to the subsequent chapters.

The Czech Republic

Fiscal policy

Unlike Poland and Hungary, Czechoslovakia[1] did not experience a period of perestroika-type reforms. No systemic changes took place before 1989 and the private sector was virtually nonexistent.[2] However, among the Visegrad countries, Czechoslovakia emerged from the communist regime with its macroeconomic fundamentals under control (Dlouhy 2001: 175). In 1989, Czechoslovakia and especially the later Czech Republic had economic advantages over other CEECs because the country could look back on a long industrial history. Indeed, on the eve of the transition process, the country was in a good macroeconomic position with low foreign debt, a relatively strong balance of payments performance, minimal inflation, and a relatively well-developed consumer goods market (Prust 1993: 56). In addition, since the country – unlike Poland and Hungary – had not experienced market-oriented reforms during the communist period, no quasi-property rights, such as leaseholds, hindered or complicated the transfer of ownership (see EIU 2005a: 33).

In 1990, Czechoslovakia launched an economic reform programme, which consisted of price and trade liberalisation, tax reform, anti-inflationary policies, a new exchange rate regime, and privatisation. Consumer prices were liberalised and rose quickly by 47.6 percent in 1991 (Dlouhy 2001: 177). In 1990, the government planned for a small budget surplus, which was mainly achieved "because virtually all categories of expenditure were restrained" (Prust 1993: 56). In 1991, the government cut both revenues and expenditures, resulting in a loss of the share of general government revenues in GDP by almost 10 percent to 52.9 percent. On the revenue side, profits tax and some turnover taxes were reduced, while foreign trade levies were abolished (Prust 1993: 56). Government expenditure was cut by 8 percent to just under 55 percent of the share of general government expenditure in GDP. This was mainly due to

[1] The pre-1993 period refers to fiscal and monetary policy implemented in Czechoslovakia.

[2] The private sector contribution to GDP was 2 percent in 1989 (Rapacki 2001).

cuts in budgetary subsidies, which were reduced from 13 percent to 7 percent of GDP. In 1989, budgetary subsidies still accounted for 16 percent of GDP. Sixty percent of the subsidies were used for agricultural producers and retail subsidies on foodstuff (Prust 1993: 60). Housing and construction also received important subsidies. Retail subsidies were abolished in 1991 and agriculture subsidies were cut by one-third (Prust 1993: 57). However, despite the vast subsidy cuts, the deficit rose to 2.8 percent for 1991 because the GDP continued to fall due to output decline (see Table 4, p. 101). GDP dropped by 25 percent between 1989 and 1993.

In addition, the Czech economy suffered from several external shocks like the collapse of the Council for Mutual Economic Assistance (CMEA) market and the division of Czechoslovakia into two independent countries. The domestic market shrank by one-third and Slovakia's protectionism seriously hurt new exports (Dlouhy 2001: 177). In 1994, the Czech economy reached a turning point. After 3 years of negative output, growth rates increased to 2.2 percent and 5.9 percent in 1994 and 1995 respectively (see Table 4). At the same time, inflation rates decreased from 20.8 percent in 1993 to 9.1 percent in 1995. Imports remained low because of low aggregate demand, and the trade balance was positive between 1989 and 1994 (Dlouhy 2001: 179). The budget continued to show a slight deficit and unemployment remained low at around 4 percent (see Table 4). Some analysts have linked the low unemployment rates to the country's slow microeconomic restructuring and the small number of bankruptcies (cf Sojka 1994: 40, Dlouhy 2001: 181).

One of the main reasons for the rapid economic recovery was the exceptionally high increase of foreign direct investment (FDI). Net capital inflows accounted for 8.5 percent and 16.6 percent of GDP in 1994 and 1995 respectively (Tullio 1999: 68). Two years later, however, the Czech Republic experienced its worst economic crisis, triggered by speculative attacks on the Czech crown. The main destabilising effects were caused precisely by the strong capital inflows, which suddenly and violently reversed (see p. 79). Many economists blamed the slow microeconomic restructuring for the deep crisis (see Jurajda 2001, Dlouhy 2001). The currency crisis resulted in a GDP fall of -1 percent in 1998. At the same time, the unemployment rate rose from 3.9 percent in 1996 to almost 9 percent in 1999 (see Table 4). Only in 2000 did the Czech economy slowly start to recover and economic output expanded for the first time since 1996. Growth rates increased to 3.3 percent in 2000, and FDI rose again as a result of a reinvigorated privatisation agenda and the privatisation of formerly state-owned banks (World Bank 2001: 14). However, since the currency crisis, the unemployment rate has remained high and stood at 8.3 percent in 2004 (see Table 4). As discussed in the following chapters, both the currency crisis and the rising unemployment rates in the aftermath of the economic recession influence distinctively the Czech approach to the adoption of the euro.

In addition, the fiscal deficit has increased continuously since 1999. From a surplus in 1993, it dropped to 4 percent of the GDP deficit in 2000, partly because of the financial crisis in 1997 and partly for structural reasons. As the economy picked up again, it became apparent that the fiscal deficit is not "merely cyclical but to a large extent [...] structural in nature" (World Bank 2001: 1). Between 2000-2002, the fiscal deficit rose to a 6.8 percent of GDP because of high expenditures in military procurement, flood-related spending[3], and unemployment and social payments (European Commission 2003b: 15). For example, there has been a gradual increase of subsidies to households throughout the 1990s that is explained by an increase in social security and welfare payments since 1994 (World Bank 2001: 17). Welfare payments went up partly due to an increase in the number of early retirements. Mandatory and quasi-mandatory expenditure, such as pension, health care schemes and employment policy, have increased by 10 percent since 1995 and account for about 80 percent of state budget spending (Zombrit 2003: 68). In 2003, the fiscal deficit rose to a record high of 12.3 percent of GDP because of modifications in reporting state guarantees. This was due to the changeover to the accruals-based and EU-compliant European System of Accounts (ESA 95) methodology which caused a one-off increase of 7.3 percent in the general budget deficit (EIU 2005a: 36). In addition, the budget deficit remained high

[3] In August 2002, the Czech Republic was hit by a catastrophic flood.

because economic growth was supported by fiscal expansion and by a lack of comprehensive reform of entitlement programmes, especially in the field of pension and social security systems (Zogala 2003: 6, EIU 2005a: 35). The record high deficit of 12.3 percent in 2003 was also caused by losses at Ceska konsolidacni agentura (CKA), the state bailout agency that is responsible for the debts accumulated by companies during the communist regime. These 'hidden debts' in the form of "bad loans taken over from the commercial banking sector reached a peak exceeding US$ 14bn in 2003" (EIU 2005a: 36).

In December 2003, the CSSD-led government approved a reform package of 11 fiscal measures to bring down the fiscal deficit to around 4 percent of GDP by 2006. As further discussed in the following chapters, fiscal reforms were justified and defended by Prime Minister Vladimir Spidla explicitly with reference to the need to comply with the Maastricht criteria. The reform package included cuts in the salaries of state-employees and a tax increase. Due to strong investment (but weak domestic consumption) and a high growth rate of 3.8 percent, the fiscal deficit decreased to 4.8 percent, however, this was still well above the initial target. In summer 2004 the Czech Parliament accepted a bill on new budgetary rules. It included a fiscal target based on medium-term expenditure ceilings, needed in order to meet the convergence criteria by 2008 and to adopt the euro by the end of the decade (see Ministry of Finance of the Czech Republic 2004: 29).

Monetary policy

To reduce inflationary pressures resulting from the price liberalisation, monetary policy was restrictive between 1990 and 1992 and a fixed exchange rate system with narrow bands was introduced. After the breakdown of the Soviet Union, the Czechoslovak crown was devalued several times in 1991 and 1992 before it was pegged to a five-currency basket. The basket was then changed in May 1993 to a basket consisting of 65 percent Deutsch Mark (DM) and 35 percent US dollar, with narrow fluctuation bands of only 0.5 percent on either side. Due to macroeconomic stabilisation, trade liberalisation and an improved investment rating, FDI increased substantially after 1993, putting more and more pressure on the money supply. The Czech National Bank (CNB) reacted with costly but ineffective sterilisation operations. Inflationary pressure increased and real currency depreciation occurred, leading the central bank to widen the fluctuation bands to ± 7.5 percent in February 1996. The Czech crown depreciated within the widened band, but capital inflows decreased only temporarily. In early 1997, the current account deficit rose sharply and inflation rates increased to much higher levels than those of the Czech Republic's main trading partners. To reduce inflationary pressure, the central bank raised interest rates in February 1997, resulting in a renewal of capital inflows. In March 1997, the market decided that the Czech current account deficit was unsustainable and large speculative attacks on the Czech crown began. The government and the central bank reacted by introducing a managed floating system in order to depreciate the currency by almost 20 percent. Budget cuts of 15 percent and wage restraint in the public sector were initiated between May and July and monetary policy remained neutral. To counterbalance the economic downturn, the central bank cut the interest rate from 15 to 5 percent between the summer of 1998 and the end of 1999 (World Bank 2001: 14). Interest rates have been gradually reduced since. The short-term interest rate, for instance, was cut from around 14.3 percent in 1998 to 2.1 percent in 2004 (see Table 4; Zombrit 2003: 68). This was possible because, by the end of 1999, macroeconomic conditions had changed; the currency account deficit improved and inflation began to decrease. The inflation rate was brought down from 9.7 percent in 1998 to 1.4 percent in 2002 (see Table 4). However, at the same time there has been a continuous trend for the Czech crown to appreciate against the euro. The significant cuts in interest rates are therefore the response to a low inflationary environment and a strong currency appreciation (see Table 4; Zombrit 2003: 68). While the Czech economy continued to grow in 2003 and 2004 due to high investment, domestic consumption remained weak (see Table 4 and European Commission 2005b). This contributed to a deflationary situation in 2003 when the inflation rate stood at -0.1 percent. However, inflation rose again to 2.8 percent in 2004 because of an increase in the value-added tax (VAT), regulated food prices, as well as higher economic activity ahead of EU accession on the 1st of May (see Table 4 and EIU 2005a: 39). Nevertheless, the Czech Republic is in a favourable position to comply with the Maastricht criterion of low inflation. As discussed in the following chapter, the continual low inflation environment, low interest rates and a low debt level distinctively influence domestic preferences on the adoption of the euro in the Czech Republic.

Slovakia

Fiscal policy

Slovakia differs greatly from the Czech Republic in terms of economic structures and performance. The Slovak economy relied heavily on the coal and steel industry, including arms and weapons industries that depended on the CMEA market. Slovakia therefore suffered more from the collapse of the CMEA than the Czech Republic did. This also explains why the economic reforms of the 1990s have had a more negative impact on output and unemployment rates than in the Czech Republic (see Prust 1993: 49-50 and Table 5, p. 102).

As described above, the first priority of fiscal policy in Czechoslovakia during the pre-1993 period was to implement a modern taxation system and to reduce public expenditure. On the revenue side, the government considerably reduced profit, turnover, and foreign trade taxes. On the public expenditure side, subsidies were cut drastically and real government consumption was reduced by 18 percent in 1991 (Toth 2000: 73). In 1992-1993, budget deficit was caused by the costs of creating a new independent Slovakia and the economic recession reinforced by the decay of the traditional markets (see Table 5). The period between 1993-1995 was then characterised by a steady reduction of expenditures and by a high ratio between taxes and revenues to GDP. Basically, this was attributed to a comprehensive tax reform on income and VAT. In addition, although the government of independent Slovakia at first employed the rhetoric of fiscal expansion, it nevertheless followed the restrictive path of fiscal and monetary policy from the Czechoslovak period. In 1994 and 1995, Slovakia's economy started to recover and experienced successful macroeconomic development with low budget deficits and inflation rates and high growth rates. This was mainly achieved through the growth of exports. Slovakia succeeded in turning the fiscal deficit from 6.7 percent of GDP in 1993 into a surplus of 0.2 percent in 1995 (Table 5). However, the deficit rose again quickly between 1996 and 1998, due to a rapid deterioration of tax discipline, which translated into external imbalances. Accordingly, Slovakia experienced a current account deficit of around 9 percent of GDP in 1996-1998 (see Table 5). Together with a reduction of FDI, "the country set out on an unsustainable borrowing spree" (Toth 2000: 61). In 1996, the government started to implement expansionary macroeconomic plans consisting mainly of government guarantees and resulting in a high level of budget deficit. Between 1996-1998, the government increased spending on health, public administration, and major infrastructure projects, such as railways, motorways, and power plants, while the revenue side was characterised by a deterioration of tax revenue allocation due to huge losses in corporate enterprise productivity. This all translated into a high fiscal deficit, which increased from 2.1 in 1996 to 5.7 in 1997. In 1997, the Meciar government also introduced an administrative reform with new regional districts to act between the state and the local government (see chapter 6). Costly new offices had to be opened, and before the 1998 elections the government increased the nominal wages of state bureaucrats substantially. Indeed, Slovakia is a case in point for a strong fiscal cycle before the 1998 elections; an aspect which is further elaborated and related to the euro-adoption strategy in the following chapter.

In 1999, an austerity package, launched by the newly elected liberal-conservative and socialist coalition government, failed to reduce the budget deficit. On the revenue side, the Slovak government cut the corporate income tax in 1999.[4] At the same time, public expenditure rose by 2 percent of GDP between 1999 and 2001, in particular due to high expenditure needs for the reconstruction of the banking sector which

[4] During the 1990s, Slovakia had the highest corporate profit tax among the Visegrad countries. VAT was also very high at 23 percent, although with a reduced VAT of 10 percent for specific products such as food, medications, fuel, and many services. Only Hungary with a VAT of 25 percent has a higher indirect tax, however, on the other hand, corporate profit tax in Hungary is very low (only 18 percent).

was neglected under the Meciar government (World Bank 2003: 3). In 2000, the fiscal deficit reached a record high of 10.3 percent. The fiscal deterioration was also caused by policy-driven revenue losses, for example by the tariff reduction and the elimination of the import surcharges required by EU accession and the WTO. However, in general, Slovakia's macroeconomic performance has been improving significantly since 2000. Output grew by 4.6 percent in 2002, the fiscal deficit declined to 5.7 percent and FDI surged from about 1 percent of GDP annually in the 1990s to around 17 percent, resulting in a capital account surplus in 2002 (see Table 5). With a capital account surplus of almost 20 percent in 2002, Slovakia is in a favourable position to finance its fiscal deficit (World Bank 2003). Indeed, in 2002 the Slovak economy experienced its best growth performance since it was hurt by the financial crisis in 1998. This is remarkable given that most of the Central and Eastern European countries have been struggling with very low growth performance since 2000.

Compared to the rest of the Visegrad countries, the Slovak government spends higher levels on subsidies to agriculture, transport, and hospitals (see also Toth 2000: 84). Around 34 percent of all subsidies go to the agricultural sector, which produces only 4.5 percent of GDP. In addition, public sector wages account for 8.6 percent of GDP, reflecting the large workforce in health and education (World Bank 2003: 16). In 1998, social security expenses mounted to 21.5 percent of GDP in Slovakia compared with 9.2 percent in Hungary (Toth 2000: 86). This is mainly due to an inherited and very costly pay-as-you-go pension system. A new pension system with a funded second pillar to replace the pay-as-you-go pension system was prepared by the government in 2004 (see European Commission 2005b: 227). In addition, the parliament approved the last tranches of the government's reform package in the realm of health care with a reconfiguration of the insurance system (European Commission 2005b: 227). In January 2004, Slovakia also introduced a far-reaching tax reform with a flat personal and corporate income tax rate and a unified added tax rate, all at 19 percent.

The second Dzurinda government has been successful in launching structural reforms.[5] It also approved a new 2004 budget bill that successfully reduced the fiscal deficit to 3.9 percent in 2004 (see Table 5) and that aims to reduce the deficit to slightly below 3 percent by 2006 (European Commission 2003a: 49) so that the adoption of the euro could happen at the 'earliest realistic target' date in 2008 (National Bank of Slovakia and Ministry of Finance of the Slovak Republic 2003: 17). However, despite these economic improvements, Slovakia's major economic problem has not been resolved; the unemployment rate still remains fairly high at 18.4 percent in 2004 (see Table 5).

Monetary policy

The price liberalisation in 1991 ended in historically high levels of inflation. The tax reforms implemented in Slovakia in January 1993 and the currency devaluation in July 1993 also contributed to high inflation rates (see Table 5; Morvay 2000: 26). To keep inflationary pressures under control, the central bank set high real domestic interest rates, which limited the profitability of Slovak corporate firms. After the split of Czechoslovakia on 1 January 1993, Slovakia initially kept the fixed exchange rate regime with narrow bands. The Slovak crown was first pegged to a currency basket of five currencies and later modified to a currency basket of the US dollar and DM. At the beginning of 1993, the currency came under pressure, due to high expectations of devaluations and low foreign exchange rate reserves. The National Bank of Slovakia (NBS) responded to the pressure by devaluing the crown by 10 percent, broadening progressively the fluctuation bands first to ± 3 percent, later to ± 9 percent and implementing a series of administrative measures, like limiting access to foreign currency funds and delaying payments for imports (Beblavy 2000: 113). Inflation rates were brought down to low levels between 1993-1998 by executing a restrictive monetary policy and postponing the deregulation of capped prices, such as electricity prices, and by the privatisation of natural monopolies. This "inflation debt", accumulated under the Meciar re-

[5] In 2004, Slovakia was awarded the title of "top reformer" from the World Bank.

gime had consequences for the development of inflationary pressures after 2000 (see below).

Between 1996 and 1998, the government policy was oriented toward expansion, especially through the launching of large highway projects (see above). This led to a high fiscal and current account deficit and to a typical crowding-out effect on private sector investment (Kominkova 2000: 3). During the same period, monetary policy became restrictive in an effort to resolve the imbalances. The inconsistency between fiscal and monetary policies led to a rapid increase in inflation and interest rates. As Beblavy (2000: 115) says, "the years 1996 to 1998 in Slovakia saw a textbook example of a conflict or lack of coordination between monetary and fiscal policy." The expansionary fiscal policy under the fixed exchange rate regime forced the central bank to increase domestic interest rates. However, the high interest rates resulted in an even higher debt level. In 1997, external and internal imbalances continued and, together with the high interest rates, this resulted in an attack on the Slovak crown in May 1997. The NBS could not use an even more restrictive monetary policy, because interest rates were already exceptionally high. In April 1997, real interest rates were at 13.1 percent, compared with 9.6 percent in Poland[6], 5.3 percent in the Czech Republic and 1.5 percent in Hungary (see Beblavy 2000: 116). Early in 1998, expectations of devaluation – created by the financial crisis in Russia in August-September and a refusal of the Meciar government to tighten fiscal policy – put pressure on the currency. In addition, parliamentary elections were due in September 1998 and put further pressure on the currency, due to uncertainties about future developments after the elections. Rating institutions downgraded Slovakia as a consequence of the Meciar government's lack of fiscal discipline, the halt in the restructuring of the banking sector, and the large current account deficit. The downgrading led domestic and foreign banks to make large foreign exchange purchases. This in turn resulted in a depreciation of the currency. The NBS intervened several times by adopting a sterilisation policy. However, pressure remained on the Slovak crown. After a series of further speculative attacks in 1998, the

[6] The rate for Poland is the average real interest rate for 1997 (see Schweickert 2001: 82).

peg was eventually abandoned. On 1 October 1998, the NBS switched from a fixed to a floating exchange rate system and introduced inflation targeting. In 1999, the central bank started to reduce the interest rates to sustainable levels. Interest rates declined throughout 1999-2003 and long-term interest rates were set at 5 percent in 2003 and 2004 (see Table 5 and Word Bank 2003: 3). In 2002, Slovakia reached a record low inflation of 3.5 percent, but in 2003 consumer prices increased to 8.5 percent (an 'inflation debt' in the form of delayed price liberalisation that was built up by the Meciar governments) as a consequence of adjustments to administered prices and a higher VAT (European Commission 2003a: 48, EIU 2005h: 38, see above). This period of adjustments was completed in 2004 and the inflation rate started to decrease again (European Commission 2005b: 224). Although the inflation rate significantly exceeded the reference value of the Maastricht criterion, Slovakia is optimistic it will meet the Maastricht requirements by 2007 (National Bank of Slovakia and Ministry of Finance of the Slovak Republic 2005: 2). This is because core inflation remains low and it is expected that the inflation rate will decrease sharply in the coming years.

Hungary

Fiscal policy

After the break-up of the communist regime, economic output declined by a cumulative 17 percent of GDP between 1990-1992 (see Table 6, p. 103). Economic shocks occurred due to a fall in external demand (collapse of the CMEA market), a decline in output and price liberalisation (see Dethier and Orlowski 1998: 48).[7] However, compared with the other Visegrad countries, Hungary was in a better position to accommodate these shocks. This was because Hungary had already started to implement some market economic reforms from the late 1960s onwards when the rest of the region still remained under communist control. The Hungarian "third way" of economic organisa-

[7] Product-specific subsidies were included in the retail prices of basic foodstuff, energy and fuel for home use, pharmaceuticals, children's clothing, and basic services like public heating, electricity, and water (Kopits 1993: 76). In addition to consumer price subsidies, households received housing subsidies through rents and long-term mortgages (Kopits 1993: 76).

tion became known as the "goulash" reforms. They consisted of some competition, some private entrepreneurship, and some foreign trade with the West (Hungary became a member of the IMF and World Bank in 1982), while the soft-budget constraint – i.e., the financial support to bail out state-owned firms in financial trouble – was retained (Kornai 1996; Blazyca 2003). Already in 1987, Hungary introduced a two-tier banking system. FDI in Hungary and trade with Western Europe were higher than in other post-communist countries, and the decline of public-owned enterprises was partly compensated by the private economic sector, which had been developing since the 1980s (see Dethier and Orlowski 1998: 48).[8] However, this was overshadowed by an alarmingly high level of foreign debt, composed mostly of short-maturity loans. The accumulation of high foreign debt was built up during the 1970s and 1980s as a result of the early reforms. Hungary's high level of foreign debt was unusual among post-communist countries (see Table 6) and still constrains the conduct of fiscal and monetary policy therefore influencing – as discussed further in the following chapters – the country's path to adopting the euro.

In 1989, the government implemented a stabilisation programme consisting of tax increases and expenditure cuts. Public expenditure was cut by 5 percent within one year, largely through a reduction in subsidies to enterprises, investment, and in-kind transfers (Dethier and Orlowski 1998: 50). Hungary attained a current account surplus and a balanced budget in 1990. However, the budget deficit rose sharply between 1992 and 1994, largely as a result of politically motivated higher public transfers to households. At the same time, revenues declined sharply due to the economic recession and, in 1993, the budget deficit was at 7.8 percent of GDP (see Table 6). Due to high public borrowing requirements, domestic banks were lending extensively to the public sector in 1993-1994. Together with the large foreign debt, this worsened the economic situation drastically. At the end of 1994, Hungary experienced alarming macroeconomic conditions: the current account deficit rose to 9.7 percent, gross foreign

[8] At the outset of the transition process, the private sector already contributed 33 percent of GDP to the Hungarian economy (see Table 6).

debt increased to almost 70 percent of GDP, the budget deficit went above 9.2 percent of GDP, and the public debt accounted for 85 percent of GDP (see Table 6). As Cottarelli (1998: 6) puts it, "the dramatic worsening of the current account highlighted a long-standing weakness of the Hungarian economy: its high external debt ratio." To tackle the twin deficit, i.e., high public and current account deficits, the newly elected Socialist/Free-Democrat coalition government launched an austerity programme (the so-called Bokros plan, named after the Finance Minister Lajos Bokros) in late 1994. Implemented in 1995, the programme comprised of a cut in social welfare measures and transfers to households, the introduction of university tuition fees, a ceiling on wage increases for public sector workers (resulting in real wage losses of 19 percent), further privatisations of state-owned firms, the introduction of a crawling peg exchange rate regime, several small and major devaluations between January and March 1995, export subsidies and import tariffs on agricultural products, and a restriction on car imports (see Hölscher and Stephan 1999: 162; Cottarelli 1998: 7). As a result of the combination of revenue-enhancing and expenditure-cutting measures, the budget deficit started to decline again in 1996 by almost 3 percent (Dethier and Orlowski 1998: 55, see Table 6). As Cottarelli (1998: 15) puts it, "the adjustment was painful: net real wages dropped by a cumulative 16.5 percent in 1995-1996, and private consumption dropped by 10 percent" (see also Dethier and Orlowski 1998: 55). However, declining wages, especially in the public sector, helped stimulate exports and reduced inflationary pressures and unemployment rates (see Table 6).

Supported by favourable external conditions and government policies, the current account deficit declined from 9.2 percent in 1994 to 2.7 percent of GDP in 1997, due to an increase in exports and high FDI. The external debt declined to 52.9 percent of GDP, its lowest level in the 1990s (see Table 6).[9] External debt dropped mainly because of the reduction of the current account deficit, increased privatisation receipts,

[9] However, it should be noted that the foreign debt level is still highest in Hungary. Hungary has also the highest euro-denominated foreign debt level among the other Visegrad countries; an important aspect to explain Hungary's initial euro-adoption strategy as highlighted in chapter 5. For example, the euro-denominated external debt was at 30.8 percent of GDP in 2002 almost three times higher than in the Czech Republic (see Berger 2004: 17).

and FDI (Cottarelli 1998: 14). Thus, the economic growth was led by high export dynamics and a strong investment boom (Halpern and Nemenyi 2001: 154). However, these developments also contributed to high inflationary pressures throughout the second half of the 1990s. In 1996 and 1997, the budget deficit was further reduced by additional sizeable declines in public revenues and expenditure ratios, stimulating private sector growth (Cottarelli 1998: 9).[10] Under the FIDESZ government (1998-2002) fiscal policy loosened again and during the hard-fought general election year of 2002, Hungary experienced a significant rise in the budget deficit to 9.2 percent of GDP (see Table 6). The national development programme of infrastructure projects, the so-called Szechenyi plan and Szechenyi Plus, as well as increases in wages and payments for public-sector workers and pensioners contributed significantly to a strong increase in the fiscal deficit in 2002. Indeed, Hungary shows a strong fiscal cycle before the 2002 elections; an aspect which is related further to the country's euro-adoption strategy in the following chapters. The high fiscal deficit was further a result of external account deterioration and unstable exchange and interest rate stability (see below). The export industry suffered from declining external demand and a strong currency appreciation. The current account deficit rose to 7.1 percent of GDP and FDI dramatically dropped to 1.8 percent of GDP in 2002 (European Commission 2003a: 23). The new Social-led government, elected in 2002, continued the expenditure-oriented fiscal policy of the FIDESZ government and launched a 'fiscally generous 100 day programme' (EIU 2005f: 32). The minimum wage was doubled and public sector wages increased by 50 percent (European Commission 2005b: 182). The increase in wage-levels beyond the level of productivity growth and the crisis of the forint in 2003 (see below) added to a loss in competitiveness. To counterbalance economic imbalances and to comply with the Maastricht criteria, the government approved an austerity plan that aimed to bring down the fiscal deficit to 3.8 percent in 2004 (OECD 2004: 5). The austerity plan consisted of limited wage increases in the public sector and delays to public investments,

[10] Hungary was not seriously hit by the Russian currency crisis in 1997-1998. As Halpern and Nemenyi (2001: 168) argue, "the collapse of the Russian market and the Yugoslav war have had some impact on the external demand, but the Hungarian business cycle is now more driven by demand from EU countries."

for example in infrastructure reconstruction. The plan succeeded in decelerating the high real wage growth to a moderate level below productivity growth, however, the budget deficit remained high with 5.5 percent of GDP in 2004 and thus was well above the envisaged target by the government (see Table 6 and European Commission 2005b: 179). The official general target for 2004 had to be revised upwards because of higher public expenditure and over-optimistic revenue forecasts (see European Commission 2005b: 180). Because of the poor fiscal performance, Hungary readjusted its initial euro-adoption strategy in May 2004 and postponed the target date from the very ambitious 2007/08 to 2010 (see chapter 1).

While the current account deficit remained high in 2004, real GDP growth increased again. As in the Czech Republic, economic growth was driven by strong investments and export while domestic consumption remained weak. Among the Visegrad countries, Hungary has been most successful in reducing the unemployment rate. In 2004, the unemployment was at 5.8 percent which is one of the lowest rates among the new EU member states. However, it should be noted that the employment rate, at 56 percent in 2004, is fairly low (see European Commission 2005b: 180).

Monetary policy

Due to price liberalisation, which began in Hungary in the late 1960s, only 20 percent of prices were still being regulated by 1989. Hungary therefore did not experience an inflationary burst like other transition economies (Cottarelli 1998, Moghadam 1998). However, as Moghadam (1998: 56) puts it, "despite this favourable position, inflation in Hungary has been very sticky" (see also Suranyi and Vincze 1998). Many economists blame the inconsistencies of the early efforts of the market economic reforms for the "creeping" inflation after the break-up of the communist regime. Inflation rates remained high throughout the 1990s largely as a result of trade and price liberalisation and frequent currency devaluations between 1991-1994 (Moghadam 1998: 56). After steady moderate inflation, sticky inflation expectations consolidated. The large degree of inflation inertia has itself affected inflationary expectations and prevented the inflation rate from declining (Moghadam 1998: 61). In addition, the limited credibility of the national central bank and its anti-inflationary programme continued to put pressure on prices (Cottarelli 1998: 16). During 1992-1994, the inflation rate remained at about 20 percent. Monetary policy was loose during 1992 and was only tightened by raising interest rates in late 1993 when the financing crisis became apparent (Barabás et al. 1998: 86). However, this proved to be ineffective, largely since it was accompanied by higher public expenditure and increased borrowing required to reduce foreign debt. Fiscal and monetary policy were not coordinated and led to an explosive twin deficit, i.e., high budget and current account deficits (see above). At the same time, domestic demand increased mainly due to government consumption, a rise in nominal wages, and a real investment boom (Hölscher and Stephan 1999: 157). All this resulted in an increased inflation rate after it had fallen from its peak of about 35 percent in 1990 to slightly below 19 percent in 1994 (see Table 6). The occurrence of the twin deficit affected the credibility of the government and people's trust in their currency and resulted in a capital flight from monetary assets in forint to other means of more stable value, e.g. foreign exchange as a form of savings (Hölscher and Stephan 1999: 158). In an effort to support competitiveness, the forint was devalued by 8 percent in August 1994 and again in October and November 1994, "raising total market devaluation in 1994 to 15.6 percent" (Hölscher and Stephan 1999: 161). However, since this was not coupled with appropriate fiscal adjustment measures, the devaluation failed to slow down imports or to support exports. Due to the frequent devaluations, the fixed exchange rate regime lost its credibility. The evolution of the exchange rate became unpredictable, and the frequent devaluations resulted in disruptive speculation. The shift from an almost balanced foreign position in 1992 to a severe current account deficit in 1994 resulted in further capital imports, which in turn caused a rise in foreign debt and destabilised the exchange rate. On 13 March 1995, the forint was devalued by 9 percent; simultaneously, the narrowly pegged exchange rate regime based on 2.25 percent fluctuation bands was replaced by a crawling peg. As a consequence of the macroeconomic adjustment measures and the crawling peg regime that was intended to create a gradual deflation, the inflation rate declined from 28.2 percent in 1995 to 14.2 percent in 1998 (see Table 6, see also Halpern and Nemenyi 2001: 164). For the first time since 1987, the inflation rate fell to a single digit in the first quarter of 1999 (Halpern and Nemenyi 2001: 160). This was mainly due to a decrease in nominal wages in 1998. In 2000, the inflation rate was 10 percent and started to decline to 5.2 percent in 2002 after the successful introduction of inflation targeting and wider trading bands of ± 15 in May 2001. Certainly, fluctuation bands of ±15 percent can be characterised as a "quasi-floating exchange rate mechanism" (Lavrac 1999: 110). The inflation targeting mainly succeeded in reducing the excessive inflationary expectations. However, following the changes in the exchange rate regime, the forint appreciated substantially. A strong currency and high interest created a low-risk environment and eventually generated speculative attacks on the forint at the upper end of its trading band. In January 2003, the central bank acted against a further strengthening of the forint by purchasing around 100 billion forint worth of euros (450 billion US dollars) and cutting the interest rate by 200 basis points to 6.5 percent. In June 2003, the currency was devalued against the euro by 2.26 percent. Following the speculative attacks against the forint and the currency depreciation in June 2003, the inflation rate rose. Shortly after,

> the central bank raised interest rates again by a total of 3 percentage points in an attempt to re-strengthen the currency's exchange rate which had started to depreciate sharply as a reaction to a deteriorating overall market sentiment, reflecting a considerable degree of uncertainty about monetary and exchange rate strategies, as well as the overall economic policy mix in Hungary (European Commission 2003c: 24).

The result was that, in July 2003, interest rates stood at the same nominal level as before the speculative attacks. The turbulence surrounding the forint led to greater volatility and risk premiums. According to the European Commission (2003c: 27), the "inconsistent monetary and exchange rate policies added to the strain in the policy mix" and eventually supported the increase in the fiscal deficit in 2002 and 2003 which led to the government's decision to postpone the target date for the euro-adoption. This decision was further supported by persistent high inflation expectations. High inflationary pressure generated from high oil prices, tax increases in the context of the country's EU accession in May 2004 and accelerated economic growth resulted in the inflation rate rising to almost 7 percent in 2004 (see Table 6 and Government of the Republic of Hungary 2004: 4).

Poland

Fiscal Policy

In 1989, Poland had to cope with hyperinflation as a result of growth stagnation and growing external and internal imbalances. In October 1989, the inflation rate was estimated to be 3200 percent (see Rapacki 2001: 107). The disastrous state of the economy at the end of the 1980s promoted the Mazowiecki-Balcerowicz government's decision to adopt shock therapy. The stabilisation programme of shock therapy, known as the Balcerowicz plan (named after the former Finance Minister and current President of the Polish National Bank, Leszek Balcerowicz), was launched on 1 January 1990 and consisted of price liberalisation but wage control, currency convertibility with strong currency devaluation, tax reform, privatisation, and a tight fiscal policy. Poland experienced a "transformational recession" (Kornai 1993), with an immediate sharp decline in GDP of 17.8 percent between 1990-1991 (Blazyca 2003: 225).[11] Indeed, Poland experienced the highest output decline among the Visegrad countries, and the subsequent economic downturn was more drastic than many economists and politicians had predicted.

The budget consolidation was achieved through cuts in subsidies for food, raw materials, production inputs, and energy carriers (Dabrowski 2001: 127). Public subsidies accounted for 16 percent of GDP in 1988 and were reduced to 7 percent of GDP in 1990 and to less than 5 percent of GDP in 1991 (Gandhi 1993: 104). This mainly

[11] The collapse of former state-owned enterprises could not be compensated by the relatively large private sector which contributed to 19 percent of the GDP (Rapacki 2001: 129). The private sector in Poland already developed in agriculture, trade, services, construction, handicrafts and small-scale manufacturing under the communist regime (Dabrowksi 2001: 138). Poland retained through the communist period a commercial code and bankruptcy law from 1934, a land and real estate register, and some protection of private property rights in the civil code (Dabrowski 2001: 138). In 1989, for instance, 80 percent of the land was in private hands; a unique case in communist Central Europe (Rapacki 2001: 129).

reflects price liberalisation. In early 1992, subsidies for agricultural inputs, food, and coal prices were eliminated. Household rents were further deregulated in 1994; gasoline prices were liberalised only in 1997. By the end of the 1990s, about 90 percent of the prices had been liberalised (Dabrowski 2001: 127). Despite these cuts in subsidies, the government budget balance has remained negative since 1991. In 1993, the budget deficit began to decrease as a result of output recovery, the completion of the tax reform, and expenditure adjustments. The economy started to recover, and a high growth rate could be sustained through the 1990s (see Table 7, p. 104). Growth rates reached their peak levels in 1995 and 1997 – 7 percent and 6.8 percent respectively – mainly due to high growth rates in the service sector (Rapacki 2001: 115). Despite strong growth rate records, adjustment measures came to a halt between 1995-1996 as "political will and energy declined" (Dabrowski 2001: 121) after years of 'extraordinary politics' (Balcerowicz 1994) during which the implementation of fast and harsh economic reforms was supported by the public. Only in 1998, after a new government took office, did fiscal adjustment resume and the fiscal deficit decreased from 2.3 in 1998 to 1.5 percent of GDP in 1999 (see Table 7). In 1998, the Russian currency crisis hurt the Polish economy; it is estimated that the "Russian factor", i.e., losses in export and their effects on the domestic output, accounted for 1-1.5 percent of growth rate decline in 1998 (Rapacki 2001: 114). From 2000 on, the economic situation deteriorated drastically due to a further fall in external (as a result of the European-wide recession) and domestic demand, and the fiscal deficit continued to rise to 3.6 percent and 3.9 percent in 2002 and 2003 respectively (see Table 7). In 2003, Poland experienced a modest recovery and the growth rate grew by 3.3 percent after being just 1.0 percent in 2001. Again, growth was driven by increased private consumption and net exports, whereas fixed investment has contracted sharply (European Commission 2003a: 42, see Table 7). Economic growth then gained strength and real GDP was close to 6 percent in 2004 (see Table 7). In January 2004 the government approved a revised version of the so-called Hausner plan (named after Deputy Prime Minister and Economy Minister Jerzy Hausner) or 'programme of rationalisation and reduction of public spending' which foresaw to comply with the Maastricht criteria and reduce the fiscal deficit to around 3 percent by 2006 (European Commission 2005b: 206). The revised Hausner plan includes tax and benefit reforms whereas the initial proposals for the reform of the disability pension system and reforms in the early retirement pension scheme have been either watered down or abandoned (see European Commission 2005b: 205). It should be noted that while the initial Hausner plan was designed to meet the Maastricht criteria by 2006 the Polish government refrained from announcing an official target date for the adoption of the euro.

It is worth mentioning that Poland was the first post-communist country to regain its pre-transformation development level in 1996 (Blazyca 2003: 218). Among the Visegrad countries, only Slovakia was able to achieve and succeed in maintaining its pre-transformation level of GDP in 1999. Hungary and the Czech Republic still performed badly in these terms at the beginning of 2001 (Rapacki 2001: 108). However, despite very high growth rates, Poland still has the highest unemployment rate among the Visegrad countries. In 2002, unemployment reached a new record high of 19.8 percent.[12]

Monetary policy

At the beginning of the transition process, Poland depreciated the zloty sharply before pegging the currency to a currency basket consisting of five different currencies. With the sharp devaluations and a restrictive monetary policy, including high interest rates of about 36 percent, the National Bank of Poland (NBP) tried to gain control of the hyperinflation. Nevertheless, Poland had substantial difficulties in lowering inflation. Due to high inflation rates, the fixed exchange rate regime was not sustainable because the currency soon became overvalued. To protect the country from further losses in competitiveness, a crawling peg with pre-announced devaluation was introduced in October

[12] Rapacki names three factors, among others, responsible for the high unemployment rates in Poland: 1) demographic pressure, e.g. the rising number of school leavers; 2) the restructuring of the coal-mining and metallurgy sector, resulting in a huge number of layoffs; and 3) reforms in the health and education sector. In 1999, the health care law was changed so that only people who are registered as employed or unemployed are eligible for medical coverage. This resulted in a higher registration of those who were living in the large shadow economy and who became registered unemployed for the first time (Rapacki 2001: 119).

1991. In May 1995, the NBP widened the fluctuation bands of the exchange rate regime from ± 2 to ± 7 percent. Expectations of currency appreciation were therefore relieved and FDI inflows reduced (see Table 7). These measures helped to reduce the inflation rate from almost 30 percent in 1995 to less than 20 percent in 1996 (Hutersik et al. 1999: 138). Nevertheless, compared with the Czech Republic and Slovakia, Poland's inflation rates were exceptionally high throughout the 1990s.

Until 1998, the government had substantial influence on the NBP, because the parliament had to approve the yearly monetary programmes. The NBP's credibility suffered enormously from regular failures in inflation forecasting and from open conflicts between the NBP and the Ministry of Finance, especially between 1994-1996. Monetary policy only started to change in 1998, when the NBP became officially independent through the implementation of the new constitution (see chapter 6 for a detailed discussion of central bank independence in Poland).

Between 1997 and 1998, capital inflows increased rapidly and put pressure on the currency. The NBP tried to absorb and sterilise the capital inflows because it wanted to avoid an appreciation of the zloty and to stick to the crawling peg. However, the impact of large-scale sterilisation on controlling the money supply was limited. The sterilisation led to high fiscal costs and to a structural surplus in the banking system. Dabrowski (2001: 134) argues that the maintenance of the crawling peg regime led to a strong inflationary inertia, because the crawling peg devaluations did not aim at disinflation but at balance of payments or export promotion and growth targets. In 1998, the NBP started to move toward a floating exchange rate regime, progressively widening the band from ± 10 percent (February 1998) over ± 12.5 percent (October 1998) to ± 15 percent (March 1999). Due to persistent large capital inflows – as stated in chapter 1, Poland is the regional leader in attracting FDI in absolute terms – and in an effort to avoid losses in competitiveness and to reduce the inflation rate, the central bank eventually announced an inflation-targeting strategy in September 1998 and finally introduced a freely floating exchange rate in April 2000, replacing the previous implicit export promotion and balance-of-payment target and the crawling peg devaluations (Dabrowski 2001: 136, see also Bofinger and Wollmershäuser 2002: 173).

Due to a very good harvest, food prices declined and the inflation rate decreased sharply to 1.9 percent in 2002 from 10.1 percent in 2000. In addition, the disinflation was supported by a weak domestic demand and restrictive monetary policy. In 2002, economic growth was still very low and the unemployment rate rose sharply. At the same time, the inflation rate was well below 2 percent; however, the interest rate was still fairly high at 8.5 percent fuelling criticism that the central bank was pursuing an overly restrictive monetary policy. As further discussed in chapter 6, the dispute between the hawkish central bank and the government influenced Poland's path to eurozone entry. Despite the low inflation rate, the central bank only slowly started to decrease the interest rate from 19 percent in February 2001 to 5.25 percent in June 2003 (European Commission 2003a: 42, see also EIU 2005d: 26). As Zombrit (2003: 73) puts it,

> there has been an increasing divergence of views between the monetary authorities and the government that has led to a sub-optimal macroeconomic mix and a further breakdown in co-operation (see also Rozkrut and Chmielewski 2003).

Reflecting the economic recovery with a strong increase in real GDP and in domestic demand, inflation rose again in 2004 to 3.5 percent. As in the other Visegrad countries, an increase in inflation rates can also be attributed to the country's EU accession and the subsequent increase in indirect taxes as well as the introduction of the CAP mechanism (see Republic of Poland 2004: 20). However, despite this increase in inflation, the central bank has been remarkably successful in reducing the inflation rate ever since it became independent in 1998 (see Table 7). This so-called 'Balcerowicz-effect' (The Economist 31/01/2004) is further discussed in relation to Poland's approach to adopting the euro in the following chapters.

Conclusion

Although the Visegrad countries differed in their starting conditions, they share important similarities in their approach to macroeconomic stabilisation. All the reform packages were designed to curb inflation, restore the fiscal balance, and improve the external balance (Lavigne 1999: 121). The result of the reform programmes was an initial burst of inflation and a dramatic output decline. Inflation was curbed and brought down to moderate levels. Fiscal imbalances increased mainly because of an enormous output decline that reduced budget revenues while increasing the need for public expenditure. Reducing and maintaining the budget deficit at an acceptable level as defined by the IMF and the Maastricht criteria have been difficult in all Visegrad countries.

Among the Visegrad countries, Hungary and Slovakia experienced the highest budget deficits in the 1990s. Hungary had to cope with a high foreign debt burden inherited from the communist regime and a twin-deficit crisis in the mid-1990s. Indeed, Hungary's legacy of the goulash reforms continues to constrain the conduct of fiscal and monetary policy today and influence the country's euro-adoption strategy. In addition, the significant increase in the real wage level between 2000 and 2003 beyond productivity growth contributed to the budget deficit and reduced Hungary's economic competitiveness. The reasons for the rapid wage increase are discussed further with regards to Hungary's euro-adoption strategy in the following chapter, but have to be seen in the light of the tight election contest between the major parties. Slovakia, on the other hand, had a policy of strong fiscal expansion and suffered a currency crisis under the last Meciar government. It has been indicated that the fiscal expansion path was caused by Meciar's efforts to get re-elected. Slovakia's fiscal policy therefore shows some signs of a political business cycle, which is discussed further in the following chapters. The Czech Republic went through a period of successful macroeconomic development before it was hit by a deep economic recession triggered by the currency crisis in 1997. The subsequent economic recession revealed many of the flaws in the structural reform programme of the first half of the 1990s. Since the currency crisis and the economic recession in the late 1990s, the Czech Republic has experienced a steady increase in its budget deficit and successive governments have conducted an expenditure-oriented fiscal policy. Both the consequences of the currency crisis and the fiscal policy of the Social Democratic-led coalition government are highly relevant to explain the country's euro-adoption strategy and discussed further in the subsequent chapters. Poland has been successful in consolidating its public budget, but since the beginning of the economic recession in 2000, the budget has come under growing constraint. In 2004, Poland experienced its highest budget deficit since 1991. In general, since 2000, the fiscal deficit has increased remarkably in all Visegrad countries, however, with varying intensity. Understanding the sources behind the different levels of success in achieving fiscal consolidation and relating them to consequences for the countries' approach to adoption of the euro are the aims of the following chapters.

The initial conditions inherited from the communist past play a dominant role in explaining the inflation rate in the Visegrad countries in the 1990s. Poland had to cope with hyperinflation as a result of the disastrous economic conditions in the 1980s. Throughout the 1990s, Poland had substantial difficulties bringing down inflation. Inflationary pressure especially increased due to the high and sustainable growth rates experienced between 1993 and 2000. Hungary experienced sticky moderate inflation that stands in relation to the high debt burden inherited from the early reform efforts in the 1970s and 1980s and the high inflationary expectations generated by uncertainty about monetary and exchange rate strategies. In the Czech Republic, the rapid success in achieving low inflation rates and budget deficits is also a consequence of the Czech Republic's initial macroeconomic conditions, which were much better than in other post-communist countries. In contrast, Slovakia had to cope with higher inflationary pressures than the Czech Republic. Inflation rates were particularly high between 1993 and 1994, mainly because of fiscal expansion involved in creating a new state. In the mid 1990s, the inflation rate was brought down to moderate levels before the Meciar government embarked on a fiscal borrowing spree in 1998 that caused higher inflation rates. Since the late 1990s, the inflation rate has remained higher than in the other Visegrad countries because the newly elected government further liberalised prices that were neglected under the Meciar governments. The inflation debt, inherited from the Meciar government, is thus an important aspect to keep in mind when analysing the disinflation process in Slovakia. With the introduction of central bank independence, Poland's inflation rate decreased substantially, reaching a record low of 0.7 percent in 2003. However, in general, there has been a trend toward achieving low inflation rates in all the countries under review since the beginning of 2000, although not always with the same success. The factors which contributed to the disinflation process are discussed and related to their impact on the countries' approach to euro-zone accession in the following chapters.

Foreign trade and the current account balances are still deteriorating in all Visegrad countries. Also, all Visegrad countries have had to deal with problems arising from short-term capital inflows. Capital flows were especially harmful in the Czech Republic. Speculative attacks on the crown resulted in a deep economic recession, from which the country is still recovering. Speculative attacks on the Hungarian forint also occurred in 2003, resulting in high inflationary pressure and a rise in the budget deficit. Due to the problems arising from strong capital inflows, all Visegrad countries moved progressively from fixed to flexible exchange rate regimes. At the outset of the transition process, the Visegrad countries opted for peg strategies. However, with growing external imbalances, these exchange rate regimes were later abandoned or radically adjusted (Hallerberg et al. 2002b: 345). Indeed, exchange rate regimes in the Visegrad Four have not been static, but are "moving towards the more extreme ends of the spectrum [in keeping with observed trends more generally among transition economies and countries world-wide]" (Corker et al. 2000: 3).

All Visegrad countries are currently negotiating or implementing fiscal reform programmes that aim to meet the EMU accession criteria. Indeed, all Visegrad countries regard the EMU as the main argument for pushing forward fiscal reforms (see chapter 5). Slovakia has been successful in implementing structural reforms since the new government took office in 1998 and has announced it intends to join the euro area as soon as possible and in any case no case later than the other Visegrad countries. In

Poland, the "Hausner" austerity plan for 2004-2007 was explicitly designed to bring down the deficit to the Maastricht-compatible 3 percent by 2007. In 2003, the Czech Republic and Hungary approved austerity plans to bring the fiscal deficit down to a level in line with the Maastricht criteria and both countries have announced that they will not adopt the euro before the end of the decade. It has been indicated that the reform packages had to be modified and were watered down in some Visegrad countries. The following chapters further discuss the obstacles for implementing economic policy reforms and relate them to the euro-adoption strategies concerned. This thesis aims to explore the underlying rationales for cross-national variations in the strategies pursued for the adoption of the euro by using an integrated approach that analyses the impact of interests, ideas and institutions. The next chapter puts policy reforms into a politico-economic perspective by analysing political parties' and individual preferences on EMU.

Table 4 MAIN ECONOMIC TRENDS IN THE CZECH REPUBLIC 1990- 2004

	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
REAL ECONOMY															
Real GDP growth rates, %[a]	-2.5[b]	- 14.6[b]	-0.5	0.1	2.2	5.9	4.3	-0.8	-1.0	0.5	3.3	2.6[d]	1.5[d]	3.1[d]	3.8[d]
Unemployment rate (Eurostat definition), %[a]	0.7	4.6	2.7	4.3	4.3	4.0	3.9	4.8	6.4	8.6	8.7	8.0	7.3	7.8	8.3[d]
Private sector share in GDP %[c]	12.3	17.3	27.3	45.1	56.3	66.3	75.4	75	75	80	80[f]	80[f]	80[f]	80[f]	80[f]
FISCAL AND INFLATION POSITION															
Fiscal balance, GDP, %[a]	-0.6[b]	-2.8[b]	-1.0[c]	0.4	-1.3	-1.2	-1.8	-2.7	-4.5	-3.7	-4.0	-5.9[d]	-6.8[d]	-12.3[d]	-4.8[d]
General government debt, GDP, %[a]								12.8	13.7	14.3	18.2	25.3[d]	28.8[d]	37.8[d]	37.8[d]
Gross foreign debt, GDP, %[a]					22.8	25.6	22.4	24.5	21.3	22.0	28.8	26.6	27.0	34.9	37.0
Inflation rate; %[a]	9.6[c]	57.0[c]	11.0[c]	20.8	10.0	9.1	8.8	8.6	9.7	1.8	3.9	4.5[d]	1.4[d]	-0.1[d]	2.8[d]
EXTERNAL SECTOR															
Current account balance, GDP, %			1.7	0.7	-2.5	-4.2	-6.8	-6.5	-2.2	-2.7	-5.3	-5.4[d]	-5.6[d]	-6.2[d]	-6.1[d]
FDI (net), GDP, %[a]					8.5[c]	16.6[c]	2.5[c]	2.5[c]	4.8	4.9	5.5	8.6	13.4	3.5	4.6
MONETARY CONDITIONS															
Long-term interest rates[a]											6.9	6.3	4.9	4.1[e]	4.8[e]
Short-term interest rates[a]				13.1	9.1	11.0	12.0	16.0	14.3	6.9	5.4	5.2	3.5	2.3[e]	2.1[e]

[a]European Commission (1997b); (1998d); (2001a), (2002a); (2003a); (2003b); [b]OECD (1999) The Data are for Czechoslovakia before 1992; [c]World Bank (2001); (2003); [d]European Commission 2005b; [e]European Commission 2005a; [f]EBRD (2004).

Table 5 MAIN ECONOMIC TRENDS IN SLOVAKIA

	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
REAL ECONOMY															
Real GDP growth rates, %[a]	-2.5[b]	-14.6[b]	-6.5[b]	-3.7	4.9	6.9	6.6	5.6	4.0	1.3	2.2	3.8[d]	4.6[d]	4.0[d]	4.9[d]
Unemployment rate (Eurostat definition), %[a]	1.6[b]	11.8[b]	10.4[b]	14.4	13.7	13.2	11.3	11.9	12.9	16.7	18.7	19.4[d]	18.7[d]	17.5[d]	18.4[d]
Private sector share in GDP %[c]	10	15	22	25	44	66	72	75	75	75	75	80	80[f]	80[f]	80[f]
FISCAL AND INFLATION POSITION															
Fiscal balance, GDP, %[a]	-0.6[b]	-2.8[b]	-11.9[b]	-6.7[b]	-1.3	0.2	-2.1	-5.7	-4.7	-6.4	-10.3	-6.0[d]	-5.7[d]	-3.7[d]	-3.9[d]
General government debt, GDP, %[a]								28.6	28.6	43.8	49.9	48.7[d]	43.3[d]	42.6[d]	44.2[d]
Gross foreign debt, GDP, %[a]					11.3	19.6	21.6	28.6	33.0	42.1	37.3	33.1			
Inflation rate; %[a]	10.4	61.2	10.2	23.2	13.4	9.9	5.8	6.0	6.7	10.4	12.2	7.2[d]	3.5[d]	8.5[d]	7.7[d]
EXTERNAL SECTOR															
Current account balance, GDP, %[a]				-4.1	5.3	3.0	-9.0	-8.7	-9.0	-3.5	-2.5	-7.4[d]	-8.2[d]	-1.1[d]	-2.9[d]
FDI (net), GDP, %[c]			0.9	1.1	1.2	0.8	0.7	0.4	1.8	0.8	1.9	7.7[a]	17.0[a]		
MONETARY CONDITIONS															
Long-term interest rates[b]						10.4	9.7	9.4	21.7	15.9	8.3[a]	8.0[e]	6.9[e]	5.0[e]	5.0[e]
Short-term interest rates[a]						8.4	11.9	21.8	21.1	15.7	8.6	7.8	7.8	6.2[e]	4.7[e]

[a]European Commission (1997a); (1998a); (2001d), (2002d); (2003a); (2003e); [b]OECD (1999); (2003). The data are for Czechoslovakia before 1992, [c]World Bank (2003); [d]European Commission 2005b; [e]European Commission 2005; [f]EBRD (2004).

Table 6 MAIN ECONOMIC TRENDS IN HUNGARY

	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
REAL ECONOMY															
Real GDP growth rates, %[a]	-3.5[b]	-11.0[b]	-2.1	-0.6	2.9	1.5	1.3	4.6	4.9	4.2	5.2	3.8[d]	3.5[d]	3.0[d]	3.9[d]
Unemployment rate (Eurostat definition), %[a]	1.9[b]	7.5[b]	9.8	11.8	10.5	10.0	9.6	9.0	8.4	6.9	6.3	5.6[d]	5.6[d]	5.8[d]	5.8[d]
Private sector share in GDP %[b]	25	33	44	52	55	60	70	75	85	80	80	80[f]	80[f]	80[f]	80[f]
FISCAL AND INFLATION POSITION															
Fiscal balance, GDP, %[a]	1.1[b]	-3.3[b]	-7.2[b]	-7.8[b]	-9.2	-6.6	-3.2	-6.8	-8.0	-5.6	-3.0	-4.4[d]	-9.2[d]	-6.2[d]	-5.5[d]
General government debt, GDP, %[a]	66.3[b]	73.4[b]	77.6[b]	87.9[b]	85.2[b]	84.3[b]	72.1[b]	64.2	62.1	60.5	55.7	53.5[d]	57.2[d]	59.1[d]	59.7[d]
Gross foreign debt, GDP, %[a]	64.3[b]	67.1[b]	57.0[b]	67.2	69.0	65.5	60.3	52.9	53.9	56.1	51.6	38.3			
Inflation rate; %[a]	34.6[b]	31.0[b]	24.7[b]	22.5	18.8	28.2	23.5	18.5	14.2	10.0	10.0	9.1[d]	5.2[d]	4.7[d]	6.9[d]
EXTERNAL SECTOR															
Current account balance, GDP, %[a]	0.4[b]	1.2[b]	0.9[b]	-10.9[b]	-9.7[b]	-5.7[b]	-3.8[b]	-2.7[b]	-4.9	-4.4	-3.2	-2.1	-7.1[d]	-9.0[d]	-8.7[d]
FDI (net), GDP, %[b]		4.4	4.0	6.1	2.8	10.0	4.4	3.6	3.0	3.1	3.5[a]	4.7[a]	1.8[a]	0.5	3.5
MONETARY CONDITIONS															
Long-term interest rates[a]									9.8[c]	9.9	8.6	8.0[e]	7.1[e]	6.8[e]	8.2[e]
Short-term interest rates[a]			17.2[c]	26.9[c]	27.8	31.3	24.3	20.4	17.9	15.1	11.4	10.9	9.2[e]	8.5[e]	11.5[e]

[a]European Commission (1997c); (1998c); (2001c); (2002e); (2003a); (2003c); [b]World Bank (1998); (2003); [c]OECD (2003); [d]European Commission 2005b; [e]European Commission 2005°; [f]EBRD (2004).

Table 7 MAIN ECONOMIC TRENDS IN POLAND

	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
REAL ECONOMY															
Real GDP growth rates, %[a]	-11.6	-7.0	2.5	3.7	5.3	7.0	6.0	6.8	4.8	4.1	4.0	1.0[d]	1.4[d]	3.8[d]	5.8[d]
Unemployment rate (Eurostat definition), %[a]	6.5	12.7	13.7	14.5	14.6	13.4	12.2	10.9	10.2	13.4	16.4	18.5[d]	19.8[d]	19.2[d]	19.0[d]
Private sector share in GDP [b]	30	45.3	48.2	53.8	56	60	60	65	65	65	72	75[g]	75[g]	75[g]	75[g]
FISCAL AND INFLATION POSITION															
Fiscal balance, GDP, %[a,]	3.7[b]	-6.7[b]	-4.9[b]	-3.4[b]	-2.4	-2.1	-2.5	-2.4	-2.3	-1.5	-1.8	-3.1[d]	-3.6[d]	-3.9[d]	-5.6[d]
General government debt, GDP, %[a]								44.0	39.1	40.3	36.6	36.7[d]	41.1[d]	45.4[d]	47.7[d]
Gross foreign debt, GDP, %[a]	77.9	62.2	53.2	54.5	37.7	27.7	24.4	24.8	23.3	25.3	24.0	22.1			
Inflation rate; %[a]		70.3[f]	43.0[f]	35.3	32.2	27.8	19.9	15.0	11.6	7.2	10.1	5.3[d]	1.9[d]	0.7[d]	3.5[d]
EXTERNAL SECTOR															
Current account balance, GDP, %[a]			9.7	0.2	2.4	1.5	-1.1	-3.7	-4.2	-5.5	-6.1	-2.9[d]	-2.6[d]	-2.2[d]	-2.6[d]
FDI (net), GDP, %[a]		0.2[b]	0.3[b]	0.7[b]	0.6[b]	1.0[b]	2.0[b]	2.3[b]	4.0	4.7	5.7	3.1	2.2	4.3	11.8
MONETARY CONDITIONS															
Long-term interest rates[a]										9.5	11.8	10.7[e]	7.4[e]	5.8[e]	6.9[e]
Short-term interest rates[a]				34.9[c]	31.8[c]	27.6	21.4	23.7	20.4	14.7	18.8	16.1	9.0	5.7[e]	6.2[e]

[a]European Commission (1997d); (1998b); (2001b); (2002c); (2003a); (2003d); [b]World Bank (1998); (2003); [c]OECD (2003); [d]European Commission 2005b; [e]European Commission 2005°; [f]EBRD (1997); [g]EBRD (2004).

Chapter 4

The interest level of analysis: positions and preferences on the EMU

Having discussed the development of fiscal and monetary policy in the Visegrad countries since the collapse of the communist regime, this chapter provides the interest level of analysis, examining the positions and preferences of political parties and public opinion on the euro and European integration. The aim of this chapter is twofold. Firstly, the chapter demonstrates to what extent the positions of the actors are driven by their strategic electoral and partisan interests (political parties) and by their economic self-interest (public opinion, see chapter 2, p. 43). Secondly, the chapter seeks to show whether political parties are powerful enough to translate their positions into policies and thus influence the country's strategy to adopting the euro. The latter point also touches upon the question of whether the countries experienced political business cycles, that is, whether parties in government have used expansionary fiscal policies to enhance their chances of re-election (opportunistic model) and/or whether fiscal policy varies according to the kind of party in office (partisan model).

This chapter is divided into two parts. The first part deals with political parties' positions on European integration and euro-zone entry. The argument is that the degree of politicians' opportunistic interests varies in accordance to different strategic environments of party competition. Strong opportunistic and partisan interests produce fiscal cycles at odds with the Maastricht criteria and therefore may explain cross-national variations in approaching euro-zone accession. The second part of this chapter discusses why attitudes towards EMU vary at an individual (public opinion) interest level. The argument here is that the degree to which economic self-interests explain individual preferences on the adoption of the euro is related to class-based responses to the reform process (cf Haggard and Webb 1994: 8, see chapter 1 and 2).

A. Political parties

Political parties play a key role in shaping policy outcomes and conflicts over reforms. They serve as a platform for political debate on European integration and influence voters' preferences on public policy issues (Gabel and Hix 2005, Lewis 2003: 153). At the same time, public opinion exerts a strong influence on policies developed by political parties. This interdependence reflects the tension between *representation* – i.e. the representation of the population by the political elite – and *mobilisation* – i.e. the 'education' or mobilisation of the population towards policies which the political parties wish to pursue (Blondel 1995: 206). Related to this is the question of whether public support for, or opposition to, EMU is translated into party politics. As Downs once famously said: "parties formulate policies in order to win elections, rather than win elections in order to formulate policies" (Downs 1957: 28). However, it is not evident where to draw the line between purely vote-seeking and policy-seeking behaviour, i.e. to differentiate between actions to win votes and actions to maximise the party's impact on public policy (Strøm and Müller 1999). Since both are tightly interrelated, it is inevitable that the euro-adoption strategy of the Visegrad countries is subject to the dynamics of this relationship.

Following the question of party responsiveness to public opinion, what matters for parties' positions on EU issues is extensively contested in the literature. Broadly speaking, the camps are split between those who argue that a party's position on EU issues is a product of domestic party system structures (e.g. the intra-party arenas such as proximity to power, government-opposition relationship and coalition-politics[1]) and therefore heavily depends on the party's strategies to gain votes and to guarantee its own survival (Szczerbiak and Taggart 2001, Batory 2001, Sitter 2001, Batory and Sitter 2004), and those who argue that the party's position on European integration is a

[1] See chapter 6 for an analysis of the electoral systems that produce distinctive electoral incentives and options for coalition-building.

product of the party's ideology, its cleavage-based identity and responsiveness to its electorate (Kopecky and Mudde 2002, Beichelt 2004).[2]

The framework in which parties arrive at 'politicised' issues of European integration (see also Figure 1, p. 42) is discussed in the following section. The aim is to show when and how the party's partisan interests (i.e. the responsiveness to its electorate), and its relationship to other parties or electoral strategies/coalition politics influence the party's position on European integration and EMU (cf Batory and Sitter 2004: 543). As discussed in chapter 2, interests in this context are thus defined firstly by the need to address the partisan interests of the party's voter base and, secondly, by strategic electoral interests to gain office and votes.

Secondly, the analysis considers to what extent the parties are able to transform their positions on EMU into policies, i.e. to what extent they are able to influence the country's strategies towards the adoption of the euro. Certainly, because of their proximity to power, government parties have a direct impact on the country's euro-adoption strategies, especially when their fiscal policy is subject to opportunistic interests, thereby making a fast-track approach to joining the euro-zone problematic. However, it should be noted that an absence of parties "from government is not equivalent with lack of influence" (Beichelt 2004: 41). According to Sartori, the party's relevance depends on its coalition and 'blackmail' (or veto power) potential (Sartori 1976: 123-124). A party's policy agenda on the periphery of the party system with no coalition but 'blackmail' potential may well affect the policy agenda of the other parties and the way they compete for votes (see also Ware 1996). Certainly, the potential to influence government policy also depends on the opposition parties' percentage of parliamentary seats (see Beichelt 2004: 41). For example, it can be argued that the emergence of the League of the Polish Families and Samoobrona as strong forces in the Polish Sejm, led other parties to reconsider their policy agenda in relation to EU policies (see p. 132).

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[2] In this regard, the discussion reflects the different approaches to parties and party systems such as the factor of cleavages (Lipset and Rokkan 1967, Almond 1956), institutions (Mair 1984, Duverger 1959) and competition (Sartori 1976, Duverger 1959, Epstein 1967) as well as the "responsiveness of parties and party systems to changes in [these] factors that created them" (Ware 1996: 8).

The next four sections discuss the positions of particular parties in each country in relation to their potential impact on the country's euro-adoption strategy *and* demonstrate the influence of their interests on the party's position regarding European integration and euro-zone accession.

The Czech Republic

In the last parliamentary election in June 2002, the Czech Communist Party of Bohemia and Moravia (KSCM), formerly led by the Eurosceptic Miroslav Grebenicek, won 18.5 percent of the vote, its highest share since the first free election in 1990. But as an unreformed communist party, the KSCM's coalition potential remains (so far) low. The party's position on European integration is consistent with the party's communist identity; the EU is regarded as too capitalist a system and membership is therefore inadvisable due to meagre benefits for the Czech people and potentially high economic costs for the party's constituency (Hanley 2002: 9, see chapter 5). Most of the KSCM's voters belong to the so-called "transition losers" (see part B of this chapter) since support is mainly in industrialised regions with high unemployment rates (Western Bohemia and Southern Moravia) and high among the older and retired people (see also Hanley 2002). Consequently, the KSCM's anti-EU rhetoric is also very much a response to the socio-economic interests of its constituency, since the party's stance is consistent with the strong Eurosceptical positions of its loyal and stable electorate (cf Hanley 2003 and part B of this chapter).[3]

Since the 2002 general election campaign, the KSCM's rhetoric on European integration has become softer, yet more ambivalent. While the EU system was rejected, the party pledged more Czech influence within the EU. The ambivalent position on European integration was best shown when the party recommended a 'moderate No vote' (Hanley 2003: 8) for the EU accession referendum (see Table 8). As Hanley (2003) explains, it was a "No, but..." recommendation expressing the KSCM's opposition to the EU in its present form, but its support for the idea of membership if the trea-

[3] The KSCM's loyal electoral base and therefore "supporters discipline in a low turnout election" (EIU 2005a: 14) played a crucial role in explaining the KSCM's best election result ever in 2002.

ties of the EU would allow a direct form of democracy and a new left ideological agenda (see Kopecky and Ucen 2003: 169). In this regard the KSCM is also very critical towards EMU and favours postponing the adoption of the euro (Hanley 2002: 9). In particular, the party voted against the fiscal consolidation programme of the Spidla government in 2003 that aimed to adopt the euro by 2010 (see chapters 3 and 5). Being the third largest party in parliament since 2002, "with KSCM members for the first time assuming leadership positions in the Chamber of Deputies and its committees" (EIU 2005a: 14), the KSCM has considerable political leverage (see also Petrovic and Solingen 2005). This is reinforced by the fact that the CSSD-led government held the slimmest possible majority with 101 government and 99 opposition deputies.

The liberal conservative Civic Democratic Party (ODS) – a mainstream party led by Mirek Topolanek and formerly by the current President of the Czech Republic, Vaclav Klaus, – was founded in 1991 and has its roots in the Civic Forum movement of the 1989 Velvet Revolution.[4] The core electorate of the ODS represents the middle and upper class; the party draws considerable support from employers, the young and urban areas such as Prague and Brno (see EIU 2005a: 14). The ODS was the ruling party from 1990 to 1997 and developed "a high profile Thatcherite Eurosceptic position" (Hanley 2002: 5). While the ODS' critical position on European integration stands paradoxically in contrast to its largely pro-European voter base (see part B of this chapter), its stance is consistent with the party's Anglo-Saxon liberal conservative ideology that the EU should solely be an instrument to create a free trade area, to enlarge markets and to guarantee peaceful cooperation in Europe (see Kopecky and Ucen 2003: 167, Hanley 2004a; 2004c) but should not be a means to create political integration (see chapter 5).

The ODS lost office in 1997 and since then the leadership – although challenged from within the party (cf Petrovic and Solingen 2005) – has adopted a more detailed and harsher position on EU issues in defence of Czech 'national interests' (Hanley

[4] Vaclav Klaus was elected as President of the Czech Republic by the Czech Parliament in February 2003 but he remains the ODS' honorary chairman. Klaus has been the dominant political figure of the ODS since its foundation in April 1991. For a discussion on Klaus' role within the ODS see Saxonberg (1999: 71-97).

2004c: 48, see also Hanley 2004b), an assertion which is confirmed by the ODS's 2001 Manifesto of Czech Eurorealism (see chapter 5).[5] Fearing that the Czech Republic will once again lose sovereignty through EU membership and be overruled by larger nations, the manifesto suggests alternatives to full EU accession such as membership of the European Free Trade Association (EFTA). It is in this context that the Maastricht Treaty is harshly criticised as an attempt to undermine state sovereignty and a forced imposition of a new European identity – an important aspect in the ODS's rhetoric on European integration which is further elaborated in chapter 5 (cf Klaus as quoted in Bugge 2000: 213). Since the EU does not form an optimum currency area and lacks a strong common European identity, the Manifesto is very sceptical about the euro and adds that "if the circumstances require, [we may] keep the tools of monetary policy in our own hands" (Manifesto of the Czech Eurorealism quoted in Hanley 2002: 6).

Given that the ODS is a mainstream party with an electorate mostly favouring EU accession (see Hanley 2003: 11 and part B of this chapter), the party found itself in a dilemma during the campaign for the EU accession referendum. Being Eurosceptic, the party refrained initially from issuing a formal appeal to the party supporters to vote 'yes', arguing that the ODS supporters would vote for EU accession anyway (see Table 8). It was not until two hours before the polls opened that the ODS leadership recommended a yes-vote. But Klaus did not change his view on the referendum. Unlike the presidents of Poland, Hungary, and Slovakia, Vaclav Klaus refused to back and lead the country's "yes" vote campaign for the EU accession referendum held in June 2003 (see chapter 5). The ODS' indecisiveness during the referendum campaign suggests that the party's ideological orientation towards a 'Thatherite' position on EU issues was a greater influence on their EU stance than their responsiveness to the electorate (see chapter 5, cf also Hanley 2004a: 541). Being the second largest party in parliament and the only opposition alternative for the majority of the Czech citizens who reject the

[5] The Manifesto of Czech Eurorealism was published in 2001 and is the most Eurosceptical manifesto produced by any mainstream political party in Central and Eastern Europe. The Manifesto was written by the current ODS member to the European Parliament and former First Vice Chairman and Foreign Affairs spokesman of the ODS, Jan Zahradil, and three politically engaged intellectuals, ODS members, Petr Plecity, Petr Adrian and Miroslav Bednar.

KSCM, it has considerable potential to mobilise public opinion and to influence the political agenda, given that the coalition government only held a small majority. In addition, with its former party leader being the President of the Czech Republic, the party's position on the euro is reflected in Klaus' appointment of three new members (Pavel Rezabek, Robert Holman and Miroslav Singer) to the central bank board in February 2005, all of whom are well known for their sceptical views of adopting the euro by 2010 (see chapter 5 and 6, see also EIU 2005b: 11).

The Czech Social Democratic Party (CSSD) is the only social democratic party among the Visegrad countries that is not the successor of the communist party.[6] While the party was a rather marginal force in the early 1990s, it made an astonishing breakthrough in 1996 under the leadership of Milos Zeman, gaining more than 26 percent of the vote (see also chapter 2). Since 1998 it has been the leading government party. The CSSD firmly and consistently supported EU membership, seeing accession as a "modern social democratic project" (Kopecky and Mudde 2002: 306) to "which there is no meaningful alternative" (Hanley 2002: 7). In contrast to the ODS, the CSSD supports a deepening (further integration of policy issues) of the EU. It is in this regard, that the CSSD fully supports the Maastricht Treaty and therefore the adoption of the euro (Kopecky and Ucen 2003: 169, Hanley 2002: 7). In fact, the CSSD was the only Czech party that unconditionally supported the Maastricht treaty and European integration efforts at all levels as early as 1996 (see election manifesto for 1998 as cited in Bugge 2000: 208, cf The Prague Post, 17/07/1996, see chapter 5). It should be noted that the CSSD's pro-European position is an essential tool used to distinguish itself from the Eurosceptic ODS and KSCM and has therefore to be put into the context of the Czech intra-party arena. But whereas the intra-party arena seems to exert a strong influence on the CSSD's position on European integration, the pressure to fulfil partisan expectations helps to explain why the party has become increasingly reluctant to take a fast-track approach to adopting the euro in recent years. For example, while standing at odds with the Maastricht criterion of fiscal consolidation, expenditure oriented poli-

[6] The CSSD was founded in the 19th century and forcibly merged with the Communist Party in 1948.

cies such as wage increases for public sector workers in 2002 and 2004 "reflect the CSSD's electoral interest in retaining the support of a key constituency" (EIU 2005a: 35). Partisan interests were certainly a positive influence on the CSSD's policy of welfare social-democracy given that the party lost much of its traditional core constituency to the KSCM (see EIU 2005a). In turn, the growing partisan pressure – reinforced by rising unemployment rates in the aftermath of the currency crisis (see chapters 3 and 5) – has to be put into the context of a cleavage structure in which issues of distribution determine political partisanship, thus socio-economic cleavages dominate (see part B of this chapter). Given that the CSSD's general election campaign promised to expand the welfare state, the Spidla government initially set a mediocre fiscal target and did not present a more ambitious reform package until the external pressure became too high (see chapter 5). This points to the value of a rational partisan model in highlighting fiscal cycles under left-wing governments in the short-run after the elections (see chapter 2, Alesina 1994). With higher public spending, the CSSD evidently had to give up plans for a fast-track approach to euro-zone accession and postponed the adoption of the euro to 2010/2011. The postponement of the target date also reflects the ambivalence of the party's voter base towards the euro (see part B of this chapter). Traditionally, support for the CSSD comes from the working class and is therefore high in industrialised regions. The party also finds considerable support among public sector workers and trade unionists. The public's growing scepticism toward European integration, especially from the party's potential voter base, and the Eurosceptic position of the two opposition parties, has certainly affected the CSSD's rhetoric and stance on European integration. Indeed, the party has gradually realigned its position, stressing now more than before, the negative social and economic consequences of EU accession likely to arise from, among other things, price rises and intensified economic competition. In order to avoid "undesirable tensions and problems in Czech society" (Euromanifest CSSD 2001 as cited in Hanley 2002: 7) says the CSSD, the Czech Republic needs transitional arrangements. Thus, while fully supporting the Maastricht treaty, a postponement of euro-zone entry is in line with the CSSD's concerns regarding growing socio-economic tension in the light of high unemployment rates and the sceptical public attitude to the euro, especially among its potential electorate. It is therefore argued that the CSSD's position on the euro is driven by electoral interests and a partisan related fiscal expenditure oriented policy help to explain the CSSD-led government's decision to postpone the adoption of the euro to the next decade.

Like the CSSD, its junior coalition partners since the 2002 general elections, the centre-right Christian Democratic Union-Czech People's Party (KDU-CSL) and the Freedom Union (US-DEU) are pro-European integration.[7] Indeed, the coalition government united a "common commitment to rapid Czech accession to the EU and a rejection of the Civic Democrats' 'Eurorealism'" (Hanley 2004b: 693), thereby demonstrating the significance of European issues for the overall stability of the coalition (see chapter 6). The KDU-CSL has its roots in the Christian social movement of the 19th century and is especially well established in the Czech lands and in small cities. Its core electorate represents catholic and conservative voters with particularly high support in rural parts of Moravia. The KDU-CSL was the junior coalition party in the Klaus' government between 1992-1997 and formed a coalition election action with the US-DEU for the 2002 general election. In their joint party manifesto the KDU-CSL and US-DEU stress the rule of law as well as the fight against corruption. The US-DEU was only established in 1998 by former ODS members as a reaction to the ODS party finance scandal in 1997 (see chapter 6). Support for the US-DEU is mainly in larger cities as well as among the younger generation and voters with higher education. In contrast to the ODS, the other centre-right parties in the Czech Republic firmly support EU accession seeing membership as "vital to Czech national interests" (Hanley 2002: 8). EU membership, the KDU-CSL and US-DEU argue, will reinforce economic reforms. In the same vein, the parties support a rapid adoption of the euro. In their joint coalition

[7] That does not mean that these parties never criticise any aspect of EU at all. The debates on the Benes decrees legitimising the expropriation from the Czech lands and segregation of more than 2 million ethnic Germans after the end of the Second World War in particular, have inflamed the atmosphere between the EU and all Czech parties (Hanley 2004a: 532, see chapter 5). Indeed, the Benes decrees play an important role in mobilising anti-EU sentiments (see Hanley 2004b: 696). At a German-Czech discussion forum in Berlin in March 2002, for instance, Miroslav Bednar, one of the co-authors of the Manifesto of Czech Realism and member of the ODS (see footnote 6), went so far as to describe Germany, Austria and Hungary as the "Axis of Evil" for their stance on the Benes decrees (see Frankfurter Allgemeine Zeitung (FAZ) 09/03/02 and Hanley 2004a).

manifesto for the 2002 general elections, the KDU-CSL and US-DEU advocated a macroeconomic policy that would make adoption of the euro possible in 2007 (KDU-CSL and US-DEU Coalition Manifesto 2002). It should be noted, however, that the parties' position on European integration is driven to a large extent by their relationship with the ODS. Especially in the case of the US-DEU, the strong Europhile position is "a necessary break with the Euroscepticism of ODS" (Hanley 2002: 8) and

> it is hard to avoid the feeling that the KDU-CSL and US developed their position on EU primarily as an opposition to the sometimes sharp tongue of the ODS, rather than from some form of party-wide or ideological issue (Kopecky and Ucen 2003: 168).

Thus, the KDU-CSL and US-DEU's pro-European stance is largely shaped by their antagonistic relationship with the ODS. This is particularly important since the coalition parties compete for votes with the ODS and can thus benefit from the fact that the anti-European discourse of the ODS does not match the pro-European attitude of its constituency (see above and part B of this chapter).

Table 8 Czech political parties' position in the EU-accession referendum

Party	*Position on the EU-accession referendum*
KSCM	**'Moderate' No campaign (qualified rejection of EU accession)**
Republicans of Miroslav Sladek[8]	**No campaign**
ODS	**No active Yes campaign, no formal appeal to vote Yes until 2 hours before polls were opened.**
CSSD	**Yes campaign**
KDU-CSL	**Yes campaign**
US-DEU	**Yes campaign**

[8] The Republicans of Miroslav Sladek (RMS), formerly run under the Association for the Republic-Republican Party of Czechoslovakia (SPR-RSC), came in fourth place with 8 percent of the vote in 1992 and won a share of 6.5 percent in 1996. The nationalist RMS manifests its anti-EU position in hostility toward Germany and the Roma minority and "dreams of an ethnically pure greater Czechoslovakia" (Beichelt 2004: 38). It criticises the EU as being dominated by German interests and focuses on fears of the sell-out of Czech industry and property to foreign companies. It also led the no-campaign for the EU accession referendum. During the last parliamentary election in June 2002, the RMS received only a devastating 1 percent of the vote, mostly because all major parties conducted populist electoral campaigns.

In summary, in the case of the junior coalition parties KDU-CSL and US-DEU, strategic interests generated from the intra-party arena exert a strong influence on their positions on European integration. On the other hand, the KSCM's rejection of the EU as too capitalist a system is clearly motivated by both the party's communist identity and the party's interest in fulfilling partisan expectations, given that its electorate is highly anti-EU. Eurosceptic positions are further expressed by the ODS, thus Eurosceptic parties are well represented in the parliament and have considerable political leverage. Instead of deeper European integration, the ODS favours a free-trade area without transferring national loyalties to a supranational entity. While the ODS' position on European integration is consistent with its Anglo-Saxon liberal-conservative ideology, it does not represent the interests of its electoral base which is strongly pro-European integration. In fact, the ODS's position on the euro deviates from what rational electoral strategies would predict. Thus, other factors than partisan pressure play a dominant role in understanding the ODS' stance on European integration; an important finding further highlighted in chapter 5. In contrast, partisan pressure strongly affects the CSSD preferences on EMU. Its voter base is less inclined towards European integration and while the party initially unconditionally supported the Maastricht Treaty, it followed expenditure oriented fiscal policies that were at odds with the Maastricht criteria. It is argued that fiscal expansion under the CSSD governments (especially in the first half of its time in office) has to be seen in light of growing partisan pressure, given that the party lost many of its supporters to the KSCM, a party which seeks to become a legitimate alternative to the Social Democratic Party. The CSSD's fiscal expenditure-oriented policy also explains why the CSSD-government readjusted its euro-adoption strategy in 2002 and postponed the target date (see chapter 3 and 5). It can therefore be argued that a partisan related political business cycle positively influenced the postponement of the euro-adoption. However, as further argued in chapter 5 and 6, partisan pressure does not explain why the CSSD changed its view on the euro after the currency crisis and not before, nor can partisan and strategic electoral interests account for the overall reluctance towards the adoption of the euro among the political elites, especially among high-ranked ODS politicians and central bankers.

Slovakia

Two parties on the far-left, the Association of Slovak Workers (ZRS) and the Communist Party of Slovakia (KSS), have adopted anti-European stances (see chapter 5). However, neither of these parties commands very many votes, and they do not play a major role in the political system. The KSS entered the parliament for the first time in 2002, receiving 6.3 percent of the vote whereas the ZRS lost its parliamentary representation in 1998 (votes dropped from 7.4 percent in 1994 to a disappointing 1.3 percent) and has not been able to recover since.[9] Although the KSS recommended a yes-vote in the EU accession referendum (see Table 9) its "distaste for both post-communist economic reform and the EU was frequently manifested" (Henderson 2003: 3). Consistent with its communist ideology, the KSS rejects the EU system as it is "based on the neoliberal dogmas about the needs of the free market" in which "the interests of capital are set over the interests of the citizens" (KSS 2004). In the same vein, the KSS condemns the Maastricht Treaty as too capitalist. The anti-EU rhetoric of the KSS falls on fertile grounds since the supporters of the communist party "have been more willing to convert their resistance to the hardship of post-communist transition into a vote against the EU [in the accession referendum]" (Henderson 2003: 9). The core electorate of the KSS consists of protest voters and voters "alienated by the transition" (Fitzmaurice 2004: 163), especially retired people and people who lost out from the transition process and/or have a certain nostalgia for the communist system (Fitzmaurice 2004: 165). The KSS' anti-system/anti-EU position fits therefore with the socio-economic interests of its electoral base and is clearly driven by the party's com-

[9] Unlike in the Czech Republic, the unreformed communist parties play a marginal role in the struggle over power in Slovakia. The different levels of success reflect the societal differences between the Czech and Slovak Republics. The core constituency of the communist party, industrial workers, is less represented in Slovakia than in the Czech Republic. In addition, unlike in the Czech Republic, religion plays an important role and Slovaks are very sensitive to the anti-communist rhetoric of the Slovak Catholic Church. Moreover, as further discussed in chapter 5, the need for nation building after the split of Czechoslovakia gave rise to nationalist parties; a need for self-determination, which is diametrically opposed to the communist ideology.

munist identity, rather than by short-term goals such as office-related payoffs. Certainly, as an unreformed communist party, the KSS has no coalition potential and its anti-EU rhetoric therefore correlates with its outsider status. However, since the consolidation of the KSS as a permanent representative in the parliament is far from certain, its veto potential remains fairly low.[10]

On the extreme-right, the Slovak National Party (SNS) expresses anti-EU views that stem from a rejection of Western values and fears of losing state sovereignty (see chapter 5; Szczerbiak and Taggart 2001: 19; Beichelt 2004: 40). The SNS rejection of EU membership and membership in any international organisations is consistent with its nationalist/patriotic and protectionist values – thus with the party's identity – and fits with its Eurosceptic voter base. Support is mainly in rural areas and is high among the unemployed, male voters (especially young men) and skilled workers (see Krause 2000). Together with the ZRS, the SNS was the junior coalition partner in the Meciar government from 1994 to 1998 under which Slovakia became internationally isolated and EU accession a far distant project; a foreign policy which has to be seen in light of shared principled beliefs about Slovakia's place in Europe as discussed in chapter 5. But the party lost its political influence and parliamentary representation in 2002, as support for the SNS dropped from 9.1 percent of the vote in 1998 to only 3 percent in the last parliamentary election in 2002.[11]

The largest party with Eurosceptical views is the Movement for a Democratic Slovakia (HZDS) – renamed the People's Party-Movement for a Democratic Slovakia (LS-HZDS) in 2002 – the ruling party from the country's independence until 1998, headed by the former Prime Minister Vladimir Meciar. The LS-HZDS is an authoritarian nationalist/populist party (its main ally has been the SNS) with its core electorate mainly in rural and – with the exception of Bratislava – Western Slovakia, as well as among older and less educated people (Fitzmaurice 2004: 162). During Meciar's time

[10] In the 2004 election to the European Parliament, for instance, the KSS was not able to exceed the 5 percent threshold.

[11] Before the general election in 2002 the former party leader, Jan Slota, left the SNS and founded the Real Slovak National Party (PSNS). Following the split, the SNS and the PSNS were not able to exceed the 5 percent electoral threshold in the 2002 general elections.

in office, Slovakia became internationally isolated and excluded from NATO and EU accession negotiations (see chapters 5 and 6). The Eurosceptic stance of the LS-HZDS fits well with the interests of its supporters who are traditionally "politically reserved about the EU" (Henderson 2001: 11) fearing both economic disadvantages from EU membership and the loss of the just-gained national sovereignty (chapter 5).

As stated in chapter 3, opportunistic interests of the Meciar government resulted in a political business cycle, i.e. in a drastic increase of the budget deficit, prior to the 1998 general elections. Indeed, Slovakia's fiscal policy is still constrained by a budget deficit that goes back to the economic policy of the Meciar governments, under which economic reconstruction was neglected, privatisation turned into cronyism and expenditure-oriented fiscal policy implemented (see chapter 3). However, despite the fact that the party's efforts in attracting votes proved to be successful as the LS-HZDS again became the largest single party in parliament, it found itself unable to form a government after the 1998 elections. In reaction to this, the LS-HZDS has realigned its position on EU and NATO membership since 2002 and now takes a rather moderate stance toward European integration. Indeed, during the campaign for the EU accession referendum, the LS-HZDS recommended a yes-vote (see Table 9). The overwhelming consensus on "the return to Europe" led even nationalists like Meciar to try to broaden their rhetoric into a pro-European political discourse. Thus, the LS-HZDS position on European integration has to be understood as a means to appeal to a broader electorate and to become internationally rehabilitated (Henderson 2002: 6). The LS-HZDS's adjusted stance on EU issues is therefore motivated by its office-seeking behaviour rather than by a change in the party's fundamental values or ideas on European integration.[12] More important for the Slovak euro-adoption strategy, in an effort "to end its long-standing pariah status" (EIU profile 2005h: 15) the LS-HZDS supported key government bills for policy reforms designed to meet the Maastricht criteria by 2007. As the

[12] For example, Meciar's moderate stance towards European integration is often contradictory and not consistent in its arguments. While Meciar now officially declares himself "not to be a supporter of the Europe of regions nor the Europe of the nations but of the United States of Europe" (Meciar quoted in Kopecky and Ucen 2003: 172), he states at the same time that the adoption of the acquis communautaire - and thus EMU - comes with the 'extinction of Slovak statehood' and is a 'nightmare' (ibid).

largest party in Slovakia and with a party leader that strongly polarises Slovak society on political issues (see chapter 6), the LS-HZDS has considerable political leverage on the political discourse of EU issues but also on the country's strategy for adopting the euro, especially since the government has relied on LS-HZDS support for key government bills promoting early EMU accession.

During the last parliamentary election in 2002, the newly-founded populist centre-left party SMER ("Direction") received 13.5 percent of the vote. Its charismatic leader, Robert Fico, was a former MP for the Party of the Democratic Left.[13] The election campaign, run on a populist platform, emphasised law and order and the fight against corruption, capitalising on the people's frustration with inter-party conflicts, corrupt politicians and painful EU-mandated reforms. The party thus appeals to former supporters of the ruling parties who have become disillusioned with the Dzurinda governments as much as to "those voters – mainly elderly, less educated and rural – who have been most threatened by the government's liberal economic reforms and have benefited the least" (EIU 2005g: 15). The party supports EU accession and an adoption of the euro within a "reasonable and for Slovakia advantageous time" (SMER 2004) but, at the same time, it is against further political integration on the EU level, saying such integration runs counter to the party's desire for national sovereignty. SMER's populist stance, assigning Fico the reputation of being "Meciar-light", has to be put in the context of the Slovak party arena and competition, given SMER's interest in appealing to supporters of the government parties. SMER's position on EU issues is primarily based on the instrumental populism it uses to attract voters. This is further reflected in the party's lack of a coherent political agenda. SMER's potential impact on the policy agenda of the other parties is not negligible given the fact that in 2004 it "has taken over HZDS's mantle as the most popular opposition party in Slovakia" (Bakke and Sitter 2005: 249, see also chapter 6).

[13] Robert Fico was a popular politician in the SDL and left the party in October 1999 after the former SDL party leader Jozef Migas prevented the appointment of Fico to the post of Justice Minister (Fitzmaurice 2004: 163).

The current government coalition, consisting of several liberal-conservative and previously also socialist parties – the Slovak Democratic and Christian Union (SDKU)[14], the Party of the Hungarian Coalition (SMK), the Christian Democratic Movement (KDH), the liberal Alliance of New Citizen (ANO) and also between 1998-2002 the Party of the Democratic Left (SDL)[15] and the party of Civic Understanding (SOP)[16] – was built to exclude the party that received the most votes, the Movement for a Democratic Slovakia. The general "anti-Meciarism" which united the coalition parties was strengthened by the threat that Meciar could return to office. This was especially true of the first Dzurinda government (1998-2002) and its major coalition partner the SDL (see chapter 6). Being a moderate socialist party with its core electorate coming mainly from the left and the ex-communist wing, the SDL found itself in a difficult situation in the so-called "anti-Meciar rainbow-coalition" which was in essence a centre-right coalition (see Fitzmaurice 2004: 162). Indeed, as Bakke and Sitter (2005: 249) state: "apart from being against Meciar, the members of this civic-democratic coalition had little in common". As discussed further in chapter 6, the left-right tensions of the first Dzurinda government caused a division between the leadership and the party's rank-and-file members, particularly for the left SDL who "felt like hostages on issues such as fiscal policy and privatisation" (Fitzmaurice 2004: 162). This clearly demonstrates the importance of coalition politics and office-seeking behaviour when other interests or even the party's identity may have to be sacrificed, as happened to prevent Meciar's return to office (see chapter 6).

[14] The leading party in the first Dzurinda government (1998-2002) was the Slovak Democratic Coalition (SDK) that consisted of the KDU, the Democratic Union (DU), the Democratic Party (DS), the Social Democratic Party of Slovakia (SDSS) and the Party of the Greens (SZS). During the first Dzurinda government the SDKU split off from the Christian Democrats (the latter became the Christian Democratic Movement) and joined the Democratic Union.

[15] Unlike in Poland and Hungary, the successor of the communist party was not able to establish itself as a ruling party in Slovakia. After gaining only a disappointing share of votes during the 2002 general elections, the Party of the Democratic Left merged with SMER in December 2004. For a detailed analysis of the failure of the SDL see Haughton (2004) and Fitzmaurice (2004).

[16] The centre-right party SOP was formed shortly before the general election in 1998. The SOP was publicity supported by the independent Markiza TV station (the director of Markiza, Pavol Rusko formed later the liberal Alliance of the new Citizens, ANO). The party chair was the former President of Slovakia Rudolf Schuster. SOP stood with the SDL in the 2002 elections but failed to pass the 5 percent threshold.

Apart from the Christian Democratic Movement, the coalition parties strongly support EU membership. As argued in chapter 5, the coalition's stance on foreign policy and European integration is a vital element in contrasting itself from Meciar' politics and has to be seen in the context of the Slovak experience of international isolationism, the polarisation of the Slovak society between pro- and anti- Meciar camps and public support for EU membership (see part B of this chapter and chapter 5). The coalition's foreign policy, especially vis-à-vis the EU, is for that reason very much a "source of legitimacy and proof of successful rule" (Kopecky and Ucen 2003: 172). Certainly, legitimacy is a very hard currency in politics and stresses the value of the pro-European stance for the coalition's own survival (see chapter 6). By referring to Meciar's neglected reforms and the country's need to catch up with the other new member states, the SDKU party manifesto for the 2002 general elections defines EU membership as "the opportunity to speed up the modernisation of the country" while the adoption of the euro would "complete the integration of Slovakia into the group of developed world countries" (Slovak Democratic and Christian Union 2002). Thus, EMU membership is seen as necessary in order to achieve parity with other European states and as a means to overcome Slovakia's previous 'outsider' status (see chapter 5). The government's enthusiasm to push forward reforms aimed at joining the euro-zone as quickly as possible must be viewed in this context. This matches the pro-European attitude of the SDKU's voter base. Support is particularly high among entrepreneurs, people with higher education and those living in urban areas. As stated in the second part of this chapter, these voters benefit from EU membership and are more likely to support the country's adoption of the euro. Being pro-European integration is integral to the SDKU's identity in as much as this is a source of its legitimacy, illustrating the overall importance of the SDKU's foreign policy for its own stability and survival. The SDKU's EU policy is therefore pursued in its own-interest and – as further demonstrated in chapter 5 – is interwoven in the principled (normative) and causal beliefs that EU membership and the adoption of the euro are fundamental principles for guiding Slovakia's path in Europe and to 'speed up the country's modernisation'.

The centre-right Christian Democratic Movement (KDH), one of the coalition parties, represents Catholic fundamentalism and some Eurosceptical stances. The KDH's enjoys stable and loyal support from a rural and catholic electorate. It shares with the nationalist parties its older, less educated electorate (Henderson 2002, 2003). While the KDH was firmly pro-EU accession during its years as an opposition party, the party has shifted toward a Eurosceptical position. The founder and former leader of the KDH, Jan Carnogursky, expressed the fear that the "western values and way of life are not particularly suitable for the Slovak people" (Kopecky and Ucen 2003: 173). Concerns about cultural and ethical sovereignty are at the heart of the KDH's sceptical position on the EU, resulting in a declaration put forward by the party and approved by the parliament in 2002 that calls for the exclusive jurisdiction of the new member states on culture, ethical questions (e.g. against euthanasia, abortion), family protection (e.g. against legalisation of gay marriages) and anti-discrimination laws (e.g. discrimination based on sexual orientation) (see Rybar 2002: 26, Kopecky and Mudde 2002: 315 and EIU 2005h: 17).[17] Nevertheless, the KDH supported the Yes-campaign for the country's accession referendum in 2003 (see Table 9) but has recently expressed some concerns about a common currency, as it would undermine state sovereignty (see Ucen 2004: 1124). The KDH's sceptical position on European integration is thus rooted in its cultural and religious identity.

Table 9 Slovak political parties' position in the EU-accession referendum

Party	*Position in the EU-accession referendum*
HZDS (renamed LS-HZDS)	**Called for a Yes vote**
SNS	**No campaign**
KDH	**Called for a Yes vote**
SDKU	**Yes campaign**
SMER	**Yes campaign**
KSS	**Low-key 'Yes recommendation'**

[17] A similar proposal was put forward by the KDH during the campaign on the country's EU referendum (see Bilcik 2003: 97).

In summary, under the Eurosceptic Meciar governments (1993-1998), Slovakia experienced a period of international isolation during which EU membership became a far distant project. Prior to the election in 1998, the Meciar government pursued strong fiscal expansion in an effort to get re-elected. Expansionist and interventionist policies, neglected structural reforms and inflation debts in the years of the Meciar governments (see chapter 3) certainly put a heavy burden on successive governments aiming for a fast-track approach to adopting the euro. Despite being the largest single party in parliament, the LS-HZDS found itself unable to form a government after the 1998 elections. In reaction to this, the party has moderated its tone on European issues. Indeed, strategic electoral interests led Meciar to soften his stance in an effort to become internationally rehabilitated and to increase the party's coalition potential. On the other hand, the Eurosceptic communist party, KSS, possesses a very low veto potential while, the KDH's Eurosceptical position is mainly related to concerns about appropriate cultural and religious values and the party has only recently expressed some hesitancy about EMU. Thus, in contrast to the Czech Republic, the political conditions for a quick adoption of the euro are rather positive; a fact that corresponds with low public Euroscepticism (see p. 143). Indeed, ever since the HZDS lost office in 1998, the reform oriented Dzurinda governments have successfully embarked on a pro-European integration foreign policy, are highly committed to joining the euro-zone as quickly as possible and certainly no later than the other Visegrad countries. The stance on European integration of the governing SDKU is a source of its legitimacy in a highly polarised party system and is consistent with the interests of its pro-EU oriented electorate (see part B of this chapter). Interests certainly play a crucial role in understanding the SDKU's stance on European integration, however, as stated above and elaborated in chapter 5, these interests have to be put into the context of the dramatic experience of foreign policy failure under the Meciar governments that made the idea of a pro-European integration policy so persuasive. Moreover, as discussed in chapter 6, the SDKU's ability to implement reforms in line with the Maastricht criteria is also a consequence of favourable institutional opportunities.

Hungary

In contrast to the other Visegrad countries, Hungary displays a low level of party-based Euroscepticism (Szczerbiak and Taggart 2001: 24). The only exceptions to this are the parties representing strong anti-EU resentments, such as the far-right Hungarian Justice and Life Party (MIEP) and the far-left Hungarian Workers' Party (Munkaspart). However, Munkaspart plays only a marginal role in the struggle over power and has been unable to win any parliamentary representation since its foundation in 1989. Likewise, while the MIEP won 5.5 percent of votes in the 1998 parliamentary election, it was not able to pass the 5 percent threshold in the 2002 elections, losing many of its voters to FIDESZ. Given that FIDESZ was able to attract votes from the MIEP, it is worth looking at the latter's position on the EU.

The MIEP broke away from the governing Hungarian Democratic Forum (MDF[18]) in 1993 to become a national populist party that opposes any form of foreign influence (see Beichelt 2004: 38). The MIEP's rejection of EU accession is based on nationalist and anti-Semitic ideas. The essential issue for the MIEP is Hungarian nationhood linked with the post-World War One peace settlements and their consequences for Hungarian borders.[19] The question of nationhood has always been crucial to political debates in Hungary (Markowski 1997, Kitschelt et al. 1999, Schöpflin 2000). Hungarian politics – and especially the political discourse of MIEP and FIDESZ – are heavily dominated by socio-cultural issues related to the large Roma community and the 3 million Hungarians living in the neighbouring states of Romania, Slovakia, Yugoslavia, and the Ukraine (these countries or territories within them were parts of the medieval Kingdom of Hungary and later of the Austro-Hungarian monarchy). Social-cultural issues divide the Hungarian society into a nationalist-right and a liberal-left cleavage. It is a historical and ideological rural-urban cleavage regarding moral issues

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[18] The MDF was once the leading political party in Hungary at the beginning of the 1990s but gradually lost power and is now a junior partner of FIDESZ. In fact, only the alliance with FIDESZ guaranteed the MDF representation in parliament after 1998 since the party was not able to pass the 5 percent threshold in the last two general elections.

[19] The Justice and Life Party does not recognise the existing borders between Hungary and the Ukraine (see Körösenyi 1999).

which has far reaching consequences for voting behaviour and for the way the two mainstream parties, FIDESZ and MSZP, compete for votes as well as for their stance on European integration.

Victor Orban's FIDESZ Party and the Smallholder Party (the former junior partner of the FIDESZ Party when it was in government[20]) have taken some sceptical views on European integration. FIDESZ – an acronym for Alliance of Young Democrats – started as a radical youth movement against Communism. Not until 1995 was the party renamed the FIDESZ-Hungarian Civic Party, symbolising the party's new emphasis on conservative nationalism (Fowler 2004: 104, cf Kiss 2002). In the late 1990s the party was then gradually "transformed into a centre-right "catch-all" party espousing conservative and nationalist values at least as much as liberal ones" (Batory 2002: 4, Lomax 1999: 114). In 2003, FIDESZ changed its name again to "'FIDESZ-Hungarian Civic Union', in a move to signal a shift from a strictly political organisation to a grass-roots movement uniting people with conservative and nationalist values" (EIU 2005f: 11). This shift is particularly important and has consequences for FIDESZ's fiscal policy agenda. Support for FIDESZ is particularly high in rural areas, smaller towns and among the poor and less educated people with strong national preferences. Agh (2002: 284) therefore argues that FIDESZ's voter base "went against the logic" of class-based voting behaviour, given that the liberal-conservative FIDESZ attracts votes from those who benefit from the social and economic policy of the Socialist-led government. Agh (2002: 284) explains the

> reasons [for the status inconsistency of the Hungarian voters] may be found at the level of political discourse, since FIDESZ has used a traditionalist-

[20] Until its defeat in the general election in 2002 and its subsequent demise, the Independent Smallholder Party (FKGP) was the largest national farmer organisation, receiving a share of votes between 9 and 13 percent. Being a farmer party, the FKGP draws most of its support from a clearly defined socio-economic segment, namely from people working in the agrarian sector and living in the countryside. The FKGP characterises itself as a national Christian peasant party. Under the slogan "God, Fatherland, Family", it defends national interests and accuses other liberal parties of "shameless supranationalism" (Batory 2001: 15). The FKGP was not against EU accession per se, but called for a critical approach to accession negotiations. Under the slogan 'the Motherland is not for sale' (see Batory 2002: 5), the party says, Hungary should insist on prohibiting the sale of real property to foreign investors, because such sales runs counter to the interests of its constituency, the rural population. However, since the 2000 resignation of its leader and former agricultural minister Jozsef Torgyan in the wake of allegations of corruption and embezzlement, the FKGP has been split into factions and was crushingly defeated in the 2002 parliamentary elections, in which it received only 0.8 percent of the vote. Following the party's quasi-collapse after the corruption affair, many of its leading members joined the FIDESZ; supporting and strengthening the nationalist wing of the party.

nationalist discourse, combined with a modernist one for other strata, that has been attractive for the less educated people in smaller settlements.

FIDESZ's traditionalist-nationalist discourse is dominated by the issue of Hungarians living outside Hungary; a distinguishing cleavage of Hungarian society which explains much of the peculiar nature of Hungarian party competition. Also in response to the 'status inconsistency' (Agh 2002) of the Hungarian voters, the FIDESZ government significantly loosened fiscal policy in the run up to the 2002 general election and increased spending on infrastructure projects and public sector wages (see chapter 3, 5 and 6). Indeed, given that the ideological cleavage regarding moral issues is so deep between FIDESZ and MSZP, the only electoral strategy that can be used to attract voters from the concurrent camp is populist spending. In such a rigid framework, fiscal policy is the only 'neutral' policy that can be used to attract voters. All other issues are much too attached to one party. Thus, the Hungarian experience of a political business cycle prior to the 2002 election that resulted in a ballooning of the budget deficit with consequences for the country's euro-adoption strategy (see chapter 1 and 3) has to be seen in the context of the cleavage structure in Hungary.

Relevant to FIDESZ's traditionalist-nationalist discourse is the party's position on the EU. While FIDESZ sees EU accession as a necessity promising material gains and the opportunity for "the 'spiritual association' of all Hungarians inside and beyond the country's physical borders" (Hegedüs 2003: 48)[21], it called for a tough approach to negotiations (Kopecky and Mudde 2002, Batory 2002). Indeed, a tough bargaining approach with Brussels became a repeated claim leading Victor Orban to state that "there is life outside the European Union" (Orban in 2000 quoted in Batory 2002: 5, see also Hegedüs 2003). Since the last general election in 2002, the party's national rhetoric against the EU has systematically become "an important part of the political-building

[21] In 2001, the FIDESZ-led government passed the controversial Status Law that gives special rights (e.g. employment, health care and welfare rights) to ethnic Hungarians living abroad. The status law was harshly criticised by Slovakia and Romania (both countries have Hungarian minorities) arguing that the law discriminates against their citizens and that Hungary tries to broaden its sphere of influence through granting quasi-citizenship to the Hungarian minorities, an act seen as the first step towards territorial claim in the future. Orban also called for the repeal of the Benes Decrees under which ethnic Germans and Hungarians were expelled from Czechoslovakia and lost their property.

manoeuvres of FIDESZ" and has therefore to be seen as an electoral strategy to gain votes (Hegedüs 2003: 47, see also Fowler 2003). According to Batory (2002), its harsher rhetoric against the EU is a result of the tight contest in the 2002 elections. By radicalising its stance on EU integration, FIDESZ hoped to appeal to voters of the radical right (MIEP) (Batory 2002: 5). However, despite its critical stance on the EU, FIDESZ firmly supports the adoption of the euro, seeing it as the 'greatest advantage offered by the EU' as the euro is a critical means to achieve economic stability and low inflation:

> [f]or Hungary being a country with a small and open economy, perhaps this [the single currency] is the greatest advantage offered by the Union. Predictability and low inflation that is guaranteed are the best protection against speculation and the reducible reserves of foreign exchange represent major opportunities for us. For these reasons, we have to do everything possible for the introduction of the Euro in 2008 (FIDESZ 2004 The Europe Programme).

As discussed in chapter 3, Hungary has had to cope with high inflationary pressures, inconsistent fiscal and monetary policies and unpredictable exchange rate development throughout the transition process, resulting in a loss of economic and political credibility. The adoption of the euro is therefore 'the greatest advantage offered by the Union' because the euro is considered as a 'credibility anchor' for the Hungarian economy in as much as the single currency would bring advantages such as lower interest rates (see chapter 5). It should be noted that FIDESZ submitted its Europe programme in May 2004 after the MSZP-led government readjusted the country's EMU accession strategy and postponed the adoption of the euro to 2010. Thus, although FIDESZ expresses some Eurosceptical views – defended on the basis of national interests but certainly to be seen as an effort to broaden out its electoral base – the party is very positive towards EMU and favours a much earlier target date for the adoption of the euro than the government.

The Hungarian Socialist Party (MSZP) is the successor to the communist Hungarian Socialist Workers' party (MSZMP). In 1994, the MSZP returned to power and formed a coalition with the Free Democrats, lost the election to FIDESZ in 1998 and won the election again in 2002. The MSZP is described as a universal, pragmatic and technocratic party that sees EU accession as its top foreign policy priority (see Batory 2001: 19). According to the MSZP, "[...] there is no other way for modernisation for Hungary [...] than joining the process of European integration as soon as possible [...]." (MSZP, quoted in Batory 2001: 19). In the same vein, the MSZP firmly supports euro-zone membership. The party's positive stance on European integration is also a logical consequence of the MSZP's transformation process from an unreformed communist party to a Social Democratic one and may therefore have been "largely pragmatic" as the "MSZP's self-constructed party identity was built on the rejection of the 'ideologisation' of politics in general" (Batory 2001: 19). Thus, the party's desire to leave behind its communist legacy – rather than the party's identity as a Socialist party – exerts a strong influence on the MSZP's stance on European integration. But the pro-European stance of the MSZP also reflects the interests of its pro-EU electorate. Support for the Socialist Party is high among university graduates and in large cities, especially in Budapest, leading Agh to speak of an "anomaly or perversity" (Agh 2002: 285) underlying the social structure of political support for the two mainstream parties FIDESZ and MSZP. As stated above, the "status inconsistency" of the Hungarian voters has to be seen in the context of the nationalist discourse of FIDESZ which attracted many of the votes from less educated and rural citizens. It is also a consequence of the fact that the MSZP was perceived to

> a great extent as a pragmatic-technocratic party that performed a role in socio-economic transformations usually played by the parties on the Right and it has only recently made a major correction towards 'social systemic change' (Agh 2002: 285, see also chapter 3 for a discussion of the austerity measures implemented by the Socialist party in the mid-1990s).

However, the MSZP's efforts to "shake off its post-Bokros image as a party of "austerity" (EIU 2005 2005f: 32) led the party to run its electoral campaign on economic policies to expand the welfare state, thus creating for the MSZP a dilemma of fulfilling election promises that contravened the Maastricht criteria (see chapter 5). Indeed, while the MSZP firmly supports a quick adoption of the euro, it has followed a policy of welfare social-democracy that stands at odds with the Maastricht criterion of fiscal consolidation (see chapter 3). The expenditure oriented fiscal policy is also a consequence of the tight and emotional electoral contest with FIDESZ that fuelled the populist positions of the two mainstream parties and put even more pressure on the MSZP to fulfil voters' expectations (see also EIU profile 2004: 6). The strong increase in public expenditure prior to and after the 2002 elections can therefore be attributed to the process of opportunistic and partisan political business cycles and clearly stands in the context of the FIDESZ-led government's interest to get re-elected and the MSZP's interest in fulfilling election pledges. But with an increase in the budget deficit and growing macroeconomic imbalances, the MSZP-led government eventually had to readjust its euro-adoption strategy in May 2004 and postponed the adoption of the euro to 2010.

The Alliance of Free Democrats (SZDSZ), a liberal democrat party and coalition partner of the MSZP, is most strongly in favour of EU and EMU membership. The pro-European stance corresponds with the economic interests of its electorate, which belongs to the 'transition winners' and beneficiaries of EU membership. The party's voter base is concentrated in Budapest (the SZDSZ politician Gabor Demszky has held the city's mayoralty since 1990) and larger cities and its popularity is high among the well-off and well-educated voters (EIU 2005f: 11).[22] The party manifesto of the SZDSZ for the 1998 parliamentary election was titled "For a modern, European Hungary". Similarly, during the election campaign in 2002, the party presented itself to the voters as 'the party of European Hungary' (see Batory 2002: 6). EU membership is perceived as a guarantee of modernisation, prosperity, market economy, democracy, and the rule of law (see the 1998 party manifesto quoted in Batory 2001). Rather than focusing on issues of national identity, the SZDSZ stresses shared values as the basis of political community. Indeed, it is the party's identification with European values and its liberal economic interests that drive its positive view on further European integration, and thus, on a fast-track approach to adopting the euro.

[22] However, support for the SZDSZ has been decreasing since 1990 underpinning the above described trend towards bipolarity of the left and right, i.e. of the MSZP and FIDESZ (see also chapter 6).

Table 10 Hungarian political parties' position in the EU-accession referendum

Party	Position on the EU-accession referendum
MIEP	**No campaign**
Munkaspart	**Yes campaign** **("wish for a different EU can best be realised from inside")**
FIDESZ	**Called for a Yes vote**
FKGP	**Called for a Yes vote**
MSZP	**Yes campaign**
SZDSZ	**Yes campaign**

In conclusion, strong Eurosceptic parties are not represented in the Hungarian parliament. The low level of party-based Euroscepticism accounts for the high approval of the EU by the Hungarian people (see section on public opinion). Even the parties that express some sceptical views on European integration, like FIDESZ, are strongly in favour of adopting the euro as quickly as possible. This is because FIDESZ's sceptical stance on the EU is related to its efforts to attract votes from the far-right, rather than to real concerns about the possibility of European economic integration undermining state sovereignty. Likewise, the MSZP's pro-European stance has been largely pragmatic, given the party's efforts and needs to distance itself from its communist legacy. Thus, interests rather than the party's ideas drive the MSZP's aspiration to join the euro-zone as quickly as possible. Indeed, the euro-zone entry is generally seen as a means to obtain not only a stable currency but also economic stability and much needed credibility. This is in line with Hungary's initial euro-adoption strategy, which aimed to adopt the euro at the earliest possible time. However, actions did not match words and both the FIDESZ- and MSZP-led governments embarked on an expenditure-oriented policy; a result of politicians' interest in getting re-elected (FIDESZ) and in fulfilling election promises (MSZP). MSZP's 'fiscally generous 100 day programme' (chapter 3, see also EIU 2005f: 32), standing at odds with a fast-track approach to adopting the euro, certainly has a partisan connotation and has to be seen in the context of the party's efforts to 'shake off' its image as a party that follows orthodox fiscal policies. The emotional electoral contest that fuelled populist economic policies is generated by the parties' interests to broaden out their electoral bases rather than from the parties' genuine ideology. The cleavages structure of the Hungarian society does not explain the expenditure-oriented policies per se, but it explains the parties' electoral strategies that resulted in spending. Hence, political business cycles, and therefore opportunistic interests, contributed significantly to the postponement of the target date for euro-zone accession to 2010. Under the above-described conditions of a rigid environment for party competition, opportunistic interests exert a distinct influence on the country's euro-adoption strategy, as they are strong enough to outweigh pressure arising from the legal obligation to meet the Maastricht criteria.

Poland

Poland has only recently experienced an increase in Eurosceptic positions in its political parties. Until the late 1990s, the major political parties and actors shared an overwhelming consensus for EU membership. However, as EU accession approached, public debates about the costs and benefits of EU membership increased (see section on public opinion) and the EU is now a "focus for both conflict and hostility" (Szczerbiak 2001b: 6).

Indeed, there is now a significant manifestation of Eurosceptic views in Poland. The Polish Agreement (PP), founded in 1999 and led by Jan Lopuszanski, was the first party to openly oppose Polish EU membership.[23] For the 2001 general election, the PP joined the anti-EU party League of the Polish Families (LPR) which was founded just

[23] The PP was part of the Solidarity Electoral Action (AWS) and associated itself with the Catholic nationalist right but played only a marginal role in the Polish Sejm.

before the parliamentary election in 2001 and immediately received 8 percent of the vote.[24] The LPR is a new party of the extreme right and some of their leaders came from the AWS.[25] Most of the LPR's support comes from orthodox Catholics (Szczerbiak 2003b: 737). Its electorate, the 'religious right', represents "nationalist and anti-cosmopolitan worldviews" (Szczerbiak 2003b: 737), rejects the legalisation of abortion, supports an active role of the Church in public affairs and is highly anti-EU with only 36 percent of LPR supporters voting in favour of the country's EU accession in the 2003 referendum on EU membership (Markowski and Tucker 2005: 411). Consistent with its identity as a pro-clerical, anti-reform and anti-integration party, the LPR firmly rejects any kind of European integration and run a No-campaign for the EU accession referendum (see Table 11, see also Szczcerbiak 2003a: 6 and chapter 5). Thus ideological and moral-cultural issues, rather than strategic electoral interests per se, drive the LPR's position on European integration (see Szczerbiak 2003a, see chapter 5). Given that the LPR is not the only party in the Sejm that represents anti-EU stances, its veto potential is considerable. Its anti-EU position especially influences the policy agenda of the former AWS centre-right parties against which the LPR competes for votes (see below).

The Self-Defence Party (Samoobrona), founded originally as a trade union in 1992 and led by the populist Andrzej Lepper, received more than 10 percent of the vote in the general elections in 2001. The Self-Defence Party is clearly a radical farmers' party with anti-EU stances not only in its rhetoric but also in its action. Andrzej Lepper organised violent radical demonstrations and road blockades in 1999 to defend farmers' interests and to put pressure on the government to protect Polish farmers from

[24] During its electoral campaign, the LPR received crucial support from the fundamentalist Catholic radio station, Radio Maryja. It is said that the strongly anti-European Father Tadeusz Rydzyk, director of the Radio station, was able to mobilise listeners to vote for the LPR (Szczerbiak 2002: 9). Radio Maryja has got approximately four million listeners, accounting for 5-10 per cent of the total electorate. During the 1997 electoral campaign, Radio Maryja supported the AWS.

[25] The AWS was founded in 1996 as an attempt to reunite Poland's right-wing parties and won the parliamentary election in 1997 (see chapter 6). The AWS "wanted Europe to be a community of free nations that remember their identity" (Krzaklewski, AWS candidate for the 2000 presidential election, quoted in Szczerbiak 2001b: 10) and adopted a Euro-realist discourse: while generally agreeing with the necessity of EU accession, the AWS stipulates conditions and qualifications on how EU accession should be achieved. But before the 2001 elections, a number of parties broke away and the AWS failed to enter the parliament. Since its catastrophic election defeat in 2001, the AWS went on to disintegrate. In fact, as Szczerbiak (2004: 76) argues, it "appears to have passed into history".

European competition (Batory and Sitter 2004: 533). Lepper sees EU membership as a threat to national identity and economic interests. He expresses anti-German and anti-EU sentiments, criticising the EU as a "new kolkhoz" (Lepper, quoted in Strobel 2001: 278). According to his rhetoric, the EU, the World Bank, and the IMF will make Poland "the absorber of the West's product surpluses" (Lepper, quoted in Szczerbiak 2001b: 15). Further, Lepper states: "we say no to today's Union because we do not see a basis for partnership. What we see is kneeling down and toadying" (Lepper as cited in Beichelt 2004: 39). In the same way, the party supporters represent anti-European positions and were less likely to support EU membership in the 2003 referendum (Markowski and Tucker 2005: 411). The voter base of Samoobrona is mostly left-wing and opposes further privatisation while supporting the redistribution of wealth and national protectionist measures on economic issues (see Szczerbiak 2003b: 740). Most of its support is in rural and provincial areas and among the unskilled workers, former state-employed farmers and the unemployed. Samoobrona attracted votes from disillusioned SLD-voters and was "able to reach out beyond its rural-agrarian core" to receive "above average support among groups of urban 'transition losers' such as workers and the unemployed" (Szczerbiak 2003b: 740, see also EIU 2005d: 10). The socio-economic interests of its electorate are reflected in Samoobrona's protectionist stance on economic policy. Given its taste for state intervention, the party criticises the independence of the central bank, a prerequisite for EU and EMU accession. The National Bank of Poland (NBP) is the major target of criticism in Samoobrona's party programme (also because Leszek Balcerowicz, the President of the NBP, is the symbol of the much hated pro-market reforms which Lepper occasionally labels as 'economic genocide' see FAZ, 28/01/2002), stating that "democratic [i.e. parliamentary] control over the NBP" should be restored while the central bank's primary objective should be "fighting unemployment" and not price stability (Samoobrona 2004). In the 2001 general elections, Self-Defence became the third largest force in the parliament; together with the LPR both parties gained about 18 percent of votes, thus anti-EU parties were well represented in the Polish parliament (Beichelt 2004: 39). While the success of

Samoobrona and the LPR illustrates key divisions within Polish politics reflected in the rural-urban and the survival of the church-state cleavage, it also shows a "new divide between westernisation and nationalism, a divide that finds expression in the opposition between various pro- and anti-EU forces" (Gallagher et al. 2006: 271). Both parties, Samoobrona and LPR, have low coalition potential but their policy agenda has influenced how the other parties compete on EU related issues. In particular Samoobrona influences the policy agenda of the Polish Peasant Party, which contributed to the failure of the PSL coalition with the SLD. The LPR, whose members mainly came from the AWS, also had an impact on the PO's and PiS' EU-rhetoric and put pressure on the government to adopt a tough stance during EU negotiations (e.g. see Poland's initial position on the European Constitution, which eventually led to the collapse of the European Council talks in December 2003). Indeed, whenever the SLD-led government had to make unpopular decisions, Samoobrona and the LPR were in a 'favourable position to take advantage' of people's dissatisfaction (see EIU 2005d: 14).

The Polish Peasant Party (PSL) was founded in the 1990s as the successor party to the communist satellite, the United Peasant Party (ZSL) (Szczerbiak 2002: 8) and went on to form a coalition with the post-communist party in 1993 and 2001 (see chapter 6). As Szczerbiak (1999: 1416) points out, the PSL is the "party with the clearest concentration of support in a particular socio-economic segment, in the countryside and particularly among those employed in the agricultural sector". The party leader Jaroslaw Kalinowski, who was Agricultural Minister until the coalition with the post-communist party broke up in March 2003, adopted a "'twin-track' approach to EU membership" (Szczerbiak 2001b: 12). While generally agreeing with EU accession, Kalinowski tried to position the PSL "as the most effective defender of Polish national interests" (Szczerbiak 2001b: 12). Although 50 percent of all PSL supporters oppose EU membership, the PSL did not adopt a decidedly Eurosceptical approach in its 2001 general election campaign. This was because the PSL was already counting on a possible coalition with the pro-EU party, the SLD (see Szczerbiak 2001b). Thus the party's office seeking strategy helps to explain the PSL's position on the EU in 2001 (Batory and Sitter 2004: 543). Szczerbiak (2001b: 14) elaborates further that the party's stance on the EU during the 2001 election campaign was also related to the fact that "the PSL was deliberately trying to broaden out its base of support beyond its agricultural and rural core", i.e., to be more than a rural or peasant party. However, in contrast to Samoobrona, the PSL was not able to attract votes from a broader segment of society, leading some commentators to doubt

> the PSL's ability to radically transform itself, arguing that it will 'always remain a party of a clearly defined section of the electorate and will never do anything against its iron rural electorate, because this is its parliamentary bread and butter (Janicki quoted in Szczerbiak 2003b: 740-741).

Indeed, the pressure to fulfil partisan expectations eventually led to the collapse of the coalition. Prime Minister Miller ended the coalition with the PSL in March 2003 after the PSL refused to support a reform plan aimed at consolidating public finances and showing financial fitness for EU and EMU accession (see chapter 6). It can thus be argued that while the PSL pro-European rhetoric prior to the 2001 general elections was related to its office-seeking behaviour, the socio-economic interests of its constituency – as well as the stronger competition with Samoobrona (cf Epstein 2005: 192) – forced the PSL to vote against the government's economic policy plans and to leave the coalition. After the failure of the coalition with the PSL, the SLD went on to form a minority government which proved to be fairly unstable. This had consequences for both the government's ability to push forward reforms in line with the Maastricht criteria (see chapter 3) and therefore for Poland's approach to EMU accession (see chapter 6).

The Law and Justice Party (PiS) was founded by the twin brothers and right-wing former Solidarity politicians Jaroslaw and Lech Kaczynski shortly before the parliamentary election in 2001 and received 9.5 percent of the vote when it first ran. As an opposition party to both the SLD and the former AWS parties, it positioned itself as an authoritarian and populist party, calling for tough law-and-order measures (Kopecky and Mudde 2002: 312) while repeatedly comparing itself with the German Christian Democratic party (CDU), emphasising their Christian-Democratic roots. Party supporters are less clearly defined because the PiS' electorate displays a 'broad social heterogeneity' (Szczerbiak 2003b: 738) and

> the best way to characterise these voters was as 'Christian democratic: moderately liberal in terms of economic policy, moderately conservative in terms of moral-cultural issues and the role of the Church in state affairs and moderately internationalist in terms of their attitude towards foreign co-operation (Szczerbiak 2003b: 738).

In the same vein, the party itself is not against European integration per se, but presents Polish EU membership as the only realistic foreign policy alternative. However, the PiS conducted a reserved, low-key Yes-campaign during the country's EU accession referendum, affirming the party's ambiguous position on EU issues (see Table 11). During its time as an opposition party the PiS was moderately in favour of EU membership but criticised the EU for being a 'socialist utopia' (thus the PiS rhetoric on European issues came close to the LPR critique). Sceptical European positions are especially represented by a group of defectors from the ZChN (see footnote 29) who merged with the PiS in 2002 and who, "if not actual opponents of EU membership, were among the party's most vocal critics of the EU" (Szczerbiak 2002: 8). During its time as an opposition party, its position on the euro was also ambiguous. While in 2004 the PiS was not against euro-zone membership per se, it wanted to postpone the adoption of the euro to the distant future (British Polish Chamber of Commerce November 2004). Given its indistinct position and taste for economic 'dirigisme' (see EIU 2005d: 14), it is arguable that instrumental populism – and therefore the party's quest for votes – strongly affected the PiS' stance on European integration. Certainly, in addition to the anti-EU position of the LPR and Samoobrona, as well as the resistance of the PSL to fiscal consolidation, the PiS' reluctant attitude towards the adoption of the euro added to further pressure on the government and the centre-right party, the Civic Platform, to refrain from announcing a target date for euro-zone accession and advocating a fast-track approach to adopting the euro.

The Civic Platform (PO) was founded in January 2001 as a liberal-conservative party by the so-called three tenors Maciej Plazynski[26] (former leading member of the AWS), Donald Tusk (former leading member of the pro-European Freedom Union, UW[27]) and the former Foreign and Finance Minister Andrzej Olechowski. The party receives much of its support from private entrepreneurs and the business community, which strongly benefits from EU membership and further integration. Support is also high in urban areas and among the young and better-educated. Its electorate represents liberal views and is most supportive of privatisation and least supportive of economic redistribution (see Szczerbiak 2003b: 739). Thus, in contrast to the PiS and the SLD, the PO has "more clearly defined bases of support" (Szczerbiak 2003b: 739). Yet, although the PO started as a strong pro-EU party, it has not been specific about European integration issues (Szczerbiak 2002: 7). Instead, the party leader and 'sceptically pro-European', Jan Rokita, is associated with the slogan 'Nice or Death' symbolising the Polish hard stance on changing the voting rules of the Nice Treaty to a principle of double majority voting in the European Constitution.[28] As stated above, the growing support for anti-EU parties such as the LPR and Samoobrona certainly influences the rhetoric on European issues of the PO. Therefore, the PO's stance on European integration has to be seen in the light of its party competition strategy and is thus strongly related to its vote-seeking behaviour. As a pro-reform oriented party it supports the adoption of the euro, yet, it adds that early accession is unrealistic and therefore favours a postponement of the accession date (British Polish Chamber of Commerce November 2004).

[26] Maciej Plazynski left the PO in May 2003.

[27] The liberal UW is the party of the current President of the Polish National Bank, Leszek Balcerowicz. The UW was the junior coalition partner of the AWS government (1997-2001). In 2000, several high ranked politicians left the Freedom Union and joined the PO. In the 2001 election the party failed to pass the 5 percent threshold, however, the party received 7 percent of votes in the European election in 2004. The UW firmly supported the Yes-campaign in the country's EU accession referendum (see Table 11, p. 139). This reflects the interests of its voter base that is said to benefit from EU membership, as the party appeals mainly to younger voters, urban citizens, better educated people, students and businessmen (Szczerbiak 1999: 1418).

[28] Jan (Maria) Rokita owes his high popularity to his function as the chair of the special inquiry committee for the Lew Rywin affair. The Rywin affair – also called the Rywingate affair – is one of the biggest corruption scandals in modern Polish history involving the film producer Rywin – who claimed to speak on behalf of the SLD - bribing Adam Michnik, the editor of the largest daily newspaper *Gazeta Wyborcza*.

The Alliance of the Left (SLD) was formed in 1991 by a conglomerate of twenty previously communist political and social organisations. The 'hegemonic role' (Szczerbiak 2002: 6), however, was played by the Social Democracy of the Republic of Poland (SdRP), the successor to the communist party (PZPR, Polish United Workers' Party). The SLD won the general election in 1993, lost in 1997 to the AWS and re-entered government in 2001. The SLD built a coalition with the pro-European Labour Union (UP) and the PSL. Szczerbiak (2003b: 734) describes the SLD-UP coalition as a "truly catch-all phenomenon". The SLD "always had a fairly heterogeneous electorate" (Szczerbiak 2003b: 734) displaying "only minimal variations between various socio-economic and occupation groups" (Szczerbiak 1999: 1418). Indeed, the party attracts as many votes from businessmen (especially from the so-called 'new nomenclatura', i.e. from businessmen with strong links to the communist apparatus) as from workers and the unemployed (see Szczerbiak 1999: 1419). To be a catch-all party fits the party's interests in leaving its communist stigmata behind. The legacy of being the successor of the communist party also explains its strong support for EU integration. The position on European integration is not only a tool to

> contrast itself favourably with the allegedly nationalist and inward-looking Polish right [but also] a vital element in projecting an image of the SLD as a modernised Western-style social democratic party and thereby allowing it to distance itself from its communist past (Szczerbiak 2002: 7).

Indeed, European integration is the SLD's top priority and, as a consequence, the party has always advocated a rapid adoption of the euro. In addition, as stated in chapter 5, the SLD's stance on EMU is also driven by its interest to belong to the 'world's biggest economic area using a single currency' in which Poland – as the largest new country among the new EU members – would have a strong say. Thus, rather than the party's identity as a Social Democratic party or partisan pressure, the SLD's position is driven by the party's interest in breaking with its communist past as well as by its desire to broaden Poland's influence on the European level by joining the euro-zone as quickly as possible. Yet, despite the fact that the party favours adoption of the euro, the SLD-led government was the only government among the Visegrad countries that did not officially announce a target date for joining the euro-zone in 2004. This certainly has to be seen in the context of the decrease in both public support for the euro (see part B of this chapter) and the government's popularity leading up to the 2005 general elections. Thus, the issue of euro-zone membership was seen as being too risky to raise before the elections.

Table 11 Polish political parties' position in the EU-accession referendum

Party	*Position in the EU-accession referendum*
Samoobrona	**Low-profile No campaign**
LPR	**No campaign**
ZChN (faction in the AWS)[29]	**Called for a Yes vote**
PSL	**Called for a Yes vote, but conducted a reserved and low-key Yes campaign**
PiS	**Yes campaign, but conducted a reserved and low-key Yes campaign**
SLD	**Yes campaign**
UW	**Yes campaign**
PO	**Yes campaign**

In summary, anti-EU parties (LPR and Samoobrona) possessed considerable leverage against the pro-European oriented SLD-led government and mainstream parties like the PO. Indeed, public pressure and the emergence of parties whose identities are closely tied to their anti-EU rhetoric had an impact on the pro-European parties' policy agenda. The PO's slogan 'Nice or Death' and the tough stance of the SLD during

[29] The Catholic-nationalist Christian National Union (ZChN) was a significant party within the AWS (see footnote 25). It was a coalition partner and played a major role in the Olszewski (1992) and Suchocka (1993) governments. The ZChN supports the active involvement of Roman Catholics in Polish politics and links its EU-accession support to several conditions. Thus, like all soft Eurosceptical parties, the ZChN expresses a "yes, but" attitude. In particular, the ZChN fears that EU accession will lead to a secularisation and de-Christianisation of Polish society that would undermine moral values and national identity. Some former ZChN members are now influential politicians in the PiS, LPR, PSL and even in the PO.

the European Constitution negotiations, for instance, are certainly a response to the growing party-based and public Euroscepticism and have therefore to be seen in the context of both the Polish intra-party arena and the interests of the PO and SLD in gaining votes. Likewise, instrumental populism to attract voters strongly influences the ambiguous EU stance of the PiS. Given that the PSL and Samoobrona have clearly defined constituencies with alleged socio-economic interests, the two parties are under strong pressure to fulfil partisan expectations. Indeed, partisan pressure explains why the PSL eventually left the coalition with the SLD. Given that the SLD-led government lost their majority after the PSL left the coalition, the SLD had to modify its fiscal consolidation programme, designed to meet the Maastricht criteria by 2007 on several occasions. Thus, while the government did not set a precise date for the adoption of the euro (to be seen the context of concerns regarding the next general elections), it faced severe constraints to adhere to its intention to join the euro-zone as quickly as possible, generated first by its limited capacity as a fragile minority government to push forward politically costly reforms (see chapter 6) and second by an increased party-based and – as discussed in the following section – public Euroscepticism.

Having discussed political parties' positions and preferences on the adoption of the euro, the following section explores attitudes towards the euro on an individual level by means of an analysis of public opinion surveys.

B. Public opinion

The analysis of public opinion shows variations towards the adoption of the euro at an individual level and provides information on possible sources of why individuals hold different attitudes towards the euro. For example, does the variation in support reflect partisanship and economic interests (Anderson and Reichert 1996, Anderson 1998 and Gabel 1998) or is it based on the fear of losing national sovereignty (Carey 2002, Diez Medrano 2003 and Luedtke 2005)?[30] How citizens form opinions on the prospective EMU membership determines the factors that are decisive for domestic opposition to the euro, further elucidating the nature of cross-national variations in approaching the euro-zone accession. It is argued that different domestic levels of support and opposition have implications for the country's response to EMU membership and therefore help to explain differences in the strategies for the adoption of the euro.

In CEECs, public opinion in the early stages of the transition process generally greatly favoured or was indifferent to EU integration, later growing less favourable (Rose and Haerpfer 1995, Grabbe and Hughes 1999, Szczerbiak and Taggart 2001). Until the late 1990s, debates on European integration were

> conducted mainly at elite level [...], with most of the population largely uninformed about what joining the EU will mean, either for the economy and society as a whole or merely for daily lives (Grabbe and Hughes 1999: 186).

By and large, the issue of EU accession was discussed only in very abstract terms in a discourse that was embedded in a historical and geopolitical context. The discussion was repeatedly referred to as a "return to Europe" or an "end of the Cold War European East-West division"; both implying a total rejection of the communist legacy. The public and political parties only slowly began to conduct debates about the long-term conceptions and perspectives of EU membership (Navracsics 1997, Szczerbiak and Taggart 2001). But as EU membership rose on the political agenda, public debate on EU accession increased. Indeed, the decline in the popularity of the EU membership relates

[30] For a summary of the main line of theories on public opinion on European integration see Hooghe and Marks (2005).

to an increase in the quality and quantity of political debates on European issues. The public has begun to distinguish between support for EU membership per se and specific EU issues entailing painful economic reforms. The debate on the Common Agricultural Policy (CAP), in particular, has led to growing public awareness of the costs and benefits of EU membership. In addition, politicians have used EU accession requirements to legitimise painful reforms. And because

> to the extent that these reforms become inextricably linked with EU accession in the popular consciousness there is likely to be erosion of support for [...] membership (Szczerbiak 2001b: 6).

By the same token, as discussed in chapter 3, the Visegrad governments have defended fiscal consolidation programmes by referring to the legal obligation to meet the Maastricht criteria.

To explore the dynamics of public support for or opposition to the adoption of the euro this thesis relates findings on the demographic profiles to opinion on EU and euro-zone membership in the Visegrad countries. In particular, Gabel's study is of relevance since it explicitly links socio-demographic profiles to citizens' attitude towards the euro. According to Gabel (2001), policies and their distributional consequences explain variations in voter's behaviour and thus in public opinion on EMU (see chapter 2, see also Bielasiak 2002). If Gabel's findings hold true for the Visegrad Four, different constellations of politico-economic conditions, e.g. the importance of the agriculture sector or partisanship for the respective countries, explain cross-national variations in approaching the euro-zone accession.

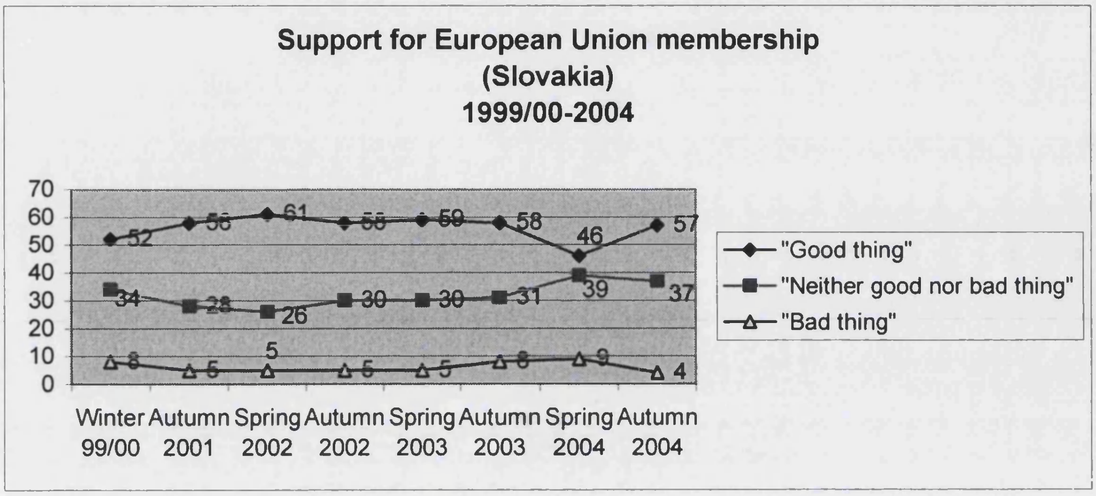
Public opinion on EU membership

Before analysing opinion on the adoption of the euro, this thesis briefly discusses public opinion on EU membership. Recent Eurobarometer surveys confirm that EU-supporters are more likely to support the country's accession to the EMU as well (Candidate Countries Eurobarometer (CCEB) 2002.2). On average, 59 percent of those who oppose EU membership are also against joining the euro-zone. Among supporters of EU membership, only 20 percent oppose euro-zone membership (CCEB 2002.2: B-

110). Therefore, a closer look at public opinion on EU membership is worthwhile because it helps to understand the overall nature of support for and opposition to euro-zone entry.

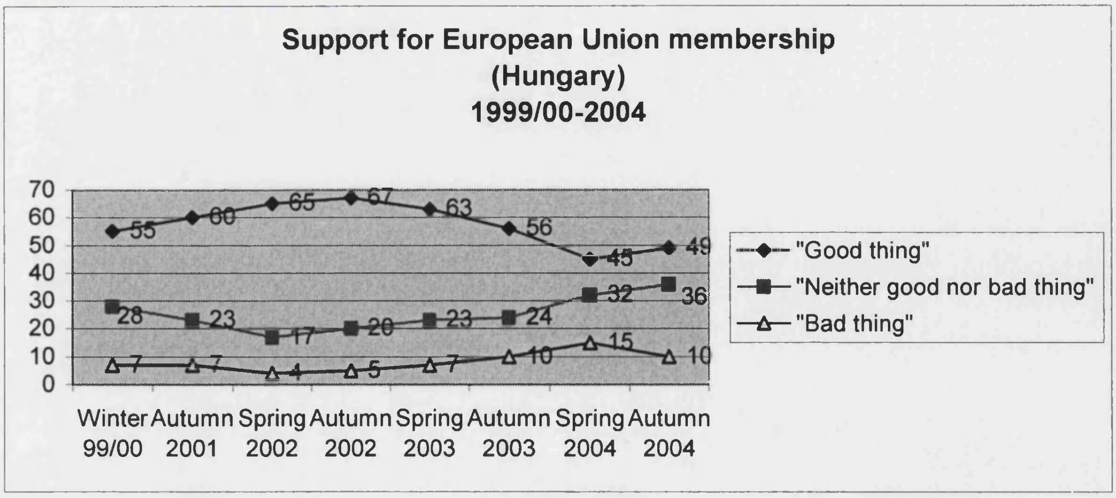
According to Eurobarometer surveys, citizens in Slovakia and Hungary express the highest support for and lowest opposition to the EU among the Visegrad countries (see Figure 2 and Figure 3; see also CEORG 2003a).

Figure 2



Question: Generally speaking, do you think that (Country') s membership of the European Union would be...?
Source: CCEB 2004.1, Standard Eurobarometer (EB) 62

Figure 3



Question: Generally speaking, do you think that (Country')s membership of the European Union would be...?
Source: CCEB 2004.1, Standard Eurobarometer (EB) 62

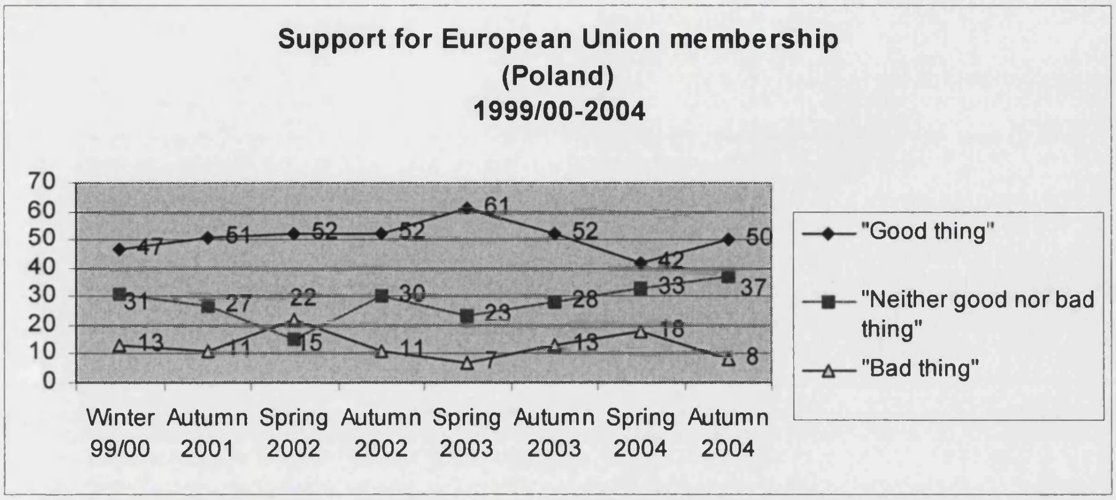
As Table 12 shows, Slovakia and Hungary also produced the highest yes-vote results in the EU accession referendum held in April and May 2003. However, turnouts were low in all Visegrad countries and in particular in Hungary, at 46 percent, very low. The low turnouts for the accession referenda reflected indecision, indifference, and citizens' belief that a Yes result was inevitable and would not make much difference – a passive acceptance of the result. In all Visegrad countries, those voting in the referenda tended to support EU accession more than those who did not participate (for data, see CEORG 2003a). Additionally, as there is a minimum turnout requirement of 50 percent to make the referendum constitutionally valid in Slovakia and Poland, the low turnout in these countries also reflects the "incentives for 'No' voters to stay at home in an attempt to invalidate the inevitable 'Yes' vote through low turnout" (Henderson 2003: 9). For this reason, the Eurobarometer surveys are more accurate in reflecting the actual level of support for EU membership.

Table 12 EU-ACCESSION REFERENDUM

	DATE	percent FOR EU accession	TURNOUT
CZECH REP	15-16 June 2003	77 percent	55 percent
SLOVAKIA	16-17 May 2003	92.5 percent	52.2 percent
HUNGARY	12 April 2003	83.8 percent	46 percent
POLAND	7-8 June 2003	77.5 percent	58.8 percent

Support for EU membership has been quite stable in Slovakia. While support dropped shortly before the country's EU accession, it increased again to 57 percent in Autumn 2004 (see Figure 2). Among the Visegrad countries, Slovakia also has the lowest rate of EU opponents: in 2001/02 and Autumn 2004 only 5 and 4 percent respectively considered EU membership as a 'bad thing'. In Poland, there has been a steady decline in public support for EU membership. According to surveys, public support in June 1994 was, at 77 percent, fairly high (Szczerbiak 2002), but dropped to 61 percent in Spring 2003 and to a record low of 42 percent in Spring 2004 (see Figure 4).

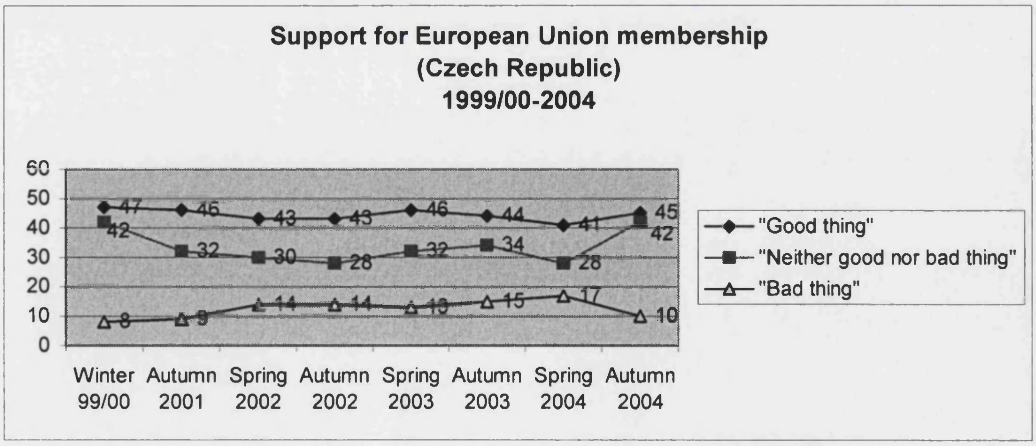
Figure 4



Question: Generally speaking, do you think that (Country')s membership of the European Union would be...?
Source: CCEB 2004.1, Standard Eurobarometer (EB) 62

The first opinion poll after EU accession indicates that the level of support rises again. The same is true of Hungary, where public support for EU accession was traditionally high (Agh 1999: 851, Neumayer 1999) but dropped to 63 percent in Spring 2003 and to a record low of 45 percent in Spring 2004 but increased again by 4 percent in Autumn 2004 (see Figure 3).

Figure 5



Question: Generally speaking, do you think that (Country')s membership of the European Union would be...?
Source: CCEB 2004.1, Standard Eurobarometer (EB) 62

In the Czech Republic, popular support for the EU appears to be the lowest. After a small increase to 58 percent shortly before the EU accession referendum in June

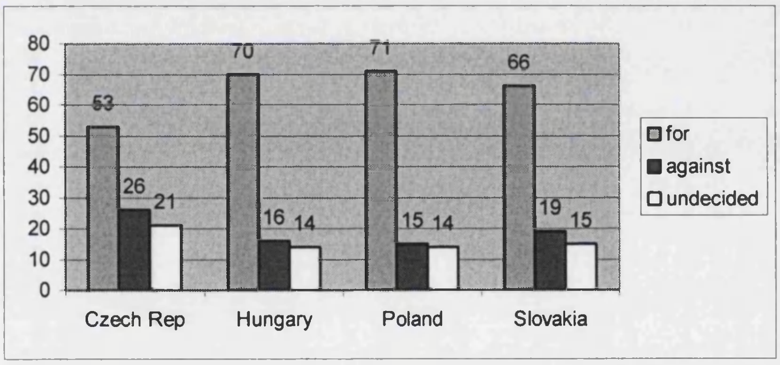
2003, support dropped again to a record low of 41 percent in Spring 2004 (see Figure 5). The Czech Republic also displays the highest rate of respondents who are still undecided about EU membership. As Figure 5 shows, in 1999 and Autumn 2004, 42 percent of Czechs considered EU membership as "neither a good nor bad thing".

In short, in all Visegrad countries, the level of support increased in the wake of the countries' completion of accession talks in December 2002 and the EU accession referendum in Spring 2003 but fell to historic low levels in the Spring of 2004. To a large extent, the low level of support shortly before EU accession reflects people's uncertainty about the costs and benefits of EU membership. However, this trend seems to be reversed again because opinion polls in Autumn 2004 indicate that the number of supporters has started to rise again. In addition to this trend common to all Visegrad countries, the Czech Republic displays the highest rate of respondents who are either against or undecided about EU membership.

Public opinion on the euro

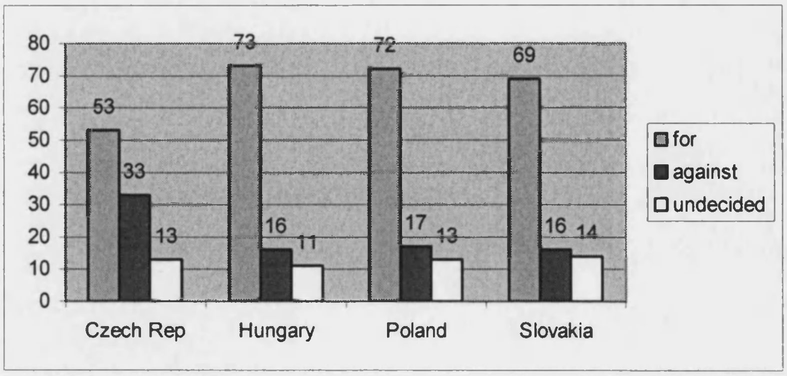
The same trends can be observed in opposition to the euro (see Figures 6-8). As with EU support, support for the euro in 2002 was lowest in the Czech Republic (53 percent) and higher in Poland (71 percent), Hungary (70 percent), and Slovakia (66 percent). The Czech Republic also has the highest share of opponents (26 percent) and citizens who are still undecided about EMU membership (21 percent), compared with only 15 percent opponents in Poland, 16 percent opponents in Hungary, and 19 percent in Slovakia (see Figures 6-8). In 2003, opposition to the euro increased to 33 percent in the Czech Republic. Citizens who were neither for nor against the euro in 2002 seem to have shifted towards opposition as the undecided rate decreased from 21 percent to 13 percent in the wake of the countries EU accession referendum. In 2004, support for the euro increased slightly to 56 percent in the Czech Republic. The opposite trend can be observed in Poland and Hungary: while support for the euro increased in the wake of the countries' accession referendum, it dropped remarkably in 2004 (see Figure 7 and 8). In Poland support decreased from 72 percent in 2003 to 59 percent in 2004. At the same time, opposition increased from 17 percent to 29 percent. In Hungary support for the euro increased to 73 percent in 2003 and dropped to 63 percent in 2004. In contrast, the Slovak support for the euro remained quite stable with no major fluctuations. In the Czech Republic, the opposition to the euro remained stable. Figure 7 shows that with 53 percent being for and 33 percent being against EMU membership in 2003 – a gap of only 20 percent – there is a much stronger trend towards polarisation on the topic of EMU membership in the Czech Republic than in the other Visegrad countries. However, the sharp decline in support and increase in opposition in Poland in 2004 indicates that Poles are also becoming increasingly divided over the issue of their country's euro-zone membership (Figure 8).

Figure 6 Support for the Euro (in percent) Autumn 2002



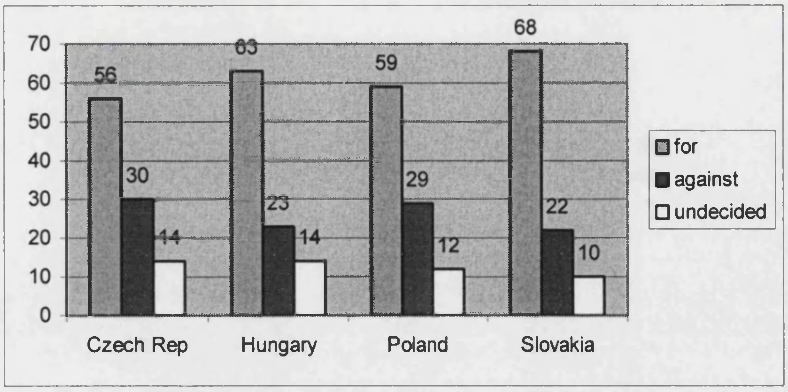
Question: Are you for or against the EU having one common currency in all Member states, including (OUR COUNTRY) once we have joined? That is, replacing the (NAME OF THE CURRENCY) by the European currency, the euro? Are you...? (see remarks p. 172)
Source: CCEB 2002.2

Figure 7 Support for the Euro (in percent) Spring 2003



Question: Are you for or against the EU having one common currency in all member states? (see remarks p. 172)
Source: CCEB 2003.2

Figure 8 Support for the Euro (in percent) Spring 2004



Question: Please tell me, whether you are for it or against it. A European Monetary Union with one single currency, the euro? (see remarks p. 172)
Source: CCEB 2004.1

Demographic Profile

Henderson (2001) states that reservations about EU membership are greater in Slovakia in certain groups of society that include the transition "losers" – the older population, the less educated, and the rural.[31] Eurobarometer surveys confirm this. Whereas 77 percent of Slovaks with higher education support EU membership, only 45 percent of those with only elementary education favour it (Central and Eastern Eurobarometer 8).[32] According to a survey conducted by the Slovak Institute of Public Affairs in March 2000, 58 percent of citizens with basic education and 89 percent of those with higher education support EU membership (Henderson 2001: 12). Seventy-nine percent of citizens 18-24 years old and only 55 percent of those aged 60 and above support EU membership. Haerpfer (2001) comes to the same conclusion about Hungary, Poland, and the Czech Republic (see also Stawarska 1999: 834-5). Support for EU accession

[31] In the current literature the categorisation of winners and losers of the transition process is often related to the demographic profile. Transition losers include the elderly, pensioners, state workers and women, whereas the young, the better off, well educated and private sector employees fall under the category of transition winners (Mackie 1995, Plasser et al. 1998). However, as Tucker et al. (2002) point out, the demographic status does not necessarily have to match who actually benefited from the process and therefore "ascribing winner status on the basis of demographic characteristics remain at best one step removed from individual perceptions and at worst an imprecise and inaccurate system of extrapolation" (Tucker et al. 2002: 559). They therefore categorise winners and losers of the transition process on the basis of the citizens self-assessment, i.e. whether they consider themselves better or worse off since the collapse of the communist regime. By applying this categorisation of winners and losers, Tucker et al. (2002) find empirical evidence that winners of the transition process are more likely to support the EU than losers.

[32] However, this profile of EU supporters does not apply to minorities living in Slovakia. Hungarians living in Slovakia are highly in favour of EU accession "because of the expectation that it will benefit them as a minority, particularly given that neighbouring Hungary will also be a EU member" (Henderson 2001: 18).

is particularly strong among the young, the better-off, the highly educated, and urban citizens (Haerpfer 2001: 23-30). In contrast, opposition to EU accession is strong among the less educated, the rural, those with lower incomes, and the old.

Gabel's study on attitudes towards the euro in the old EU member countries argues that economic interests explain variations in support for the euro (see chapter 2). His study confirms that distributional consequences of the EMU account for a specific pattern of public support and explain differences in support for and opposition to EMU (Gabel 2001). As discussed in chapter 2, Gabel distinguishes between trade-related, liberal capital market-related and class-based distributional consequences of EMU membership and finds empirical evidence that those with higher income, higher education as well as professionals and voters of right-wing parties are more supportive of EMU than people with low education, low income, manual workers and left-wing voters. Gabel further distinguishes between distributional consequences of cross-border shopping, price transparency and the convergence criteria. However, this thesis does not rigorously test Gabel's model, that is, it does not replicate his model. Rather the following part is a descriptive attempt to explore whether Gabel's major conclusions find supportive evidence in the new data source. This chapter only concentrates on trade-related, capital-market related and class-based distributional consequences.

The CCEB 2002.2 from September 2002 and the CCEB 2003.2 from May 2003 show that some but not all demographic profiles of EU-membership supporters and opponents in the Visegrad countries apply to EMU supporters and opponents as well (CCEB 2002.2, CCEB 2003.2).[33] Likewise, there is only some supportive evidence for Gabel's study on public opinion towards EMU in the Visegrad countries. Trade-related distributional consequences of exchange rate stability, for instance, are expressed in managers' strong support for EMU membership (see Figures 11-18, p. 164-71). As Gabel (2001) argues, this is related to the managers' interest in a fixed exchange rate regime that reduces currency uncertainty, because many large firms depend on foreign

[33] Raw data for the CCEB 2004.1 survey (Figure 8), the Standard Eurobarometer 62 (Autumn 2004) and the Flash Eurobarometer report 165b (Autumn 2004, Figures 9 and 10) are not available yet. Therefore this thesis cannot breakdown these figures by socio-demographic categories.

trade and payments (cf Frieden 1994). However, there is no supportive evidence that class-based distributional consequences of EMU affect the attitudes towards the euro because – with the exception of the Czech Republic – manual workers are not less supportive of the euro than managers and white collar workers (see Figures 11-18, p. 164-71). Additionally, as Figures 11-18 show, again with the exception of the Czech Republic, supporters of EMU are not divided along left and right political party lines as assumed by Gabel (see chapter 2 and Oatley 1997). In Poland, Hungary and Slovakia, voters of the Social Democratic as well as liberal/conservative parties highly favour the adoption of the euro. In the Czech Republic, there is a trend towards class-based voting behaviour, as voters of the communist party KSCM, at 44 (48)[34] percent, and the CSSD, at 27 (35) percent oppose EMU as compared to only 22 (25) percent (US-DEU) and 10 percent (27) (ODS) voters of liberal and conservative parties (see Figure 11 and Figure 15, p. 164 and p. 168). The trend towards class-based voting is even more evident if figures for the support for the euro are considered: Only 28 percent of KSCM and 55 percent of CSSD voters supported the euro in 2002, but 70 percent of US-DEU and 80 percent of ODS voters did so. In Slovakia, opposition towards the euro is relatively higher among voters of the LS-HZDS (29 and 19 percent in 2002 and 2003 respectively), the communist party, at 23 and 20 percent in 2002 and 2003 respectively, and the populist left (SMER), at 16 and 22 percent in 2002 and 2003 respectively. However, voters of these parties still favour the adoption of the euro at 51 percent in 2002 and 66 percent in 2003 (LS-HZDS), 67 percent in 2002 and 69 percent in 2003 (KSS) and 81 percent in 2002 and 71 percent in 2003 (SMER). In Hungary, the split between right and left parties is even less pronounced. Voters of the MSZP and FIDESZ favour the adoption of the euro by around 80 percent (MSZP) and over 70 percent (FIDESZ) in 2002 and 2003 (see Figures 13 and 17, p. 166 and p. 170). However, there is a relatively higher percentage of FIDESZ voters who oppose the euro (20 percent) as compared to around 10 percent of MSZP voters in 2002 and 2003. The same applies to Poland where voters of right-wing as well as left-wing parties (PO and

[34] The first figure refers to the CCEB 2002.2 and the figure in brackets to the CCEB 2003.2.

SLD) favour the euro. In contrast, opposition is relatively higher among supporters of farmer parties (PSL and Samoobrona) and nationalist parties (LPR and PiS), especially in 2003.

Concerning Gabel's assumption about the effects of distributional consequences of capital market liberalisation, Table 13 and Table 14 (p. 172) show that in Slovakia and Hungary citizens are indeed more supportive of the EMU when their average income is relatively high compared with national income distribution. The same can be said for the Czech Republic and Poland in 2002, however, there is no variation in support for the euro among income groups in both countries in 2003. In Poland both the three lowest and three highest income groups are against the euro at 19 percent but support is still remarkably high, measuring around 75 percent in 2003. While there is also no variation between the income groups in the Czech Republic in 2003 the overall level of opposition to the euro is considerably higher. Both the three lowest and highest income groups are against the euro at 36 percent and 33 percent respectively in 2003, mirroring the general reluctance towards the euro in the Czech Republic but also pointing to the fact that citizens' higher opposition to the euro cannot solely be explained by different income levels (see Table 13). This contrasts Gabel's claim that people's degree of support depends on the amount of capital assets and occupational skills they have, because the wealthy and skilled would benefit from the distributional consequences of capital market liberalisation. Again, this latter point is not confirmed in the Czech Republic, but in Slovakia, Hungary and Poland in 2003. Highly educated and skilled workers are among the groups that strongly support EMU accession (see Figures 15-18, p. 168-171). But whereas in Slovakia, Hungary and Poland highly educated citizens support strongly the euro with approval rates between 76-86 percent, Czechs with the same level of education are less favourable with every fourth person disapproving of the euro. Again, this aptly reflects the overall higher reluctance towards the euro in the Czech Republic, the only country among the Visegrad Four where opposition to the euro is, at 40 percent, remarkably high among white collar workers in 2003.

Again, with the exception of the Czech Republic, unemployed people favour the country's conversion to the euro, at around 70 percent, which is rather surprising because they actually belong to the "losers" of the transition process and thus one might expect them to be rather reluctant about EMU accession (see Figures 15-18, p. 168-71). However, this finding is in line with Rodrik (1995) and Fidrmuc (1999), who state that growing opposition to policy reforms (in this case reforms that are related to fulfilling the Maastricht criteria) does not come from unemployed people, as is often assumed. This is because unemployed people would benefit from reforms required by the Maastricht criteria, e.g. budget cuts that reduce public sector subsidies, because public sector subsidies reduce the rate of job creation in the emergent private economy (see chapter 2). In contrast, pensioners are rather helpless when faced with policy reforms related to fiscal consolidation. It has to be kept in mind that the cuts in public spending significantly affected the Visegrad countries' pension system (see chapter 3). It is therefore no surprise that in all Visegrad countries (although in Hungary to a lesser extent) support for the euro is lower among retired persons (see Figures 11-18). Related to worries about the Maastricht criterion of fiscal consolidation and official institutions' repeated demand to cut subsidies to households might also be the high opposition towards the euro among house persons[35] in all Visegrad countries and in 2003 in particular in the Czech Republic (32 percent), Hungary (30 percent) and Slovakia (25 percent).

In Poland, in 2003 the strongest opposition is found among farmers (29 percent), a fact that is mirrored in stronger opposition to the euro among those living in rural areas (see Figures 14 and 18, p. 167 and 171).[36] In fact, the Czech Republic is the only country of the Visegrad Four where there is a trend towards higher opposition to the euro in urban areas, at 40 percent in 2003, than in rural zones (at 28 percent in

[35] The Eurobarometer categorises 'house persons' as people responsible for ordinary shopping and looking after the home, or without current occupation (see p. 172).

[36] Given that these are aggregate figures, it should be noted that the identified association of farmers and those living in rural areas are vulnerable to the ecological fallacy when conclusions are drawn for individuals living in rural areas or being a farmer. For example, while it may be accurate to say that on average 46 percent of farmers oppose the adoption of the euro it is not possible to draw the same conclusion for individuals living in rural areas. However, this does not necessarily mean that the inference is flawed per se, but it points to the need of careful consideration for conclusions drawn from aggregate figures.

2003). In contrast, Slovakia, Poland and Hungary follow the common pattern where support is much higher in cities than in rural areas. A closer look at the respondents voting behaviour reveals that the lower support from citizens living in rural areas might stem from the higher opposition to the euro among voters of farmer parties (e.g. PSL and Samoobrona) and parties strongly represented in rural areas (like the Slovak LS-HZDS and Hungary's FIDESZ). In contrast, in the Czech Republic, the low support from citizens in urban areas is consistent with high opposition to the euro among white collar workers. This also supports the fact that opposition is highest among voters of the third strongest Czech party, the communist party (KSCM) that has its core constituency in the industrialised and urban area of Northern and Western Bohemia.[37]

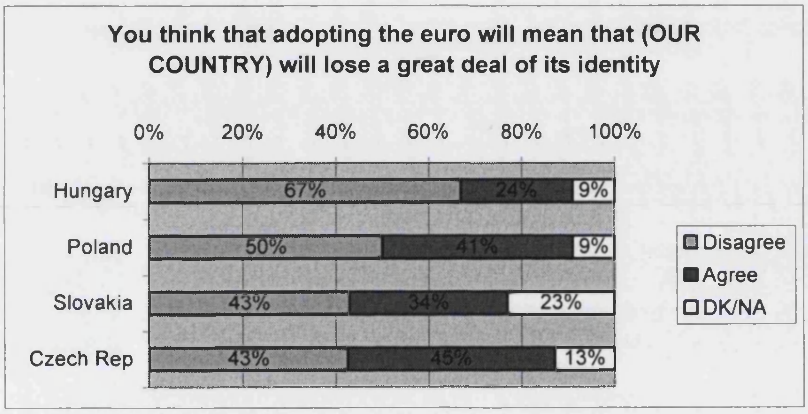
In summary, the peculiarity of the Czech Republic is striking. Gabel's assumptions on trade-related and class-based distributional consequences find supportive evidence in the Czech Republic but not in Poland, Hungary and Slovakia. In contrast, while Gabel's assumption on distributional consequences related to market liberalisation finds supportive evidence in Slovakia and Hungary as citizens with higher income are more supportive of the euro, in the Czech Republic opposition in both lower and higher income groups is remarkably high. This stands at odds with the finding that managers who are supposed to belong to higher income groups, are among those who highly favour the adoption of the euro. In the case of the Czech Republic it seems therefore that most of the dynamics are indeed coming from the white collar workers who oppose the euro at 40 percent in 2003. In Poland, opposition to the euro is higher among self-employed persons and farmers reflecting the high percentage of self-employed people in small enterprises who fear the growing competition within the European single market. Opposition to the euro is also higher among Polish farmers who have traditionally adopted a rather sceptical attitude towards the EU. Thus, in the Polish case, most of the dynamics concerning opposition to the euro are likely to come from the significant variations by these two occupational groups. In both Slovakia and

[37] It should also be noted that the Czech agricultural sector does not play the same role as in Poland and Slovakia or Hungary where farmers had until 2001 their own party (the FKGP) represented in the government (see footnote 20, p. 125).

Hungary, the highest opposition to the euro is found among retired and less educated people. The relatively high opposition among citizens of these groups may reflect the fact that they are more vulnerable to EMU related cuts in public expenditure.

The considerable differences in public opinion on the EMU between the Czech Republic and the other Visegrad countries mirrors its stronger opposition to EU integration (see Figure 5, p. 145)[38] Figure 9 shows that the opposition to the euro is also closely related to the Czechs' fear of losing a great deal of their identity.

Figure 9



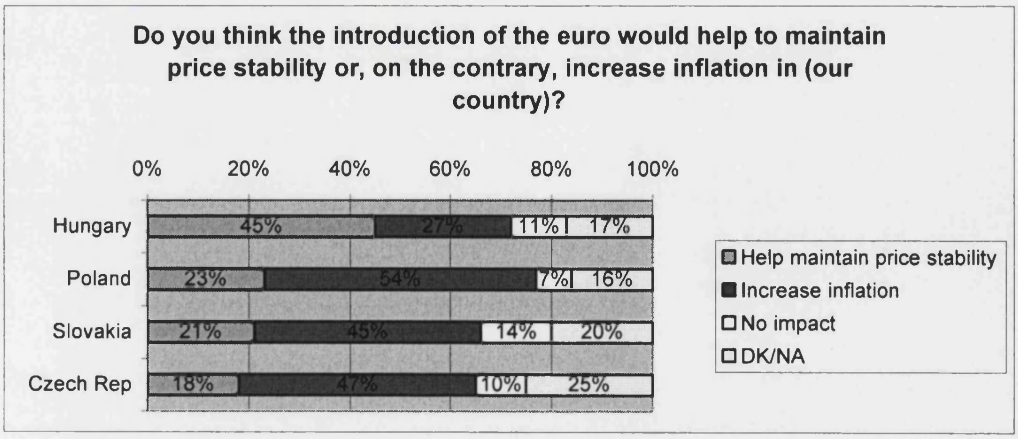
Source: Flash Eurobarometer 165b (Autumn 2004)

Whereas 45 percent of Czech respondents agree that the country will lose its identity through joining the euro-zone, only 24 percent of Hungarians believe that their identity depends on the Hungarian Forint. Related to the fear of losing their identity is the argument made by some Czech high-ranking politicians (see p. 110) that EMU and further European integration will mean the loss of the just-regained sovereignty to the bureaucratic and undemocratic Brussels. Indeed, Eurobarometer surveys confirm that low support for European integration is related to the Czech people's high level of distrust in the EU which is seen as highly undemocratic and bureaucratic (see CCEB 2001, von Schnurbein 2002).

38 It has to be kept in mind that the raw data for the Flash Eurobarometer 165b (Figure 9-10) are not available yet and therefore, this thesis cannot break these figures down by the socio-demographic categories of the respondents. For this reason the thesis cannot explain the significant drop in EMU support in 2004 in Poland and Hungary by reference to differences in socio-demographic profiles.

The opposition to monetary union might also stem from the wish to retain monetary autonomy to guarantee price stability. As Figure 10 confirms, Czechs generally do not believe that the euro would help to maintain price stability but rather that it increases inflationary pressure. Figure 10 also gives supportive evidence that the high support for the euro in Hungary stems from the wish to guarantee price stability after years of sticky inflation and inflation expectation (see chapter 3). But Figure 10 also shows that Poles fear inflationary pressures, which attests to the recent increase in opposition towards the euro. After years of high inflationary pressures throughout the 1990s, Poland has experienced exceptionally low inflation rates in recent years. The fear of growing inflationary pressures through the adoption of the euro – as perceived by the current euro-zone members – might therefore stem from the fear of losing the newly gained price stability again. In contrast, Hungary, a country that also suffered from high inflation rates throughout the transition process, was not as successful in achieving low inflation and exchange rate stability as Poland – a fact which certainly contributes to the high approval of the euro by Hungarians as the common currency is not seen as a threat to price stability but actually as a means to achieve it (see chapter 5).

Figure 10



Source: Flash Eurobarometer 165b (Autumn 2004)

The differences between the Czech Republic and the other Visegrad countries are also related to the above described trend towards polarisation in the Czech Republic. As argued in chapter 2, the Czech Republic displays the highest degree of polarisation along class cleavages in the Visegrad countries (Mateju et al. 1999, Evans and Whitefield 1998). The above analysis of the respondents' socio-demographic profile supports the notion that issues of distribution divide Czech society into social classes and determine political partisanship, i.e., socio-economic cleavages dominate. Partisanship in Slovakia and Hungary, by contrast, is determined less by issues of distribution than by issues regarding Hungarians' ethnic rights, of Slovak national identity, of the protection of Slovak and Hungarian minorities abroad respectively, and of attitudes toward Gypsies (in Hungary) (Evans and Whitefield 1998, 1995). In Slovakia and Hungary, "ethnic questions are most closely related to party divisions and economic issues have only a secondary impact" (Evans and Whitefield 1998: 134). In Poland, multiple crosscutting cleavages (socio-economic, religious, authoritarian vs. non-authoritarian, and attitudes toward the former communist regime) divide the society (Henderson and Robinson 1997: 286). That is to say, in the Czech Republic, economic issues play a dominant role in cleavage formation, whereas in the other Visegrad countries other factors come into play. Certainly, a polarisation of class cleavages in the Czech Republic has to be understood in a broader context of historical and economic developments and social conditions. Among the Visegrad countries, the Czech Republic has had the most advanced economy and, from the beginning of the transition process, was well positioned for a successful transformation into a market economy (see chapter 3). Since the collapse of the communist regime, the Czech Republic has performed better in economic terms than the other three Visegrad countries. Certainly, this and the fact that unlike in the other Visegrad countries, socio-cultural cleavages (Hungary), issues of nationhood (Hungary and Slovakia) or church-state and rural-urban cleavages (Poland) do not play a primary role, has had a positive effect on the acceleration of class polarisation. This thesis argues that this polarisation of classes provides the basis for a stronger articulation of pro- and anti- EMU positions in the Czech Republic than in the other Visegrad countries, where the socio-economic dimension of political partisanship is less developed (cf Evans and Whitefield 1998: 118). This thesis therefore assumes that in addition to fears of losing national sovereignty once again, the polarisation of classes over socio-economic issues of distribution is responsible for the greater opposition to the euro in the Czech Republic. Consequently, class-based responses to the euro must be taken into account to fully explain the reluctant euro-adoption strategy of the Czech Republic.

Conclusion

This chapter has discussed the positions and preferences of political parties and individuals on the euro and EU membership in the Visegrad countries. It has demonstrated the extent to which positions of the actors are driven by their strategic electoral and partisan interests (political parties) and by their economic self-interests (public opinion). The following conclusion summarises the relative importance of these interests and the extent to which they account for why the Visegrad countries have pursued different strategies for the adoption of the euro.

The distinction between electoral interests in gaining votes and offices and the party's need to address the partisan interests of its voter base provides a useful tool to highlight the relative importance of interests in shaping party positions on issues regarding European integration. For example, the Czech KDU-CSL and US-DEU pro-European attitude has to be understood within the context of their competition strategies to attract votes and is essentially influenced by their relationship to the Eurosceptic ODS. As Kopecky and Ucen (2003: 177) state: "becoming strongly pro-EU meant to be strongly anti-Klaus and anti-ODS". However, becoming strongly pro-EU meant also to be able to benefit from the mismatch between the Eurosceptic position of the ODS and its pro-European voter base. In contrast, the ODS' position on the euro and European integration cannot solely be explained on the basis of partisan and electoral strategic interests given that the party's Eurosceptic rhetoric deviates from what these interests would predict. As further highlighted in the following chapter, other factors play a dominant role in understanding the ODS stance on European integration. In turn, FIDESZ's EU rhetoric has to be seen in the context of its efforts to attract votes from far-right voters. While FIDESZ justifies its Euroscepticism on the basis of defending national interests, the party's position on the EU is not (in contrast to the Czech ODS) related to concerns about EMU undermining state sovereignty. In fact, in contrast to the Czech Republic and also Poland, mainstream parties in Hungary strongly support euro-zone membership, seeing the euro, as FIDESZ states, as the 'greatest advantage offered by the EU'. Indeed, in contrast to the Czech Republic and Poland, both political parties and the public generally see the euro as a means to attain price stability. Yet, despite this view, both the FIDESZ- and MSZP-led governments embarked on an expenditure-oriented fiscal policy that significantly contributed to Hungary's troublesome road to euro-zone accession. The tight and emotional election contest between FIDESZ and MSZP fuelled populist economic policies that contravened the Maastricht criteria forcing the government to eventually readjust its initial euro-adoption strategy. The argument is that the 'proliferation' of populist economic policies is a consequence of the existing traditionalist-nationalist and left-liberal cleavage that divides the Hungarian society and that produced a trend towards a bipolarity between a populist right and a constrained pragmatic left party (see also chapter 6). In such a rigid framework, populist economic policy is believed to be a promising way to attract voters from the opposite camp. Thus an opportunistic political business cycle (FIDESZ) and the need to fulfil election promises (MSZP) led to the postponement of the euro-adoption target to 2010. Under these conditions, the pressure for policy convergence as expressed in the obligation to meet the Maastricht criteria significantly loses its leverage and – as discussed in the next chapters – opportunistic interests prevail over the influence that ideas and institutions may have.

Similarly, a partisan-related political business cycle had a positive impact on the CSSD's decision to postpone euro-adoption to the next decade. Indeed, partisan pressure in light of growing unemployment rates and stronger party competition with the

KSCM, generated partisan related increases in public spending at odds with the Maastricht criteria and supporting the postponement of the euro-adoption. The argument is that the need for left-wing parties to reflate the economy by means of expansionary fiscal policies is reinforced in the Czech Republic by its cleavage structure that divides the society along socio-economic issues. Indeed, among the Visegrad countries, the Czech Republic manifests the most definitive Left-Right division. Under these conditions, partisan interests exert a distinct influence on the euro-adoption strategy of a government led by a left-wing party because the party finds itself trapped by election promises to reduce unemployment by means of expansionary fiscal policies and the requirements to meet the Maastricht criteria. However, in the Czech case, a fast track approach to adopting the euro does not depend on a right-wing party in office either given that the ODS is very sceptical about EMU. In fact, the strong political leverage of the opposition parties and the relatively high level of public Euroscepticism, especially stemming from its potential voter base, further produced an unfavourable environment for the CSSD, a party which had intended to join the euro-zone as soon as possible, until the Spidla government takeover in 2002 (cf chapter 1). Yet, as further discussed in chapter 5 and 6, interests are not sufficient to explain why the CSSD changed its view on the euro slowly after the currency crisis and not before nor can partisan and strategic electoral interests account for the overall reluctance towards the adoption of the euro among the political elites, especially among high-ranked ODS politicians.

In Poland, the considerable leverage of anti-EU parties like the LPR and Samoobrona as well as by the moderate Eurospectic PiS, influences essentially how Polish parties compete for votes and has certainly affected the SLD and PO policy agenda on EU issues. The rise in party-based Euroscepticism is associated with growing public opposition to EU membership and explains why the SLD-led government did not define its euro-adoption strategy to set an official target date for euro-zone membership. Thus, to refrain from announcing an official target date was also a tactical step taken by the SLD-led government to avoid conflicts leading up to the 2005 general elections, especially given that approval rates of the euro were dropping and the government's popularity decreasing. In addition to growing party-based and public Euroscepticism, a fast-track approach to adopting the euro was further constrained by the limited capacity of the fragile SLD minority government to push forward politically costly reforms; an aspect which cannot solely be explained by interests but have to be understood in the context of institutional constraints (see chapter 6).

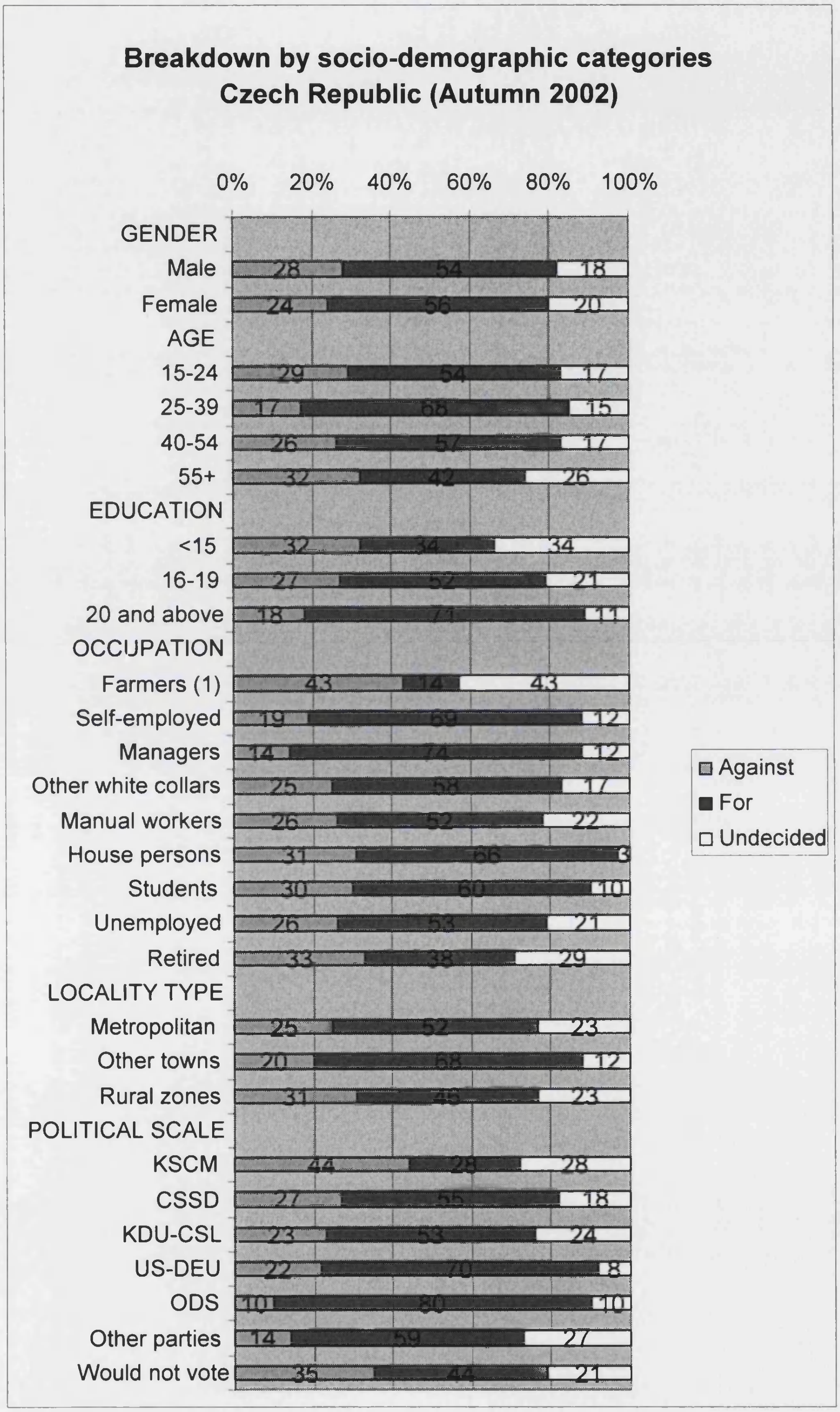
In contrast to the other Visegrad countries, political conditions for a fast-track approach to euro-zone accession are rather positive in Slovakia given that anti-EU parties (like the SNS and ZRS) are losing ground and have not been able to exceed the 5 percent threshold since 2002 and 1998 respectively. On the other hand, the Eurosceptic KSS possesses a limited political leverage while other Eurosceptic parties do not formulate their Euroscepticism explicitly with regards to EMU (KDH) or, alternatively, have 'softened' their positions on the EU in an effort to get internationally rehabilitated and to increase the coalition potential (LS-HZDS). In fact, the LS-HZDS position on European integration can only be understood with reference to its office-seeking behaviour given that the party has to instrumentalise a pro-European attitude in order to become a legitimate coalition partner. To end the party's 'long-standing pariah status', the LS-HSDZ supported key government bills and in doing so, supported the government in its efforts to implement reforms in line with a fast-track approach to adopting the euro. The latter point, however, can only be understood with reference to the high level of party fragmentation and polarisation and their consequences for coalition building; a distinct feature of Slovak politics which is further discussed in chapter 6. In turn, a fast-track approach to adopting the euro by the governing party has to be seen in the context of its pro-European position, which is a source of legitimacy in a highly fragmented and – as further discussed in chapter 6 – also polarised party system, as much as it is a response to its pro-EU oriented electorate. Interests certainly play a crucial role in understanding the SDKU's stance on fast-track approach to adopting the euro; however, as elaborated in chapter 5 and 6, these interests alone do not account for the success in pushing forward reforms nor can they support arguments that a fast track approach is inevitable. The enthusiasm for euro-zone membership has to be put into the context of the dramatic experience of foreign policy failure under the Meciar government, which made the idea of European integration so persuasive, a fact which is also illustrated in the relatively high levels of public support for EU and EMU membership.

Indeed, support for the euro has been remarkably stable in Slovakia since the late 1990s. In contrast, the euro is perceived less favourably in the Czech Republic than in the other Visegrad countries. This is consistent with the traditional lower levels of support for the EU in the Czech Republic. In Hungary, approval rates have been high whereas in Poland, support for the euro has decreased in the wake of the country's EU accession in May 2004. However, when compared to the Czech Republic, support in Poland is still relatively high. It has been argued that the higher opposition of the public to the euro in the Czech Republic fits well with Gabel's assumption of class-based opposition to EMU. Indeed, the chapter finds supportive evidence for a class-based polarisation that provides the basis for a stronger articulation of anti- and pro-EMU positions in the Czech Republic than in the other Visegrad countries where the socio-economic dimension of political partisanship is less developed. Voters of the left (CSSD) and particularly the far left (KSCM) are among the strongest opponents to the euro whereas voters of liberal and conservative parties favour euro-zone membership. This observation, however, does not apply to the other Visegrad countries where support is remarkably high among manual workers and varies little regarding left and right-wing voters. In Poland, voters of nationalist and farmer parties are more inclined to oppose the adoption of the euro reflecting, in the latter case, the stronger opposition among citizens living in rural areas and farmers.

The trend towards class-based voting behaviour in the Czech Republic explains why the CSSD-led government found itself trapped by commitments to fiscal consolidation programmes and low inflation rates as well as the pre-election promise to reduce unemployment rates by expansionary fiscal policies. While the problems to adhere to the fiscal criterion of the Maastricht requirements essentially led to the government's decision to postpone the initial euro-adoption target date, this decision was further supported by an unfavourable environment for a fast-track approach to euro-zone entry given the relatively high scepticism of the Czech public towards the euro – and especially of those citizens supporting the CSSD party. In contrast, the Slovak government's approach to a quick adoption of the euro is mirrored in relatively high and stable public support since the late 1990s; a fact that cannot be solely explained on the basis of interests, as highlighted in the following chapter. On the other hand, public support for the euro has fluctuated considerably in Poland. It has been argued that most of the dynamics for the opposition to the euro are not part of a class-based response to the government's economic policies generated by a more manifested Left-Right cleavage, but from supporters of nationalist parties (like the LPR and PiS) and Eurosceptic farmer parties (Samoobrona and PSL). This underlines the importance of a nationalist/religious-rural and liberal-urban cleavage for the voting behaviour in Poland. Indeed, the role of the Catholic Church and the agricultural sector is a distinctive feature and dominates Polish politics and public debates. By extension, the case of Poland shows that support for the euro cannot be achieved or maintained through merely addressing distributive issues with regards to euro-zone membership but depends also upon cultural idiosyncrasies; an aspect which is further addressed in the following chapters. It has been argued that the rise in opposition is reflected in the emergence of nationalist and populist farmer parties (LPR and Samoobrona) as strong forces in the Sejm. While the SLD minority government did not define its euro-adoption strategy and set an official target date for the adoption of the euro, the decrease in government popularity and stability combined with an increase in public and party-based Euroscpeticism made a fast-track approach unlikely. It has also been argued that the downward trend in support for the euro stands in relation to the citizens' fear of losing the just regained price stability after years of high inflationary pressure. This aspect should not be underestimated given that the perception of inflationary pressures in some current euro-zone member states stokes fears of price increases. In contrast, higher support for the euro in Hungary reflects the respondents' wish to attain price stability. After years of sticky inflation expectations and unpredictable exchange rate developments, Hungarians may consider the euro as the much needed 'stability anchor'. The relatively high support also suggests that the fear of losing national identity is low among Hungarians. This fits well with Hungary's initial euro-adoption strategy that aimed to join the euro-zone as quickly as possible, however, a fast-tack approach was then constrained by strong opportunistic interests and the government had to postpone euro-zone entry to the next decade.

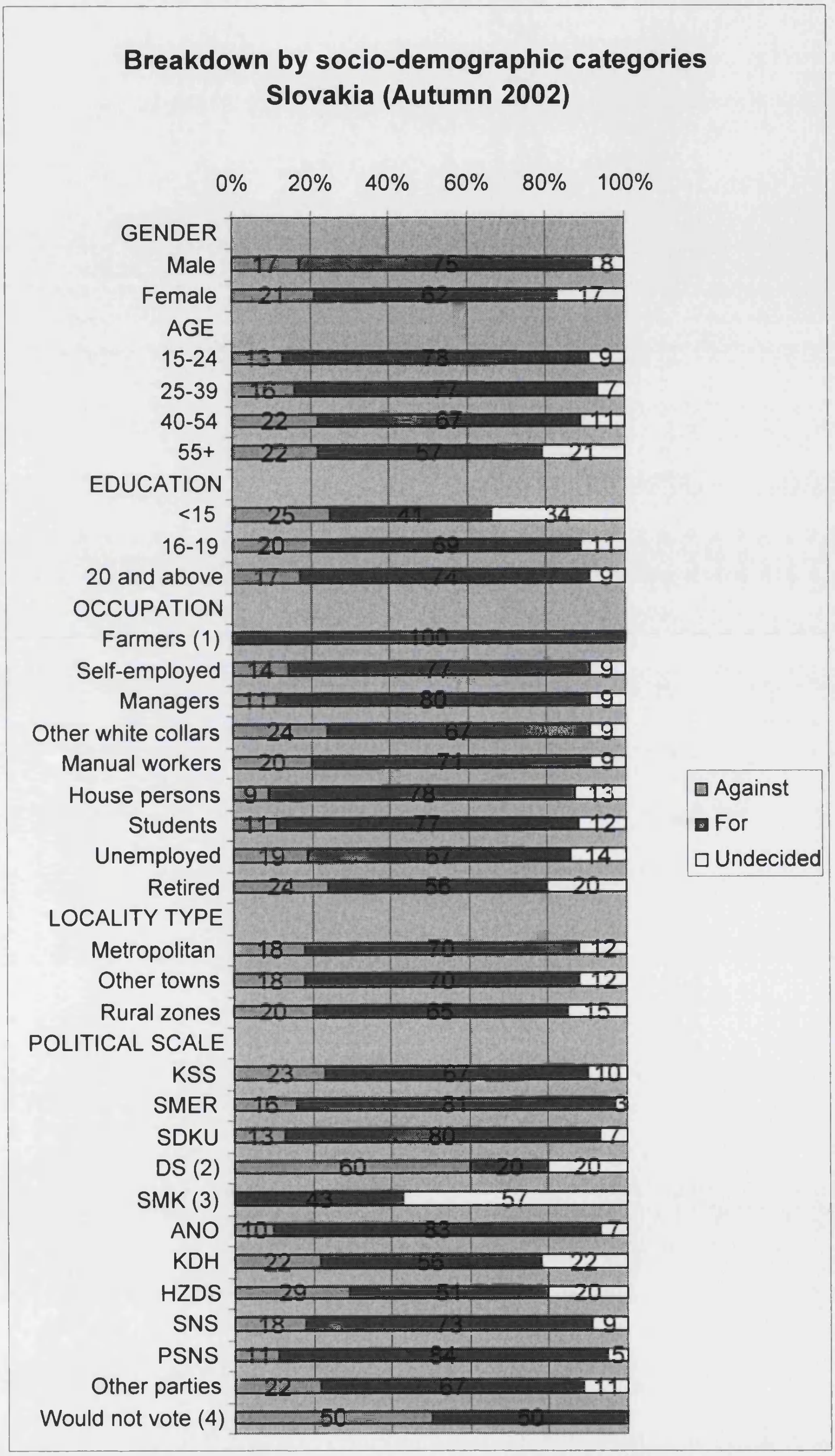
This chapter has highlighted cross-national variations in approaching the adoption of the euro through an analysis of actors' positions and preferences on EMU and European integration. At the same time, this chapter has shown that the preferences have to be related to an analysis of institutional constraints and opportunities in order to understand the countries' capacity to implement reforms in line with the Maastricht criteria (chapter 6). By the same token, these preferences have to be related to an analysis of actors' ideas on the euro in order to fully explain the countries' willingness to join the euro-zone. It is the purpose of the following chapter to explore the impact of ideas on the Visegrad countries' euro-adoption strategy.

Figure 11 Support for the euro (CCEB 2002.2)*



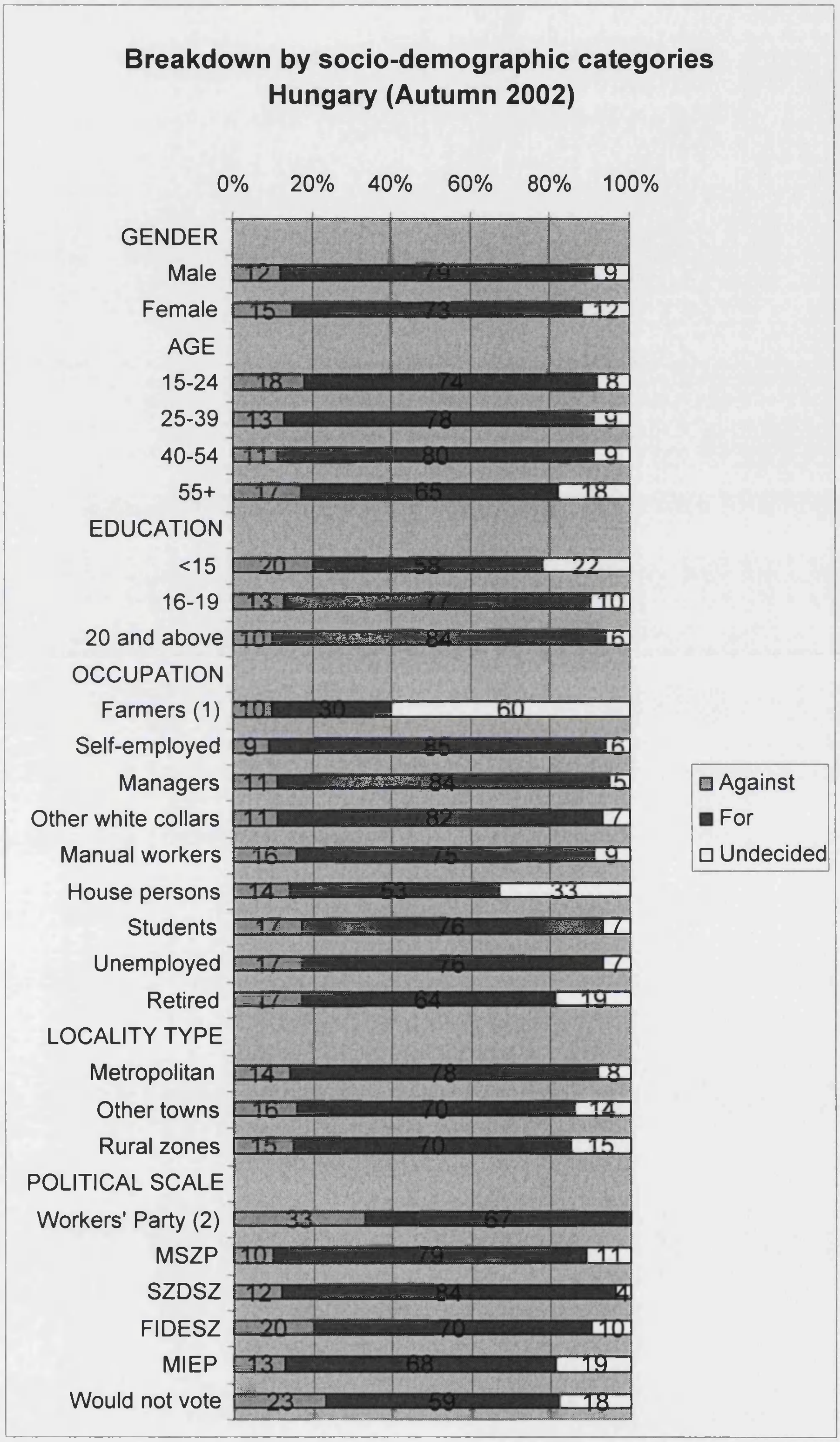
(1) Only seven respondents

Figure 12 Support for the euro (CCEB 2002.2)*



(1) Only one respondent, (2) only five respondents, (3) only seven respondents, (4) only four respondents

Figure 13 Support for the euro (CEEC 2002.2)*



[(1)] Only ten respondents, [(2)] only three respondents

Figure 14 Support for the euro (CEEC 2002.2)*

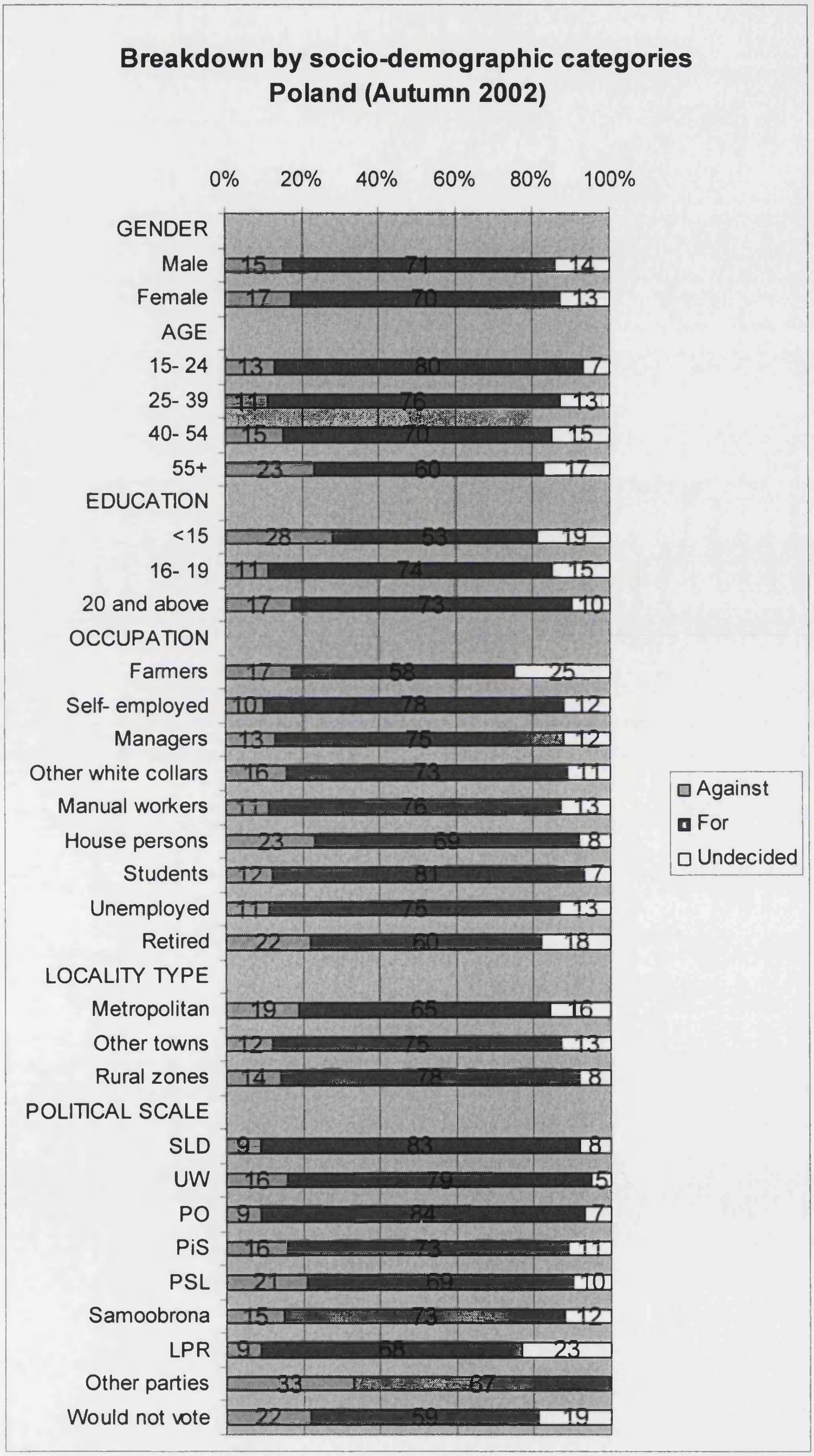
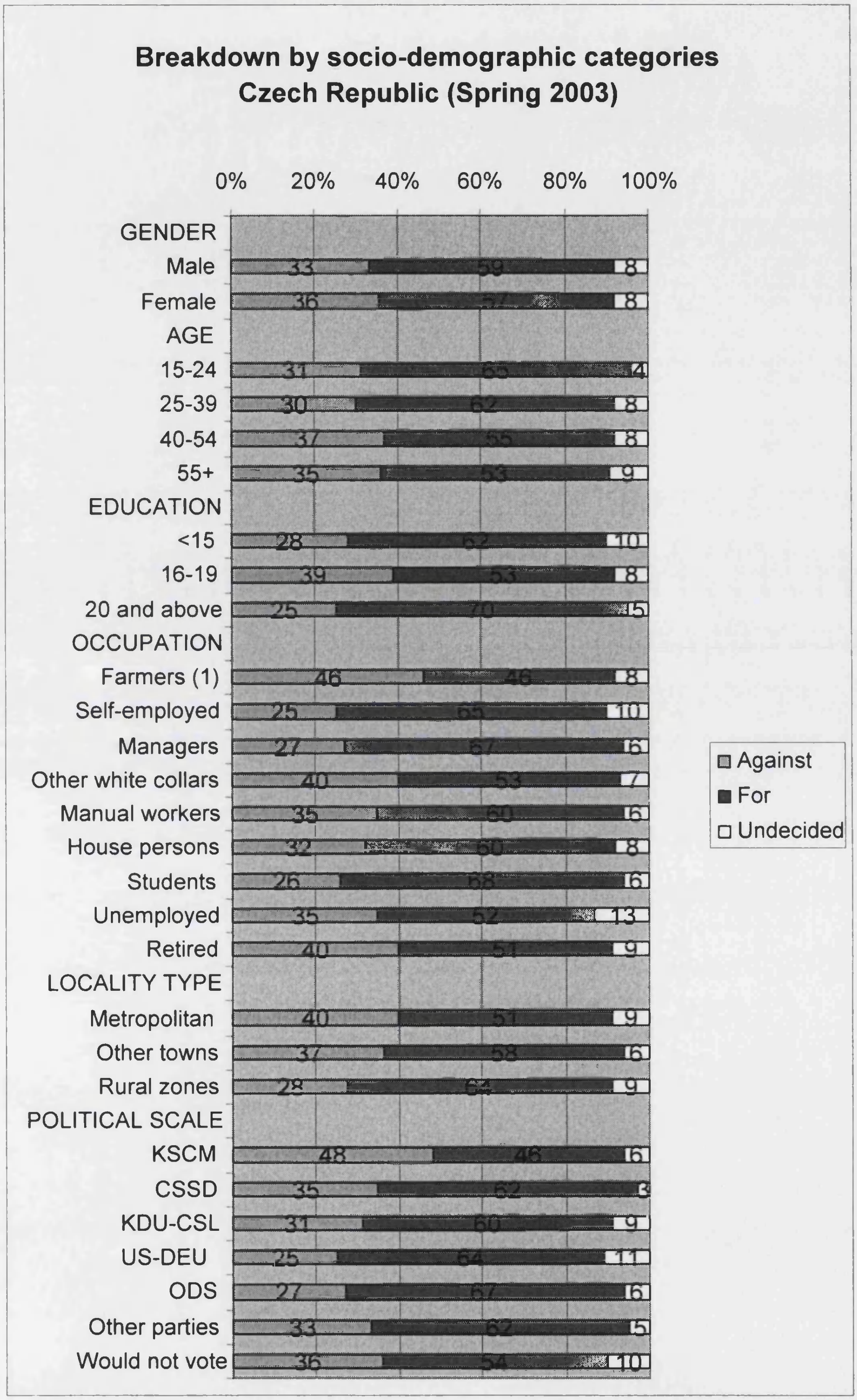
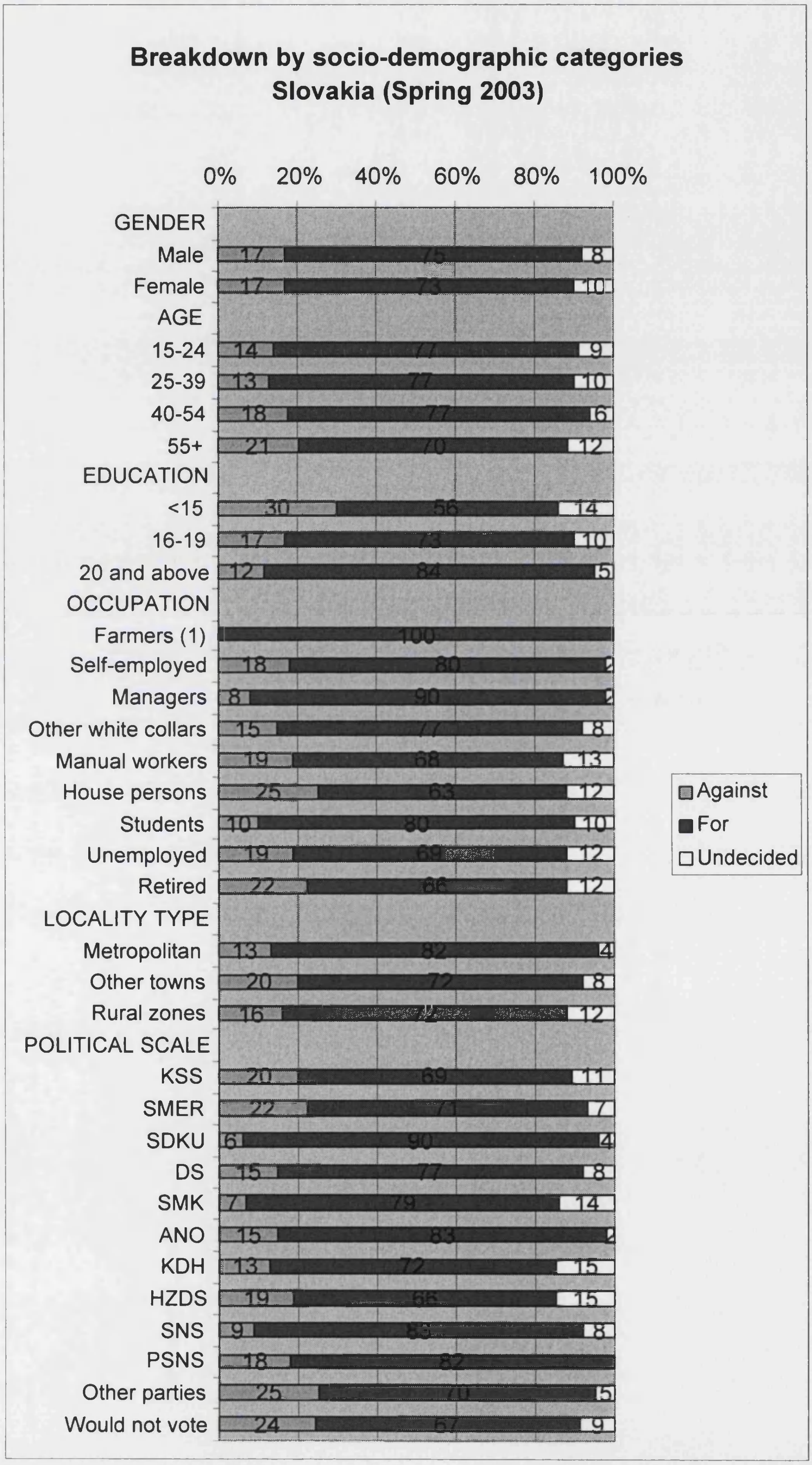


Figure 15 Support for the euro (CEEC 2003.2)*



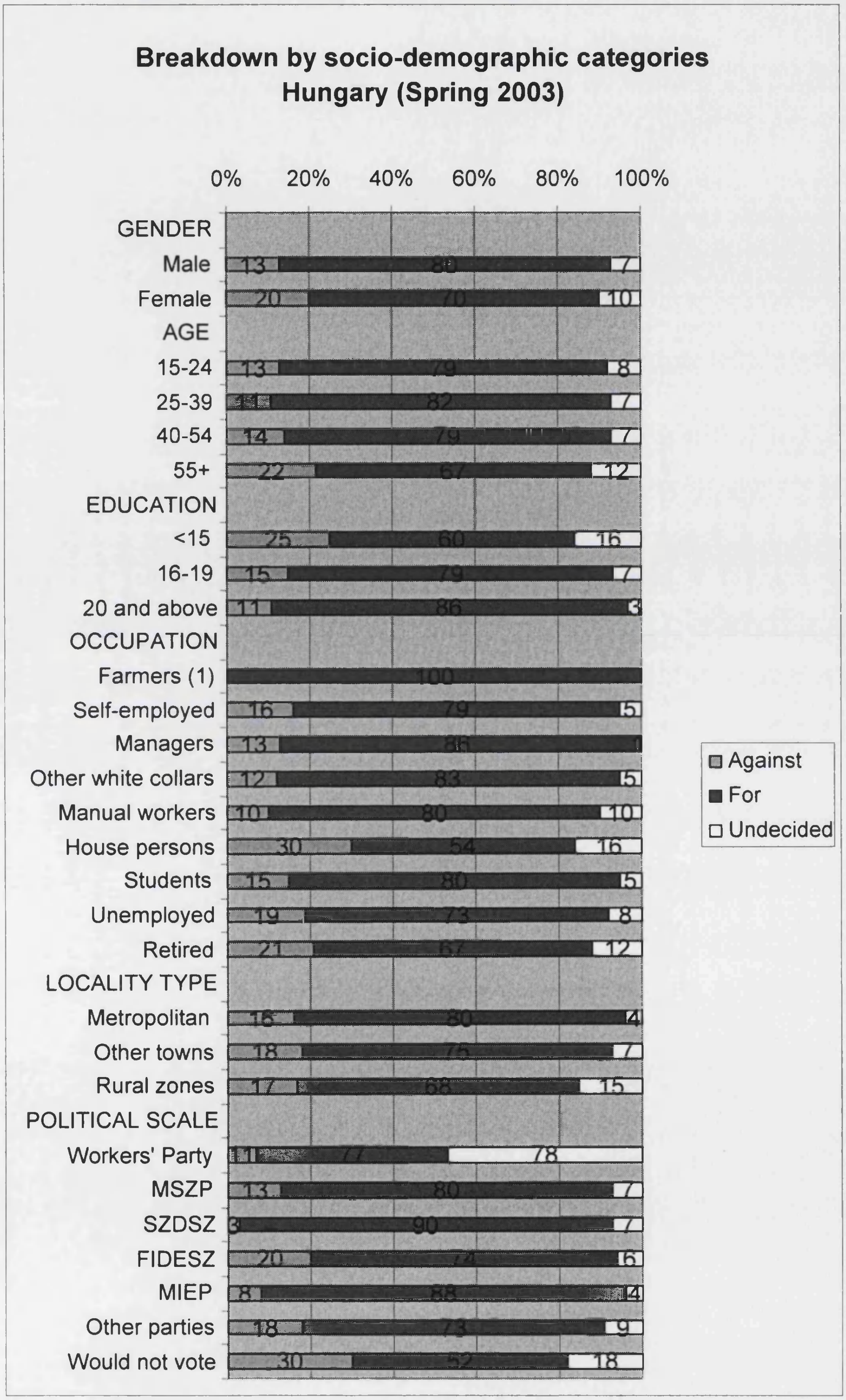
(1) Only ten respondents

Figure 16 Support for the euro (CEEC 2003.2)*



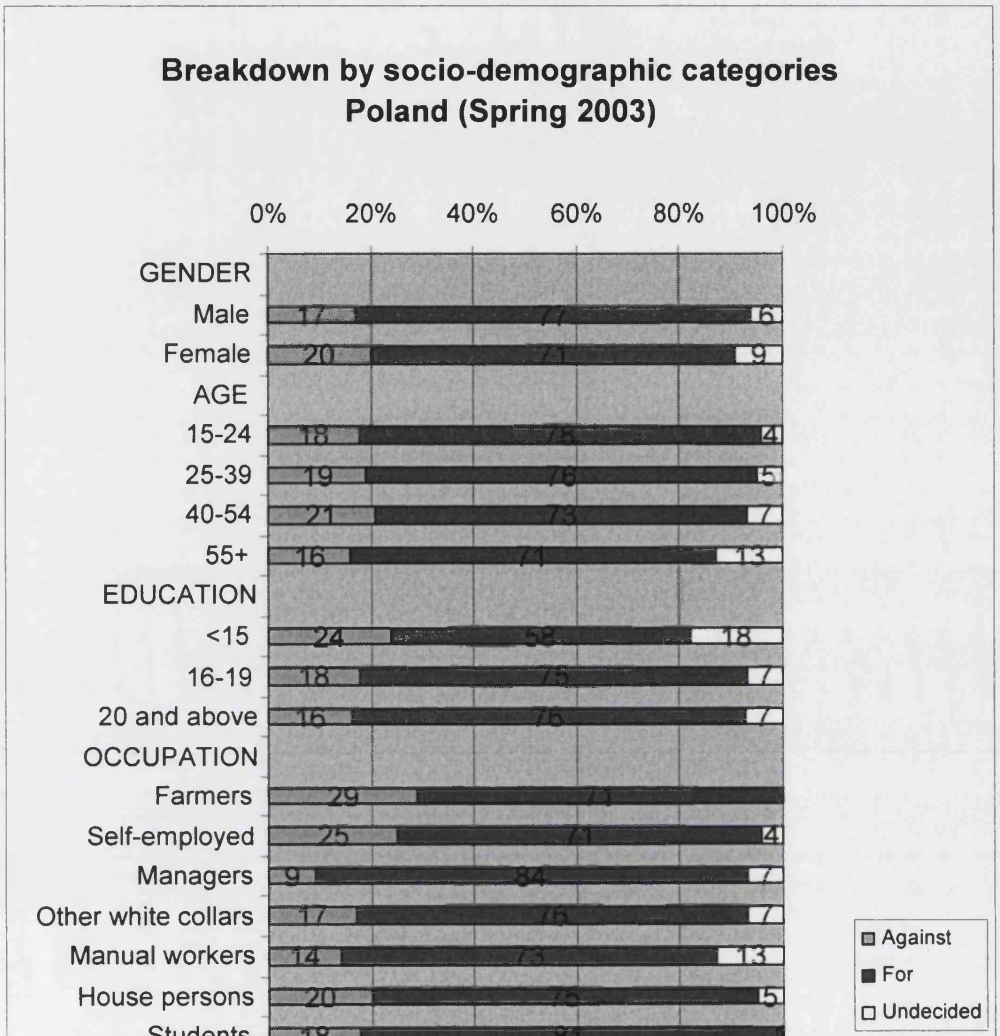
[(1)] Only two respondents

Figure 17 Support for the euro (CEEC 2003.2)*



(1) Only eight respondents

Figure 18 Support for the euro (CEEC 2003.2)*



*Remarks:
- The original Eurobarometer survey distinguishes between "very much against" and "somewhat against"
- The original Eurobarometer survey distinguishes between "very much for" and "somewhat for"
- The original Eurobarometer survey distinguishes between "neither for, nor against" and "no opinion"
- Self-employed = professional (lawyer, medical practitioner, accountant, etc.), owner of a shop, craftsman, business proprietor, owner of a company
- Managers = employed professional (employed doctor, lawyer, accountant, architect, etc.), general manager, director or top management (department head, junior manager, teacher, technician)
- Other white collars = employed position, working mainly at a desk, salesman, driver
- Manual workers = employed position, not at a desk, but in a service job (hospital, restaurant, police, fireman etc.), supervisor, skilled manual worker, other (unskilled) manual worker, servant
- House persons = responsible for ordinary shopping and looking after the home, or without current occupation, not working

Table 13 Support for the euro: Income groups, Autumn 2002

	Czech Republic		*Slovakia*		*Hungary*		*Poland*	
	Lowest 3 income groups	Highest 3 income groups	Lowest 3 income groups	Highest 3 income groups	Lowest 3 income groups	Highest 3 income groups	Lowest 3 income groups	Highest 3 income groups
Against[1]	47	20	24	12	16	14	16	7
For[2]	11	67	55	83	62	79	65	84

[1] The original Eurobarometer survey distinguishes between "very much against" and "somewhat against"
[2] The original Eurobarometer survey distinguishes between "very much for" and "somewhat for"

Table 14 Support for the euro: Income groups, Spring 2003

	Czech Republic		*Slovakia*		*Hungary*		*Poland*	
	Lowest 3 income groups	Highest 3 income groups	Lowest 3 income groups	Highest 3 income groups	Lowest 3 income groups	Highest 3 income groups	Lowest 3 income groups	Highest 3 income groups
Against[1]	36	33	23	9	18	12	19	19
For[2]	61	60	70	88	69	83	73	77

[1] The original Eurobarometer survey distinguishes between "very much against" and "somewhat against"
[2] The original Eurobarometer survey distinguishes between "very much for" and "somewhat for"

Chapter 5

The ideational level of analysis: The impact of ideas on the euro-adoption strategies

Having investigated the core research question from an interest-oriented perspective, this chapter analyses cross-national responses to euro-zone accession by applying an idea-oriented approach. The argument is that the relationship between ideas and policy outcomes provides a tool for judging political action against interests and helps to explain how interests and ideas intersect and affect the country's approach to adopting the euro.

Each of the interest and institution levels of analysis provides insights into the actions taken during the period under analysis. However, neither of them alone can answer the central question of this thesis: why do cross-national variations to the objective of euro-zone entry persist in the Visegrad countries? The complexities of policies related to euro-zone entry cannot be reduced to fit within these frameworks without a distortion of analysis. Purely interest- or institution-based approaches would miss many of the turns the Visegrad countries have made during the transition process because they fall short of explaining why EMU accession took on different *meanings* in the countries under review. These approaches do not account for people's beliefs and therefore cannot explain how individual actions are motivated.

For example, as discussed in chapters 2 and 6, institutional constraints due to the degree of central bank independence, the choice of the electoral system and the wage bargaining level affect the outcome of fiscal and monetary policy and may therefore help to explain differences in approaching the EMU requirements. However, institution-oriented approaches relocate preferences from individuals to institutions and attribute changes in preferences to exogenous crisis: "[t]he actual ideas in question are left largely ignored; their power simply derivative of the power of institutions", concludes Finlayson (2004: 531). Institution- and interest-based approaches fall short of explaining why EMU may take on different meanings; they neglect the fact that policy outcomes are also subject to ideas about European integration and economic policies. For example, policy-makers can be divided over the way macroeconomic policy should be carried out because they subscribe to different ideas about economic policy. Moreover, as argued in chapter 2, it is impossible to conceptualise interests without analysing the ideas an actor holds because "interests cannot be articulated without values" (Haas 1990: 2). However, values are not given, but acquired through the process of learning from past experiences (Haas 1990: 2-7, Goldstein and Keohane 1993: 13, Wendt 1999). As pointed out in chapter 2, policy failure (thus past experience), policy learning and persuasiveness are most crucial in understanding the process of cognitive change, and therefore help to understand why the EMU took on different meanings in the Visegrad countries. But while different ideas on the euro might become causally consequential for the making of the country's euro-adoption strategy, it is also argued that the impact of ideas varies in all four countries (see chapter 2). Ideas 'do not float freely' (Risse-Kappen 1994) and the impact of ideas depends on whether the idea fits domestic coalitions supporting or opposing euro-zone entry. Thus, this thesis treats ideas not as an exclusive explanation about individual behaviour; rather it focuses on the interrelationship between interests, ideas and institutions. Applying Goldstein and Keohane's (1993: 7) definition of ideas as beliefs that can range from general moral principles (worldviews and principled beliefs) to more specific applications of (scientific) knowledge (causal beliefs; see chapter 2), this chapter analyses whether ideas on European integration and macroeconomic policies provide the policy-makers with a road map that helps them to choose among alternative strategies regarding approaches to adopting the euro.

Thus, the purpose of this chapter is to analyse how far policy-makers have reconsidered and adjusted their prevailing assumptions and ideas on euro-zone accession during the transition process. In particular, this chapter seeks to demonstrate the extent to which ideas on European integration and macroeconomic policy led to the adoption of different strategies towards the euro-zone accession in the Visegrad countries. This chapter is divided into four sections, each dealing with one case study.

These sections are further subdivided into ideas about European integration and ideas about macroeconomic policy. The conclusion evaluates the ideas described by the policy-makers and relates them to the euro-adoption strategy of their country.

The Czech Republic

Among the Visegrad countries, the Czech Republic has been the most reluctant to join the euro-zone. As early as 2002 the government gave up plans for a quick adoption of the euro and advocated a target date of 2010/2011, while, at that time, other Visegrad governments were still aiming at euro-zone entry for 2006 or 2007 (see chapter 1). Also, out of all the Visegrad central banks, the Czech National Bank (CNB) is the most reluctant since its board members are the most divided about issuing an official statement of when they want to join the euro-zone (see also chapter 6).

The Czech Republic's reluctant attitude towards euro-zone entry is reflected in the Euroscepticism of the general public and a relatively high degree of opposition to EMU (see chapter 4). The Eurosceptic stance of Czech citizens is mirrored by a sceptical position of the current EU members towards the Czech Republic's accession to the EU. Out of the ten new EU entrants, the Czech Republic received the worst result in the European Parliament's approval over its membership. The Bavarian Christian Social Union (CSU) threatened to boycott the Czech accession negotiations because of the expulsion of the Sudeten Germans after the Second World War.[1] The CSU's campaign to force the Czech Republic to abolish the Benes Decrees[2] has definitely harmed the German-Czech relationship and reduced the popularity of EU integration among Czechs (cf Hanley 2004a). The relationship with Germany is crucial given that history has led both states to look upon each other with great suspicion. As discussed below, historical memories and especially the Czech experience with foreign intervention and occupation are used in the political discourse of many leading Czech policy-makers to

[1] Another anti-Czech campaign was led by Jörg Haider, former leader of the Austrian Freedom Party (FPÖ), over the issue of the nuclear power plant in Temelin at the Czech-Austrian border.

[2] The Benes Decrees legitimised the expropriation from the Czech lands and segregation of more than two million ethnic Germans after the end of the Second World War (see chapter 4).

make their ideas on European integration persuasive and consequently to make their case against the euro.

The other important idea-related factors to explain the reluctant position on the euro-adoption are the idea that the EMU is an obstacle to achieve real convergence and the change of ideas about monetary policy triggered by the currency crisis in 1997. It is argued that the experience of economic policy failure led to a readjustment of existing ideas on how to conduct monetary policy, and therefore helps to understand why the CSSD-led governments and the CNB have come to change their positions on the timing of euro-zone membership.

Ideas on European integration

As discussed in chapter 4, Eurosceptic parties are well represented in the Czech parliament by the communist party (KSCM) and the liberal conservative ODS. Chapter 4 has pointed out that, in both cases, the parties' identity and national interests on European integration account for their sceptical position on EU membership. For example, the KSCM's stance on European integration is clearly driven by the party's communist ideology since the EU is principally rejected as too-capitalist a system that serves as a "tool of multinational capital in furthering exploitative policies in Europe" (Kopecky and Ucen 2003: 169) and favours "the interests of business and larger states (especially Germany)" (Hanley 2002: 9). On the other hand, the ODS leadership – although challenged from within the party – is sceptical about deeper European integration as the EU is seen as a bureaucratic and undemocratic entity that undermines state sovereignty (see chapter 4). Both opposition parties – the KSCM and the ODS – possess considerable leverage given their high percentage of seats in the parliament and the fact that the ruling coalition government only holds a small majority. In addition, both parties exert a strong influence on the public discourse on European integration. In the following part, the ideas of the largest opposition and former ruling party, ODS, are examined in greater detail. This is because – similar to their lead in the domestic debate on EU issues during the accession negotiations (cf Hanley 2004b: 693) – the ODS and its former party leader and current President of the Czech Republic, Vaclav Klaus, are the most active in pursuing the political discourse on the euro (compare Larsen 1993: 61 for a justification of this approach). It should be noted that Vaclav Klaus was the only President of the new member states who refused to back the "yes" vote on the country's entry into the EU and, in doing so, he indirectly recommended a "no" vote (see chapter 4). Indeed, Klaus is the only President in the EU and the most influential and rigorous mainstream politician in the Visegrad countries, who openly and harshly criticises the EU and EMU.

Klaus translates his ideas on European integration into the language of past experiences and historical memories. Certainly, it can be argued that Klaus' references to historical memories are self-serving and used to legitimise his own views. But, even if true, it is striking how Klaus matches words with political action. This is not to argue that there exists a one-to-one relationship between Klaus' ideas on European integration and the Czech strategy to euro-zone entry. Rather, the chapter argues that Klaus is able to frame his ideas on EMU within the context of existing ideologies (the 'interpreted persuasiveness', see Yee 1996: 91 and chapter 2). By appealing to existing myths and historical memories Klaus attempts to make the adoption of the euro unpersuasive to the Czech people and to mobilise sceptical positions on the euro-zone entry producing an unfavourable environment for a government that intended to join the euro-zone as soon as possible. At a more concrete level, the ODS' and Klaus' ideas on the nature of European integration have direct implications for the country's euro-adoption strategy. This is because President Vaclav Klaus appoints the new members of the central bank board. In this function, Klaus was sufficiently farsighted to appoint three members, all of whom are well known for their sceptical views concerning adopting the euro by 2010 (see chapter 4 and 6, see also EIU 2005b: 11).

The ODS is against a deepening of EU policies because it fears that the Czech Republic will get "diluted in some sort of a super state structure" (Kopecky and Ucen 2003: 168, see also the 1998 party manifesto) or, as the former ODS leader and current President of the Czech Republic Vaclav Klaus puts it, dissolved "in Europeanness like a lump of sugar in a cup of coffee" (Klaus quoted in Bugge 2000: 213; see also Klaus 2003). While Klaus clearly favours neoliberal policies and a single market with the removal of trade barriers and unrestricted competition, he does not believe in the good of further and deeper EU integration (Klaus 2004). Klaus rarely misses an opportunity to criticise the EU in general and the Brussels bureaucracy in particular. He explains his position against deeper European integration by referring to the Czech experience of permanent occupation by foreign powers (Klaus 2003). According to Klaus, integration is equivalent to foreign intervention and the decision to join the EU was "the most fateful decision in the history of the Czech Republic" (Frankfurter Allgemeine Zeitung (FAZ), 22/06/2004). Since he equates integration with foreign intervention, Klaus is indirectly suggesting that European integration is as bad as communist rule. Indeed, he puts the left-wing parties in Europe on a par with the communist party. Because of its democratic deficit, the EU attracts left-wing parties that want to escape from voters' control and create a 'European socialist superstate':

> the Czech Republic has the chance – in the historical period of which we are speaking – to warn against this [the left-wing parties] danger. We have behind us the experience of Communism and this makes us very sensitive to certain things which the West does not feel so keenly (Klaus quoted in Williams 1997: 139).

In a similar vein, the ODS condemns the future EU and the Maastricht Treaty in particular as a product of the Brussels bureaucratic elites "with a covert left-wing agenda" who search for further centralisation (Hanley 2004a: 544; see also Bugge 2000). According to Klaus, "there are many freedom-loving people within the EU who could help form its future" and to "fight against Brussels bureaucracy" (Klaus 2003). Klaus also compared his ideas about European integration to a bureaucratised Brussels that opposes freedom and sovereignty. By the same token, he regrets "that the Czechs had not had longer to enjoy the national independence regained in 1989" (Hanley 2004b: 703). During the days before his country's accession to the EU Klaus insisted that:

> we [the Czechs] must do everything we can so we are not lost in the EU, so that our unique existence over 1,000 years will not crumble and be lost (Radio Free Europe/Radio Liberty (RFE/RL) Newsline 23/04/2004; see also RFE/RL Newsline 03/05/2004).

By referring to the "unique existence", Klaus touches upon the Czech's idea of a nation that has a special mission: it is the idea of "the Czech distinctiveness from (even superiority over) its neighbours" (Williams 1997: 135).[3] According to Klaus it is the duty of the Czech Republic to stop further European integration and to reverse "certain trends and tendencies of the last decade [read the Maastricht Treaty]" (FAZ, 08/12/2001). It is in this regard that Klaus promotes his ideas on European cooperation as opposed to European integration (Klaus 2004). In fact, Klaus presents his ideas as the only alternative for Europe. To promote his vision of Europe, Klaus periodically reminds the Czechs of:

> the danger that can accompany dealing with larger nations, such as the British, French and Germans [and how] these people have failed the Czechs at crucial moments in the past (Williams 1997: 140).

Klaus has cultivated the image of "the unreliability or dupability of the mightier nations of Western Europe" (Williams 1997: 135). In this context, Klaus repeatedly refers to the Munich agreement of 1938 and the British and French refraining from helping and defending the Czechs from the German invasion. Fears that the Czech Republic will once again lose sovereignty through EU membership and be overruled by larger nations, find further expression in the ODS' Manifesto of Czech Eurorealism. Here, the EU is represented as a German-inspired project of eurofederalism (Hanley 2004a: 513) and an attempt by European states to "restore lost great power status" (Manifesto of Czech Eurorealism quoted in Hanley 2004a: 525).

Klaus' ideas about European integration fuel his political actions and serve as a road map for the expected effects of the EMU. Monetary policy touches upon the highest politics of a nation state since a currency is central to the state's identity (see Risse 2003, see also Jones 2002). It is no surprise, therefore, that Klaus has long been arguing against the EMU. As early as 1992 he condemned the EMU project:

> it [the Maastricht Treaty] is an artificial motor for a further integration process in Europe. We know what that [centralised government] means. We understand certain phenomena better than the West Europeans. This is

[3] According to Williams, (1997: 135) the Czech distinctiveness is supported by and goes as far back as the "myth of the special Czech mission, the great contribution to the spiritual liberation of Europe and all humanity, be it Charles IV's Gothic Arcadia, a Hussite purification of Christianity, 'socialism with a human face', or Bohemia as a bridge spanning the divide between East and West".

> why I get frightened when I look at certain developments in Brussels (Handelsblatt, 17/11/1992).

In February 2004, Klaus reiterated his aversion to joining the euro-zone (see also Klaus' speech on the euro to the Swedish parliament in December 2003, Radio Prague, 02/12/2003). During a forum at Passau University in Germany, Klaus expressed his fear that the euro might harm EU members because it is a "purely political tool" (RFE/RL, Newsline, 10/02/2004). "Currency unification is a Trojan Horse for the harmonisation of economies, politics, and legal regulations in the EU," said Klaus (RFE/RL Newsline, 10/02/2004). The metaphor of the Trojan Horse negatively represents the EMU in terms of a sneak attack that aims to defeat the nation state and its unique existence. Behind Klaus' arguments is the causal belief that EMU will lead to a fiscal, and then to a political, union:

> I am convinced of the inevitability of the following path: monetary union → fiscal union → political union. One of the consequences of EMU, and I include it on the side of costs, will be therefore the emergence of a fiscal and political union. And the justified question is: Do we really want a political union? (Klaus 2000).

Thus, behind Klaus' political actions lies the idea that the adoption of the euro will undermine the sovereignty of the Czech Republic.

To further illustrate his position, Klaus argues that the Czech Republic will have to take most of the burdens of EMU: "I am afraid [...] that the costs and benefits of the EMU will not be equally distributed among its members" (Klaus, 12/12/2000). EMU, Klaus suggests, "could lock CEE into a cycle of backwardness, by preventing its countries from adjusting economic policies to suit local needs" (Hanley 2002: 5). Referring to Germany and France's difficulties in achieving fiscal consolidation, Klaus states that the euro has encouraged countries to relax fiscal discipline. Unpunished states might pass the "financial burden to other members of the euro-zone" and thereby trigger "tension between states" (RFE/RL Newsline, 10/02/2004). In turn, this "could have a particularly adverse effect on the weaker economies of the post-communist countries, including the Czech Republic," argued Klaus (RFE/RL Newsline, 10/02/2004). Certainly this provokes further fears that the Czech Republic is losing out from euro-zone membership and that it is merely a second class member, placing its fate into the hands of the big EU countries, such as Germany (see above). It should be noted, however, that Klaus' anti-euro statements coincided with a rise in his popularity. In February 2004, Klaus became the most popular politician in his country, enjoying the trust of 69 percent of the electorate, according to one opinion poll (RFE/RL Newsline, 10/02/2004). Certainly, other factors, such as the political crisis of the government (see chapter 6), also contributed significantly to the rise in Klaus' popularity. Nonetheless, chapter 4 has provided supportive evidence that Klaus' ideas on European integration fall on fertile ground, a fact that is highlighted in the relatively high public disapproval rates of the euro. Certainly, the process of socialisation is too complex to establish one-to-one relationships. However, it can be argued that Klaus is able to frame his ideas on EMU within the context of existing ideologies in an attempt to make the adoption of the euro unpersuasive to the people and to mobilise sceptical positions on the euro-zone entry. Klaus' position on the EMU influences the Czech euro-adoption strategy precisely because his ideas are sufficiently powerful to resonate with the causal and principled beliefs of the Czech people and thereby build winning coalitions.

As stated in chapter 4, the Czech Social Democratic Party (CSSD) firmly supported EU membership, seeing accession as a "modern social democratic project" (Kopecky and Mudde 2002: 306). In contrast to the ODS, the CSSD sees the EU as a means not to undermine national interests but to endorse them as EU membership overcomes "the historical marginalisation of small states such as the Czech Republic within Europe and [protects] them against the political and economic threats of globalisation" (Euromanifest CSSD 2001 as cited in Hanley 2002: 7). However, as stated in chapter 4, the CSSD's pro-European position must also be viewed in terms of the Czech intra-party arena and therefore in the context of the CSSD's electoral interest in distinguishing itself from the Eurosceptic ODS and KSCM.

The pro-European attitude translated initially into a positive position on EMU accession. As early as 1996, Zeman – the then party leader of the CSSD – announced he would support Czech accession to the EMU (The Prague Post, 17/07/1996). As Miroslav Had, senior researcher at the Prague-based Institute of International Relations, points out: "The CSSD [was] the only party in the Czech political spectrum to support the Maastricht Treaty for monetary union" (The Prague Post, 17/07/1996). But although the CSSD has always supported the Maastricht Treaty and EMU accession, it changed its attitude towards the timing of joining the euro-zone. Whereas in 1998 the CSSD minority government was still in favour of a quick adoption of the euro with a target date of 2006/7, the CSSD government led by Prime Minister Vladimir Spidla adjusted its position towards a later target date of around 2010-2011. It is the furthest target date advocated by any Visegrad country government. In contrast to Klaus and his ODS, the CSSD's position on a postponement of EMU accession is not based on ideas relating to a rejection of deeper EU integration but, as discussed in the next section, on ideas related to the question of how to conduct macroeconomic policies in the aftermath of the currency crisis.

Ideas on macroeconomic policy

Monetary policy failure and the currency crisis of 1997 (triggered by speculative attacks on the koruna) are of central importance in explaining opposition to a quick adoption of the euro. Related to the currency crisis is the Czech's brutal experience with capital flows under a fixed exchange rate regime. High speculative attacks on the koruna eventually forced policy-makers to change to a flexible exchange rate (see chapter 3). In the aftermath of the currency crisis the Czech Republic went through a sharp recession and unemployment rates rose to unprecedented levels. As stated in chapter 2, ideas on the appropriate macroeconomic policies fall mainly under the category of causal beliefs. With the economic recession, policy-makers started to reconsider the cause-and-effect relationships of specific macroeconomic policies. For instance, they questioned the suitability of a fixed exchange rate for a transition economy, and therefore the adoption of the euro, as a means to achieve real convergence. The CSSD-led governments, in power since 1998, and the CNB underwent this process that influenced their switching of positions from one that supported a quick euro-adoption to one that favoured a postponement of euro-zone entry. This is not to say that macroeconomic ideas exclusively explain the turn in the government's euro-adoption strategy. Certainly, the postponement of the target date must equally be seen in the context of Czech self-interests to maintain a competitive advantage over its neighbouring countries, the CSSD's electoral interests and need to fulfil partisan expectations as well as the unfavourable environment for a fast-track approach created by a relatively strong public opposition to the euro (see chapter 4) and the dominant anti-euro discourse led by prominent politicians such as the President of the Czech Republic Vaclav Klaus. However, it is argued that monetary policy failure provides a compelling argument to highlight the changing meaning of euro-zone accession for the CNB and the CSSD – a Social Democratic party that had to cope with increasing partisan pressure in light of rising unemployment rates in the aftermath of the currency crisis.

The definitive break with a quick euro-adoption strategy occurred when the Spidla government took over in June 2002. The postponement of the EMU target date came as no surprise; signs had been apparent since the resignation of Josef Tosovsky as the President of the CNB in 2000 (see also chapter 6) and deputy Prime Minister Vladimir Spidla's proposal of a later target date of 2010 or 2011 (The Prague Post, 10/01/2002). Spidla's intention to postpone the adoption of the euro is a consequence of the demand-side oriented policies of his government. Facing rising unemployment rates, Spidla's electoral campaign was based on economic policies to expand the welfare state (see chapter 3). This implied higher public expenditures and contravened the Maastricht criteria of fiscal consolidation. In December 2002, Prime Minister Spidla officially declared that the Czech Republic could join the euro-zone in 2009-2010 at the earliest (Radio Prague, 15/12/2002). This was supported by his Finance Minister, Bohuslav Sobotka, whose budget plans for 2003 were not ambitious and rejected radical cuts in the public and social sector (see interview with Sobotka in Financial Times 09/10/2002). After years of economic stagnation following the currency crisis in 1997, Sobotka's main concern was to support economic growth and not to reduce the budget deficit to the Maastricht target at any price. In March 2004, Sobotka reiterated that the

Czech Republic will join the euro-zone in 2010, only once additional labour market and structural reforms are implemented (Radio Prague, 29/04/2004). Thus, EMU is definitely not seen as a means to achieve real convergence, but as a stumbling block in the conduct of economic policies. While it can be correctly argued that the economic policies of the Spidla government are driven by partisan expectations (see chapter 4), it should be noted that it was the experience of the monetary policy failure during the currency crisis and the following macroeconomic consequences that set off the readjustment process of the government's euro-adoption strategy. And this was a government led by the CSSD – the only party in the political spectrum to support initially and unconditionally the Maastricht treaty and a quick euro-adoption strategy.

The CNB gradually changed its euro-adoption target date as well. The resignation of Tosovsky marks a turning point in the CNB's position on euro-zone entry.[4] Under the presidency of Tosovsky (1993-1997; 1998-2000), the CNB aimed to join the euro-zone as quickly as possible; and under the presidency of Tuma the CNB has shifted gradually towards a postponement of euro-zone accession. In contrast to Zdenek Tuma, the current President of the CNB, Tosovsky argued that euro-zone membership would end the "boom and bust cycle" and would protect the country from capital flight. The EMU is a "safe harbour in a stormy sea [read capital flight]" said Tosovsky in an interview in 1999 (Handelsblatt, 24/12/1999). Tosovsky's justification for a quick euro-zone entry is driven by the causal belief that fixing the exchange rate irrevocably will benefit a small and open economy like the Czech Republic. But it should be noted that while Tosovsky supported a quick approach to euro-zone accession, his central bank board members were, and are, still very much divided about the appropriate timing of euro-zone accession, precisely because they hold different macroeconomic ideas on the exchange rate; i.e. they hold different causal beliefs on the means-end relationship of the appropriate exchange rate regime for a country in transition. Among the central bank board members, Pavel Stepanek and Michaela Erbenova

[4] Tosovsky resigned on 31 October 2000, only four days after the government approved the controversial amendment to the central bank law that severely restricted the CNB's independence (see chapter 6).

have the most sceptical views of the EMU.[5] Ideas about the cause-effect relationship between high capital flows under a fixed exchange rate regime and the currency crisis influence their political actions because, according to them, a flexible exchange rate regime is more successful in tackling the capital flows and inflationary pressure induced by the transition process. According to Erbenova, a close ally of Vaclav Klaus (see footnote 5), there is no need to rush to join the EMU (Petrus 2002). The Czech economy is still undergoing a substantial transformation process, in which a flexible monetary policy is decisive. As relative prices have not yet adjusted and foreign direct investment (FDI) continues to be high, a flexible exchange rate system would be more suitable to tackling asymmetric economic shocks (FAZ, 03/12/2001). This clearly shows that the experience of a fixed exchange rate regime under large capital flows influenced Erbenova's position on the euro. Above all, she said, the government first needs to regulate fiscal imbalance, which is a matter of long-term fiscal and other structural reforms (Petrus 2002). "It would be useless to fulfil the Maastricht criteria and to join the EMU at any price, only to have huge internal adjustment problems later," said Erbenova (FAZ, 03/12/2001). Behind Erbenova's support for a "go-slow" or coronation approach lies the fear of higher speculative attacks if real convergence must be sacrificed for nominal convergence efforts that aim to fulfil the Maastricht criteria at any price.[6] Therefore, the euro has to be introduced at the end of, and not be seen as a means to achieve, real convergence.

Similarly, Tosovsky's successor Tuma has not voiced support for an early entry into the EMU either: "It is extremely difficult to specify optimal timing" said Tuma just days after his appointment as governor of the CNB (The Prague Post, 13/12/2000). Since the Czech Republic experiences constant real appreciation (see chapter 3), a "floating exchange rate rather than fixed or even the ERM II exchange rate mechanism"

[5] Pavel Stepanek was a member of the central bank board from 1999 to 2005. Before Stepanek joined the CNB in February 1999 he was Deputy Finance Minister in 1998. Michaela Erbenova has been a member of the board since December 2000, having worked as an advisor to Prime Minister Vaclav Klaus between 1996 and 1997.

[6] The real convergence parameters of the Maastricht criteria are only secondary in nature (see Backé 1999: 121 and chapter 1).

would be more suitable to protect the country from speculative attacks, argued Tuma in an interview with Reuters (Willard 2002). This is at the core of the CNB attitude toward ERM II and euro-zone membership, because central bankers still vividly remember the 1997 currency crisis stemming from intense speculative attacks against the koruna under a fixed exchange rate (see chapter 3). Yet, as argued above, this causal belief in the suitability of a flexible exchange rate for a transition economy and the reluctant attitude of the CNB and the government on EMU fits well with existing interests. For example, in contrast to Hungary and Slovakia, inflation rates are already very low in the Czech Republic. Since interest rates in the other Visegrad countries are much higher than in the Czech Republic (see chapter 3), businesses have lower costs to finance their investment plans.[7] Thus, the Czech Republic provides much better conditions for investment and therefore has a competitive advantage over its neighbouring countries. This is reinforced by the fact that although interest rates are low, the Czech Republic was able to attract most of the FDI (per capita) – often in the form of short-term portfolio investment – among the Visegrad countries (see chapter 1 and 3). This is quite remarkable, as conventional wisdom would suggest that low interest rates would cause capital outflows. Certainly, the advantage of having a lower interest rate vis-à-vis its neighbours would come to a halt with euro-zone entry since interest rates have to be adjusted to the same ECB level. To put it differently, "owing to a low debt level, already low interest rates and mild inflation, the Czech Republic would clearly benefit least from early EMU entry" (Berger 2004: 12). While this illustrates how interests intersect with ideas about the suitability of a fixed exchange rate, it also shows that one factor alone is not sufficient to explain cross-national responses to euro-zone membership.

In summary, the Czech Republic is very reluctant to join the euro-zone and advocates the latest target date for accession among the Visegrad countries. Persuasiveness to discredit euro-zone membership fitting with existing ideologies (see chapter 2) and monetary policy failure are important sources for Czech opposition to the euro.

[7] In March 2004, interest rates stood at 2 percent in the Czech Republic, 6 percent in Slovakia, 12.5 percent in Hungary and 5.25 percent in Poland.

Being the most dominant, popular and trusted politician in his country, President Vaclav Klaus, in particular, is able to mobilise sceptical positions on the euro-zone entry and to produce an unfavourable environment for a fast-track approach to adopting the euro. At a more concrete level, it can be argued that his ideas on European integration have been 'materialised' in his appointment of three central bank members, all of whom are well known for their sceptical positions on the euro. With the policy failure of a fixed exchange rate regime under large amount of capital flight, the CNB and the CSSD re-considered their ideas on the cause-and-effect of monetary policy, fostering the view that a flexible exchange rate is the best way to tackle capital flight and to achieve real convergence. But it has also been argued that the government's euro-adoption strategy is influenced by the self-interest of maintaining a competitive advantage for as long as possible over the other Visegrad countries that have much higher interest rates, illustrating that ideas alone do not account for the reluctant attitude towards the euro but they fit with different interests. In addition, as argued in chapter 4, interests are of further help when trying to understand the CSSD's position on the euro-adoption because the party faces growing public Euroscepticism and is under high pressure to fulfil partisan expectation.

Slovakia

Public and political support for euro-zone membership is remarkably high in Slovakia (see chapter 4). The government and central bank in particular are very keen to join the euro-zone as quickly as possible. However, this has not always been the case. Under the Meciar governments (1993-1998), Slovakia experienced a period of international isolation during which EU membership, let alone EMU accession, was a distant prospect (see chapter 3 and 4).

Slovakia's self-exclusion from the European integration process was purely a result of Meciar's nationalist and inward-looking politics. The new Dzurinda governments, elected in 1998 and 2002, reversed Meciar's economic and foreign policy and embarked on a close commitment towards Western integration. With the shift towards

European integration, the Dzurinda government implemented economic policy reforms and started to advocate a fast-track approach towards the adoption of the euro. In particular, macroeconomic ideas about euro-zone entry as a means to achieve real convergence and the experience of political isolation under the Meciar governments help when trying to understand why Slovakia is keen to join the euro-zone quickly. The argument is that the experience of foreign policy failure under Meciar makes the idea of a quick euro-adoption strategy persuasive to both Slovak citizens and policy-makers alike.

Ideas on European integration

The separation of Czechoslovakia into two autonomous states in 1993 revealed the distinctive attitudes of the two states towards the West (Marks 1997: 140). As a dissident and intellectual, Vaclav Havel maintained strong ties with the West and the orientation of his Civic Forum (dissolved in 1991) was strongly towards European integration. The political leader of Slovakia, Vladimir Meciar, on the other hand, supported the communist party during the Prague Spring reform movement in 1968 that favoured "socialism with a human face" (Marks 1997: 140; see also Baer 2001).[8] Meciar did not favour a liberal economy nor did he:

> share the ideological or historically inspired motivation to engage in European unity present in the attitudinal make-up of some other political leaders in Central and Eastern Europe (Pridham 2002a: 211, see also Baer 2001).

Meciar's politics were purely nationalist and inward-looking. His willingness to cooperate with the far-right Slovak National Party (SNS) and far-left Association of Slovak Workers (ZRS), his confrontational politics towards the Hungarian minority and his leading role in forcing Slovak independence were part of his strong nationalist politics,

[8] Certainly, starting from these distinctive views between the two states, the turn in Slovakia towards a strong commitment to European integration and the growing Euroscepticism in the Czech Republic are striking developments that underline the need for contextualisation since the positions deviate from what an analysis focusing on assumed stable preferences would predict.

as were his interventionist economic and eastward-oriented foreign trade policies (see chapter 4, Henderson 2002: 91, Senior Nello 2002: 296).[9] It can be argued that:

> the uncertain commitment to market reform in Slovakia, and its slower implementation following independence, reflected a more deeply rooted belief in state planning, accompanied by a more widespread acceptance of authoritarian rule (EIU 2005h: 33).

Meciar's ideas on nationalism became so persuasive precisely because the need to gain national self-esteem was seen by the Slovaks as the most pressing problem. State building and democratic transition took place at the same time and created a need "to bolster the country's self-esteem by demonstrating that it was a state as good as any other" (Henderson 2002: 89; see also Baer 2001: 97). Part of this demonstration was the distinctive "unwillingness to compromise on its [Meciar-government's] domestic aims of strengthening and perpetuating its own political power" (Henderson 2002: 89). As Vachudova (2005: 4) explains: "for the illiberal elites in [...] Slovakia, complying with EU membership requirements was too costly, undermining their hold on power". The regained national sovereignty and the right of self-determination reinforced nationalist sentiments, leaving issues of European integration as secondary.[10] Meciar's foreign and economic policies were clearly driven by the idea of creating a strong Slovak Republic while leaving Western integration aside (see Marks 1997: 140 and 151, Goldman 1999: 153, Senior Nello 2002: 296).

Meciar's coalition partners, the extreme right SNS and far-left ZRS, certainly encouraged nationalist and inward-looking politics. Both parties firmly rejected any integration with the West on the basis that this would run counter to their values and identity. According to Jan Luptak, leader of the ZRS:

> Slovakia can live without membership of the EU. The country has fertile soil and hard working hands. We do not want to import their surplus products.

[9] The deteriorating domestic political situation was further highlighted by the limited progress in the transition process, the curb on the press freedom, the restrictions on the law on minority languages and the deterioration of relationships with its neighbouring states. Growing concerns with Slovak progress resulted in EU and US demarches from November 1994 and November 1995. Related to this are the EU presidency declaration 7 March 1998 and the Resolution on the Need to Respect Human and Democratic Rights in the Slovak Republic, adopted by the European Parliament on 16 November 1995.

[10] The regained sovereignty refers to the short period during World War II when Slovakia became a separate (although authoritative and fascist) state. Some would argue controversially that it refers to the Moravian Empire about a thousand years ago.

> We will grow our own tomatoes, peppers, and red melons (quoted in Kopecky and Ucen 2003: 171).

Luptak is referring to the communist ideology that the structural process of capitalist surplus value as the basis for exploitation leads to economic inequalities within the world economy in which Slovakia would be one of the main losers. The party's communist ideology views the EU as a capitalist system that is responsible for ZRS' rejection of European integration. SNS' ideas on European integration are also closely related to the party's identity as a far-right party. The leaders of the SNS openly express xenophobic sentiments against the Roma and Hungarians (Evans and Whitefield 1999: 121) and assert that the Slovak national identity needs to be protected from foreigners and the EU. Its anti-European views "stem from a sensitivity to Russia and to a cultural sense that Western values are not necessarily appropriate for the Slovak Nation" (Szczerbiak and Taggart 2001: 19). Meciar and his coalition partners shared the principled belief that European integration would undermine Slovak state sovereignty, is not 'appropriate for the Slovak Nation' and would lead to growing inequalities. Profound normative beliefs thus provided the road map that guided the coalition's foreign policy and consequently its confrontational approach towards European integration.

The feeling of political isolation reached a high point in 1997 when the EU decided to open accession negotiations with Hungary, the Czech Republic, Poland, Estonia and Slovenia but not with Slovakia (Smith 2004: 142). This contributed to the mobilisation of anti-Meciar support and to the election of a new government in 1998 (Pridham 2002b: 963). The growing international isolation had a considerable impact on Slovak society as it reinforced the feeling of policy failure and being left out of a process that could stop the perceived relative economic decline of the country vis-à-vis its neighbours (see Kukan 1999: 4, see below). Indeed, the perception of dramatic foreign policy failure, which discredited Meciar's inward-looking policy, made the idea of a close commitment to European integration persuasive. The idea of EU membership became so compelling precisely because it was seen to solve the country's problems (see below).

The first Dzurinda government elected in 1998 promised to 'bring Slovakia back to Europe' and to reverse Meciar's foreign policy entirely (see chapter 4). Indeed, since Dzurinda took over, Slovakia has moved towards a close commitment to the West and its economy has become attractive to foreign investors. It has to be seen in this context that the first Dzurinda government declared its intention to join the euro-zone as soon as possible and in any case no later than the other Visegrad countries. At the heart of the wish for a fast-track adoption of the euro stands Slovakia's experience of being treated as an 'outsider' under the Meciar governments. As the former President of the National Bank of Slovakia (NBS), Marian Jusko[11], put it:

> [t]his [a quick adoption of the euro] is based on our latest experience, when we were treated as an outsider in the second wave of the EU, OECD and NATO enlargement, with a long-lasting effect on FDI inflows, costs and debt services and the overall macroeconomic development (Jusko 2003).

The commitment to a quick adoption of the euro is especially remarkable given that Slovakia was hurt by a currency crisis in 1998 and also had to change to a flexible exchange rate regime (see chapter 3). Though Slovakia was not as badly hurt by a currency crisis as the Czech Republic, it shares with the Czech Republic the experience of monetary policy failure under a fixed exchange rate. However, while the experience of a currency crisis under a fixed exchange rate regime supported a readjustment of the Czech euro-adoption strategy towards postponement of euro-zone accession, Slovakia's experience with the politics of isolation outweighs any reservations about a fast-track approach to EMU.

From the foreign policy failure experienced under Meciar and the treatment as an outsider comes Slovakia's desire not to join the EMU any later than the other Visegrad countries. As Papanek, Spokesman for the Finance ministry, explains:

> for Slovakia it is important that the country does not enter the EMU later than its neighbours and those states with whom it has considerable trade and economic relations (The Slovak Spectator, 08/12/2003).

While it might be argued that the West-oriented foreign policy of the Dzurinda governments is a source of its legitimacy which reflected the polarisation and fragmentation of

[11] Marian Jusko's five-years term as the President of the NBS ended on 1 January 2005. He was replaced by Ivan Sramko.

the party system (see chapter 4), it was the experience of foreign policy failure that provided the government with a road map to choose among political strategies: the euro-adoption strategy of the Slovak Republic is guided by the determination to join the euro-zone as soon as possible and in any case *no later* than the other Visegrad countries.

Ideas on macroeconomic policy

When Ivan Miklos, deputy chairman of the Slovak Democratic and Christian Union (SDKU), took over as Finance Minister in 2002 he announced that his Ministry would continue the fiscal reforms necessary for a quick adoption of the euro: "The advantages of fast [euro-zone] membership outweigh the disadvantages" said Miklos (The Slovak Spectator, 14/10/2002). He added:

> [...] open economies like Slovakia's could be vulnerable through currency movements if they kept their own currency. [...] Joining the single currency would relieve the national bank of some very burdensome expenses (The Slovak Spectator, 21/10/2002).

Thus, in contrast to the Czech Republic, the EMU is seen as the solution to dealing with large amounts of capital flows. Miklos' macroeconomic ideas on a fixed exchange rate regime are driven by the causal belief that an open and small economy will benefit from a monetary union (see chapter 1 and McKinnon 1963). Behind Miklos' argument is also the idea that the EMU is part of the real convergence process. As the former President of the NBS, Marian Jusko, stated:

> the advantage [of EMU membership] is a more stable economic environment. It will not be necessary to face risks resulting from moving rates, and expenses related to the exchange of [Western] currencies will also be dropped (The Slovak Spectator, 16/06/2003).

According to Jusko, an early entry into the euro-zone would increase FDI and would give Slovakia an advantage over other countries, such as the Czech Republic, that plan to join the euro-zone later (The Slovak Spectator, 27/10/2003). Relative gains become all important as the ambition to gain advantage over other countries comes from the need to catch-up and has to be seen in light of Slovakia's experiences under the period of political and economic isolation when the country suffered significantly from FDI losses (see chapter 3).

In June 2003, Miklos and the NBS formulated a euro-adoption strategy that would permit the introduction of the euro by late 2006 (The Slovak Spectator, 16/06/2003). Miklos' macroeconomic ideas provide him with an understanding of cause-and-effect relationships and therefore help him to choose among political strategies to reach his goals. He believes in the effectiveness of neoliberal policies (privatisation, monetarism and competitive individualism) to achieve economic stabilisation and growth. At a party conference of the SDKU in July 2003, Miklos placed the EMU in a broader picture and made clear that European integration would not be accomplished by EU accession but by the adoption of the euro (SDKU news 12/07/2003). Thus, his macroeconomic ideas are tied to a strong commitment to Western integration where euro-zone accession is considered to be equally as important as EU membership. This again emphasises, in contrast to the Czech Republic, that the euro should not be introduced at the end of a real convergence process but *is* part of the transition process. This, of course, excludes a 'wait and see' attitude towards euro-zone entry and stresses the significance of a fast-track approach in the wider context. Unlike his Czech counterpart, Miklos stated that euro-zone membership is his 'top priority and concern' (The Slovak Spectator, 01/12/2003). It is in this regard that Miklos, who is well known for his ambitious reform projects (see chapter 3), refers to the Maastricht criteria to justify further budget cuts and to push forward reforms in the area of social, tax and health care (SDKU news 12/07/2003). Hence, Miklos explains and justifies the burdens imposed by the Maastricht criteria by putting EMU accession on a par with EU accession. It can correctly be pointed out that Miklos uses ideas on European integration to legitimise his own interests in pushing forward reforms and to dissociate himself from Meciar's interventionist economic policy. As stated in chapter 4, this is an important aspect to bear in mind as a pro-European policy is a 'source of legitimacy' for the governing SDKU, stressing the value of the overall importance of a pro-European stance for the coalition's own stability and survival (see also chapter 6). However, these interests have to be seen in a broader idea-based context, given that the idea of policy reforms became persuasive only when Meciar's inward-looking and nationalist politics were discredited. Ideas on European integration are used to build public support for joining the single currency. Indeed, public support for the euro is remarkably stable and high in Slovakia (see chapter 4) and it is therefore argued that ideas have become causally consequential, given that they match the existing principled beliefs that Slovakia's place is in Europe and that EU membership is the basis for modernisation. Consequently, ideas on European integration are powerful enough to create winning coalitions.

However, as it became clear that Hungary and the Czech Republic would not be able to adopt the euro in 2006 and that the Maastricht criteria would not be met before 2006, the government and the NBS slightly readjusted the euro-adoption strategy.[12] The jointly prepared strategy paper presented in May 2003 postpones the target date to 2008 (National Bank of Slovakia and Ministry of Finance of the Slovak Republic 2003: 17; see also RFE/RL 13/02/2004). But the strategy paper continues:

> An important aspect to bear in mind, when considering the speed of accession to the euro-zone, is the progress made by other countries, especially our immediate neighbours (Czech Republic, Hungary and Poland). It is obvious that any lagging behind on our part would send a negative signal to financial markets and investors. [...] Any delay in the accession process leading to a later entry compared to neighbouring countries, would mean a severe handicap in terms of higher costs or in missing out on the positive effects of entry, as well as damaging the overall image of the country (with implications, for instance, for lower FDI inflow compared to the acceding countries) (National Bank of Slovakia and Ministry of Finance of the Slovak Republic 2003: 17).

In summary, by repeatedly referring to the period of isolation, members of the NBS board and the government stress the need to join EMU no later than Poland, the Czech Republic and Hungary (see also The Slovak Spectator, 17/03/2003). Again, this shows the significance of the experience of policy failure under Meciar, for it renders the idea of euro-zone accession persuasive to policymakers and the public alike. A fast-track approach to the introduction of the euro is seen to solve the country's eco-

[12] In addition to developments in its neighbouring countries, the latest dispute over the Stability and Growth Pact and the failure to impose sanctions on Germany and France for running high budget deficits have had a strong impact on Slovakia given that this happened at the time when the Visegrad countries negotiated their budget drafts for 2004 and the draft strategies for the adoption of the euro (cf Jones forthcoming).

nomic problems, since it suffered so much from the loss of relative gains to its neighbouring countries. While it can be correctly argued that the fear of relative economic decline highlights the zero-sum character of the strategy, and thus the weight of interest in understanding the Slovak drive for policy reforms in line with the Maastricht criteria, it becomes clear that these interests have to be seen in the context of the experience of foreign policy failure that made the idea of European integration so persuasive. Ideas on macroeconomic policies are embedded in a strong commitment to Western integration and in the causal belief that a small country like Slovakia will benefit from EMU membership.

Hungary

Hungary readjusted its EMU accession strategy in May 2004 and officially postponed the adoption of the euro to 2010. However, in contrast to the Czech Republic, the Hungarian government and the National Bank of Hungary (NBH) hesitated to launch a programme that would make a quick adoption of the euro impossible. Until early 2004 the government adhered to a much earlier target date. However, growing economic imbalances eventually forced the government to give up its ambitious plan for a quick euro-adoption strategy. In fact, a fast-track strategy was never supported by the actual economic performance nor by an adequate fiscal policy. There is a gap between the ideas being described by the policy-makers (i.e. a fast-track approach to EMU accession) and the actual policy developed. This might indicate that the actual beliefs of the policy-makers do not drive their position on EMU but rather their short-term related goals (see chapter 2).

While it is argued that the very ambitious plans can be interpreted as purely self-interested means for the government to reduce interest rates and to gain much needed credibility (see below), enthusiastic public and party-based attitudes for the adoption of the euro (see chapter 4) must also be understood within the context of the idea about European integration as a 'cornerstone of the Hungarian political culture' (see below). The argument is that Hungary's intention to join the euro-zone as quickly as possible needs to be seen in the context of interests; however, it should not be forgotten that these interests cannot be articulated without values. The positive public and party-based attitudes towards the euro are shaped by the existing ideas on European integration which embody principled beliefs that have their roots in the country's historically-shaped ideologies.

Ideas on European integration

Hungary's was among the first post-socialist governments to formulate a foreign policy strongly committed to leaving the East behind and joining the West as quickly as possible (Wallace 2001: 3, see also Bozoki 2002: 47). The first reform efforts had been undertaken well before the breakdown of the communist regime. Hungary became a member of the IMF and World Bank in 1982 and signed a cooperation agreement with the European Community in 1988 (see chapter 3). With regards to the early reform efforts, Bigler (1992) Gerner and Nyström (1990) underline the important role of shared historical memories, as Hungary comprised half of the Austro-Hungarian Empire (see also Stokes 1993). Bigler (1992: 438) continues: "[the] identification as a Western society and aspiration to democratic values and standards [...] have been considered cornerstones of Hungarian political culture". What Hungary's President Ferenc Madl declared on the eve of EU accession should be seen in this context: "Hungary has chosen Europe not through a referendum, but through her whole history" (RFE/RL Newsline, 03/05/2004). Ideas on European integration are rooted in the principled and normative belief that Hungary naturally belongs to Europe. This principled belief in the rightness of European integration provides a focal point of guidance for political actors.

As stated in chapter 4, the high public support for European integration corresponds to the political commitment shared and supported by all the major political parties. In the case of the ruling MSZP, the pro-European position is motivated by both the party's interests to break with its communist past and the belief that EU membership is the only alternative for a modern Hungary (MSZP) while its junior coalition partner, the liberal SZDSZ stresses that the shared values of the EU form the basis of the Hungarian political community (see chapter 4). Hungary's initial announcement to join the euro-zone as quickly as possible and to peg the forint to the ERM II immediately after EU accession (Budapester Zeitung 20/10/2003) might be interpreted in terms of economic interests to gain a much needed 'credibility anchor' (see below). However, these interests cannot be articulated without values and stand in the tradition of the country's strong commitment to European integration. But with growing economic imbalances, the peg was postponed and the government had to readjust its ambitious plan for a fast-track approach to euro-zone entry.

Ideas on macroeconomic policy

On 13 May 2004 the government submitted its economic programme to the EU and announced its intention to introduce the euro in January 2010. The programme officially rejects the euro-adoption strategy of July 2003, which aimed to adopt the euro by 2008 (National Bank of Hungary 2003). This adjustment of the target date for euro-adoption marks a turning point in the Hungarian strategy. Until the end of 2003, all previous Hungarian governments had wanted to introduce the euro as soon as possible, claiming that the euro-zone entry is part of the transition process itself and should not come at the end of a real convergence process. The Orban government (1998-2002) advocated a fast-track approach to the EMU around 2006 (Budapest Sun, 04/11/1999 and 22/04/1999) and when the Social Democratic-led government took over in 2002, the new Finance Minister, Csaba Laszlo, declared that it is "Hungary's vital interest" to join the euro-zone as soon as possible, however, no later than 2007" (Budapest Sun, 18/04/2002, see also interview with Csaba Laszlo, Budapester Zeitung, 31/10/2002). In September 2003, Prime Minister Medgyessy still stated that he wanted to join the EMU in 2007/08, adding "until 2006 we will fulfil the Maastricht criteria *without any* difficulties" (FAZ, 20/09/2003, emphasis added). Whereas Hungary's 'vital interest' in joining the euro-zone as quickly as possible might be interpreted as a reflection of the country's ideas on European integration and identification with West European values, the inconsistency between the government's announcements and the actual policy developed shows that ideas might not have been a key factor in the Hungarian euro-adoption strategy. The strong variation between the wish to adopt the euro quickly and the policy of welfare-social democracy suggests that ideas did not play a causal role in the making of the euro-adoption strategy. As argued in chapter 4, opportunistic interests – illustrated in the experience of political business cycles and populist economic policies standing at odds with the Maastricht criteria of fiscal consolidation – caused further macroeconomic imbalances and led to a postponement of the target date for the adoption of the euro to 2010. Therefore, the optimistic rhetoric employed by the government and the very ambitious aim to join the euro-zone by 2008 were attempts by the government to regain credibility given that the economic imbalances reflected to a great extent the lack of trust in the Hungarian economy. In addition, given that Hungary still has relatively high interest rates because of inflationary pressure, a quick adoption of the euro would bring interest rates down to the euro-zone level. Moreover, as stated in chapter 3, given that Hungary has the highest foreign debt burden and the highest percentage of euro-dominated foreign debt among the Visegrad countries, an early entry into the euro-zone would be in the interest of the government. This is because through irrevocably fixing the forint to the euro, Hungary's debt service would no longer be dependent on currency fluctuations (see also Berger 2004: 15). Ironically, it is the wish to re-establish trust in the government's economic policy that contributed to a postponement of the target date for the euro-adoption. A credible and clear euro-adoption strategy that is not in a permanent contradiction with the actual fiscal and monetary policy in Hungary may well be more important for the market than the actual target date itself (cf FAZ 02/02/2004).

The ambitious aim of joining the euro-zone as soon as possible was initially supported by the NBH and its President Zsigmond Jarai. Jarai stated just weeks after taking over as President in March 2001 that Hungary should join the euro-zone as quickly as possible (Jarai 2001: 3). On a number of occasions this was also repeated by his Vice President György Szapáry, who declared that the central bank aims to adopt the euro in 2006 (Budapester Zeitung, 28/01/2002). Indeed, in contrast to its Czech counterpart, the Hungarian central bank board appears to have a unified opinion on EMU accession.

However, from mid-2003 Jarai started to be pessimistic about the government's euro-adoption strategy because of fiscal expansion and worrisome economic performance. But, while the NBH was very sceptical about the feasibility of a quick adoption of the euro, it nevertheless supported the plan (Budapester, 20/10/2003). This has to be seen in the context of the NBH's efforts to gain an additional instrument to defend its own independence from government intervention, to justify its monetary policy and to put pressure on the government to reduce the budget deficit.[13] In this regards, the obligation to join the euro-zone empowers the central bank as it enables the NHB to defend its restrictive monetary policy. For instance, Jarai commented on increases in interest rates in July 2002 with the remark that a low inflation rate would pave the way for a quick euro-adoption (Budapest Sun, 11/07/2002). In February 2003, Jarai justified the appreciation of the forint by saying that a strong forint is not good, but it is the best instrument to fight against inflation which in turn would support a quick EMU accession (Budapest Sun, 27/02/2003). In December 2003, in response to increased inflation rates, Jarai reiterated his position. According to Jarai: "[t]ight fiscal and monetary policies are unavoidable if Hungary is to join the euro-zone as planned" (Budapest Sun, 04/12/2003). Again, in March 2004 Jarai announced interest rates would be kept high at 12.5 percent – a much higher level than in all other Visegrad countries – to fight inflation, inflation expectations and to pave the way for EMU accession (Budapester Zeitung, 09/02/2004). Thus, the NBH also supported a quick EMU accession for self-interested reasons and as a means to re-establish the credibility of Hungarian monetary policy after years of high inflation rates.

[13] It should be noted that, in contrast to the Czech Republic, the Hungarian central bank is under higher pressure to fight inflation since Hungary has experienced high inflation rates since the collapse of the communist regime. Also, the NBH has had severe difficulties in defending its independence (see chapter 6). Therefore, the use of the Maastricht criteria to justify an increase in interest rates is definitely also a means to defend its independence from government intervention. This is even more so as the central bank's restrictive monetary policy is backed by the EU and the 'price stability culture' in Europe which is "underwritten by the belief that stable prices contribute to a macroeconomic framework which is conducive to growth and employment" (Jones 2002: 53).

Hungary only decided to postpone its target date for the adoption of the euro after the resignation of Csaba Laszlo as Finance Minister in January 2004.[14] As the latest budget deficit overshot the government's forecast, a review of euro-zone entry was necessary. Just hours after Laszlo´s resignation the designated Finance Minister Tibor Draskovics announced:

> [i]n responding to the request of the premier, I shall review the agenda of our integration into the euro-zone. I think that the 'how' of our integration is more important than the 'when'" (RFE/RL Newsline, 09/01/2004).

Only three months later, Draskovics then stated that an adoption of the euro in 2008 would lead to severe budget cuts. If euro-zone entry was to wait until 2010, this would allow for a relaxation of fiscal policy (Budapester Zeitung, 22/03/2004). On 6 May Draskovics then declared: "It is safer to set a target date of 2010" (Budapest Sun, 13/05/2004). To justify the postponement, Draskovics placed euro-zone accession into a broader picture where the primary goal of the Hungarian government was not to introduce the euro but to catch up with the overall GDP per capita level of the EU countries (Budapester Zeitung 17/05/2004). Relaxing fiscal policy would be the appropriate way to achieve economic stabilisation (Budapester Zeitung, 22/03/2004). This is an important shift in the Hungarian position on EMU accession because the euro was initially seen as a means to achieve real convergence and not as the endpoint of the process. However, at the same time, a relaxation of fiscal discipline by means of a flexible fiscal policy is in line with the expenditure-oriented policy of the MSZP-led government; a policy that is driven by electoral interests (see chapter 4). Thus, in conclusion, the readjustment of the Hungarian strategy for adopting the euro is not a consequence of low domestic support – as seen in chapter 4 both party-based and public support for the euro are exceptionally high in Hungary – nor a consequence of changing ideas on European integration. Instead, it must be seen in light of the government's need to fulfil

[14] Laszlo was asked to resign on 7 January 2004 because "the [actual] figures are worse than predicted by the Finance Ministry. The difference is so large that it must have personal consequences," commented Prime Minister Medgyessy (RFE/RL Newsline, 08/01/2004). The budget deficit reached 5.6 percent in January 2004, much higher than the Finance Ministry's initial (4.8 percent) and revised (5.2 percent) targets. Forecasts of the inflation rates were also wrong and had to be adjusted (inflation was high with an average of 7.4 percent in 2003). According to Judit Nemenyi the wrong forecast itself caused further inflation expectations (Budapester Zeitung, 01/03/2004, see also chapter 3).

election promises and its interests to get re-elected. The initial ambitious plan to join the euro-zone as quickly as possible has to be seen in light of the government's efforts to re-establish credibility and trust in the Hungarian economy and government policy. Under these conditions, the scope for ideas is limited and the pressure for policy convergence as expressed in the obligation to meet the Maastricht criteria losses significantly its leverage.

Poland

During and before the period of the last SLD-led government, Poland was keen to join the euro-zone as quickly as possible. However, as pointed out in chapter 4, growing public and party-based Euroscepticism, which has gained momentum in recent years, put pressure on the SLD minority government to reconsider its approach to euro-zone accession. But while the pressure certainly constrained the government in its effort to implement reforms to meet the Maastricht criteria, the government did not officially distance itself from a fast-track approach. In fact, in 2004 Poland was the only Visegrad country that had not announced an official target date for the adoption of the euro. As discussed in chapter 4, this certainly has to be put into the context of the decrease in both public support for the euro and the government's popularity one year before the 2005 general elections. Yet, despite the fact that the non-disclosure of an official euro-adoption strategy was influenced by electoral concerns, the SLD-government, technocrats and experts alike favoured the introduction of the euro. It is not a coincidence that the debate about a unilateral euroisation was conducted mainly by Polish academics and policy-makers.[15] This particular group can be described as a genuine epistemic community that consists of "professionals who share a common causal model and a

[15] The most prominent examples of Polish academics favouring euroisation are Andrzej Bratkowski and Jacek Rostowski (2002); the most prominent politician is the former Finance Minister Kołodko. Andrzej Bratkowski (1991) and Jacek Rostowski (1989-1991) were both economic advisors to the Deputy Prime Minister and Finance Minister Leszek Balcerowicz. Andrzej Bratkowski was deputy President of the National Bank of Poland from 2001-2004. Euroisation became the axiom for an adoption of the euro as legal tender without a previous convergence process and without having a common central bank. Unilateral euroisation can take place through the introduction of a currency board or a takeover of the euro as the legal tender. The main advantages of euroisation may include much lower interest rates and the elimination of currency risk (cf Meade et al. 2002).

common set of political values" (Haas 1990: 41; see also chapter 2). It is the shared belief that a successful transition to a market economy has to be achieved through a rapid transformation process. In this regard a fast-track approach to adopting the euro is in the tradition of the Polish Balcerowicz-Plan of economic transition. Causal beliefs on macroeconomic policies act as a road map and increase policy-makers' clarity about the end-means relationship of the fast-track approach towards euro-zone entry. Also, the support for a quick adoption of the euro reflects Poland's principled beliefs embodied in a strong commitment to the West that, during the communist regime, found its most vocal expression in the Solidarity movement.

Ideas on European integration

Above all, Solidarity aimed to end the chapter "of a long historical process: [Poland's] decade-long transition from "ideocratic" communism to an authoritarian, military regime and finally to democracy" (Bozoki 2002: 35). As stated in chapter 4, there was an overwhelming political consensus among the major parties that this democratic process has to be embedded in a foreign policy committed to a 'return to Europe'. Europe is more than a mere programme; it is a "regained status after the collapse of the communist regime" (Bozoki 2002: 48). Ideas on European integration were interrelated with a strong public and political identification with Western values (Los-Nowak 2000, Castle and Taras 2002). As Wlodzimierz Cimoszewicz, Social Democratic Prime Minister from 1996-97 and Foreign Minister since 2001, put it: "the European orientation is [...] built on values that are common for Poland and the European Union" (Cimoszewciz quoted in Stadtmüller 2000: 30). Ideas of shared cultural and political values as the strongest elements to maintain European integration and to underpin European order certainly influence political action. This is because the principled beliefs they embody provide road maps that clarify actors' political action vis-à-vis European issues. Hanna Suchocka, former Democratic Union Prime Minister (1992-93), even goes a step further by embodying idea of European integration into a worldview, and so into a fundamental doctrine, stating that the Polish civilisation wholly depends on EU membership:

"[I]f Poland does not become a member of the EU, it will mean isolation, marginalisation and in consequence the collapse of Polish civilisation" (Suchocka quoted in Stadtmüller 2000: 31).

The consistency in foreign policy of all Polish governments – be it a government led by the (post-) Solidarity parties or the post-communist parties – went hand in hand with strong support for the Maastricht Treaty and a quick adoption of the euro. In 1992, the first Minister for Foreign Affairs of post-communist Poland, Krzysztof Skubiszewski, stated that Poland supported the Maastricht Treaty because "it is in just that kind of structure that Poland saw its place in the future" (quoted in Stadtmüller 2000: 29-30). However, as demonstrated in chapter 4, the mainstream parties came under pressure in formulating a pro-European integration policy, given that Eurosceptic parties and growing public dissatisfaction with the EU had gained ground. The nationalist LPR and the radical farmer party Samoobrona were able to secure almost 20 percent of the votes during the general election in 2001 and possessed a considerable veto power in the Sejm. Their political leverage was further reinforced by the fact that the SLD coalition government lost its majority in 2003 (see chapter 6). Both parties, the LPR and Samoobrona, represent strong resentments against the EU. In the case of Samoobrona, populism and the socio-economic interests of its constituency are crucial in understanding the party's Euroscepticism (see chapter 4). In contrast, the LPR's anti-EU rhetoric is not simply based on instrumental populism to attract voters but on a principled rejection of European integration as a fundamental threat to the Polish nation, culture and sovereignty (see Szczerbiak 2002: 9). The EU is described as "speculative foreign capital that will call down the destruction of Polish conscience and culture" (LPR quoted in Kopecky and Mudde 2002: 312). The LPR accused the SLD-led government of selling out Poland and destroying Polish culture: "They [the Polish government] will succeed in melting our nation in a unified cosmopolitan European Union" (LPR, quoted in Kopecky and Mudde 2002: 312). Ideas certainly drive the party's rejection of any kind of European integration, which is consistent with the party's identity as a 'religious right', pro-clerical, anti-reform, and anti-system party (see chapter 4). The 2001 general elections resulted in a significant manifestation of anti-EU (LPR and Samoobrona) and sceptical EU (PiS and PSL) forces in the Polish Sejm, all of whom either rejected the adoption of the euro or favoured postponing it to the distant future. Certainly, this added to further pressure on the former government and the centre-right party, the Civic Platform, to reconsider an early entry into the euro-zone, and might therefore have influenced the government's decision not to announce an official strategy to adopting the euro. Regardless of this, prevailing ideas on macroeconomic policy held by policy-makers help to explain why Poland has been keen to join the euro-zone as quickly as possible (until recently). In particular, the National Bank of Poland (NBP) and its President Leszek Balercowicz have been at the forefront of discussions about a fast-track approach to adopting the euro.

Ideas on macroeconomic policy

One of the main supporters of a quick euro-adoption has been the President of the NBP, Leszek Balcerowicz. In November 2001 he declared:

> my basic point is, that firstly, early entry into the Monetary Union is possible and secondly, that it is preferable to the delayed one. By early entry I mean entry close to the earliest possible date, which one can recognise to be around the year 2006 (Balcerowicz 2001a: 1).

Balcerowicz's support for a fast-track approach to EMU accession has to be interpreted in light of his macroeconomic idea of shock therapy measures. Indeed, his macroeconomic ideas on transition policies are essentially shaped by beliefs about cause-effect relationships and act as a road map that helps him to choose among strategies for EMU accession. As the father of the country's shock therapy, Balcerowicz advocated a harsh and rapid transformation of the economy through the provocation of economic shocks. It has to be seen in this light that Balcerowicz uses ideas on macroeconomic policy to legitimise the costs imposed by reforms designed to fulfil EMU accession criteria, using the latter to pressure the government into pursuing reforms:

> [t]he earlier deadline of the entry to the E(M)U could act as a powerful motivating device to complete those [economic] reforms. I am a great believer in the deadlines and I think they help to achieve success. Delaying the entry could do more harm than good, as it would weaken the incentives to

complete the necessary and often politically costly reforms (Balcerowicz 2001a: 2).

The resolute resistance against delays in approaching the adoption of the euro is consistent with Balcerowicz's support for shock therapy measures where under no circumstances were delays to be accepted since they would put the irreversibility of the reforms into question and so endanger the whole transition process. In December 2002 Balcerowicz reiterated his position on early euro-zone entry arguing that it is in 'Poland's national interest' since euro-zone membership reduces currency risks and supports economic growth:

> it's in Poland's national interest to adopt a strategy thanks to which Poles would have euros in their pockets as soon as possible. If we met the Maastricht criteria in 2005, then 2006 or 2007 would come into play (Balcerowicz quoted in The Warsaw Voice, 19/12/2002).

On the eve of Poland's accession to the EU, Balcerowicz restated that it is better for the new EU entrants to join the euro-zone soon rather than stay outside of it. According to Balcerowicz, there are no economic obstacles to Poland joining the euro-zone, only political ones (The Warsaw Voice, 05/05/2004). Balcerowicz rejects the fears of some Western economists and institutions, such as the German Bundesbank and the Austrian Central Bank, who insist that the Visegrad countries first have to achieve real convergence before they can adopt the euro. According to Balcerowicz:

> this is nonsense. We cannot wait until we are as rich as the old EU member states. We would like to join EMU precisely because we want to become rich given that the currency union supports trade within the EU and stimulates economic growth (FAZ, 24/04/2004).

In contrast to the Czech and Hungarian Finance Ministers, Balcerowicz asserts that the EMU is part of the process to achieve real convergence. Once again, this reveals his macroeconomic ideas based on the perception that a rapid transformation of the economy must be achieved first if further progress is to be attained.

The SLD-led government was also in favour of a quick adoption of the euro. In July 2002, Grzegorz Kolodko replaced Marek Belka[16] as Finance Minister and declared

[16] Marek Belka officially resigned for personal reasons. However, unofficially, he lost his job over a dispute on the pace of reforms with Prime Minister Leszek Miller (Belka's budget draft was rejected by the Sejm). Marek Belka replaced Miller as Prime Minister in May 2004 (see chapter 6).

that Poland would be able to join EMU in 2006: "six years ago I presented a programme, 'euro 2006'. It was not an illusion but a reliable vision", said Kolodko in July 2002 (Financial Times Deutschland (FTD), 01/08/2002, for further details on the programme 'euro 2006' see Stadtmüller 2000).[17] In October 2002, a working group set up by the NBP and the Finance Ministry issued a joint statement declaring that:

> the intention of the government and National Bank of Poland is the pursuit of economic policies that will ensure Poland's meeting of the nominal convergence criteria of the Maastricht treaty in 2005 (Financial Times, 09/10/2002).

Grzegorz Kolodko was replaced by Andrzej Raczko in June 2003 because of internal party conflicts with Prime Minister Miller and the Minister of Economy Hausner over the flat tax and economic policy. Kolodko's resignation goes hand in hand with a subtle readjustment of the SLD's position on the timing of the euro-adoption. While Raczko vehemently defended a strategy of fast adoption of the euro, in July 2003 Hausner presented the first draft of his budget plans that aimed to increase the budget deficit temporarily over the next two years and to reduce it to the Maastricht criterion level by 2007:

> The deficit in 2004 and 2005 should be temporarily higher due to EU accession, however, this should be a path toward narrowing the deficit in 2006 and 2007 in order to meet the Maastricht criteria in 2007, with [public] debt not exceeding 55 percent of GDP (Hausner, The Warsaw Voice, 3/07/2003).

Thus, the Hausner plan deviated from the previous target date for EMU accession in 2007, making 2008 or 2009 more realistic targets. As stated in chapter 4 and 6, after the collapse of the SLD coalition with the PSL, Prime Minister Miller went on to form a minority government which proved to be fairly unstable and unable as to push forward reforms in line with the Maastricht criteria, therefore making a fast-track approach to adopting the euro unfeasible (see chapter 6). However, unlike the other Visegrad governments, in 2004 the Polish government had not officially announced a target date for euro-zone entry and various representatives of the Finance Ministry and the NBP still considered 2007 as a possible date:

17 Kołodko was already Finance Minister between 1994 and 1997 and well known for populist economic and monetary policy measures (see chapter 6).

> looking at possibilities resulting from the Hausner plan, it seems that 2006, when the budget deficit is below 3 percent of the GDP, is the year of meeting the criteria. So we would be able to join the euro-zone in 2007 (anonymous source of information from the Finance Ministry as cited by the Polish Embassy News Bulletin, 23/01/2004).

The ambitious target date of 2007 for euro-zone entry reflects the widespread idea that the EMU is crucial to achieving real convergence. Thus, the idea embodies causal beliefs about the end-means relationship between real convergence and euro-zone membership. Among the supporters of a fast-track approach to adopting the euro was Jozef Oleksy (SLD), Minister of Internal Affairs and former Prime Minister, who argued that:

> [...] it [the Maastricht criteria] ensures similarity of the economic structures of the member states, which makes them less vulnerable to external threats. [...] It creates the world's biggest economic area using a single currency, the euro, which translates into the benefits of its scale and allows for active operations on global markets (The Warsaw Voice, 21/04/2004).

Olesky's idea on the EMU is driven by the causal belief in European integration as an appropriate response to a changing economic and social environment. Accordingly, the 'world's biggest economic area using a single currency' provides a common regional framework to fight against 'external threats'.

But in this regard it is not only the prospect to be part of, but also to have a say in, the world biggest economic region that drives Poland's desire to join the euro-zone as soon as possible. As the Ministry of Finance argued, a fast-track approach to euro-zone entry is in "Poland's strategic interest as it will give Poland a bigger say in decision making within the EU", (Polish Embassy News Bulletin, 05/11/04). Certainly, being the largest new member state in terms of population, the 'bigger say' should also be seen within the context of Poland's strong voting power in the EU. This strategic interest initially went hand in hand with the ideas on macroeconomic policy and European integration. Euro-zone membership was seen as a means to achieve real convergence and to gain political leverage on the EU level.

In conclusion, ideas on European integration were driven by the belief that the transition process should be embedded in a foreign policy committed to a 'return to Europe'. The consistency in foreign policy of all Polish governments went hand in hand with support for a quick adoption of the euro. A fast-track approach to euro-zone accession stands in the tradition of the Polish Balcerowicz-Plan of economic transition. Poland's aspiration to become a strong economic and political partner within the EU initially found its expression in the wish for a fast-track approach to euro-zone accession. However, as discussed in chapter 4 and elaborated above, growing public Euroscepticism and the emergence of parties whose identities are closely tied to their anti-EU rhetoric constrained any strategy to adopting the euro quickly, negatively affecting the feasibility of a fast-track approach – a fact which was further supported by the minority government's weakness to push forward reforms (see chapter 6).

Conclusion

The categorisation of ideas in causal and principled beliefs and worldviews made in chapter 2 provides a useful tool to analyse the different meanings of the EMU, and the turns the Visegrad countries have made in their approach to adopting the euro. Indeed, positions on euro-zone membership have not been static but have changed on a number of occasions. While until the end of the 1990s, the Czech Republic, Hungary and Poland were keen to join the euro-zone quickly, the Czech Republic announced in 2002 that accession had to be postponed to 2010/2011. In 2004, Hungary eventually set a target date around 2010 as well. Slovakia experienced the opposite trend. While in the 1990s under the Meciar governments, the EMU was a far distant project, Slovakia now advocates an early entry to the euro-zone that could happen around 2008. Poland also wanted to join the euro-zone as early as possible but the governing SLD did not announce an official target date, reflecting their desire to avoid conflicts in the run up to the next general elections when approval rates of the euro were shrinking and the government's popularity decreasing.

The chapter has argued that, in the case of the Czech Republic and Slovakia, variations in the euro-adoption strategies can be traced back to different reflections of past experiences (Czech Republic and Slovakia) and to a change of fundamental principled beliefs on European integration (Slovakia). In particular, the Czech Republic and its President Vaclav Klaus are cases in point for a position on the euro that has been driven by the perception of policy-makers' past experiences, their historical memory and their images of national identity. Vaclav Klaus' position on the EMU is tightly linked to his fears that the Czech Republic could once again lose its national sovereignty through euro-zone membership. Klaus also explained his opposition to the euro by referring to Czech experiences in dealing with great powers and foreign penetration. The argument is that his ideas on European integration and the EMU are so forceful precisely because they match the existing ideologies in particular historical settings. Because the fit with existing ideologies may reinforce the persuasiveness of an idea, Klaus is able to 'garner support' (see chapter 2) for being against euro-zone entry. At a more concrete level, President Klaus' ideas on European integration are 'materialised' and temporarily 'institutionalised' in his appointment of three new central bank board members all of whom are said to share Klaus' sceptical views on the adoption of the euro.

In addition, the experience of monetary policy failure fuels reservations against a quick euro-adoption strategy in the Czech Republic. The currency crisis of 1997 contributed to a change of ideas about how to conduct macroeconomic policies. With the experience of monetary policy failure under a large amount of capital flight and members of the CNB re-considered their ideas on the cause and effect of monetary policy. A flexible exchange rate was now seen as the best way to tackle capital flight and to achieve real convergence. But it has also been argued that the government's euro-adoption strategy is influenced by the self-interest of maintaining for as long as possible a competitive advantage over the other Visegrad countries. Thus, the causal belief in the suitability of a flexible exchange rate for a transition economy fits well with existing interests. In addition, the CSSD's decision to postpone the adoption of the euro to the next decade has also to be seen in the context of the party's interests and need to fulfil partisan expectations as well as the unfavourable environment for a fast-track approach created by a relatively strong public opposition to the euro (see chapter 4) and the dominant anti-euro discourse led by prominent politicians such as the President of the Czech Republic Vaclav Klaus. However, again, President Klaus' position can only be understood with reference to his principled beliefs on European integration whereas the growing partisan pressure on the CSSD must be seen with reference to rising unemployment rates in the aftermath of the currency crisis that contributed to a readjustment of causal beliefs on the suitability of a fixed exchange rate for a transition economy. While this illustrates how ideas intersect with interests it also shows that one factor alone is not sufficient to explain cross-national responses to the objective of euro-zone membership. In addition, interests and ideas alone do not explain the capacity to push forward with reforms in line with the Maastricht criteria which was weakened by the coalition government's instability caused by political crises and positively influenced by the institutional context of a coalition government consisting of incoherent political parties (see chapter 6).

Similar to the Czech Republic, Slovakia was hit by a currency crisis in 1998 and had to change from a fixed to a flexible exchange rate regime. However, the experienced policy failure of a fixed exchange rate regime did not lead to an identical position on EMU accession because the meaning of the EMU differs fundamentally in both countries. The chapter explained the different meaning of the EMU through Slovakia's experience of foreign policy failure under Meciar. Slovakia 'returned to Europe' and to a strategy of quick adoption of the euro only after Meciar lost the general election in 1998. Indeed, the experience of foreign policy failure under Meciar as an impetus of cognitive change on ideas about European integration provides the Dzurinda government with a road map to EMU accession that is guided by the determination to join the euro-zone as soon as possible and in any case, no later than the other Visegrad countries. Government members and the NBS repeatedly refer to the period of isolation when Slovakia was treated as an 'outsider' to justify their stance on a fast-track approach to the introduction of the euro. A fast-track approach is seen as the remedy for the country's economic problems, since it suffered so heavily from the loss of relative gains to its neighbouring countries during the period of international isolation. While this demonstrates the weight of the interests to catch-up economically vis-à-vis its neighbours, it becomes clear that these interests have to be seen in the context of the experience of foreign policy failure that made the idea of European integration so persuasive. By the same token, ideas on macroeconomic policies are embedded in a strong commitment to Western integration and in the belief that a small country like Slovakia will benefit from EMU membership. Ideas on macroeconomic policy are driven by the causal belief that the adoption of the euro should be integrated within the transition process; in fact, euro-zone accession is seen as equally important as EU accession. Thus, in short, the governing SDKU's intention to join the euro-zone as soon as possible is interwoven with the normatively principled and causal beliefs that EU membership and the adoption of the euro are fundamental principles for guiding Slovakia's path in Europe and are *means* to 'speed up the country's modernisation'. At the same time as this illustrates how ideas intersect with interests, the following chapter demonstrates that the government's ability and capacity to pursue a fast-track approach to euro-zone entry is further supported by party system fragmentation and polarisation between nationalist-populist and 'anti-Meciar' coalition parties – a distinct institutional feature of Slovak politics that is highly relevant to understanding Slovakia's path towards the adoption of the euro.

While Hungary's political culture and identification as a Western society lay the foundation for a positive view on European integration, the euro-adoption strategy is not driven mainly by the ideas that actors hold but by decision-makers' self-interests in achieving short-term related goals. This is because there is a strong discrepancy between the ideas being described by the actors and the actual policy developed. The announcement of the government's intention to join the euro-zone as quickly as possible was never matched by an appropriate fiscal policy. Under the chapter 4 described conditions of a rigid environment for party competition, Hungary's euro-adoption strategy is not mainly driven by the ideas that actors hold but by decision-makers' opportunistic interests in getting re-elected and the need to broaden out the electoral base. The initial optimistic rhetoric regarding a fast-track approach towards the adoption of the euro has also to be seen in light of the government's efforts to reduce investors' uncertainties. More specifically, as Hungary has experienced high inflation and interest rates throughout the transition process, euro-zone membership would be a perfect means to regain credibility and to reduce the high interest rates that impede the growth cycle. Moreover, through euro-zone entry, Hungary's high euro-dominated foreign debt service would no longer be dependent on currency fluctuations. As further discussed in the following chapters, under conditions that reinforced opportunistic interests, the scope for ideas and institutions are limited and the pressure for policy convergence as expressed in the obligation to meet the Maastricht criteria significantly loses its leverage.

In Poland, ideas on European integration were driven by the belief that the transition process has to be embedded in a foreign policy committed to a 'return to Europe'. The consistency in foreign policy of all Polish governments went hand in hand with support for a quick adoption of the euro. But being the largest country among the new EU members and having a strong voting power in the EU, Poland's initial intention to join the euro-zone as soon as possible was also driven by the desire to have a bigger say in the European decision-making process. It has been argued that the initial intention to join the euro-zone as soon as possible was supported by an epistemic community of policy-makers, whose macroeconomic conceptions are based on shock therapy measures. In contrast to the Czech Republic, and lately also to Hungary, Poland's Governor of the Central Bank, Balcerowicz, the most prominent member of this epistemic community, sees the adoption of the euro not as the end point of a transition process but as a means to achieve real convergence. Yet, Polish policy-makers have been less successful in making the idea of a fast-track approach persuasive. In fact, growing party-based and public Euroscepticism constrains any strategy for adopting the euro quickly making a fast-track approach unlikely. Ideas on European integration of the anti-EU parties LPR and Samoobrona are embedded in principled beliefs that further European integration undermines state sovereignty and is a threat to Polish culture. Indeed, as party-based and public Euroscepticism gained momentum, the

SLD-led government came under growing pressure to pursue a fast-track approach to adopting the euro – a fact which was further supported by the minority government's weakness to push forward reforms (see chapter 6).

In summary, ideas shed light on the origin of support for and opposition to EMU accession. They provide a tool for judging political action against interests and help to explain cross-national variations in approaching euro-zone accession. It has been argued that on the basis of the experience of dramatic policy failure, when policies are discredited by events, ideas do exert a strong influence on the policy-making and therefore can become causally consequential. Ideas exert a distinct influence on the country's euro adoption strategy when a cognitive change, triggered by policy failure, changes commonly held beliefs. Ideas become causally consequential when they help to specify the origins of the crisis. However, at the same time, it has also been argued that ideas suggest solutions to the crisis that suit actors' interests. This again shows that it is fruitless to separate ideas from interests. In addition, any idea-oriented approach has to account for the fact that institutionalised causal beliefs (such as the institutionalised idea that an independent central bank performs better in delivering low inflation and high employment and the idea that proportional electoral systems reflect better the divisions in society) profoundly affect policy outcomes. It is therefore the purpose of the following chapter to analyse the impact of institutional opportunities and constraints on the euro-adoption strategies under review.

Chapter 6

The institutional level of analysis: The impact of domestic institutions on the euro-adoption strategies

This chapter examines the implications of institutional settings for the euro-adoption strategies in the Visegrad countries. Institutional settings mean the context in which politicians prefer some options to others (Lijphart and Waisman 1996). Implications refer to the effects of these settings on the country's approach to adopting the euro. The aim is to show whether institutional incentives and constraints faced by political actors in different national contexts help to explain why the Visegrad countries display a cross-national variation in the strategies pursued for the adoption of the euro. The chapter concentrates on three different institutions that play a key role in shaping fiscal and monetary policy reforms and therefore influence the countries' strategies to adopting the euro: 1. the design of electoral systems; 2. the degree of central bank independence; and 3. institutions of market economy and specifically industrial relations. The chapter focuses on two aspects of the aforementioned institutions: first, the institutional constraints and the resulting strategies and preferences developed by the actors involved; second, the implications for reforms aimed at fulfilling the Maastricht criteria and therefore for the country's approach to adopting the euro.

As discussed in chapter 2, the type of electoral system affects representation and political outcomes (Rae 1967, Taagepera and Shugart 1989, Cox 1997). Duverger's (1954) seminal work on the electoral system and its political consequences has been extended and modified by numerous scholars. Scholars now agree that many other factors, for instance cultural factors, have multi-dimensional effects on the design of electoral systems (Grofman and Lijphart 1986, Lijphart 1984, Rae 1967, Bogdanor and Butler 1983, Sanford 2002, Mair 1991). As this chapter shows, cultural factors and legacies played a key role in the design of electoral laws. The overview of the constitutional bargaining that led to the electoral law design clearly shows that politicians tried to anticipate the political consequences of electoral laws and were keen to choose among alternatives when the opportunity was given. This chapter relates the electoral law to the effectiveness of governments and their capacity to implement reforms that aim to fulfil the euro-zone accession requirements. In particular, it considers assumptions made by Roubini and Sachs (1989) and others on the relationship between the composition of governments and the state of fiscal consolidation (see chapter 2). Given that all Visegrad countries have coalition governments, the number and coherence of the coalition parties seem to be a valuable starting point for analysing whether stable governments, defined here by a low number of coalition parties and a cohesive cabinet, succeed much better in implementing fiscal consolidation programmes. The chapter thus investigates whether the electoral system is an effective variable when trying to trace sources of difficulties in implementing fiscal reforms that affect the countries' euro-adoption strategies.

When analysing reforms aimed at fulfilling the Maastricht criteria, institutional constraints arising from central bank independence (CBI) are highly important too. This is because CBI has several consequences for the conduct of monetary and fiscal policy. Two aspects of reforms related to compliance with the Maastricht criteria are directly connected to CBI (see chapter 2). First, independent central banks enjoy higher credibility than dependent ones (Rogoff 1985); in turn, credible central banks perform better in maintaining or achieving low inflation (Cukierman 1992, Alesina and Summers 1993, Eijffinger and de Haan 1996). Second, an independent central bank constrains the scope of a government's economic policy choices (see chapter 2). For example, scholars argue that the increase in fiscal deficits is a consequence of CBI given that governments cannot use monetary policy and therefore may turn to fiscal policy to stimulate the economy (Hallerberg et al. 2002a,b). The high pressure on governments to achieve both fiscal consolidation and to reflate the economy resulted in some Visegrad governments' efforts to undermine the independence of their central banks and to force them to cut interest rates. Political debates on central bank law are directly related to issues relevant to euro-zone entry and are discussed in this chapter. This is all the more important for the reason that the countries might score well in the CBI indices, yet the actual practice may deviate from the law (Cukierman 1994: 3, see chapter 2). It should also be kept in mind that the disinflation process in a transition country might go beyond the direct control of the central bank as inflation might be related to specific transition problems (see chapter 2). Therefore, this chapter does not correlate CBI to the disinflation process per se (see also Dvorsky 2000: 25) but it explores whether the central bank pursues a restrictive monetary policy and relates the resulting constraints on the government in conducting economic policies to potential consequences for the euro-adoption strategies of the countries concerned.

This chapter analyses the institutional framework of the central banks in the Visegrad countries by applying one of the most widely used benchmark indices: that of Cukierman (1992). The other widely used index is the Grilli-Masciandaro-Tabellini (GMT) index (Grilli et al. 1991). Some scholars (Mangano 1998, Forder 1996, 1998, Beblavy 2003) have criticised the Cukierman and GMT indices, correctly pointing out that the assessment of CBI depends to a large extent on subjective interpretations of central bank laws. Other scholars note that the Cukierman index ignores exchange rate policy as a variable of functional independence (Beblavy 2003, Dvorsky 2000, and Radzner and Riesinger 1997). Nevertheless, most scholars who conducted research in the field of CBI (most notably Romer and Romer 1997, Moser 1999 and Keefer and Stasavage 2000) have applied and further developed the Cukierman and Grilli et al. indices. By the same token, most studies on CBI in CEECs have used the Cukierman index and this thesis uses the same in order to be able to compare results of previous studies with own calculations of CBI after amendments in central bank laws in 2002.[1]

With respect to the Cukierman index, three aspects of CBI are analysed here: first, the legislative objective of the central banks; second, government lending regulations; and third, the status of the central bank board. In addition, the accountability of the Visegrad countries' central bank is discussed, since this is a central topic in today's debate on CBI. The political authority sets the legislative objectives, which may include

[1] For a review on studies using the Cukierman or modified Cukierman and GMT indices to measure CBI in CEECs see Dvorsky (2000).

low inflation, output stability, and external balance. Government lending means regulations on direct financing of the government deficit by the central bank. The term of office of the governors is also important, because it indicates whether the government has influence on monetary policy. If the term of the central bank governor is longer than the electoral cycle, the government's influence on monetary policy is significantly reduced. Discussions of accountability, legitimacy, and credibility are also linked to CBI. It is often said that independent central banks are undemocratic because central bankers are unelected technocrats.[2] Central banks obtain their democratic legitimacy from the appointment of the central bank board by the parliament and by the fact that the central bank's goals are set by politicians (Blinder 1998). Central banks should be made accountable for their actions through periodic reporting of their policy actions to the public, media, and legislature (Blinder 1998: 74).[3]

As argued in chapter 2, economic performance depends also on the existing labour market institutions; thus, it depends on existing industrial relations (Garrett 1998, Hall and Franzese 1998). This is because the mode of interest representation, i.e., the institutional setting for industrial relations, plays a predominant role in the wage bargaining process and thus influences economic performance. To demonstrate the impact of industrial relations on policy outcomes that touch upon European monetary integration, the chapter analyses the tripartite institutions that were set up in all Visegrad countries at the beginning of the transition process.

National-level tripartite social dialogues – with varying degrees of importance – are at the heart of industrial relations in the Visegrad countries. Since the adoption of the euro requires profound macroeconomic adjustments it is important to examine the social partners' capacity to support compliance with the Maastricht criteria and hence to influence the respective euro-adoption strategy. This is all the more important as the

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[2] See Briault et al. (1996) and Levy (1995) for reviews of the democratic deficit of central banks. See Fischer (1994) for an analysis of the relationship between democratic accountability and the "deflationary bias".

[3] As Blinder (1998: 69) puts it: "public accountability is a moral corollary of central bank independence. In a democratic society, the central bank's freedom to act implies an *obligation* to explain itself to the public."

Maastricht criteria place limits on wage developments and therefore influence the agenda of the national-level tripartite social dialogue.[4] However, the question of wage restraints as negotiated by the social partners depends on their legal status and capacity to influence economic policy-making; an important fact which is further elaborated in this chapter. The latter point also touches upon the role of the wage-bargaining level, trade union density and collectively agreed wage bargaining coverage which are therefore included in the analysis.

This chapter is divided into four parts, each dealing with one case study. Each country study is further subdivided into an analysis of the influence of electoral systems, central bank independence and industrial relations on the approach to adopting the euro. The conclusion summarises the main implications of different institutional settings for the euro-adoption strategies.

The Czech Republic

Electoral system

The Czech Republic adopted a system of closed list proportional representation (PR) with a 5 percent threshold and a weak presidency, elected by the parliament.[5] Negotiations on the electoral law were led by non-communist liberal-democratic, Christian, and regional politicians who were against both a strong presidency and majoritarian electoral law. A PR system was seen to fit best with the dissidents' "long-standing normative commitment to pluralism" (Birch et al. 2002: 69).[6] The communist party in turn was

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[4] For the same reasons, special social pacts over EMU convergence reforms were concluded in Spain, Portugal, Greece, Finland, Ireland, the Netherlands and Belgium. One of the main issues of the social pacts was wage moderation to fulfil the Maastricht criterion of low inflation. In Ireland, Finland, the Netherlands and Belgium moderate wage increases were agreed on the basis of tax relief and social packages (see Welz and Kapuinnen 2004: 587, Kittel 2002, Schulten and Bispinck 2001).

[5] In contrast to the open list, in closed list systems, voters vote for a party without knowing which candidates from each party will get in.

[6] As Petr Pithart, former leader of the Czechoslovak Civic Forum, further explained: "we do not want to replace one dominant political force with another, so we shall not tailor the system to benefit us and only us" (quoted in Birch et al. 2002: 69).

too unpopular and weak to push its interests forward during the Roundtable negotiations in 1990. Since the first free election in June 1990, the electoral law has been changed twice. In 1992, different thresholds for electoral alliances were introduced. In 2002, the Czech Republic changed from the Hagenbach-Bischoff[7] to the D'Hondt[8] seat allocation formula and introduced a structure of 14 multi-member districts (see Table 15). However, since both the Hagenbach-Bischoff and the D'Hondt formula favour large parties, the changes did not have substantial consequences for the party system. The ODS and the former president Vaclav Havel made efforts to change to a majoritarian system in the early 1990s. However, parliament passed none of the proposals to change the electoral rule. One reason might have been that the strong parties favoured electoral systems that they believed would force them to enter into a coalition, which in turn would allow them to spread the blame for transition-related economic austerity measures (Birch et al. 2002: 185).

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[7] The Hagenbach-Bischoff quota is the number of valid votes divided by the number of seats plus one. This formula favours large parties.

[8] The d'Hondt formula is the most frequently used seat allocation formula worldwide. The d'Hondt formula uses the divisor series (1,2,3,4, etc.) and systematically favours large parties. For detailed descriptions and examples, see Lijphart (1994: 153-159).

Table 15 Summary of Czech electoral laws

Election Year	Electoral system type	District structure	Seat allocation formula	Threshold
1990 (poll for CZ)	PR	8 multi-member districts, 1 national district for unfilled seats	Hagenbach-Bischoff Hagenbach-Bischoff	5 percent
1992	PR	8 multi-member districts, 1 national district for unfilled seats	Hagenbach-Bischoff Hagenbach-Bischoff	5 percent for 1 party, 7 percent for alliance of 2 parties, 9 percent for 3; 11 percent for 4 or more
1996	PR	8 multi-member districts, 1 national district for unfilled seats	Hagenbach-Bischoff Hagenbach-Bischoff	5 percent for 1 party, 7 percent for alliance of 2 parties, 9 percent for 3; 11 percent for 4 or more
1998	PR	8 multi-member districts, 1 national district for unfilled seats	Hagenbach-Bischoff Hagenbach-Bischoff	5 percent for 1 party, 7 percent for alliance of 2 parties, 9 percent for 3; 11 percent for 4 or more
2002	PR	14 multi-member districts	D'Hondt	5 percent for 1 party, 10 percent for alliance of 2 parties, 15 per-cent for 3; 20 percent for 4 or more

Source: Birch et al. (2002: 85-6)

Table 16 Governments of the Czech Republic

Prime Minister	Party	Legislative period	Type of government
Vaclav Klaus	ODS	01/93 – 07/96	Coalition ODS, KDU-CSL, ODA
Vaclav Klaus	ODS	07/96 – 01/98	Minority government: Coalition ODS, KDU-CSL, ODA
Josef Tosovsky	No party affiliation	01/98 – 07/98	Interim government
Milos Zeman	CSSD	07/98 – 06/02	Minority government: CSSD
Vladimir Spidla	CSSD	06/02– 06/04	Coalition CSSD, KDU-CSL, Freedom Union (US)
Stanislav Gross	CSSD	08/04 – 04/05	Coalition CSSD, KDU-CSL, Freedom Union (US)

Table 16 shows that under the PR system the Czech Republic has experienced mainly coalition governments and one minority government led by a single party, the

CSSD. Chapter 2 has argued that stable governments, defined by a one party government or a low number of coalition parties and a cohesive cabinet, succeed much better in implementing fiscal consolidation programmes. The two governments under Premier Minister Vaclav Klaus were coherent coalitions of centre-right parties. But while the first Klaus government (1992-1996) proved to be stable and able to achieve fiscal consolidation, the second Klaus government (1996-1997), a fractious minority government, collapsed over a party financing scandal in December 1997.[9] Certainly the worsening economic performance of the Czech economy in the aftermath of the currency crisis and the subsequent necessary adoption of austerity measures such as wage restraint in the public sector, in April and June 1997, accelerated the break up of the coalition. But the economic imbalances also revealed many of the flaws in the reform process as exemplified by the many corruption scandals, problems in social welfare programmes, enterprise debt and mounting bad loans in the banking sectors (see chapter 3). Thus, while the Klaus governments were successful in achieving fiscal consolidation in the first half of the 1990s, many necessary reforms, especially in the banking sector, were neglected and reinforced the economic imbalances of 1997. Hence, the argument that coherent governments are more stable and succeed much better in implementing reforms does not find unqualified supportive evidence in the Czech case. The subsequent interim government was headed by the non-partisan Prime Minister and former Central Bank President Josef Tosovsky, certainly also in an effort to divert attention from the intra-party squabbles and economic difficulties in the aftermath of the currency crisis (cf Millard 2004: 105).

The succeeding minority government under Zeman (1998-2002), formed under what is called the opposition agreement,[10] proved to be weak and unable to make various economic policy reforms. The opposition agreement was prone to create a political gridlock and resulted in long delays in the political decision-making process. This had

[9] The re-election of the Klaus government in 1996 was one of the rare exceptions to the iron law of Central and East European politics that the elections are not won by the same government, i.e. that the government generally lose elections (cf Fitzmaurice 2004: 161).

[10] The CSSD and the ODS signed the opposition agreement and a "toleration pact" including a fiscal contract. In exchange, the ODS obtained top posts in the parliament.

severe consequences for further fiscal consolidation. Indeed, by the end of the minority governments legislative period, the Czech Republic had one of the highest deficits among the CEECs: 6.8 percent of GDP (Dimitrov 2003: 18, see chapter 3). In particular, the minority government was weakened by splits within the CSSD between those opposing and those supporting the opposition agreement with Klaus, and between those opposing and those supporting an expansive fiscal policy (Dimitrov 2003: 18).[11] Likewise, the coalition government under Prime Minister Vladimir Spidla, consisting of the Social Democratic CSSD, the conservative KDL-CSL and the liberal US-DEU faced great difficulties of cohesion which were reinforced by the fact that the coalition government only held a majority of one seat. Certainly, this and the fact that – for reasons which have been discussed in the previous chapters – the CSSD was not willing at first to compromise on its expenditure oriented fiscal policy, led to a worsening of the budget deficit. In particular, the coalition with the liberal Freedom Union-Democratic Union caused several difficulties. Shortly after the Spidla-government took over, the former chairwoman of the US-DEU, Hana Marvanova, provoked the coalition's first major crisis in September 2002 when "she used her vote to kill government-backed tax hikes – boosting her right-wing credentials but highlighting the fragility of the three-party government" (RFE/RL News, 21/09/2003). The coalition government also had to survive several no-confidence votes in the parliament. The one directly related to the euro-adoption strategy on the reform plans for fiscal consolidation and adherence to the Maastricht criteria, was submitted by the Civic Democratic Party (ODS) and supported by the KSCM, took place in September 2003 (see chapter 5). The reform plans of the Spidla government nourished public disillusionment with the Social Democratic party and reduced the government's popularity significantly. Under the impression of the painful reforms (see chapter 3 and 5), the CSSD experienced a disastrous result in European Parliament elections in June 2004, winning just two of the possible 24 seats

[11] Stanislav Gross and Petra Buzkova were among the most prominent CSSD-politicians opposing the opposition agreement. Along the same line, the opposition agreement further exacerbated internal divisions within the CSSD between Zeman-supporters (e.g. Zdenek Skromach) and Zeman-opponents (e.g. Gross and Buzkova).

for the Czech Republic. Vladimir Spidla eventually resigned in June 2004 and Stanislav Gross was appointed as Prime Minister and CSSD chairman (see chapter 4).

In summary, the PR-electoral system in the Czech Republic has produced mainly coalition governments and one minority government led by a single party, the CSSD. Since the late 1990s the Czech governments have encountered problems of cohesion and stability which have had consequences for the implementation of policy reforms, especially after the economic and political crisis in 1997. The loose fiscal policy explains why the Czech Republic is not as eager to join the euro-zone as quickly as, for example, Slovakia. It also helps to explain why the current government is reluctant to adopt the euro given that the single currency entails politically costly and painful reforms with which an unstable government can hardly cope.

Central bank independence

The Czech Republic had particularly big problems amending its central bank law and bringing it in line with the acquis communitaire. After several failures in the late 1990s and early 2000 to approve the respective bills, the Czech Parliament eventually agreed on substantial amendments in March 2002. Indeed, only the pressure of the EU accession negotiations, concluded in December 2002, led the Czech Republic to increase central bank independence. During the economic recession between 1997 and 2001 successive Czech governments successfully imposed their views on monetary policy. In particular, the former Prime Minister Vaclav Klaus (1992-1997) engaged in 'bitter polemics' (Myant 2003) with the central bank, accusing the CNB of being entirely responsible for the economic downturn in 1997 due to its restrictive monetary policy adopted in late 1996: "the key to economic recovery is in the hands of those who cause the economic downturn – the central bank" (Klaus 1999 as quoted in Myant 2003: 92). In turn, the then President of the Central Bank, Tosovsky, accused Klaus of being responsible for the economic recession because his government failed to implement structural reforms (see Tosovsky as quoted in Myant 2003: 92). The row between Klaus and Tosovsky also shows a personal antagonism and rivalry that goes back to

1997 when Klaus was forced to resign and Tosovsky took over as interim Prime Minister (Myant 2003: 109, The Prague Post 08/03/2000). Starting from 2000, the CSSD joined the ODS in criticising the CNB's monetary policy, stating that an overly restrictive monetary policy slows down economic growth (see Myant 2003: 112). In summer 2000 the Parliament then approved an amendment to central bank law that severely restricted the CNB's independence. The public clashes between the high ranking politicians and the CNB, as well as the amendment, clearly raised doubts about the CNB's independence and future ability to cope with political pressure and certainly did not foster the "public's awareness of the relevance of CBI in practice" (Dvorsky 2000: 20).[12]

Table 17 Central Bank Independence in the Visegrad countries

	Czech Rep.	*Slovakia*	*Hungary*	*Poland*
1992[a]	0.73	0.62	0.67	0.61
2000[b]	0.69	0.68	0.78	0.91
2002[c]	0.79	0.75	0.81	0.91[b]

[a] Cukierman et al. (2002)
[b] Dvorsky (2000) applying the Cukierman (1992) index (LVAU unweighted)
[c] Own calculation using the Cukierman (1992) index (LVAU unweighted), see appendix 1. Calculations on the basis of the Act on the CNB, NBS and NBH after the amendments in 2001 and 2002 respectively. The index can vary from 0 (no independence) to 1 (complete independence).

As Table 17 shows, until the latest amendments in 2002 that revised the controversial amendment of 2000, the CNB scored only third among the Visegrad four on the Cukierman index. The 2000 amendment foresaw, among other things, a parliamentary approval of the central bank's operating budget and the appointment of the central bank

[12] Only four days after the government approved the controversial amendment to the central bank law, Tosovsky resigned on 31 October 2000. This was clearly a tactical step taken by Tosovsky seeing that the new law also foresaw that the CNB governor has to be appointed by the government and not - as under the old law - by the President of the Czech Republic. Tosovsky's resignation in October 2000 gave Vaclav Havel, then President of the Czech Republic, the possibility to appoint the new CNB's governor, Tuma, before the new legislation would become effect. Tuma was clearly not the first choice of the government and the opposition as the government accused Havel of not acting in the spirit of the new law (see The Prague Post 08/11/2000, Handelsblatt 23/11/2000 and 27/11/2000). However, it should be noted that Klaus in his function as the President of the Czech Republic made precisely use of the President's right to appoint members of the central bank board to place three close allies in the CNB all of whom are well known for their sceptical views on the adoption of the euro (see chapter 4 and 5).

President by the parliament (see footnote 12). In addition, the lower grade in the Cukierman index is due to direct public sector financing by the central bank and the CNB's failure to make price stability its primary goal. In 2002 the CNB's objective was changed from guaranteeing currency stability to price stability. The expression "currency stability" is not as restricted and unambiguous as the objective of price stability, i.e., currency stability might also include other objectives, of which price stability is only one. Currency stability is measured by a stable exchange rate and price stability by a low inflation rate. In contrast to Poland, where any direct fiscal financing has been prohibited since 1998, until recently the Czech Republic allowed a central bank credit to the government of 5 percent of the previous year's budget revenues. But since the 2002 amendments, direct financing by the CNB has been prohibited. As for the status of the central bank boards, the managers of the Czech central bank have a 6-year term of service, which is longer than the electoral cycle. Board members cannot be dismissed unless they have committed a crime or do not perform their duties (e.g. due to extended illness). Transparency and accountability are obtained through the submission of regular reports on the central bank's activities. The Czech central bank is obliged to inform the parliament about its monetary policies at least twice a year. In addition, the Czech central bank has to publish a quarterly report to inform the public about monetary developments. The 2002 European Commission report states: "with regard to the Central Bank's independence, [...] the Czech Republic has thus achieved a high degree of alignment on the *acquis* on EMU (European Commission 2002b: 80).

Indeed, as Table 17 shows, the CNB now has a relatively high degree of central bank independence. Following Cukierman's reasoning this might have contributed to the success in bringing down the inflation rate from 4.5 percent in 2001 to 2.8 percent in 2004 (see chapter 3). However, given that the reference period is very short, the disinflation process has to be interpreted very cautiously. In addition "the inflation data are likely to reflect specific, temporary developments related to that particular year in the transition process" (Dvorsky 2000: 27). For example, the sharp fall in inflation rates from 9.7 percent in 1998 to 1.8 percent in 1999 (see chapter 3) is a consequence of the dramatic output decline and the negative growth rate of GDP in the aftermath of the currency crisis. While this shows that the interpretation of inflation rates for a country in transition by means of CBI alone is erratic and carries the risk of oversimplification, it can nevertheless be stated that the CNB has been successful in pursuing a restrictive monetary policy, especially after 2002. Indeed, the Czech Republic's major obstacles with regard to compliance with the Maastricht criteria are the high public deficits. Yet, while the central bank followed a restrictive monetary policy in line with the Maastricht criteria, its central bank board members are the most divided about issuing a statement of when they want to join the euro-zone, fearing that a fix exchange rate is not able to protect the country from speculative attacks (see chapter 5). Certainly with the nomination of new central bank board members who share an affinity to Klaus' views on the adoption of the euro, the CNB has become even more pessimistic towards the euro.

In short, despite frequent political attacks on the CNB, reaching their peak in 2000, the central bank has been successful in pursuing restrictive monetary policy and inflation remains low in the Czech Republic, especially after 2002. While it has been argued in the previous chapter, that the government's expenditure oriented policy stands in relation to growing partisan pressure, constraints arising from CBI might have reinforced the need for increased public spending. In turn, the need for higher public spending to reduce unemployment resulted in the CSSD-led government‘s decision to postpone the adoption of the euro to the next decade.

Industrial Relations

The tripartite Council for Economic and Social Accord (RHSD) was established in October 1990 following a government initiative and thus created from above. What is more striking is that the tripartite arrangements were established at a time when their main actors did not yet exist. It was only after the establishment of the RHSD that independent employers' and employees' associations began to evolve (Cambalikova 1996). Moreover, the tripartite institution was established "prior to the onset of significant unemployment, privatisation and price liberalisation" and was therefore created "in an economic and social vacuum of sorts" (Heinisch 1999: 62). The rapid and hasty creation of the tripartite institution has to be seen in the context of the government's efforts to counteract expected social unrest and transition problems. In addition, international experts recommended tripartism, and the new government was keen to apply Western practices of industrial relations. However, since weak interest groups became "partners of the powerful state" (Heinisch 1999: 63), the tripartite arrangement developed into a secondary institution with no essential power or influence on economic and social policy.

The RHSD negotiated the annual general agreement (or general social pact) to set up recommendations for broad economic and social policy guidelines (Thirkell et al. 1994). Although the government was not legally obliged to adopt the decisions made in the council, the recommendations were initially considered binding (Cox and Mason 2000a: 340). However, after a number of demonstrations organised by trade unions, the government temporarily suspended the council in 1995. Thereafter the council was renamed Council for the Dialogue of the Social Partners and its role was downgraded to a purely consultative body. The right-wing governments under Prime Minister Klaus in particular sought to constrain the tripartite mechanism while the CSSD-led governments intensified communication with the social partners motivated "not just by its manifesto, but also by the preparation for EU entry, which requires important steps to be consulted with the social partners" (Hala et al. 2003: 87). However, the report on social dialogue and EMU in the Czech Republic written by Hala et al. for the European Foundation for the Improvement of Living and Working Conditions still concludes that:

> social dialogue in the Czech Republic [...] has not yet successfully become a source of law and is not fully integrated as an important factor in the labour market. [...] [The national level tripartite meeting] is not taken for granted as a tool for mediating between various interests in society and there is also limited public involvement and low awareness of social dialogue (Hala et al. 2003: 98).

Indeed, since the mid 1990s, no general agreements to set definitions or targets for wage developments and employment have been signed nor any "other document defining [...] the framework for macroeconomic and social development in the Czech

Republic" (Hala et al. 2003: 98). It is therefore not a surprise that a social pact to meet the Maastricht criteria has not been signed either. In fact, while drafting the reforms to meet the Maastricht criteria and to cut public expenditure in 2003 (see chapter 3 and 5), "the tripartite mechanism was not made sufficient use of and a confrontational attitude [...] prevailed" (Hala et al. 2003: 103). The 'confrontational attitude' reached its peak when the largest trade union confederation and social partner, the Czech-Moravian Confederation of Trade Unions (CMKOS), organised a series of strikes and demonstrations against the reform plans in 2003 and 2004 (CMKOS 2003).[13] On 21 April 2004, 300.000 civil servants joined a one-hour strike organised by the trade union of public sector employees to protest against wage cuts "made by the government [...] within the framework of economic reforms, which are designed to reduce public debt and help qualify the country for the euro currency" (RFE/RL Newsline 23/04/04). However, it should be noted that industrial action regarding the Spidla government's reform plans took the form of "short-term 'warning' strikes rather than prolonged walkouts, which probably reflects the weak loyalty of most union members" (EIU 2005a: 22, see also Carley 2005: 56). In fact, prolonged strikes to put pressure on the government have remained an exception in the Czech Republic.

Nevertheless, it can be argued that public dissatisfaction with the reforms, reinforced by a series of demonstrations in 2003 and 2004, had fatal consequences for Spidla who was forced to resign as Prime Minister in June 2004 after his party experienced a disastrous European Parliament election. It is said that people's disagreements with the reform plans reflected the bad result in the European election for the CSSD. This is not to argue that trade unions are responsible for the resignation of Prime Minister Spidla but that their protest actions against the reform plans designed to meet the Maastricht criteria went hand in hand with a growing public dissatisfaction with the government and therefore supported the serious political crisis. To help his party out of the crisis, Spidla's successor Stanislav Gross therefore announced he

[13] The CMKOS is the successor organisation to the communist trade union confederation, the Revolutionary Trade Union Movement (ROH). The CMKOS became the largest trade union confederation in the Czech Republic and "initially retained, de facto, its monopoly on interest representation" (Heinisch 1999: 62, see also appendix 3).

would re-negotiate the reform package. As a first step Gross invited the CMKOS to give suggestions to the new government programme (Hala 2004). Thus, the failure to reach an agreement in the tripartite meeting worsened the 2003/2004 government crisis, affecting both the stability of the government and its stamina to push forward reforms in line with the Maastricht criteria and the country's euro-adoption strategy. Certainly, the political crisis which weakened the government's ability to implement policy reform, underpinned the furthest target date for the adoption of the euro.

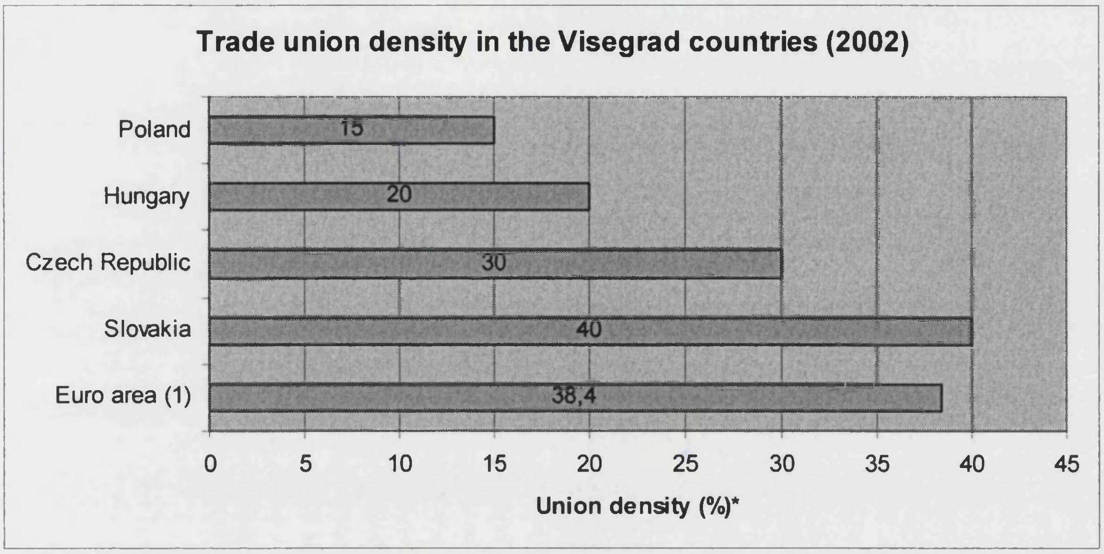
Wage bargaining is fairly decentralised and most of the wage bargaining takes place at the company level (see appendix 2). Central wage bargaining is non-existent and sectoral wage bargaining underdeveloped. One reason for the poor development of sectoral and inter-sectoral wage bargaining is the weak institutional capacity of the social partners – especially on the part of employers – and their poor representation at the sectoral level (Hala et al. 2003: 98).

Table 18 Collective bargaining coverage

	Collective bargaining coverage (in %)
Czech Republic	25-30
Hungary	34
Poland	40
Slovakia	48
Euro area	81

Source: Angeloni et al. (2005: 22)

Figure 19 Trade union density in the Visegrad countries (2002)



* Union membership as a percentage of total employment
(1) GDP-weighted
Source: Angeloni et al. (2005: 22)

The Czech Republic also has a very low union density and collective bargaining coverage is, at 25-30 percent, significantly lower than in Slovakia (see Figure 19). Thus, given the low bargaining coverage rate and the fact that most of the bargaining takes place at the company level, the coverage proportion of all companies and employees is fairly low. Given that the workforce is rather atomised, trade unions lack legitimacy and power. Indeed, the case of the Czech Republic provides supportive evidence for the U-shape curve of wage determination where the negative wage-push inflation is mitigated by the absence of strong trade unions since there are "no externalities – in the form of wage militancy – to internalise" (Garrett 1998: 32, see also chapter 2). Indeed, average collectively agreed pay increases in 2003 and 2004 were, at 4.1 percent and 3.8 percent respectively, significantly lower than in Slovakia (7.5 and 7 percent) and Hungary (8.2 and 9 percent) (see Carley 2005). This might have contributed positively to the low inflation rate in the Czech Republic.

In short, while trade unions are not strong enough to support an escalation of wages that would jeopardise compliance with the Maastricht criteria and the tripartite institution too weak to influence the content of the country's euro-adoption strategy, trade unions confrontational attitude towards the Spidla government went hand in hand with growing public dissatisfaction and contributed to the political crisis that underpinned the furthest target date for the adoption of the euro.

Slovakia

Electoral system

Slovak electoral law operates through a proportional representation system with party candidate list voting that is restricted by a 5 percent threshold. The first Slovak election in 1994 after the break-up of Czechoslovakia was conducted under the same electoral law as were the 1992 Czechoslovak elections (Elster et al. 1998: 117). Although the Slovak Parliament has extensively debated electoral rules, no major changes were introduced until 1998. In May 1998, the four multi-member districts were replaced by one single national multi-member district (see Table 19). In addition, in an effort to weaken small opposition parties, the Meciar government introduced a general 5 percent threshold for all parties, whether standing alone or in alliance. However, the opposition parties were able to develop strong organised parties out of their election coalitions (Kipke 2002: 286). After the 1998 election, Meciar was not able to build a new coalition, and several liberal-conservative parties and the socialist SDL formed the new government (see chapter 4 and 5).

The Slovak party system is deeply fragmented and polarised. In the 1992 legislative period, more than 18 percent of the MPs changed party factions or established new parties. Party fragmentation is mainly due to personal disagreements and a lack of party discipline. However, as Meseznikov (1997) points out

> the large number of political parties in Slovakia is more a reflection of Slovakia's societal diversity than a simple mechanical result of the implementation of a proportional system (Meseznikov 1997: 38).

The polarisation of the party system mirrors polarisation in society: first, over Slovakia's past and future and, second, over current issues, such as Slovakia's Hungarian and Roma minorities. It is a polarisation between "what might be called Westernisers and Slavophiles" (Wightman 2001: 136), that is, between those who see Slovakia's place in

Western Europe and those who emphasise the Slovak nation and its sovereignty (see chapter 5). The same applies to the division of the Slovak party system. As Meseznikov states:

> the fundamental axis on which this division has evolved is [a party's] relationship to the norms of modern parliamentary democracy, constitutionalism, the principles of a state based on the rule of law and the values of a democratic political culture (quoted in Wightman 2001: 130).

On the one hand there are the parties that formed the government in 1994, i.e., the HDSZ, the extreme right Slovak National Party, and the extreme left Workers' Association of Slovakia (see chapter 4 and 5). On the other hand there are the parties that formed the opposition after 1994 and the coalition government in 1998 (see chapter 4 and 5). The two poles, i.e. the national-populist side and the anti-Meciar coalition side, have heavily dominated Slovak politics. The pattern of party competition has only slowly started to change and the recent dynamics are very much associated with the emergence and success of the SMER (see chapter 4); the party that

> have taken over HZDS's mantle as the most popular (opposition) party in Slovakia [as of early 2004], which may seem to suggest a stabilisation of two-bloc competition along a left-right dimension, gradually replacing the inherently unstable yet enduring 'Meciar-and-allies versus the rest' pattern (Bakke and Sitter 2005: 249).

Yet, given the short period of observation, the stabilisation of a more 'West European left-right pattern' (Bakke and Sitter 2005) remains fragile.

Table 19 Main changes in the law on election to the Slovak Parliament

Election Year	Electoral system type	District structure	Seat allocation formula	Threshold
1990 (poll for Slovak Parliament)	PR	4 multi-member districts, 1 national district for unfilled seats	Hare[14] Hagenbach-Bischoff	3 percent
1992	PR	4 multi-member districts, 1 national district for unfilled seats	Hagenbach-Bischoff Hagenbach-Bischoff	5 percent for 1 party, 7 percent for alliance of 2 or 3 parties, 10 percent for 4 or more
1994	PR	4 multi-member districts, 1 national district for unfilled seats	Hagenbach-Bischoff Hagenbach-Bischoff	5 percent for 1 party, 7 percent for alliance of 2 or 3 parties, 10 percent for 4 or more
1998	PR	1 national multi-member district	Hagenbach-Bischoff	5 percent for each party whether standing alone or in alliance
2002	PR	1 national multi-member district	Hagenbach-Bischoff	5 percent for 1 party, 7 percent for alliance of 2 or 3 parties, 10 percent for 4 or more

Source: Birch et al. (2002: 79)

Table 20 Governments in Slovakia

Prime Minister	Party	Legislative period	Type of government
Vladimir Meciar	VPN	06/90 – 04/91	Coalition VPN/NMI, KDH, DS
Jan Carnogursky Vladimir Meciar	KDH HZDS	04/91 – 06/92 06/92 – 03/94	Coalition VPN, KDH, DS, since 1993: HZDS, SNS
Jozef Moravcik	DU	03/94 – 12/94	Coalition SDL, KDH, DU, and others
Vladimir Meciar	HZDS	12/94 – 10/98	Coalition HZDS, SNS, ZRS
Mikulas Dzurinda	SDK	10/98 – 09/02	Coalition SDK, SDL, SMK, SOP
Mikulas Dzurinda	SDKU	09/02 –	Coalition SDKU, KDH, SMK, ANO

[14] Hare is the oldest "largest-remainder" system. The Hare quota is the total number of valid votes divided by the size of the district. The seat allocation for parties is proportionate to the quotas they obtained. Remaining seats are given to the party with the largest remainder of votes. For detailed descriptions and examples see Lijphart (1994: 153-159).

The PR system has produced a highly divided party system and exclusively coalition governments (see Table 20). But both the HZDS and the SDK managed to get re-elected (although not with the same junior coalition partners); and since 1994 all coalition governments survived their full legislative periods. The only government that collapsed because of in-fighting and defections was the Meciar-government in March 1994. The subsequent interim government was headed by Jozef Moravcsik but Meciar managed to re-enter office in December 1994 gaining an unexpected 35 percent in the general elections. As mentioned above, Slovak politics has been dominated by the division of parties in a pro- and anti-Meciar camp and scholars have argued that the coalition governments since 1998 (and particularly the first Dzurinda government) have worked only because of the threat that Meciar could return to office. As discussed in chapter 4, apart from being anti-Meciar, the so-called 'rainbow coalition' parties in the first Dzurinda government had little in common and especially "its [the coalition's] more left-wing ministers, such as Finance Minister Schmögnerova [Party of the Democratic Left, SDL], inevitably felt like hostages on issues such as fiscal policy and privatisation" (Fitzmaurice 2004: 16). Indeed, the SDL lost credibility among the party's rank and file members because the party became associated with the austerity measures of Finance Minister Brigita Schmögnerova, once nicknamed 'Brutal Brigita'.[15] But it might be argued that a Left (and not a centre-right) Finance Minister was instrumental in promoting the necessary but painful structural reforms and stabilising the overheated economy caused by the expenditure oriented fiscal policy of the Meciar government (see chapter 3). Indeed, under the Dzurinda government, economic growth recovered and the implemented reforms led to OECD membership as well as to regaining the important investment grade credit rating. However, despite the success in the first reform efforts, the rainbow coalition proved to be unstable, with a large number of ministers being replaced. In particular, the coalition was weakened by the 'bitter feud' between the two leading figures of the SDK, Dzurinda and Jan Carnogursky, who later estab-

[15] Brigita Schmögnerova eventually resigned as Finance Minister in January 2002. The growing tension within the SDL generated by the pro-market reforms of the coalition government eventually led to the disintegration of the Left, which entered the 2002 election fragmented (see chapter 4, Haughton 2004, Haughton and Rybar 2004).

lished the KDH (see Fitzmaurice 2004: 161). At the same time disputes on economic issues raised tensions between Dzurinda and the SDL, as did the initial refusal of the SDL to cooperate with the Hungarian Coalition party (SMK), while the SMK itself "almost left the government over the regionalisation bill, but was just persuaded to remain by pressure from intellectuals and human rights and pro-EU NGO's" (Fitzmaurice 2004: 161).[16] This all underlines the importance of the coalition's anti-Meciar consensus for its own survival. In turn, the anti-Meciar consensus was related to a strong consensus on foreign policy illustrating once again the importance of the coalition's foreign policy for its internal stability and overall legitimacy (see chapter 4 and 5). Yet, the difficulties in reaching an agreement on economic policy continued, and despite the first reform efforts it was only the second Dzurinda government, consisting of several, but more coherent, centre-right parties, that was more successful in implementing fiscal and fundamental reforms in the health care, tax and pension systems (see chapter 3). Indeed, the case of Slovakia illustrates that the successful implementation of reforms does not necessarily depend on the existence of a one-party government but on the cohesion of the coalition parties. This is not to say that the coalition was to be untroubled by disputes and quarrels. In fact, especially the

> KDH and the ANO have sustained a chronic and bitter rivalry, fuelled by deep personal animosities, as well as the inherent incompatibility of their stances – Catholic-inflected and secular, respectively – on most social issues (EIU 2005h: 9).

However, these divisions along socio-cultural issues did not have a negative impact on economic policy reforms. Even the break-away of three ANO and seven SDKU MPs, through which the coalition lost its majority in December 2003, did not hinder the implementation of policy reforms since these MPs continued to support the coalition government on key issues.[17] In addition to the ideological cohesion on economic policy

[16] It should be noted that support – yet also pressure – for and on the coalition to remain in office did not only come from the domestic civil society but also from the international political community (Vachudova 2001).

[17] Following a party dispute within the SDKU, Dzurinda sacked his Defence Minister and vice chairman of the SDKU Ivan Simko in December 2003 which led seven MPs and allies of Mr Simko to leave the party. Ivan Simko lost his office after he refused to support Dzurinda in his efforts to dismiss the Head of the National Security Office (NBU), Jan Mojzis (cf Haughton and Rybar 2004: 128).

among the coalition parties, the high fragmentation within the parliament strengthened the coalition's reform efforts given that the two deeply divided opposition parties, SMER and LS-HZDS, were not able to present a coherent alternative to the Dzurinda government. The deep division among the opposition parties is also the reason why SMER – in collaboration with the Confederation of Trade Unions (see p. 240) – failed to mobilise enough citizens in the referendum held in April 2004 on an early election. SMER's categorical rejection of the government's economic reforms isolated the party while the LS-HZDS "has supported key government bills, in an effort to end its long-standing pariah status" (EIU 2005h: 15).[18]

In short, the electoral system has produced exclusively coalition governments, nevertheless, unlike the Czech Republic, Slovakia has recently been successful in implementing politically costly reforms. Three factors have been decisive in pushing forward reforms in line with the Maastricht criteria: first, the divided and polarised party system that put pressure on the first Dzurinda government to stay in office and to guarantee the country's re-orientation towards the West; a re-orientation which can only be understood within the context of Slovakia's foreign policy failure under the Meciar government (see chapter 5). Second, the ideologically coherent second Dzurinda government of centre-right parties that shared a common view on economic policy. And third, a favourable constellation of party fragmentation in the parliament and the support of LS-HZDS for key government bills in order to end its 'long-standing pariah status'. These three factors contributed to a fast-track approach to adopting the euro and help to understand why Slovakia has been much more successful in pushing forward reforms in line with the Maastricht requirements than the other Visegrad countries.

Central Bank Independence

Like the CNB, the National Bank of Slovakia (NBS) did not alter its central bank legislation toward compliance with the acquis until the end of the accession negotiations in 2002. Scholars agree that the NBS was relatively dependent during the 1990s

[18] Certainly, it can be argued that it is precisely this shift of Meciar's party away from populism that fuelled support for the populist SMER.

(Hochreiter and Kowalski 2000, Hallerberg et al. 2002a,b, Freytag 2003). Apart from the lower result in the Cukierman index, the political debates on the amendment to the central bank law, initiated by the last Meciar government, reflected the impression of the relatively lower independence of the central bank compared with the other Visegrad countries (Dvorsky 2000: 20). Especially during 1996 and 1997, the Meciar government criticised the NBS' restrictive monetary policy and put pressure on the NBS governor Vladimir Masar to reduce interest rates. There were "unmistakable signs that the government [was] attempting to circumscribe the NBS's independence" (EIU 1997: 15), as highlighted in the Finance Minister's attendance to the NBS board meetings "in a non-voting 'advisory' capacity" (EIU 1997: 8) and the government's appointment of three compliant NBS board members (e.g. the former finance ministry state secretary Jozef Magula). However, in contrast to the Czech Republic, no amendments to the central bank laws were implemented and "the draft was withdrawn from the parliament's agenda a few months before the elections" (Dvorsky 2000: 20), while the proposal to curb CBI was not taken up by the subsequent Dzurinda government elected in 1998. Indeed, the Dzurinda government was keen to strengthen the NBS' "reputation as a pillar of macroeconomic stability" (EIU 2000: 32) which was seen as most crucial in gaining domestic and international confidence in the economy.

Yet, compared to the other Visegrad countries, Slovakia scored worst on the Cukierman index prior to the amendments in 2002 (see Table 17, p. 224). This was because there were no severe restrictions on lending facilities to the government (Freytag 2003). Until recently Slovakia allowed a central bank credit to the government of 5 percent of the previous year's budget revenues. Since the last amendments in 2002, direct financing has been prohibited. In addition, before the amendment in 2002, the NBS's primary objective was to guarantee currency stability, rather than price stability. As for the status of the NBS's board, the top managers of the central bank have a 5-year term, which is longer than the electoral cycle. Members of the central bank council other than the governor and the deputy governors are appointed for four years, thus for a shorter term than in the Czech Republic. Transparency and accountability are to be achieved through the submission of regular reports to inform the Parliament about their monetary policies at least twice a year. In addition, the NBS has to publish a quarterly report to inform the public about monetary developments. While on the Cukierman index, Slovakia still scores worst among the Visegrad countries, its overall degree of central bank independence is relatively high after 2002 (see Table 17, p. 224).

The inflation rate dropped from over 12 percent in 2000 to a record low of 3.5 percent in 2002 (see chapter 3). In 2003 and 2004 inflation again increased to around 8 percent due to strong growth rates and because the second Dzurinda government further liberalised prices that were kept artificially low under the previous Meciar governments (the so-called inherited 'inflation debt'). Since core inflation remains low it is expected that the rate of inflation will decrease sharply in the coming years (see chapter 3). However, again, this shows that transition specific events, rather than the direct control of the central bank, influence inflation developments. Still, it should be noted that Slovakia's high degree of CBI contributes significantly to lower inflation expectations, an aspect which cannot be underestimated for a transition economy. As seen in the Polish case, the lowering of inflation expectations is an important element for a successful disinflation process. In addition, unlike in the Czech Republic, the NBS's restrictive monetary policy is supported by the government's ambitious budget plans designed to meet the Maastricht criteria. Moreover, and again in contrast to the Czech Republic, the former Governor of the NBS, Marian Jusko, supports "the earliest possible approach towards the Euro-adoption and EMU membership" (Jusko 2003). The NBS' positive view of the euro matches the government's euro-adoption strategy to join the euro-zone as quickly as possible. The government's approach to adopting the euro is thus supported by a central bank that enjoys a high degree of independence and a reputation as a pillar of monetary policy stability.

Industrial Relations

After the break-up of Czechoslovakia in 1993, Slovakia adopted Czech tripartism and established the Slovak Council for Economic and Social Concertation (RHSD) in a practically unchanged form (Cziria 2003). Throughout the 1990s, tripartite meetings were "complicated by the state's 'dual role' as government and principal employer" (Heinisch 1999: 71). Heinisch (1999) therefore speaks of a "bipartism" in the Slovak case. Indeed, although the Dzurinda governments have pushed forward the privatisation process and redefined the state's role in the economy, the state is still a significant employer especially in the public service sector (see Cziria 2003). Apart from setting the minimum wage which serves as the basis for wage levels in sectoral and company-level bargaining (Toth and Neumann 2004b: 12), the council has only a consultative role and can only make non-binding decisions for the government (Heinisch 1999). General agreements were signed between 1993 and 1996, with the last one in 2000. Due to the government's failure to meet the objectives of the general agreement, the social partners broke-off the negotiations at the RHSD in 1997 and the council resumed its work in 1999 only. The social dialogue is further weakened by a lack of consensus between employers' and employees' associations. As a result of the discord between the social partners, the government amended the labour code and is now authorised to unilaterally set the minimum wage if no consensus can be reached in the tripartite meeting. However, unlike in Poland and Hungary, strike actions have been an exception; in fact the first strike in the independent Slovak Republic took place in 2003 when railway workers went on strike for four days (Cziria and Kosta 2003: 236).

The specification of the strategy for adopting the euro (National Bank of Slovakia 2004), approved by the parliament in September 2004, mentions the important role of a social pact for the compliance with the Maastricht criteria. Yet, according to a survey conducted by Ludovit Cziria for the European Foundation for the Improvement of Living and Working Conditions in June 2004, "the wage strategy in view of joining EMU was [...] not included in the agenda of tripartite RHSD yet" (Cziria 2004: 6). In fact, according to the survey, EMU was not treated as a separate issue in the RHSD. This is quite surprising given that the Confederation of Trade Unions of the Slovak Republic (KOZ SR)[19] strongly oppose the centre-right government's economic policy reforms that also aim to fulfil the EMU accession requirements. As a reaction to these reforms – and especially to those in the social insurance and tax system – the KOZ SR organised several protests in late 2003 and together with the SMER conducted a referendum in March 2004 calling for an early general election (see p. 236). However, the protest actions had no effect at all and were not a success for the trade unions (Munkova 2003). In the course of the conflict, the RHSD was suspended twice and no new general agreement, let alone a social pact on EMU, was signed (Cziria 2004: 5). The tripartite institution in Slovakia is therefore more formal than consensual in nature (Cziria 2004: 6, see also Toth and Neumann 2004b: 12). In short, the social partners were not able to influence the content of the government's euro-adoption strategy.

Slovakia is the only country among the Visegrad countries where most of the wage bargaining takes place at the sectoral level (see appendix 2). Slovakia also has the highest collective bargaining coverage (48 percent) and union density (40 percent) among the Visegrad countries which is a consequence of the high importance of sectoral wage bargaining (see Table 18, p. 229). But it should be kept in mind that these figures still represent a fairly decentralised system if compared to the current countries of the euro area (see Table 18). The average collectively agreed pay increases in 2003 and 2004 were 7.5 percent and 7 percent respectively, almost twice as much as in the neighbouring Czech Republic but still below the Hungarian pay increases (see Carley 2005). It should be noted that while in Hungary the wage increase is a consequence of the populist macroeconomic policies as pursued by the governing parties, in Slovakia wages have increased because of the strong growth rates in GDP in recent years and a considerably lower average wage per head. In fact, in view of high unemployment rates (see chapter), trade unions – like in Poland – are preoccupied with questions of job creation and maintenance and have adopted a rather moderate stance on wage

[19] After the break-up of the Czech and Slovak Federal Republic (CSFR), the Czech and Slovak Confederation of Trade Unions (CSKOS) was split into the Czech and Moravian Trade Union Chamber (CMKOS) and the Confederation of Trade Unions of the Slovak Republic (KOZ-SR) in 1993 (see appendix 3).

increase demands (see Toth and Neumann 2004b: 7). Thus, while the social partners are not able to influence the content of the euro-adoption strategy, it can be argued that they indirectly influenced its pace given that the trade unions' moderate stance on wage developments have fostered the country's path to a fast adoption of the euro.

Hungary

Electoral system

Whereas in former Czechoslovakia the communist party did not play any role during the constitutional bargaining process, the ruling Hungarian Socialist Workers' Party was directly involved in negotiations with the newly-founded opposition parties.[20] The new mixed electoral system was negotiated in the National Roundtable Talks held from June to September 1989.[21] The outcome of the Roundtable negotiations reflects a broad compromise that contains provisions for every participant. It also reflects the parties' attempts to maximise their seat shares and to allocate these seats to top party elites (Geddes 1996, Birch 2000; Schiemann 2001). The small and poorly organised historical parties that existed before communist rule, like the agrarian Independent Smallholders' Party, the Christian Democratic People's Party, the Hungarian People's Party, and the Hungarian Social Democratic Party, favoured a PR system with a low threshold that would guarantee them political survival. In contrast, new opposition parties like the Hungarian Democratic Forum pushed for a two-round majority system in a Single Member District (SMD) system that would "permit them to capitalise on their dissident status" (Schiemann 2001: 254). Initially, the ruling Socialist party favoured a majority system as well, because it was convinced that it would best benefit from it, since it was the largest party. However, when private opinion polls published in August 1990 predicted a dramatic loss of votes for the Socialist Party, the Socialists immedi-

[20] This is why Stark and Bruszt point out, "whereas in Czechoslovakia the communist authorities capitulated, communism did not collapse in Hungary and Poland; its demise was negotiated in both countries" (Stark and Bruszt 1998: 101).

[21] For a detailed description of the Roundtable and Opposition Roundtable talks, see Bozoki (1993).

ately changed their position and eventually agreed on a complicated mixed system (Benoit and Schiemann 2001:164).[22]

It is not an understatement to describe the Hungarian electoral system as one of the most complex parliamentary voting systems in the world. In mixed electoral systems, voters elect candidates through various voting mechanisms. The electoral system is a combination of individual districts and party lists. The electoral law consists of three distinct systems: 1) voting for a single candidate from a single member district (SMD) in a majoritarian voting system; 2) list voting for territorial districts by a proportional voting system; and 3) compensation seats from a national compensation list by a proportional system. The first two levels each require a separate ballot and the national compensation list takes "surplus" votes that are not used on the first or second level.

The mixed electoral system favours large parties. Despite its complexity, it enjoys the greatest stability among the Visegrad countries (see Benoit 2001). The electoral system was changed only once, in 1992, by raising the threshold by 1 percent, but "the complex round-table law remained in all its glorious complexity" (Birch et al. 2002: 175).[23]

[22] For a full account of the 1989 bargaining on the electoral system, see Schiemann and Benoit (1997). For a literature review on electoral research in Hungary, see Tokar (2000).

[23] As Birch et al. (2002: 175) explain: "One reason [for the stability of the electoral law] stemmed from the need to mobilise a two-thirds parliamentary majority for electoral reform, thus preventing even the strongest single party from imposing change."

Table 21 Main Features of Hungary's Electoral System

Single-Member-Districts (SMDs)

- 176 seats from single member districts
- Formula: two-round majority-plurality system. Top 3 and all candidates with at least 15 percent of the first-round votes advance to runoff

Territorial PR Lists

- maximum of 152 seats directly elected from the 19 counties and Budapest.
- Threshold: 4 percent of the nationwide vote
- Formula: Largest-Remainder/Hagenbach-Bischoff. Remainder seats are limited to parties with at least two-thirds of the quota; unawarded seats are added to the national allocation lists

National Compensatory PR List

- minimum of 58 seats from the compensation list, not directly elected and awarded from national party lists
- 5 percent threshold for list seats
- Formula: d'Hondt, based on surplus votes from SMD and territorial list

Source: Benoit and Schiemann (2001: 165)

The three distinct systems to elect the parliament led to specific consequences for parties, candidates, and voters, because each voting mechanism establishes a different incentive structure. For example, parties have to place their most popular candidates for elections in a SMD and less popular candidates on the territorial or national list, because the SMD system encourages candidates with strong local support and popularity to run for election, reducing party affiliation to secondary status. On the other hand, party list voting emphasises parties as the main actor in elections. Therefore, two different types of electoral campaigns are run in Hungary. One is highly personalised (SMD) and the other is based on party manifestos.[24] Candidates can also run simultaneously on a SMD, on a district list, and on a national compensation list to enhance their chances of being elected.

[24] Voters have a large scope for tactical voting because the Hungarian electoral system consists of two ballot sheets. Duverger (1954) refers to this as the "psychological effects" of an electoral system as opposed to the "mechanical effects", by which he means the translation of votes into seats under various conversion formulae. Hungarians can, for instance, split their votes between two different parties (also referred as to a "split-ticket". For the reasons for split voting in Hungary, see Benoit (2001: 479).

Table 22 Governments in Hungary

Prime Minister	Party	Legislative period	Type of government
Josef Antall	MDF	05/90- 12/93	Coalition MDF, KDNP, FKGP[a]
Peter Boross[b]	MDF	12/93- 07/94	Coalition MDF, KDNP, FKGP
Gyula Horn	MSZP	07/94- 07/98	Coalition MSZP, SZDSZ
Viktor Orban	FIDESZ	07/98- 05/02	Coalition FIDESZ, FKGP, MDF
Peter Medgyessy	Inde-pendent	05/02- 09/04	Coalition MSZP, SZDSZ
Ferenc Gyurcsany	MSZP	09/04 -	Coalition MSZP, SZDSZ

[a] The FKGP resigned from the coalition government in 1992, but the majority of FKGP members continued to support the Antall government. Supporters of the Antall government were afterward excluded from the party.
[b] After the death of Josef Antall on 12 December 1993, Peter Boross headed the government until the official elections in July 1994.
Source: Körösenyi (2002: 322)

As Table 22 shows, so far under the mixed-member electoral system, Hungary has experienced only coalition governments. However, in contrast to Poland, Slovakia, and the Czech Republic, coalition governments in Hungary have proved to be stable. All governments retained a working majority and survived the full legislative period. However, although the mixed-member system provided much stability, none of the Hungarian coalition governments were able to get immediately re-elected; a phenomenon (the so-called 'iron law' of CEECs politics; see footnote 9, p. 221) which is common to most other CEECs. In addition, while Hungary's coalition governments enjoyed a lot of stability, they had the greatest difficulties achieving fiscal convergence among the Visegrad countries. Only after delegating power to the Finance Minister on the trouble-causing extra-budget funds in 1994 and the implementation of the austerity measures under the MSZP-led government (1994-1998), was Hungary able to reduce its budget deficit (Dimitrov 2003, see also chapter 3). However, with the election of a new FIDESZ-led government in 1998, the deficit has risen again since 2001, reaching a record high of 9.2 percent of GDP in the election year of 2002 (see chapter 3).

As argued in chapters 4 and 5, opportunistic political business cycles prior to the elections contributed significantly to the budget deficit. The Orban government (1998-2002) failed to pursue structural reforms that were started with the austerity plan under the Horn government (1994-1998). Indeed, while Orban followed the rhetoric of a liberal economic policy, he pursued a policy of state intervention, including price controls, while making little progress in the privatisation process (see chapter 3, see also FT, 09/04/2002). Yet, "FIDESZ's pre-election spending spree was only the beginning" (EIU 2005f: 32) given that the Medgyessy government continued the expenditure-oriented fiscal policy of the Orban-government and "launched a fiscally generous 100 days programme" that included increases in social benefits and public sector wages as well as tax cuts (EIU 2005f: 32, see chapters 3 and 4). As discussed in chapters 4 and 5 this has to be seen in the context of the tight electoral contest with FIDESZ and the need to fulfil election promises. Thus, the MSZP-led government did not use its 'honeymoon' period to implement fiscal consolidation programmes but increase public expenditure instead. The lack of any significant structural reforms and the ballooning of the fiscal deficit dramatically affected Hungary's reputation and people and investors' trust in economic policy-making (see chapters 4 and 5). Public dissatisfaction grew and the MSZP's defeat in the European Parliament election in June 2004 as well as a dispute with the SZDSZ over a dismissal of the liberal party's minister led to a severe crisis in the coalition government and was only solved with the resignation of Prime Minister Medgyessy who was replaced by Ferenc Gyurcsany in September 2004. Nevertheless, despite the crisis within the MSZP-led government, the coalition stayed in office and is likely to serve the full legislative period. Thus, in contrast to the Visegrad countries, Hungary did not experience a break-up of a coalition government or a minority government.

In short, the mixed electoral system has exclusively produced coalition governments. Although the coalition governments proved to be stable (reinforced by the trend, as described in chapter 4, towards a bipolar party system), none of them was able to consolidate the budget over a longer period. It is therefore assumed that other factors apart from the electoral system itself, influence the country's capacity to adhere to the Maastricht criteria, thus affecting Hungary's euro-adoption strategy.

Central Bank Independence

The ECSB statute served as the benchmark for the new Hungarian central bank legislation that was adopted in 2001. Hungary amended its central bank laws to make price stability their primary objective and to prohibit direct fiscal financing from the central bank. Before the 2001 amendment, the primary objective was the less ambitiously formulated "currency stability", and a central bank credit to the government of 2 percent of budget revenues of the current year was allowed. The lack of credibility of the Hungarian central bank before the 2001 amendment contributed considerably to the high inflationary pressures which led to a situation where the large degree of inflation inertia itself affected inflationary expectations and prevented the inflation rate from declining (Moghadam 1998: 61, see also chapter 3). Also, politicians frequently engaged in discussions with the Central Bank on the level of interest rates. In particular the relationship between the Orban government and the then President of the NBH, Gyorgy Suranyi, led to "several public clashes" (see EIU 2001: 18). In March 2001, Orban then nominated his former Finance Minister Zsigmond Jarai as the President of the Central Bank who, "as a former finance minister and a FIDESZ deputy, [...] has been instrumental in forming the government's [FIDESZ's] economic policy" (EIU 2001: 8), an economic policy that put emphasis on '"faster growth at the expense of lower inflation" (EIU 2001: 18, see also chapter 3). By placing a loyal politician at the head of the Central Bank, Orban hoped to end the disputes between the government and the NBH on the conduct of monetary policy. Certainly, it was also a step taken by Orban to undermine central bank independence. However, despite these interventions, the 2001 amendment to the central bank law was not as contested as in the Czech Republic. Given that Hungary experienced persistent moderate inflation throughout the 1990s the amendment in 2001 was primarily implemented to strengthen the credibility of Hungary's monetary policy. It also "supports Cukierman's (1992) idea that the relation between central bank independence and inflation performance reflects a society's rising aversion to inflation" (Maliszewski 2003: 229). This in mind, the NBH's position on EMU has been largely instrumental. Although the NBH was very sceptical about the feasibility of a quick adoption of the euro, it strongly supported an early target date given that the central bank justified its restrictive monetary policy with reference to the inflation criterion of the Maastricht Treaty (see chapter 5).

As for the status of the central bank's board, the top managers of the central bank have a 6-year term, which is longer than the electoral cycle. Members of the central bank council other than the governor and the deputy governors are appointed for three years which is less than in the other Visegrad countries and lower than the electoral cycle. The NBH is obliged to inform the Parliament about its monetary policies once a year. As Table 17 (p. 224) shows, the overall degree of central bank independence is relatively high in Hungary. Indeed, among the Visegrad countries, Hungary comes second, after Poland. The difference in ratings can be explained by the fact that in contrast to Poland where the central bank is not allowed to purchase public bonds, the Hungarian central bank is allowed to purchase public bonds on the primary market (Freytag 2003).

The central bank has been successful in lowering the inflation rate since 2002 which might be to due to an increase in CBI since the implementation of the new central bank act. However, as compared to the other Visegrad countries, Hungary still has to cope with relatively high inflation rates. In fact, while Hungary scores well in the Cukierman index, the NBH has lost credibility in recent years because of its inconsistent monetary policy and wrong inflation forecast (see chapter 3 and 5). In addition "it has weakened its standing by squabbling unsuccessfully and sometimes publicly with the government over economic policy" (The Economist 31/01/2004, see chapter 5). The lack of trust in the Hungarian economy caused by populist fiscal policies and the NBH's poor credibility, explain why Hungary has had to readjust its initial euro-adoption strategy and to postpone the target date to the next decade.

Industrial Relations

The conservative Antall government established the Interest Reconciliation Council (Erdekegyezteto Tanacs, ET) to act as a tripartite institution for social dialogue in 1990

(Kurtan 1993, Körösenyi 1999).[25] However, the ET was a non-autonomous and state-led tripartite institution, in that the government had the right of initiative (Heinisch 1999). The ET had a merely consultative role in economic and social policy and a right of co-decision in certain matters of labour rights legislation and wage policy. In addition to the ET, 'social security functional self-governments' with broad powers to implement social security policy were set up in 1993, with representatives from employers' and employees' associations. Nevertheless, the social partners' and in particular the ET's influence on policy-making was rather limited. In fact, the government dominated the ET mainly because the social partners experienced internal problems like fragmentation, conflicts, declining membership, and the inability of small and medium-sized enterprises to articulate their interests (Toth 1999, Cox and Masson 2000a,b, Keune 2002). As Keune (2002: 9) puts it: "They [social partners] needed the IRC [Interest Reconciliation Council] to gain legitimacy, instead of having conquered their place on the Council because of their strength." In 1995, the ET was temporarily suspended when the Horn government implemented the austerity plan which involved a decline in real wages (see chapters 3 and 4 and Toth and Neumann 2004b: 5). The Orban government (1998-2002) weakened the trade unions further by disbanding the so-called social security functional self-governments, re-establishing government control, abolishing the right of trade unions to conclude collective agreements, and dissolving the ET in 1999. In July 2002, the current government, headed by the Hungarian Socialist Party, established a reformed tripartite National Interest Reconciliation Council (OET) that replaced the ET and a separate national-level interest reconciliation forum for the public sector (the Public Service Interest Reconciliation Council – KET), certainly also in response to demands from the better organised public sector union and the need to respond to partisan pressures. This 2002 "'reverse reform' [...] was perceived as a new start for meaningful social dialogue" (Toth and Neumann 2004b: 5). The 'new start' was at first promising and indeed, Hungary has distinguished itself significantly from the other Visegrad countries, as EMU membership has

[25] The ET was the successor institution to the National Reconciliation Council, which was founded in 1988.

been high on the agenda of national-level tripartite meetings. As early as 2002 the social partners issued an official statement about the prospect of joining EMU. There was a consensus about the benefits of a fast-track approach to EMU accession. Indeed, the outline of the national development plan from the social partners in preparation for the EMU states that the adoption of the euro could happen around 2006/07 (Foti 2003: 62). The outline (Foti 2003: 62) continues:

> [t]he social partners agree that the main general objective is to achieve *real economic and social convergence*. For this, *sustainable economic growth* is needed. This could only be maintained with *financial balance*, which means that budget deficit, inflation, and state debt should be kept at such a level, which makes it possible to fulfil the Maastricht criteria in due course (italics in original).

But while the social partners agreed on the objective of EMU membership, they disagreed on how reforms to meet the Maastricht criteria should be carried out. This disagreement between the social partners can only be understood by pointing to the government's wage policy since the late 1990s.

Already in the late 1990s, the prospect of joining the euro-zone was used by the governments and employers' associations to justify wage restraints (Toth and Neumann 2004a: 3, see also chapter 3). But between 2000 and 2002, also in an effort to get re-elected and to stimulate the economy, a centre-right government under Prime Minister Orban ironically tried to push the wage level upwards and embarked on a "Keynesian style spending policy" (Toth and Neumann 2004a: 2). For example, in 2001 the minimum wage was raised by 25 percent to 57 percent of the average national wage and wages increased for certain groups of civil servants and public sector employees (Toth and Neumann 2003). It should be noted that none of the other Visegrad countries raised the minimum wage so drastically, even "outbidding the most radical unions' demands" (Toth and Neumann 2004b: 7). The Hungarian Socialist Party, elected in 2002, ran its electoral campaign under the slogan "Transformation to Welfare Society" and continued the expenditure-oriented policies of the Orban government. In 2002 the government presented its 100 days programme and initiated a 50 percent wage increase for public sector employees (see chapter 3). Especially the wage increase is a reaction to considerably low wages in the public sector. But the rapid increase in public sector wages to an unprecedented level contributed to an increase in the public deficit, reaching a record high of 9.2 percent of GDP in 2002 (see chapter 3). In addition, the increase in wage-levels beyond the level of productivity growth and further macroeconomic imbalances (e.g. the crisis of the forint, see chapter 3) added to a loss in competitiveness. It has also to be seen in this context that Hungary lost a number of landmark investments, especially to Slovakia.[26] To address the fiscal deficit and high inflationary pressure, the government changed its economic policy in 2003. The economic policy shift to redress macroeconomic imbalances by cutting the state budget and guaranteeing wage restraints was justified with reference to the obligation to meet the Maastricht criteria (Toth and Neumann 2004a: 3). However, unlike in the Czech Republic, Slovakia and Poland, the Hungarian government was keen to include the social partners while preparing the reform plan.

In March 2003, the government officially established a joint meeting of the Economic Cabinet of the Government and two representatives of the employers' and employees' associations to draft a proposal for a medium term social pact for preparing the economy to meet the Maastricht criteria. By including the social partners the government hoped to ensure wage restraint and to gain support for restrictive fiscal policies. But the social partners remained split over the government's reform programme and were not able to come to a consensus. Employers' associations demanded a cut in corporate tax from 18 percent to 12 percent, rejected any increases in the minimum wage and called for cuts in the public sector. Employees' associations demanded an increase in the minimum wage up to 60 percent of the average wage[27] and called for an annual real wage increase above the GDP growth level arguing that the gap between the average EU wage level and the Hungarian wage level has to be closed (see Toth and Neumann 2004a: 5). Trade Unions further argued that Hungarian competi-

[26] Analysts blame the inconsistent economic policies for the loss of some major investment deals in the region. For example, in 2004 and 2003 Slovakia won the bid for the $870 million Hyundai/Kia and the $800 million PSA Peugeot-Citroen car plant, respectively.

[27] As in Slovakia, Hungarian trade unions' stance on the minimum wage has to be seen in the context of the European Social Charter demand of 60 percent.

tiveness should not be based on low wages but wages should be set in accordance to the economic development. As Toth and Neumann (2004a: 6) argue

> after years of politicians regularly offering more in wage hikes than what was demanded, unions did not want to lower their demands on the first call of the Finance Minister.

The negotiations to conclude a medium-term social pact over economic policy aimed to fulfil the Maastricht criteria and facilitate Hungary joining the euro-zone as soon as possible then collapsed in July 2003 and the government had to act unilaterally to propose the reform package. Trade unions were mostly blamed for the break down of the talks because they firmly rejected any wage restraints. Despite the fact that there is no political division between the Hungarian trade unions and the MSZP-led government, Hungarian trade unions stuck to their strategy of

> rapid wage approximation to the EU level, which seems to be at odds with the requirements of the Maastricht criteria as far as low inflation and a balanced budget are concerned (Toth and Neumann 2004b: 15).

The proposal of the government strategy for the adoption of the euro was then presented in August 2003 (cf National Bank of Hungary 2003 for the draft strategy). Despite the critics and the fact that no medium-term social pact to meet the Maastricht criteria was concluded, the social partners agreed on the government's euro-adoption strategy. As Toth and Neumann (2004a: 6) explain:

> social partners seem still not to be aware of the importance of the mid-term economic strategy plan to be submitted to the Commission. This must be the only reason that despite the failure of negotiations on a social pact, [...] social partners gave their blessing to a mid-term economic programme, which targeted the radical reduction of the state budget deficit and inflation (see also Toth and Neumann 2004b).

While the medium-term economic programme was designed to meet the Maastricht criteria by 2006 and to join the euro-zone in 2008, the government had to readjust its strategy in 2004 and postponed the adoption of the euro to 2010. Thus, despite the fact that the social partners agreed on the economic programme, the macroeconomic imbalances – caused to a large extent by the populist economic policies of the FIDESZ and MSZP-led governments – affected the Hungarian EMU accession strategy, and help to understand why the government postponed the adoption of the euro to 2010.

Indeed, it is argued that the social partners have not been able to accommodate inflationary pressures; pressures that were reinforced by real wage increases initiated by the Orban and Medgyessy governments. For example, at 9.1 percent pay increases – which are the highest among the Visegrad countries – exceeded the recommended 7-8 percent wage increase for 2004 by the OET (see Carley 2005: 35 and 39). Given the decentralised nature of the Hungarian wage bargaining system (see appendix 2), the very low union density (only 20 percent, Figure 19, p. 230) and the low collective bargaining coverage (see Table 18, p. 229), it can be assumed that the increase in real wages as experienced in recent years is not driven by trade unions' strength to press for wage hikes but first and foremost by the opportunistic interests of the mainstream parties to get re-elected and to fulfil election promises. In short, although EMU was explicitly on the agenda of the tripartite meetings, trade unions and employers' associations have only limited scope to influence the pace and content of the country's euro-adoption strategy.

Poland

Electoral System

To prevent Soviet intervention in Poland, Solidarity accepted the dominance of the Communist Party in the roundtable talks in Spring 1989, during which the new electoral law for the semi-open election to be held in June 1989 was negotiated. It was agreed that a two-chamber parliament consisting of a lower and upper (Senate) house would be introduced. However, for the lower house, only a third of the seats were to be distributed by single member constituencies. The Senate was freely elected with a double member district system. The June 1989 election ended in disaster for the ruling Communist Party, which lost all the seats that were voted on in the open election. The parliament negotiated and approved the electoral law for the first free parliamentary elections in 1991. Because of high fragmentation within the party system, parliamentarians agreed on a system of list proportional representation and the Hare-Niemeyer formula of extreme and fully proportional representation that favours small parties.[28]

The first electoral law produced an extremely fragmented parliament. After the 1991 parliamentary elections, no fewer than 29 parties received a place in the Sejm, with no one party winning more than 13 percent of the seats.[29] Many legal changes to the electoral law followed and led to the widespread impression among political scientists that Poland's political system was anarchic, chaotic, and unstable. Out of the four parliamentary elections, three were held under changed electoral rules. Markowski, on the other hand, points to the positive effects of the frequent changes in the electoral law design;

> it is true that such changes have their acute difficulties, but at the same time one cannot ignore the educational effects of trial-and-error reforms, or neglect the merits of adaptability and flexibility (Markowski 2000: 106).

The 1993 parliamentary election in particular had a strong instructive effect on parties and voters. To limit the number of parties likely to gain access to the Sejm, a 5 percent threshold for individual parties and an 8 percent threshold for coalitions were introduced in 1993 (Table 23). "Ironically, in the 1993 parliamentary election, this law eliminated several post-Solidarity parties from legislative representation that had strongly supported it" (Kitschelt et al. 1999: 106). This is because, instead of cooperating with each other, many religious-conservative-nationalist parties ran in the 1993 Sejm election on their own and failed to meet the threshold. More than 35 percent of votes were "wasted" because of the thresholds. However, the 50 centre-right parties learned their lesson from the 1993 debacle and did not repeat their mistake in 1997. Most of the rightist parties took part in the elections in 1997 as members of the alliance, the Solidarity Election Action (AWS). At the same time, voters adjusted their electoral choice to these institutional changes quickly by increasing their tactical voting (Markowski 2001).

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[28] In the Hare-Niemeyer formula, seats are allocated in accordance with the number of votes a party obtained, multiplied by the number of seats distributed and then divided by the number of valid votes. The formula favours small parties.

[29] In contrast to the view that the "extreme multipartism" in the Sejm in 1991 was caused by the extreme proportional representation formula of Hare-Niemayer, Gebethner (1996) states that the diversity of political opinions is the main reason for party diversification in Poland.

In 1993, the electoral system changed from the extreme form of Hare-Niemeyer to the more moderate system of d'Hondt proportional representation. In 2001, the formula was again replaced by the Ste Laguë system.[30] The d'Hondt formula systematically favours the larger parties, whereas the Sainte Laguë formula favours small and medium-sized parties. The alteration from the d'Hondt to the Ste. Laguë system was prepared by the AWS-led government in 2001 (see Table 23). It was predicted that the SLD would win overwhelmingly, and the AWS deputies hoped to reduce the electoral success of the SLD by changing from the d'Hondt to the Ste. Laguë formula. As Millard (2002: 18) puts it:

> [w]hen the presidential elections [in 2000] augured badly for its future support, AWS deputies sought refuge in electoral manipulation, seeking an electoral system that would not penalise its waning attractions and would simultaneously curb its arch-enemy the SLD.

Indeed, Millard (2002: 16) continues,

> we can clearly see the impact of the new modified Ste. Laguë formula. Miller and his colleagues would have achieved a comfortable absolute majority of seats, and except for the PO, all other parties would have seen their number reduced.

Instead of gaining from the Ste Laguë formula, neither the party of former Prime Minister Jerzy Buzek (AWS) nor his coalition partner the Freedom Union (UW) could pass the electoral threshold; instead, they disintegrated and were eliminated from the Sejm in 2001.

[30] The Ste. Laguë formula uses the divisor series 1, 3, 5, 7, etc. and favours small and large parties evenly. The formula is used only in a modified form with the first divisor starting at 1.4, with the effect that it is harder for small parties to get their first seats. For detailed descriptions and examples, see Lijphart (1994: 153-159).

Table 23 Main changes in the law on elections to the Polish Sejm

Election Year	Electoral system type	District structure	Seat allocation formula	Threshold
1989	Semi-competitive majoritarian	108	Two-round	N/A
1991	Two-tier PR (nl=69)	35 (7-17)	Hare-Niemeyer (nl)[c]	5 percent for nl
1993	Two-tier PR (nl=69)	52 (3-17)	D'Hondt	5 percent for 1 party, 8 percent for a coalition, 7 percent nl
1997	Two-tier PR (nl=69)	52 (3-17)	D'Hondt	5 percent for 1 party, 8 percent for a coalition, 7 percent nl
2001	Single-tier PR	41 (4-19)	Ste-Laguë	5 percent for 1 party, 8 percent for a coalition

c = constituency; nl = national list
Source: Birch et al. (2002: 27)

Table 24 Governments in Poland

Prime Minister	Party	Legislative period	Type of government
Tadeusz Mazowicki	Solidarity	09/89-12/90	Coalition Solidarity, ZSL, SD
Jan Krzysztof Bielecki	KLD	1/91-12/91	Minority government Coalition KLD, PC, ZChN, UD, SD, S
Jan Olszewski	PC	12/91-6/92	Coalition ZChN, PSL, PC, PL, PSL
Waldemar Pawlak	PSL	6/92-7/92	No cabinet
Hanna Suchocka	UD	7/92-10/93	Minority Coalition government UD, ZChN, KLD, SChL, PPG, PChD
Waldemar Pawlak	PSL	10/93-2/95	Coalition SLD, PSL
Josef Oleskѕy	SLD	3/95-2/96	Coalition SLD, PSL
Wlodzimierz Cimoszewicz	SLD	2/96-9/97	SLD, PSL
Jerzy Buzek	AWS	10/97-6/00	AWS, UW
Jerzy Buzek	AWS	6/00-10/01	Minority AWS-government
Leszek Miller	SLD	10/01-02/03	Coalition SLD, UP, PSL
Leszek Miller	SLD	02/03-05/04	Minority coalition government SLD/UP
Marek Belka	Independent	05/04-09/05	Minority coalition government SLD/UP

As discussed in chapter 2, Roubini and Sachs (1989) and Grilli et al. 1991 found empirical evidence that deficits tend to be larger in those countries that have a "short average tenure of government and [...] many political parties in a ruling coalition" (Roubini and Sachs 1989: 903). Poland has experienced both: short time horizons for governments and broad coalitions. Indeed, Poland has the most fragmented party system and one of the highest volatility levels among the Visegrad countries. None of the governments were able to get re-elected and the elections gave a majority, alternately, to Solidarity/post-Solidarity parties or post-communist/peasant parties. The alternation between post-communist and Solidarity-affiliated parties also illustrates the polarisation of the party system between heirs of communism and heirs of Solidarity (see Millard 2002: 2).[31] As Table 24 shows, Poland experienced several minority and multi-party coalition governments.[32] The success of the initial fiscal consolidation programme introduced by Balcerowicz in 1990 and 1991 with low budget deficit of 3.6 percent of GDP in 1991

> was due to the extraordinary politics of these years, in which Solidarity enjoyed the unqualified support of the population. [...] Balcerowicz's success could not be sustained following the start of "normal" democratic politics with the 1991 elections (Dimitrov 2003: 16, see also Johnson and Kowalska 1994).

In fact, the post 1991 coalition government was highly unstable and experienced difficulties in pushing forward reforms on fiscal consolidation. Instead, given that the multiparty coalitions in 1991-1992 were not expected to run together in further elections, the parties in office engaged in excessive public spending in an attempt to enhance their chances of getting re-elected (Dimitrov 2003). After the 1993 elections the Social Democrats went on to form a coalition with the peasant party. However, this coalition government proved to be highly unstable as well and the Social democrat-peasant coalition of 1993-7 was reconstituted three times (see Table 24). Nevertheless, the fiscal deficit remained low (even below the Maastricht deficit criterion) because of factors of rapid economic recovery, exceptionally high growth rates in 1995 and 1996 and the fact that the SLD-led government strengthened the Finance Minister's position by delegating the power to set spending caps for the ministries (Dimitrov 2003: 24). Fiscal re-

[31] However, as the defeat of Lech Walesa in the 1995 presidential election showed "espousing traditional "anti-communist" values [is] not necessarily enough to win elections" (EIU 2005d: 5) which might indicate that the "Solidarity versus post-communism" cleavage is slowly losing its potency.

[32] It should be kept in mind that the Buzek government (1997-2001) was led by the AWS; an electoral action that reunited more than 30 (centre-) right wing parties "and other groupings spearheaded by the Solidarity trade union" (Szczerbiak 2004: 62, see also chapter 4).

forms then came to a halt during the last years of the Buzek government when the pace of reform slowed down remarkably. Poland was severely hit by the Russian currency crisis in 1998 (see chapter 3) and the European-wide recession in 2000. Since 2001 high budget deficits have been a continuous and serious problem. The new SLD-led government elected in 2001 was faced with worrisome economic conditions (see chapter 3) and struggled with implementing fiscal reforms. Because of the high budget deficit, Finance Minister Marek Belka was forced to implement emergency spending controls in 2001 given that the budget exceeded the debt limit as imposed by the Constitution.[33] The targets for 2001 and 2002 were eventually met, but the pro-reform oriented Finance Minister Marek Belka left the cabinet after a dispute over the pace of reforms with Prime Minister Miller in July 2002 (see chapter 5) and was replaced by Grzegorz Kolodko who was already Finance Minister between 1994 and 1997 and well known for populist economic and monetary policy measures. At the same time the SLD became involved in one of the biggest scandals, the so-called Rywin affair which destabilised the coalition and damaged the credibility of the SLD (see chapter 4).[34] As public and political pressures from the junior coalition partner grew, Kolodko revised Belka's fiscal policy plans and postponed public finance reform until 2004 (see EIU 2005d: 30). However, the coalition with the farmer party continued to be very fragile and eventually collapsed in February 2003 over a reform plan that aimed to show financial fitness for EU and EMU accession (see chapter 4). The subsequent minority government (see chapter 4) proved to be too weak to push forward drastic reforms and the budget deficit reached a record high of 5.5 percent in 2003 (see chapter 3). Having lost the majority in the Sejm, the government had to modify and water down the so-called Hausner plan that initially foresaw severe cuts in public spending (see chapter 3 and 5). While it can be argued that exogenous developments (the Russian crisis and

[33] The Polish constitution sets a maximum public debt level of 60 percent of GDP debts. If public debt exceeds 60 percent of GDP then the government has to implement an immediate emergency programme and cannot extent its loan guarantees.

[34] Other high-profile scandals involved the Orlen (allegations that Prime Minister Miller used the Polish security service to arrest the President of energy company PKN Orlen) and the PZU scandals (allegations of corruptions in the privatisation process of Poland's largest insurance company, the PZU).

European-wide economic recession) contributed to the increase in the budget deficit, the frequent crises and break-ups of the multi-party coalition governments in recent years have certainly hindered rather than supported fiscal policy reforms in Poland. In this regard, the Polish case provides supportive evidence for Roubini and Sachs' argument that multi-coalition governments – and the thesis includes minority governments as well – are likely to postpone politically costly reforms. In addition to electoral concerns of the governing party (see chapter 4), the difficulties in achieving a sustained budget deficit helps to explain why the SLD-led government – while aiming for a quick entry into the euro-zone – did not announce an official target date. In fact it shows that a fast-track approach to adopting the euro was unlikely, especially given that the high unemployment rate made and makes it difficult for every government to reduce spending.

Central Bank Independence

Remarkably, while Poland has experienced poor fiscal performance in recent years, it has been able to achieve low inflation rates (see chapter 3). Among the Visegrad central banks, the National Bank of Poland (NBP) scores best on the Cukierman index. Price stability was already the primary objective in 1998, much earlier than in Hungary, Slovakia, or the Czech Republic. This is why Poland scored much better than the other Visegrad countries in the previous ratings (see Table 17, p. 224). In 1998, Poland introduced legislation prohibiting direct fiscal financing, also much earlier than in the other Visegrad countries. Given that Poland experienced exceptionally high levels of inflation throughout the 1990s (see and chapter 3) it is not surprising that policy-makers started to develop an anti-inflationary consensus and that they "institutionalised [this] consensus and delegated authority to the independent central bank to protect the consensus" (Maliszewski 2003: 234). Since 1998, monetary policy is the responsibility of the monetary policy council (MPC) whose nine external members (plus the President of the NBP) are appointed for six years by the Sejm, the Senate and the President choosing three members each. The MPC meets once per months and sets the monetary policy targets.[35] Transparency and accountability are obtained by publishing quarterly reports on the balance of payments and annual balances of central government's assets and liabilities. In addition, the governor of the NBP must publish "draft monetary guidelines, opinions on the draft budget, balance-of-payments projections and the Council's resolutions" (Art. 23.1).

Poland was remarkably successful in reducing the inflation rate. Some economists attribute the success in the disinflation process to an "inflation-averse" central bank or, to put it differently, to the so-called 'Balcerowicz-effect' (The Economist 31/01/2004, see Berger 2004: 26). Balcerowicz has committed the NBP to price stability and preparation for euro-zone entry (see chapter 5, Balcerowicz 2001a: 2, 2002). However, the need to stimulate the economy during the 2000 economic recession led to an increasing divergence of views between the monetary authorities and the government (Zombrit 2003: 73, see also Epstein 2005) ending in a conflict about the appropriate level interest rates in 2001-2002 (see chapter 4 and 5). Indeed, in 2002 interest rates in Poland were the highest among European states and many politicians blamed the restrictive monetary policy for Poland's economic downturn. Backed by the EU and IMF, Balcerowicz defended the interest rate by referring to the European Union's mandatory inflation target and to the uncertainty about the government's ability to reduce public expenditure (see chapter 5). To force the NBP to cut interest rates, politicians in the parliament proposed to expand the 10-member board by five seats and to add the objectives of employment and growth to that of attaining low inflation (see chapter 3). In addition, in summer 2002 Finance Minister Grzegorz Kolodko proposed to introduce a currency board and to peg the zloty unilaterally to the euro. Certainly, Kolodko's intention can be interpreted as an effort to undermine Balcerowicz's power given that the debate over the currency board system was not only over the most appropriate exchange rate system for Poland or a strategy for a fast-track approach to EMU accession but reflected very much the power struggle between the government

[35] The first MPC completed its term in January 2004. In the new MPC Balcerowicz lost some of his influence given that the new MPC is "dominated by members with less hawkish views" (EIU 2005d: 26).

and the central bank. A currency board, as suggested by Kolodko, would have been an elegant way to transfer the central bank's power to the central bank of the anchor currency: the European Central Bank. Interest rates would have been at the low level of the ECB and at the same time the zloty would have been depreciated before the introduction of the currency board (see FTD, 01/08/2002).

It should be noted, however, that Balcerowicz's hawkish monetary policy during the economic recession may have been in part influenced by his flawed relationship to a post-communist government. This is because – arguing from an economic point of view – the high interest rates policy of the central bank was not necessarily justified given that Polish economic growth had reached a level of zero percent in 2002 and unemployment rose to a new record high of 19.9 percent (see chapter 3). At the same time, inflation was below 2 percent which was clearly below the central bank target of 5 percent. Interest rates, however, were kept at a high level of 8.5 percent. Indeed, between 2001-2003 end-year inflation was below the targets set by the MPC (see EIU 2005d: 26) fuelling criticism that the NBP was pursuing an overly restrictive monetary policy. Pressure to cut interest rates came not only from the government, but also from trade unions. The OPZZ (All-Poland Alliance of Trade Unions), for instance, organised a demonstration in front of Poland's central bank. Demonstrators threw firecrackers, demanded a cut in interest rates in order to stimulate the economy, and chanted: "Balcerowicz must go" (Wall Street Journal Europe, 26/06/2002). Certainly, it is no coincidence that it was the SLD-affiliated OPZZ and not the trade union NSZZ Solidarność (see below) that organised the demonstration, underlining once again, that the dispute over the appropriate path of monetary policy is not only a power struggle between the government and an independent central bank, but also reflects a row between a post-communist government and Balcerowicz, the former Finance Minister in the first Solidarity-led government. In this sense, the struggle reflects the cleavage between 'heirs of communism and heirs of Solidarity' (cf Millard 2002: 2) and can therefore only be understood with reference to the communist past.

Given the high degree of independence of the hawkish NBP and the need to counterbalance the economic recession, the government turned to fiscal policies to reflate the economy which contributed to an increase in the budget deficit to 5.4 percent in 2004. Although the government did not announce an official target date, the high fiscal deficit has constrained a fast-track approach to adopting the euro (see also chapters 4 and 5). This is not to argue that the high independence of the NBP is responsible for the fiscal deficit that has constrained a fast-track approach in Poland. But it is argued that in the light of the NBP's successful restrictive monetary policy, the Polish government faced a dilemma during the economic recession that started in 2000. It was a dilemma generated by the two following options: to use fiscal cycles to reflate the economy or to accept a high level of unemployment (see also Hallerberg et al. 2002a,b).

Industrial Relations

As a result of growing labour unrest, especially in the public sector, the Tripartite Commission for Social and Economic Issues (Komisja Trojstronna) was established under the "State Enterprise Pact" in 1994, thus much later than in the other Visegrad countries. This has to be seen in the context of Solidarity's political role in the government and the weak representation of business interests by employers' associations (see below). The Commission was a consultative body and its decisions were to be non-binding guidelines only. As in the other Visegrad countries, the tripartite body sets the minimum wage, with other agreements on annual wage increases serving only as a recommendation for ceiling raises (Toth and Neumann 2004b: 13). Acting as a forum for social dialogue, the tripartite Commission faced several difficulties arising from the weakness of the employers' associations, the political role of Solidarity, and the disputes between the two major trade unions, Solidarity and OPZZ. By the end of the 1990s, the Commission had become more and more marginalised. Especially in Poland, where the private sector consists mainly of small dealerships and service companies, business interests are hardly organised in employer associations. Thus, much of the Commission's success depends on the ability of the rival trade unions to formulate a common position, and on the organisation of employers in small and medium-sized enterprises (Gardawski 2002).

NSZZ Solidarność (the Independent and Self-Governing Trade Union Solidarity) and the OPZZ (All-Poland Alliance of Trade Unions) are the main trade union confederations. Solidarity is not a typical trade union following Western patterns of interest mediation, but was above all an anticommunist organisation and was a mass political movement against communist rule. In contrast, the OPZZ is the successor of the former trade union under the communist regime. As Sanford (2002: 198) puts it: "Solidarity rivalry with the PZPR [Polish United Workers' Party]-sponsored OPZZ and reform communist movement left a powerful legacy of personal hatred and animosity between activists." The two trade unions are thus greatly polarised and are a unique case in Central Europe.

Both trade unions had representatives in the Sejm until the parliamentary election of 2001.[36] Before that, numerous trade unionists from NSZZ Solidarność and OPZZ were either members of the parliament, or the trade union itself headed the coalition governments. NSZZ Solidarność formed part of the government in 1989-1993 and 1997-2001, while OPZZ was part of the government between 1993 and 1997. Since the OPZZ and Solidarity trade unionists were members of the parliament until the 2001 general elections, trade unions could use the "state-capture" strategy to influence economic policy outcomes instead of promoting their interests through tripartite bodies. However, direct involvement in the policy-making process did not prevent either trade union from losing great numbers of members; nor were these unions able to improve the working conditions of employees (Gardawski 2002). In addition, for Solidarity, the state-capture strategy ended in a dispute between liberal reformers in the government and trade union activists at the base. Being a trade union, it has sought to support workers' interests on the micro-level, whereas in its political role it has supported re-

[36] In the Miller government, 19 trade unionists from OPZZ were elected in the Sejm, but they did not represent the trade union, nor did they act as a separate group (Gardawski 2002).

strictive macroeconomic policies (Thirkwell et al. 1994: 86, Rainnie and Hardy 1995). The resulting tensions between the leadership and the rank-and-file members were mainly responsible for the sharp decline in membership in recent years.[37] The multifaceted and contradictory role of Solidarity led to tensions and a rupture within Solidarity. As a result, Solidarity partially left the executive and altered its state-capture strategy to a confrontational strategy, with mass strikes as the core instrument to influence policy outcomes. But although Poland has a distinctive strike culture, "the [...] [high] number of strikes does not reflect the atmosphere in employee environments: strikes are simply perceived as a tool that is ineffective in achieving one's own rights" (Kozek 2003: 81).

The legacy of Solidarity as a social movement that fought against the communist regime determines the constraints within the Tripartite Commission. Indeed, the division within the society in terms of attitudes toward the former communist regime (see chapter 2, p. 65) is probably best illustrated by the infighting between NSZZ Solidarność and the SLD-affiliated OPZZ. The strong polarisation of the trade unions makes the representation of genuine workers' interests at times secondary given that the infighting dominates the agenda. The mistrust between the negotiating parties is also the major obstacle for the conclusion of a social pact over the compliance with the Maastricht criteria. In fact, EMU membership as a separate issue was not on the agenda of the Trilateral Commission and the government does not refer to the EMU accession requirements to underpin its income policy within the Trilateral Commission either. Gardwaski (2004: 8) concludes: "the Trilateral Commission has discussed membership in EMU cursorily at best". The wage strategy in view of joining EMU was thus not included. However, it should be noted that trade unions' demand for wage increases has been moderate and, as in Slovakia, was related to labour market policy targets (see Toth and Neumann 2004b: 7). In fact, Poland's social partners have "adopted a responsible approach" (Gardawski 2004: 6) to tax reduction and minimum remuneration. As Gardawski (2004: 6) concludes

[37] As in the other Visegrad countries, trade unions in Poland have lost many members. In 2002, only 15 percent of the labour force was organised in trade unions (see Figure 19, p. 230). Membership in Solidarity declined from 10 million between 1982 and the mid-1990s to 800,000 in 2003 (RFE/RL, Poland Report, 30/09/2003).

> the most pressing problems in the Polish economy comprise of job retention and the provision of some manner of safety net for those who drop out of the job market.

Centralised and sectoral wage bargaining is underdeveloped and most of the bargaining takes place at the company level (see appendix 2). In addition, as Figure 19 (p. 230) shows, trade union density is at 15 percent lowest in Poland because in private and small-scale enterprises, union membership is either very low or does not exist at all. Employers' associations are also very weak, and it is questionable whether agreements made on the national level in tripartite meetings can be implemented on the micro-level. Collective bargaining coverage has declined to 40 percent (see Table 18, p. 229), mainly as a result of the prominence of small and medium-sized enterprises (SME) that are not unionised and are therefore not bound by collective bargaining. In large enterprises, most of the wage bargaining is transferred to the divisional level, limiting the scope of agreements and creating a weak regulatory framework for trade unions. As in the Czech Republic, Poland provides supportive evidence for the U-shape curve of wage determination where the negative wage-push inflation is mitigated by the absence of strong trade unions. But it should be recalled that trade unions took a moderate stance on wage demands anyway, given that in view of high unemployment rates, trade union demands were related to job retention and creation. Thus, while the social partners do not have the power to influence the content of the country's euro-adoption strategy, they do not negatively affect the escalation of wage developments either.

Conclusion

This chapter has analysed the implications of domestic institutions for reforms aimed at fulfilling the Maastricht criteria and therefore for the Visegrad countries' approach to adopting the euro. Starting from the assumption that electoral systems, central bank independence and industrial relations play a key role in shaping fiscal and monetary policy reforms, the chapter has examined whether stable and coherent coalition governments succeed better in implementing policy reforms, whether CBI supports the disinflation process while constraining governments' economic policy choices to stimulate the economy, and whether the influence of social partners and the level of wage bargaining explain inflation developments.

As for electoral systems, there is little supportive evidence that coherent coalition governments are more stable and succeed better in implementing policy reforms in the Czech Republic. The second Klaus government, a coalition government of coherent centre-right parties, collapsed in 1997 and the economic recession revealed many of the flaws in the reform programme of the government. The succeeding minority and coalition governments under Zeman and Spidla proved to be weak and unable to support fiscal consolidation either. The opposition agreement under the Zeman minority government led to political gridlock and to a postponement of policy reforms. The subsequent coalition government consisting of left, conservative and liberal parties was not ambitious to pursue fiscal consolidation as the leading coalition partner, the CSSD, needed to address growing partisan pressure; a pressure which was reinforced by high unemployment rates in the aftermath of the currency crisis and a trend towards class-based voting behaviour (see chapter 4). In addition, the CSSD-led coalition government experienced a series of major political crises which contributed to difficulties in implementing policy reforms and which underpinned the postponement of the target date for the adoption of the euro into the next decade. The postponement falls on fertile ground given that the public, opposition parties and the central bank itself are rather sceptical towards EMU (see chapters 4 and 5). Indeed, while – despite frequent attacks from Czech politicians – the central bank successfully followed a restrictive monetary policy in line with the Maastricht criteria, its central bank board members are split over the costs and benefits of joining the euro-zone; a reluctant attitude also to be seen in light of the Czech experience of monetary policy failure of a fixed exchange rate under a large amount of capital flight (chapter 5). Certainly with the nomination of new central bank board members who share an affinity to Klaus' view on the adoption of the euro, the CNB's attitude towards the euro has become even more reluctant.

So far, the lack of a legal binding framework and – as in the other Visegrad countries – political consensus between the social partners has hindered the adoption of a national accord over economic policy reforms in the Czech Republic. In fact, this has led to a situation in which the social dialogue is subject to political decisions depending on the will of the government to initiate or to suspend tripartite meetings whenever it suits the political climate. EMU was not on the agenda in tripartite meetings either. However, the absence of an effective tripartite institution and the lack of social pacts over EMU do not necessarily mean that the social partners are not able to influence the pace of the adjustment process. For example, the confrontational attitude of the trade unions towards the government or compliance with market mechanisms might affect the countries' euro-adoption strategy positively or negatively. Indeed, while Czech trade unions are too weak to support an escalation of wages that would jeopardise compliance with the Maastricht criteria, the confrontational attitude of the trade unions towards the Spidla government contributed to the political crisis that underpinned the furthest target date for the adoption of the euro. But because the social partners' influence on economic policies depends on specific conditions (such as general public dissatisfaction) rather than on agreements, tripartite institutions as an independent variable here has to be – as is the case in the other Visegrad countries – limited to the decentralised structure of industrial relations that positively affect wage moderation. Indeed, trade unions and employers' associations, in general, have relatively little power in the political process. As Heinisch (1999: 50) puts it: "the initial rush to establish tripartism did not result in the development of politically effective social partnerships". In fact, it is a state of "tripartism without corporatism" (Reutter 1996). Since tripartite institutions are not able to act in an influential and powerful manner, "the conviction of the possible benefits of tripartism is not high" (Brokl and Mansfeldova 1996: 154). Indeed, unlike in the old member states, special social pacts to meet the requirements of the Maastricht criteria have not been concluded in the Visegrad countries (see footnote 4, p. 218).

In contrast to the Czech Republic, the Slovak case provides supportive evidence for the argument that coherent coalition governments succeed better in implementing fiscal policy reforms. The recent success in implementing policy reforms has been supported by a government of coherent centre-right parties that share a common view on economic policy. The ambitious reforms of the second Dzurinda government are in line with the country's intention to join the euro-zone as soon as possible. The reform efforts are further supported by a favourable constellation of party fragmentation and the LS-HSDZ's wish to increase its coalition potential by voting for key government bills in the parliament. Thus, in the Slovak case, the institutional opportunities and constraints arising from the electoral system help to explain Slovakia's path to adopting the euro.

In addition, the central bank's' 'reputation as a pillar of macroeconomic stability' supports the disinflation process in line with the government's euro-adoption strategy. In fact, while political attempts to undermine CBI were frequent in Slovakia under Meciar, the Dzurinda governments were keen to support CBI because it was seen as crucial in maintaining domestic and international confidence in the economy. Indeed, while most of the inflationary pressures since 1998 have been generated by an inherited inflation debt, Slovakia's high degree of CBI contributes significantly to lower inflation expectation. In addition, unlike in the Czech Republic, the NBS' restrictive monetary policy is supported by the government's ambitious budget plans designed to meet the Maastricht criteria. Moreover, and again in contrast to the Czech Republic, the former Governor of the NBS, Marian Jusko, shares with the government the wish to join the euro-zone as quickly as possible and in any case no later than the other Visegrad countries. As argued in chapter 5, both the NBS and the government point to the period of political isolation in order to explain their intention to join the euro-zone as soon as possible and in any case no later than the other Visegrad countries. Thus, while the institutional framework of CBI, a cohesive coalition government and a favourable party fragmentation support reforms in line with the Maastricht criteria, the fast-track approach to adopting the euro can only be understood with reference to the shared principled belief that Slovakia's future depends on its commitment to Western integration.

The disinflation process is further supported by a moderate stance on wage demands on behalf of the Slovak trade unions. In view of high unemployment rates Slovak trade unions – as in Poland – were preoccupied with questions of job retention and creation. Yet, it should be noted that employees' and employers' associations' influence on economic policies is rather limited anyway; Slovak tripartism is rather of a formal than consensual nature and until June 2004 EMU was not on the agenda of the meetings. Thus, it can be argued that while social partners were not able to influence the content of the country's euro-adoption strategy they did not negatively affect wage developments and therefore the pace of the government's strategy either.

In Hungary, the electoral system proves to be a weak variable for explaining differences in the euro-adoption strategies. In fact, it is argued that the euro-adoption strategy of Hungary has to be understood with reference to other factors. This is because although the Hungarian coalition governments enjoy stability, none of them were able to consolidate the budget deficit over a longer period. Stable coalitions of relatively coherent parties did not prevent the Hungarian governments from running large budget deficits. Therefore it is assumed that other factors, not the electoral system itself, influence the government's capacity to achieve fiscal consolidation. Indeed, it seems that the opportunistic interests of politicians in getting re-elected and to broaden out the party's voter base play a predominant role in understanding why Hungary experienced a steady increase in the fiscal budget since 1998 and why Hungary had to postpone the target date for the adoption of the euro to 2010. In addition, inconsistent monetary policy and public clashes with the government severely weakened the position and credibility of the central bank. The loss of credibility in the Hungarian economy further contributed to macroeconomic imbalances and explains why Hungary had to readjust its initial euro-adoption strategy and to postpone the target date to the next decade.

While Hungary is the only country among the Visegrad countries where EMU was high on the agenda, the social partners have not been able to accommodate inflationary pressure. This pressure, which has been largely generated by real wage increases, was caused by the Orban and Medgyessy governments' populist economic policies. Thus, given the decentralised nature of the Hungarian wage bargaining system and the atomised work force, it can be assumed that the increase in real wages experienced in recent years was not driven by trade unions' strength to press for wage hikes but by the opportunistic interests of the government parties to get re-elected (FIDESZ) and to fulfil election promises (MSZP).

Poland's coalition governments proved to be fairly unstable, especially the SLD/UP-PSL coalition government under Prime Minister Miller, which faced several difficulties of cohesion and eventually collapsed in 2003 after the PSL refused to support a reform plan aimed at consolidating public finances. The problems in attaining fiscal consolidation had consequences for the country's initial intention to join the eurozone as quickly as possible. But it has also been argued in the previous chapter, that growing public and party-based Euroscepticism further constrained any fast-track approach to adopting the euro for a government that was too weak to push forward politically costly reforms. In addition, the high degree of independence of the hawkish NBP – in fact Poland scores best in the Cukierman index – also plays a role in explaining why governments have shifted from monetary to fiscal policy to stimulate the economy. This is not to argue that the high independence of the NBP is responsible for the fiscal deficit. But it is argued that in the light of the NBP's successful restrictive monetary policy, the Polish government faced a dilemma during the economic recession that started in 2000: use expansionary fiscal policy to reflate the economy or to accept a high level of unemployment.

With the implementation of the new Central Bank Act in 1998, President Balcerowicz successfully pursued a restrictive monetary policy and inflation rates fell to historically low levels. The disinflation process was further supported by a moderate stance on wage demands by heavily polarised but weak trade unions. Animosities rather than economic interests determine the position of the two key actors on the employee side: The deadlock between NSZZ Solidarity on the one hand and the post-communist government and SLD-affiliated OPZZ on the other hand hinders the conclusion of a social pact over the compliance of the Maastricht criteria. In fact, the adoption of the euro was not on the agenda of the Trilateral Commission. However, facing record high unemployment rates, Polish trade unions are more concerned with labour market policy targets than with wage demands. A low wage-push pressure is further supported by a fairly decentralised wage bargaining structure.

This chapter has demonstrated that reforms aimed at fulfilling the euro-zone entry requirements may take place in similar domestic institutional settings, however, the implications for the euro-adoption strategy concerned vary across the Visegrad countries. This is because the implications cannot be solely explained on the basis of fixed assumptions, for example, that coherent coalition governments succeed better in implementing policy reforms. The euro-adoption strategy depends on country-specific conditions and is equally affected by different constellations of interests and distinct ideas that are historically shaped. Consequently, an integrated analysis of interests, ideas and institutions must be applied to fully understand the euro-adoption strategies of the Visegrad countries. The following concluding chapter summarises the main findings of this thesis, focusing on the underlying causes and conditions of policy variation responsible for the approach to adopting the euro in each country examined.

Chapter 7

Conclusion

The legal obligation to join the euro-zone requires fiscal and monetary policy convergence because the new member states can only adopt the euro once they fulfil the Maastricht criteria. This thesis has analysed why – despite occupying similar systemic positions and being exposed to the same external constraints – the Visegrad countries nonetheless have pursued different strategies for the adoption of the euro. The argument is that countries are not materially-driven generic units or unitary actors within the international system. While policy convergence acts through a mechanism that can be labelled as 'EMU conditionality', this thesis has demonstrated that policy divergence is equally subject to its own logic. This logic is evident in the different constellation of interests, distinct ideas that are historically shaped and different institutional settings. These cross-national variations follow the logic of deeply-embedded domestic differences.

The starting point of this thesis was therefore to contextualise the euro-adoption strategies with the help of an integrated domestic-level analysis. Chapter 2 provided the framework applied in this thesis based on the argument that cross-national variations as such may be traced back to the underlying differences in interests, ideas and institutions and to the relationships that are said to exist between them. The latter point is particularly important for the 'value-added' contribution of an integrated approach given that simply stating that domestic factors matter is not very valuable for analytical research (cf Schonhardt-Bailey 2001). Interests, ideas and institutions are inextricably linked and therefore one factor alone is not sufficient to address questions of policy variation with regards to euro-zone entry. The aim of this thesis was to reflect systematically the complex nature of politico-economic processes and to demonstrate the underlying causes and conditions (e.g. critical junctures/moments that lead to a change in interests, ideas and institutions) that are behind policy divergence. Specifically, it was to show why and how domestic factors intersect and/or come to prevail over others and under which conditions (thus when) they impede or generate policy changes that affect the euro-adoption strategies. In so doing, this thesis has contributed both to the literature on the relative importance of interests, ideas and institutions for policy variation and to a systematic study of the adoption of the euro in the new member states. This conclusion first summarises the implications of the elaborated domestic-level approaches for the euro-adoption strategies of each country examined. The underlying focus is on causes and conditions for policy variation. Subsequently, the conclusion points to challenges that an integrated analysis of policy variation with regards to international monetary integration has to face. Moreover, it addresses the question of the future path of European integration and makes recommendations for further research.

Understanding variations in the euro-adoption strategies of the Visegrad countries: Main findings and conclusions

Among the Visegrad countries, Slovakia has been the most successful in pushing forward reforms in line with the Maastricht criteria and is the most determined to join the euro-zone as soon as possible. However, this was not always the case. Under the Meciar governments (1993-1998), EU membership, and particularly EMU accession, became a distant prospect. This thesis argues that a consensus on a fast-track approach to adopting the euro developed for a number of reasons. Important here is the critical experience of policy failure that changed ideas about European integration. In fact, Slovakia's fast-track approach to adopting the euro can only be understood in the context of the foreign policy failure of the 'illiberal' (Vachudova 2005) Meciar governments that saw EU-membership as too costly. It was the period of political isolation and the experience of being treated as an outsider that made the idea of deeper European integration so persuasive to the public and politicians alike, reflected in the high and – in contrast to the other Visegrad countries – stable approval rates for EU and euro-zone membership in Slovakia. Principled and causal belief about European integration and macroeconomic policy provided the Slovak government with a road map for choosing among political strategies: the euro-adoption strategy of the Slovak Republic is guided by the determination to join the euro-zone as soon as possible and in any case no later than the other Visegrad countries (cf National Bank of Slovakia and Ministry of Finance of the Slovak Republic 2003: 17). The fact that the joint draft strategy of the government and the National Bank adds 'in any case no later than the other Visegrad countries' to the intention of joining the common currency 'as soon as possible' demonstrates the extent to which the period of being treated as an outsider affects the euro-adoption strategy of Slovakia.

Ideas come to exert a strong influence on a country's euro-adoption strategies when existing ideas are discredited by events. Ideas about European integration became persuasive because EU membership was seen as the remedy for the country's economic and political problems. What prevailed was thus a constructivist understanding of Slovakia's future path in Europe. Given that ideas of European integration are profound and do not change frequently, changes in principled beliefs as opposed to causal beliefs have a much stronger impact on domestic policy adaptation to foreign input (chapter 2, cf Risse-Kappen 1994). But ideas are not intrinsically powerful. As argued in chapter 2, the impact of ideas is neither random nor independent or automatic, that is policy failure does not automatically result in a radical change of policies (see Garrett and Weingast 1993: 178, Risse-Kappen 1994: 191). What makes them so powerful is that they are able to create winning coalitions for particular policy goals (in this case a fast-track approach to adopting the euro). Ideas guide and help actors to achieve their goals under strong constraints and conditions of uncertainty. But these goals have to fit different interests: first, given a public feeling of political isolation, a successful foreign policy towards Western integration is "a source of legitimacy and proof of successful rule" (Kopecky and Ucen 2003: 172) for the governing parties. Legitimacy – a very hard currency in politics – points to the value of the pro-European stance for the coalition's own survival and has therefore also to be seen in the context of interests. Moreover, interest in 'speeding up' the country's modernisation process is formulated in relation to the transition process of Slovakia's neighbours and finds its expression in the wish to join the euro-zone in no case later than the other Visegrad countries. Relative gains become all the more important for Slovakia, a country that suffered so much from the loss of FDI during the years of the Meciar governments. It can thus be argued that the fear of relative economic decline is an important aspect in understanding the Slovak drive for policy reforms in line with the Maastricht criteria. This zero-sum character of the Slovak euro-adoption strategy highlights well the weight of interests.

Yet, these interests (to catch up economically with its neighbours and to retain the political legitimacy of the governing parties) alone do not account for Slovakia's success in pushing forward reforms in line with the Maastricht criteria. Nor can interest-based approaches support the argument that a fast-track approach to adopting the euro is inevitable. Put differently, it is difficult to attribute the enthusiasm for euro-zone entry solely to the interest of 'speeding up the modernisation process' because the latter depends not only on its objective merits but on its meaning and interpretation, thus on the political and ideological conditions that influenced the acceptance of the euro-adoption strategy. The case of Slovakia shows how ideas on European integration provide the basis for winning coalitions, that is local alliances, for policy reforms designed to join the euro-zone as soon as possible. Joining the euro-zone as soon as possible is in the government's own interest but at the same time it is interwoven in the beliefs that EU membership and the adoption of the euro are fundamental principles for guiding Slovakia's path in Europe and are the means to 'speed up the country's modernisation'. While this illustrates how ideas intersect with interests, the government's ability and capacity to join the euro-zone as soon as possible is further supported by favourable institutional opportunities.

As demonstrated in chapter 6, the euro-adoption strategy of the second coalition government under Prime Minister Dzurinda benefits from a favourable constellation of party fragmentation in the parliament. Indeed, in the case of Slovakia, party system fragmentation and polarisation strengthened the government's ability to push forward reforms given that the two deeply divided opposition parties, SMER and LS-

HZDS, were not able to present a coherent alternative to the Dzurinda government's reform plans. Party fragmentation and polarisation also explain why Meciar – after repeatedly heading the strongest party in parliament without being able to find coalition partners – has changed his position on European integration. Meciar's U-turn from an advocate of inward-looking politics to a supporter of key government liberal reform bills in line with the Maastricht criteria is a logical consequence of his effort to increase his party's coalition potential and to end its 'long-standing pariah status'. In addition, Roubini and Sachs' argument that multi-party coalition governments tend to hinder rather than stimulate policy reforms does not find supportive evidence in Slovakia. Other factors are crucial for understanding the capacity of coalition governments for policy reforms: the case of Slovakia points to the importance of a coalition of coherent parties. The second Dzurinda government is a 'closed coalition' (Fitzmaurice 2004: 166) of centre-right parties. While being divided along socio-cultural issues, the ideological cohesion on economic policy of the coalition parties helps to explain why the second Dzurinda government has been much more successful in pushing forward reforms.

Moreover, in contrast to the reluctant attitude of the Czech National Bank – and given inconsistent monetary policy also the Hungarian National Bank – Slovakia's fast-track approach to adopting the euro is supported by the central bank. The National Bank of Slovakia enjoys a good reputation and has been successful in achieving lower inflation. Inflationary pressure is further reduced by a moderate stance on wage increases on the part of the trade unions. Facing record high unemployment rates, trade unions' demands – as is the case in Poland – are related to general labour market policy targets rather than wage increases. It should be noted, however, that while this moderate stance influences the pace of the government's euro-adoption strategy, social partners were not able to influence its content. In fact, the tripartite institution in Slovakia is formal rather than consensual in nature and since 2000 no new general agreement (let alone a social pact regarding the compliance with the Maastricht criteria) has been signed. Growing tensions between the government and the social partners led to temporary break-offs of the tripartite institution while the social dialogue has been further weakened by a lack of consensus between employers' and employees' associations. In fact, in all Visegrad countries, trade unions are either too weak to influence the wage level or are preoccupied with questions of general labour market policy targets rather than with wage demands. Expected adjustment costs are externalised to trade unions through a high degree of internal labour market flexibility. Ironically, trade unions which "served as a transmission belt for centralist and autocratic power" (Malova 1997: 97) under the communist regime, are once again 'transmission belts' but this time for government austerity measures (cf Thirkell et al. 1994, Ost 2000).

In the case of the Czech Republic, the expenditure-oriented fiscal policy of the Social Democratic party accounts for why the Spidla government in 2002 had to postpone the adoption of the euro to 2010/2011. The underlying reasons for the shift of the CSSD – which was the only party in the political spectrum to initially and unconditionally support the Maastricht treaty and a quick euro-adoption strategy – were based on two critical circumstances and conditions: the experience of monetary policy failure during the Czech currency crisis in 1997 and the trend towards class-based voting behaviour. The postponement of the target date was then underpinned by an unstable coalition government that faced growing public dissatisfaction and problems to implement reform plans in line with the Maastricht criteria. The reluctant public attitude towards European integration and President Vaclav Klaus' appointment of three members who share a sceptical view on the euro to the central bank board further produced an unfavourable environment for any government that intends to join the euro-zone as soon as possible.

Ideas exert a distinct influence on the country's euro-adoption strategy when policy failure triggers a cognitive change that fits with different interests. Ideas become causally consequential when they help to specify the origins of the crisis. In the same vein, the Czech Republic's brutal experience of the failure of a fixed exchange rate subject to a large amount of capital flight helps to explain why policy-makers are rather reluctant to fix the koruna irrevocably to the euro. The currency crisis of 1997 and rising unemployment rates in the aftermath of the crisis contributed to a change of ideas on how to conduct macroeconomic policies. However, again, the causal belief in the suitability of a flexible exchange rate for a transition economy corresponds well to existing interests. First, given that the Czech Republic already has a low debt level, low interest rates and low inflation, it would benefit least from an early adoption of the euro. Second, as the CSSD-led government is under high pressure to fulfil partisan expectations in light of growing unemployment rates and strong party competition with the communist party, a fast-track approach is not in the CSSD's interests since the aspired countercyclical fiscal policy contravenes the Maastricht criteria. Facing strong partisan interests, Spidla's electoral campaign was based on economic policies to expand the welfare state (see chapter 3).

In turn, the high partisan pressure has to be seen in the context of growing class-based voting behaviour in the Czech Republic mirroring the fact that it has a society with clear divisions on socio-economic issues. Electoral interests certainly nourished the expenditure-oriented fiscal policy of the CSSD given that the party lost much of its traditional core constituency of blue-collar workers and socially disadvantaged groups to the KSCM. Under these conditions of polarised class-based voting behaviour, interests exert a distinct impact on the euro-adoption strategies because left-wing parties in government find themselves trapped between commitments to fiscal consolidation programmes and low inflation rates and pre-election promises to reduce unemployment rates by expansionary fiscal policies. The trend towards class polarisation in the Czech Republic thus helps to explain why the government had to readjust its euro-adoption strategy.

However, in the Czech case, a fast-track approach to adopting the euro does not depend on a liberal party in office either. This is because the liberal opposition party, the ODS, is also rather reluctant about EMU accession. While the ODS advocates liberal economic policies, it does not believe in the benefits of deepening European integration. In fact, European integration is seen as a threat to newly regained Czech sovereignty. Despite being a liberal party whose supporters are pro-EU and euro-zone membership as shown in chapter 4, the ODS has adopted a rather Eurosceptic discourse. It has been argued in chapter 5 that ideas on European integration help to explain why the preference of the party deviates from what an interest-based approach of party strategies would predict. High-ranked ODS politicians, among whom President Vaclav Klaus is the most prominent, harshly criticise EMU by referring to the Czech experience with foreign intervention. Indeed, with reference to the experience of the distant bureaucracy under Soviet rule, the ODS often cites Maastricht as a symbol of a 'socialist' and anti-democratic threat to state sovereignty and the Czech nation. This is not to argue that the ODS or Klaus are not goal-oriented but that actors' positions on the euro cannot entirely be reduced to their interests in gaining votes. By extension, the position on the euro cannot be explained by assumed stable preferences. This is illustrated in the ODS' Eurosceptic position which runs counter to the preferences of its constituency on the euro-adoption.

It has been argued that Klaus' ideas on European integration and EMU in particular influence the Czech euro-adoption strategy because he is powerful enough to translate them into politics. First, President Vaclav Klaus, who dominates the discourse on euro-zone entry in the Czech Republic, is able to frame his opposition to EMU in the context of existing ideologies. Klaus uses symbols (for example EMU as the Trojan horse that aims to defeat Czech sovereignty or the image of the Czech "ideology of uniqueness and success" (Bugge 2000: 225), that may dissolve like a sugar cube in a cup of coffee) to appeal to common held beliefs (for example the bureaucratised Brussels that opposes sovereignty and freedom and threatens unique existence and exclusive national identity) in order to foster political opposition to EMU membership. While Klaus' anti-EU rhetoric does not fit with the pro-EU attitude of the ODS' voter base, his ideas on EMU are sufficiently powerful to build a winning coalition because they resonate with the relatively low level of public support for EU and euro-zone membership. Second, at a more concrete level, it can be argued that Klaus' ideas on European integration and EMU have been realised and temporarily institutionalised in his appointment of three central bank board members, all of whom are well known for their sceptical positions on the euro. It should be recalled that the CNB's position is of the utmost importance given its role in the formulation of the joint strategy for the adoption of the euro. But the positions of Klaus and his allies in the CNB also have consequences for the current discourse on the adoption of the euro in the new member states. Whereas the general discourse of the government elite justifies the postponement of the euro by pointing to the difficulties in meeting the Maastricht criteria, there might be a trend towards justifying the postponement by referring to the difficulties in meeting the fiscal criterion by the current euro-zone member states. Such an argument has been repeatedly put forward by President Vaclav Klaus and the three new members of the central bank board. While this seems to be a subtle shift in the discourse, it challenges and questions EMU as a project. Although the new member states are under legal obligation to adopt the euro as soon as they meet the Maastricht criteria, this thesis argues that this discourse is likely to carry with it a risk of widening the ideological gap on European integration between the insiders and outsiders of the euro-zone, i.e. between those member states that are willing to accelerate the process of deeper integration and those staying outside of key European policy areas such as the euro. This result would have consequences within the current debate on a 'multi-speed' Europe and may therefore also affect the future path of European integration (see below).

As mentioned above, Vaclav Klaus' decision to appoint new members to the central bank board who openly express their concerns towards the euro and favour a postponement of euro-zone membership fits well with the relatively low level of public support for euro-zone membership. While this shows an unwillingness to join the euro-zone, problems with adhering to the Maastricht criteria underpinned the postponement of the target date into the next decade. The difficulties of the Spidla government to implement reform plans in line with the Maastricht criteria were essentially reinforced by an unstable coalition government and growing public dissatisfaction with the government's policies. The CSSD-led government, in office since 2002, has faced the strongest difficulties of cohesion and encountered several crises provoked, among other things, by its junior coalition partner, the liberal US-DEU. Certainly, the political crises weakened the government's ability and willingness to push forward fiscal consolidation programmes, while supporting its reluctant attitude towards euro-zone membership given that the adoption of the euro entails politically costly and painful reforms with which an unstable government can hardly cope.

In addition, while the national-level tripartite institution in the Czech Republic remains weak and not integrated as an important instrument in the Czech labour market, the confrontational attitude of trade unions towards the government contributed to the political crisis and therefore indirectly added force to the postponement of the target date for euro-zone entry. This is not to argue that the Czech trade unions are able to influence the content of the government's euro-adoption strategy but rather that the confrontational attitude of the trade unions fell on fertile ground given the public's dissatisfaction with the Spidla government's reform plans for the adoption of the euro by 2010. But because the social partners' influence on economic policies depends on specific conditions (such as general public dissatisfaction) rather than on agreements, tripartite institutions as an independent variable here has to be – as is the case in the other Visegrad countries – limited to the decentralised structure of industrial relations that positively influence wage moderation.

In the case of Hungary, the underlying reasons for the postponement of the target date for the adoption of the euro were based on opportunistic interests of politicians to preserve their power in office and to gain votes. The opportunistic interests of the Orban and Medgyessy governments resulted in a proliferation of populist economic policies. It has been argued that the increase in public spending (and therefore the postponement of the target date) is related to the cleavage structure that divides society along the nationalist-traditionalist and left-liberal lines. The distinct feature of this cleavage heavily dominates Hungarian politics and has generated/reinforced the existing trend towards a bipolar party system. Under this rigid framework fiscal policy is the only 'neutral' policy that can be used to attract voters given that all other policies are too attached to one party. In an attempt to broaden out its electoral base and to attract voters from the far right, the civic party FIDESZ advocates interventionist and populist macroeconomic policies. While the MSZP as a 'pragmatic party' is more likely to act on fiscal policy reforms, it faces strong electoral competition and vested interests of the old nomenclature that still play a dominant role within the party.

By extension, the case of Hungary has also highlighted the crucial factor of the strategic environment of party competition to explain the level of success in fiscal consolidation. For example, while the Hungarian coalition governments – in contrast to the other Visegrad countries – proved to be fairly stable and have arguably consisted of relatively coherent parties, the strategic environment of party competition determines whether governmental parties in Hungary are able and willing to implement policy reforms in line with the Maastricht criteria. Under the above outlined conditions of a rigid framework for party competition, electoral interests exert a distinct influence on the euro-adoption strategy and the pressure for policy convergence, as expressed in the obligation to meet the Maastricht criteria, significantly loses its leverage.

Indeed, as elaborated below, the postponement of the target date is primarily related to the expenditure-oriented fiscal policy at odds with the Maastricht criteria rather than party-based or public Euroscepticism. In fact, in contrast to the Czech Republic and Poland, mainstream parties in Hungary strongly support euro-zone membership, seeing the euro, as FIDESZ states, as the 'greatest advantage offered by the EU' (FIDESZ 2004). Yet, as elaborated below, the inconsistency between the Orban and Medgyessy government announcements that Hungary would join the euro-zone as soon as possible and the actual policy developed shows that opportunistic interests rather than genuine beliefs in deeper European integration drive Hungary's troublesome road to euro-zone accession.

In addition, the postponement of the target date for the adoption of the euro has been supported by the inconsistent monetary policy and relatively low credibility of the national bank that nourished further inflation expectations. Of the Visegrad countries, Hungary experiences the highest inflation rates. In fact, in contrast to the Czech Republic, Slovakia and lately also to Poland, Hungary has suffered from sticky inflation expectations and moderate inflation throughout the transition process, which was supported by a high foreign debt level inherited from the 'goulash reforms' of the communist regime. Indeed, Hungary's high level of foreign debt was unusual among post-communist countries and still constrains the conduct of fiscal and monetary policies. In addition, inflation in recent years was further caused by the populist economic policy of the Orban and Medgyessy government that resulted in real wage increases between 2001 and 2003 beyond the level of productivity growth. This was reinforced by a lack of power and consensus on behalf of the social partners. For example, although Hungary – like Slovakia – mentions the role of the social partners and a medium-term social pact to facilitate adherence to the Maastricht criteria, the social partners could not reach an agreement. Certainly, while wage increases are driven by governments' opportunistic interests, the lack of functioning tripartite institutions does not help to mitigate problems in achieving wage moderation and low inflation rates either.

Sticky inflation expectations and populist fiscal policies reduced the level of credibility and trust in Hungary's economic policy and resulted in a loss of competitiveness. The lack of credibility, however, explains why Hungary was initially so keen to join the euro-zone as soon as possible given that the euro is seen as a much needed 'credibility anchor'. In addition, because Hungary still has relatively high interest rates, a quick adoption of the euro would bring interest rates down to the euro-zone level. Moreover, the high foreign debt burden, inherited from the communist regime, explains why an early entry into the euro-zone is in the interest of the government given that through irrevocably fixing the forint to the euro, Hungary's debt service would no longer depend on currency fluctuations.

High inflation expectations and the experience of inflation inertia also explains why the public – unlike in Poland and the Czech Republic – believes that the introduction of the euro will bring price stability. The rising aversion to inflation contributes to low public concerns about the introduction of the euro. Moreover, the low level of currency stability reflects the fact that Hungarians do not believe that their national sovereignty depends on the country's forint. Thus, the experience of moderate inflation is a distinct feature of Hungary's post-communist transition process that helps to understand why the national currency is not a strong 'symbolic marker' (Risse 2003). This is an important aspect to keep in mind when discussing the 'ideological' value of a currency or currency union. Yet, the interests in gaining a much needed credibility anchor cannot be articulated without ideas – after all the wish to join the euro-zone falls on fertile ground given that both party-based and public support for the euro are high in Hungary. While this demonstrates how ideas intersect with interests, it also shows how opportunistic interests have come to dominate Hungary's road to euro-zone membership. Indeed, the postponement of the euro-adoption to the next decade is neither a consequence of lacking domestic support nor a consequence of changing ideas on European integration. Instead, it must be seen in light of the government's need to fulfil election promises and its interests in re-election that resulted in populist economic policy conflicting with the Maastricht criteria, while the initial ambitious plans to join the euro-zone as quickly as possible have to be seen in light of the government's efforts to re-establish credibility and trust in the Hungarian economy. Thus, although Hungary shares with the Czech Republic the intention to adopt the euro around 2010, the reasons for this decision differ.

Of the Visegrad countries, Poland was the only country not to announce a strategy for joining the euro-zone in the course of 2004. This thesis argues that growing public and party-based Euroscepticism in the lead up to the 2005 elections influenced the ruling SLD party in its decision not to set an official target date for the adoption of the euro. While the SLD was keen to join the euro-zone as soon as possible, the obligation to conduct restrictive monetary policy and fiscal policy in line with the EMU has led to societal tensions over the ways in which the reforms should be carried out. This has opened the door to populism, making life difficult for a government committed to adhering to the Maastricht criteria. Two crucial conditions influenced Poland's path to euro-zone accession: first, institutional constraints generated by a highly fragmented party system and the minority government's weakness in pushing forward politically-costly reforms; second, volatile public opinion on EU and euro-zone membership, mirrored by the recent success of parties whose emergence is closely associated with their anti-EU rhetoric.

Indeed, coalition and minority governments as a variable for explaining problems in implementing policy reforms hold resonance in the Polish context. Having lost the majority in the Sejm, the Polish minority government had to repeatedly modify and water down the so-called Hausner plan that initially foresaw severe cuts in public spending. Yet while the government's approach to EMU faced severe constraints, generated by a lack of support for its reform programme and growing party-based Euroscepticism, the SLD did not officially abandon its wish to join the euro-zone as quickly as possible, an intention which was driven as much by the party's need to distance itself from its communist legacy as by its interest in belonging to the world's largest economic area using a single currency in which Poland would have a strong say. While this shows how interests drove the SLD's pro-EMU stance, institutional constraints and growing party-based and public Euroscepticism reinforced the difficulties of the SLD government to adhere to the Maastricht criteria.

Further institutional constraints for the conduct of economic policy, generated by the high degree of CBI and the hawkish President of the NBP, Balcerowicz, play a role in explaining why governments have shifted from monetary to fiscal policy to stimulate the economy. Indeed, among the Visegrad countries, the NBP enjoys the highest degree of independence. With the implementation of the new Central Bank Act in 1998, President Balcerowicz successfully pursued a restrictive monetary policy and inflation rates decreased to historically low levels (also referred to as the 'Balcerowicz-effect'). As for the other Visegrad countries, the increase in CBI helps to explain shifting balances of power among different interests: the Central Bank gained twice; once from the central bank act and once from the Maastricht criteria providing the bank with additional tools to pressure the government and to gain leverage over politicians. The legal obligation to join the euro-zone empowers central banks as it enables them to defend their restrictive monetary policy to attain the primary objective of price stability. Central banks in Poland and Hungary in particular have used the Maastricht criteria extensively to legitimise the costs imposed by a restrictive monetary policy. For example, the need to stimulate the economy during the economic recession that started in 2000 led to an increasing divergence of views between the monetary authorities and the government. While Balcerowicz's hawkish monetary policy may have been in part influenced by his flawed relationship to a post-communist government, he defended the high interest rate policy during the economic recession in 2001 by referring to the European Union's mandatory inflation target and to the uncertainty about the government's ability to reduce public expenditure.

Ironically, although the government blamed the NBP in part for the malaise of the Polish economy and its failure to adhere to the Maastricht criteria, a fast-track approach to adopting the euro was supported by experts in the central bank holding an authoritative claim to EMU-relevant knowledge in Poland. Indeed, it has been argued that Poland provides supportive evidence for an epistemic community that consisted of professionals who share common goals and views. The epistemic community, whose most prominent member is the President of the National Bank, Leszek Balcerowicz, shared the belief that a rapid transformation of the economy must be achieved first if further progress is to be attained. It is no coincidence that the debate about unilateral euroisation was mainly conducted by Polish academics and politicians. As Balcerowicz argues: "EMU prospective acts as a powerful device to launch reforms" (Balcerowicz 2001a: 2). A fast-track approach to EMU accession therefore stands in the tradition of the Balcerowicz-Plan of economic transition. In fact, as mentioned above and elaborated in chapter 5, Balcerowicz has extensively used the Maastricht criteria to pressure the government into implementing necessary policy reforms.

However, while this epistemic community, whose members have held important and influential positions in the policy-making process, is keen to join the euro-zone as soon as possible, it is less successful in explaining or transmitting its ideas to the public. In fact, given that its most prominent member, Balcerowicz, is associated with painful reforms, it faces resistance to its view on European integration and EMU. However, because policy reforms can only be sustained if reforms are supported by a broader segment of society, the epistemic community's ability to transmit its ideas to the public is an important aspect to bear in mind. The capacity to implement policy reforms and let changes persist depends on the ability to build internal consensus and local coalitions supported by the public. It is not enough to be a professional and to belong to an epistemic community.

Indeed, Poland's lack of internal consensus on EU issues and public support for EU membership has been relatively volatile, mirroring the recent success of populist and nationalist parties like Samoobrona and LPR. As argued in chapter 4, the success of Samoobrona and the LPR in attracting voters is closely linked to their anti-EU rhetoric. The analysis of public opinion further substantiated this relationship between the parties' anti-EU positions and their Eurosceptic voter base: chapter 4 shows that most of the dynamics for the opposition to the euro indeed emerge from supporters of nationalist-catholic and farmer parties. In contrast to the Czech Republic, it is thus not a trend towards class-based voting behaviour, stemming from a more manifested Left-Right cleavage but rather a nationalist/religious-rural and liberal-urban cleavage that helps to explain opposition to the euro. Indeed, the role of the Catholic Church and the agricultural sector is a distinctive feature and dominates Polish politics and public debates. The Polish case – like the Hungarian one – illustrates that individual preferences on policies related to EMU accession cannot solely be reduced to different economic interests (for example does EMU increase individual income?) but the analysis has to include different historical and cultural identities (for example authoritarian religious views or attitudes towards the communist past). By extension, the case of Poland shows that support for the euro cannot be achieved or maintained through addressing distributive issues with regards to euro-zone membership but it also depends upon cultural idiosyncrasies and ideational justification.

In the same vein, attitudes toward the communist past help to explain why animosities rather than economic interests determine the work of the tripartite institution and the position of the two key actors on the employee side: The deadlock between NSZZ Solidarność on the one hand and the post-communist government and SLD-affiliated OPZZ on the other hand hinders the conclusion of a social pact over the compliance with the Maastricht criteria. In fact, the Trilateral Commission discussed the adoption of the euro 'cursorily at best' (Gardawski 2004). However, it should be noted that when confronted with the highest unemployment rates in the whole region, trade unions (like in Slovakia) are primarily concerned with creating and maintaining jobs while they have to compromise on other demands such as wage increases. A low wage-push pressure is further supported by a fairly decentralised wage bargaining structure. Employers' and employees' associations are almost completely absent on the micro-level, where collective bargaining agreements do not exist. On the macro-level, employers' associations still have substantial difficulties in articulating and pressing their position.

All of the preceding points demonstrate that the legal obligation to join the euro-zone did not result in identical approaches to adopting the euro in the Visegrad countries. Incentives and constraints generated by this obligation, which can be labelled as 'EMU conditionality', are mediated by distinctive domestic interests, ideas and institutions which are at the heart of cross-national responses to euro-zone entry. These domestic factors, however, are subject to country-specific conditions (such as the experience of dramatic policy failure that triggers a change in principled beliefs). This thesis demonstrates that the euro-adoption strategies depend on conditions and circumstances and follow the logic of deeply-embedded domestic differences.

Contribution of the thesis, the challenges of an integrated analysis and prospects for further research

This thesis' original contribution has been to explain the relationship between the Visegrad countries' approaches to adopting the euro and their political economies by using an integrated analysis of interests, ideas and institutions. Previously, relative insights from the existing interest-, idea- and institution-based scholarship on political economy have not been empirically tested in any systematic way in relation to the case of the euro-adoption strategies of the Visegrad Four. By using an integrated analysis of interests, ideas and institutions at the domestic level, this thesis has filled this research gap. It challenges existing concepts of systemic and economic scholarship, as well as the literature on domestic forces that usually starts with an analysis of power and interests and reverts in an ad hoc way only to other domestic factors to approach unexplained variances.

The focus of this thesis was on dynamic linkages, thus on a synthesis of causes for a fuller understanding of policy reforms that affect the euro-adoption strategies. As discussed, the Visegrad countries' approaches to euro-zone membership are idiosyncratic, that is, they vary both across country and time. It has been argued that the phenomenological dynamics of the euro-adoption strategies depend on the meaning which actors attach to their action, that is, on how actors interpret conditions and circumstances. Actors do not have predictable preferences towards the euro because their attitudes are contingent upon context-specific institutions and ideas. The making of strategies is far more complex than any economic analysis of weighting the costs and benefits would suggest. In the same vein, political processes are far too complex to be explained by assuming stable preferences on the part of the actors involved. Unstable preferences argue against a systemic or a single dimensional (for example one that concentrates on interests only) approach. Certainly, in this respect, the main tension arises from the aspiration to simplification and the need to preserve contextual integrity (cf Schonhardt-Bailey 2001: 209). The "challenge is to capture some of the complexity of the political world without forsaking the parsimony on which good social science depends" (Hall 1997: 189). However, for the purpose of this research, this approach ultimately means that parsimony rests upon the *inner logic* of deeply embedded domestic differences that are at the heart of complex politico-economic dynamics of policy variation or convergence.

This thesis has opened up the path for further research that aims to contextualise and understand euro-adoption strategies in the new member states. But it has also pointed to the challenges an integrated analysis has to face in general theoretical and empirical terms when applied to post-communist countries. First, the research was challenged by the time period of observation given that euro-zone membership has only recently become part of the political agenda while the developments that eventually led to the euro-adoption strategies started well before EMU was discussed publicly. Unquestionably, given the relatively short period since the fall of the communist regimes, Central and Eastern Europe presents a unique case and opportunity for the study of policy variation and monetary integration in transition countries. However, this also means that propositions about, for example, the role of institutions in achieving fiscal consolidation or low inflation are made on the basis of medium-term observation. In addition, because the Visegrad countries still experience special transition problems (especially in the realm of privatisation), fiscal or monetary policy may in fact reflect specific but temporary developments that are related to particular moments in the transition process. Related to this point is the fact that the new democracies are 'still in a state of flux'. For example, this thesis has highlighted the frequent changes in the electoral systems and the high volatility level of the post-communist party systems. While this makes it methodologically difficult to analyse how the electoral and party system structures and delivers policies this thesis has shown that the euro-adoption strategies of the Visegrad countries can only be understood within the context of these dynamic changes.

Second, at the analytical level the research had to deal with challenges related to the heterogeneous literature because an integrated analysis requires different methodological approaches to 'measure' the domestic factors. For example, this thesis has used quantitative research methods to analyse economic self-interest at an individual level while a qualitative method was more suitable for identifying the ideas and motives of actors or to operationalise institutions as electoral systems, central banks and industrial relations. But this 'methodological divide' (Hall 1997) between interest-based approaches on the one hand and institution- and idea-oriented approaches on the other hand also reflects the 'ideological divide' in social sciences. It is the divide between those who view political economy as a research field in which to apply economic methods (i.e. rational choice assumptions) to politics and those who resist the socio-economic determinism on which most interest-oriented approaches are based. It is the divide between positive political economy and the primacy of politics, or, to put it differently, between explaining and understanding political economy.

In addition to these epistemological questions, the literature is heterogeneous because it deals with different levels of analysis, e.g. the individual level (public opinion and the analysis of actors' ideas), institutional and organised level (central banks, electoral system and industrial relations), sub-national (parties) or governmental level. The problem here is how to measure the interrelated causal effects of the different levels of analysis. While most of the work developed since Putnam's seminal article on two-level games has attempted to bridge the international and the national level, there is limited research on the causal forces between and among the other above-mentioned levels. By carefully breaking down the units of analysis while establishing their interrelated and relative influence on the euro-adoption strategies, this thesis has sought to deal with these problems that were generated from the need to integrate different research methods and different levels of analysis.

This thesis also has raised a number of key issues in relation to the future path of European integration. The questions are related to the new member states' capacity to adhere to the Maastricht criteria and their willingness to join the euro-zone as well as to the EU's capacity to deal with many 'member states with a derogation' without creating a structural 'core' of member states. This is highlighted in the current debate about a multi-speed Europe, most prominently vocalised in major speeches by the former German Foreign Minister Joschka Fischer (2000), the former President of the European Commission Jacques Delors (2000) and the current Belgian Prime Minister Guy Verhofstadt (2005). The concept of a multi-speed Europe allows member states which are not able or willing to participate in a particular policy to stay outside and to join at a later stage.[1] This thesis points to reasons why differentiated integration may be inevitable. In fact, it is a logical consequence of the persistence of national diversity. Cross-

[1] Differentiated or enhanced cooperation is not new to the EU. The Schengen area and EMU allowed for differentiated integration, while the concept of enhanced cooperation was introduced in 1997 by the Treaty of Amsterdam. The Nice treaty reformed Article 5 of the Treaty of Amsterdam and abolished the national veto for enhanced cooperation in all policy areas except for the European Security and Defence Policy (ESDP). The rejected European Constitution would have further reduced the barriers for member states willing to establish enhanced cooperation (see European Constitution Article III 419 (1), 422 (1)).

national variations vary across time and space, they depend on deeply embedded differences, on conditions and circumstances and are therefore idiosyncratic in nature. Thus, differentiated integration and idiosyncrasy are two sides of the same coin. Certainly, differentiated integration may lead to disintegration because it bears the potential for undermining the unity of the EU. This is because enhanced cooperation or a multi-speed Europe has implications for the European institutions, especially for the European Commission and the European Parliament (Donnelly and Dawes 2004). Enhanced cooperation bears the risk of separating the Commissioners and MEPs into groups in accordance with their countries' participation in central policy fields. For example, when the new European Commission was appointed in 2004, several member states asked de facto for the informal selection criterion that the President of the European Commission has to come from a member state which participates in all policy areas (and in particular in the euro-zone). Certainly, this introduces a *numerus clausus* that carries the risk of undermining solidarity. Moreover, as stated in the first chapter, one of the driving forces behind European integration has been the mechanism of issue linkage, or constraints created by institutional arrangements (Martin 2001). In a multi-speed Europe 'linked issue' bargaining as an engine for integration is weakened or non-existent because enhanced cooperation as such separates policy fields from each other. Without the clustering of issues, there are no side-payments to enhance the quids over the quos (cf Keohane 1984) and further European integration may come to a halt, or may even be reversed.

However, because – for reasons discussed in this thesis – differentiated integration is likely to persist, the focus should be on how to improve the institutional and legal framework for it. This is all the more important as most of the dynamics of European integration depends on whether enhanced cooperation is a transitional tool or a standard mode of operation. In this respect, this thesis has also contributed to the research on the dynamics of Europeanisation and the meaning of European integration. It therefore touches upon fundamental questions for the study of European integration. As Jones (2003: 141) puts it "if integration in Europe does not coincide with some form of necessary convergence between the member states, then what does 'integration' really mean?" European integration does not automatically lead to policy convergence between the member states of the EU. In fact, the new EU member states took divergent paths in designing their macroeconomic policies and strategies for the adoption of the euro. To this end, this thesis has analysed the confluence of factors and sought to establish the basic causal mechanism for policy variation among the Visegrad countries with regards to European monetary integration. It provides a domestic level analysis that focuses on processes and uses qualitative case studies to explore them. It is hoped that this will stimulate further research on European models of capitalism and their related micro-institutions to explain different national response strategies to the adoption of the euro (Orfeo 2001). As Jones (2003: 141) points out "the juxtaposition of European integration and national distinctiveness underscores the relative importance of other causal factors affecting the varieties of capitalism in evidence". In this regards, further emphasis should be given to the divergence of national models of capitalism that enable different strategies in corporate planning, wage-setting policy, training and education and impact on the formation of different coalitions across labour and business (Scharpf and Schmidt 2000, Coates 2000, Hall and Soskice 2001, Schmidt 2002, Menz 2005). Within this context, it would be beneficial to operationalise the models of capitalism in Central Europe. It would then be possible to compare these findings with the dualistic models of liberal and coordinated market economies in the literature of the varieties of capitalism and to relate the models to different responses to EMU.

By extension, it would be valuable to analyse the extent to which Europeanisation in the new member states contrasts or resembles the experience of old member states. For example, new member states may follow the example of Sweden and postpone euro-zone membership to the distant future. Also of significance is the nature of the relationship between insiders and outsiders of the euro-zone. First, the relationship may reflect different attitudes towards European integration per se. Second, with regards to the research of this thesis, the insider-outsider question may raise tensions between the Visegrad countries and those new member states that are expected to join the euro-zone well before the Czech Republic, Hungary and Poland.[2]

By using a comparative politico-economic analysis of domestic-level approaches, this thesis has opened up the debate on the relative importance of interests, ideas and institutions in understanding cross-national policy variation but it hopes that it can provide a framework for discussing further case studies. Within this context it would be highly relevant to contrast the Visegrad countries with the new member states that joined the ERM II in June 2004 and agreed to adopt the euro by 2007 (Estonia, Lithuania and Slovenia). Given that the Czech Republic, Hungary and Poland are the only new member states that have not joined the ERM II yet, it would be equally relevant to apply the analytical framework to the new member states that entered the ERM II in the course of 2005. Empirical findings would contribute to the contextualisation of the euro-adoption strategies, the relative importance of interests, ideas and institutions and would help to identify sources for policy variation. In addition, given that this thesis' period of reference is relatively short, further long-term observations will lead to a better understanding of the analytical assumptions in the literature of comparative politics applied to new democracies.

Because the study was on transition countries, the focus of further comparison should especially be on future enlargement which is an inevitable process given that there are already fixed accession dates for Bulgaria and Romania while EU membership has been promised to other states (see e.g. the European perspective to the Balkan states). In this regards, a comparison of Slovakia's experience of illiberal democracy with other illliberal pattern states like Bulgaria and Romania (cf Vachudova 2005) would be most valuable. In contrast, a comparison of the findings with those of the euro-entry strategies of current euro-zone members or other 'outsiders' like Sweden, Denmark and the United Kingdom may be valuable for drawing tentative conclusions only with the proviso that transition countries differ significantly from the consolidated

[2] Apart from the Czech Republic, Hungary and Poland all new EU member states entered the ERM II either in 2004 or in the course of 2005. Slovakia joined the ERM II on 28 November 2005.

market economies and democracies of Western Europe. Taking these shortcomings into account, it might nevertheless be helpful to analyse the problems encountered during ERM II membership and to contrast these problems with the experience of the current euro-zone member states during their membership in the ERM of the European Monetary System (EMS) especially after the currency crisis in September 1992 and July 1993 when the fluctuation bands were broadened to the current ERM II bands of ± 15 percent. Although the ERM now consists of wider fluctuation bands, members will not be safe from speculative attacks.[3] In addition, it would be valuable for the analysis of cross-national approaches to EMU accession to explore the effects of these problems on the euro-adoption strategies of the new member states that have not joined the exchange rate mechanism yet.

Thus, the principal advantage of the integrated analysis as applied in this thesis is that it allows for a systematic study of the implications of interests, ideas and institutions for the new member states' approaches to adopting the euro. Yet, it is worth considering whether the approach applied in this thesis is also applicable to other EU issue areas such as social policy or areas where the EU may pursue differentiated integration in the future.

On a more theoretical level, it is hoped that further research is done on comparative political economy approaches applied to transition economies. For example, a key area for future research is to revise the understanding of the process of political conflicts (thus the role of the endogeneity of causes and conditions) for the formation of specific interests, institutions and ideas. Although the literature suggests a number of factors based on empirical evidence from cross-national responses, there is still limited knowledge about the facilitating factors that may lead to cross-national policy variation. For example, this thesis highlights the conditions of policy failure and the environment for party competition to understand different preferences on fiscal policies and EMU. In this respect, it would be most valuable to further analyse structures of party competition

[3] As the example of Greece has shown, participation in ERM II may potentially make a currency more exposed to speculative attacks.

and to relate these facilitating factors and conditions to particular interests and preferences on fiscal policies. In the same vein, new ideas may have been adopted because of the experience of dramatic policy failure or/and the interpretation of new interests and existing ones which are mediated by institutions structuring political competition (cf Hall 1997: 198). Given that it is fruitless to specify these interests ex ante, this thesis has demonstrated that a key concern for future research should be to contextualise the influence of conditions on interests, ideas and institutions and how they impact on the new member states' approaches to adopting the euro.

Appendix 1: The Cukierman/Webb/Neyapti (LVAU) indicator for central bank independence

1) NATIONAL BANK OF THE CZECH REPUBLIC

Variable number	Description of variable	Weight	Numerical coding
1	*Chief executive officer (CEO)*	0.20	
	a. Term of office		
	Over 8 years		1.00
	6 to 8 years	X (6years)	0.75
	5 years		0.50
	4 years		0.25
	Under 4 years or at the discretion of appointer		0.00
	b. Who appoints CEO?		
	Board of Central Bank		1.00
	A council of the central bank board, executive branch, and legislative branch		0.75
	Legislature		0.50
	Executive collectively (e.g. council of ministers)		0.25
	One or two members of the executive branch- by the president of the Republic	X	0.00
	c. Dismissal		
	No provision for dismissal		1.00
	Only for reasons not related to policy	X	0.83
	At the discretion of central bank board		0.67
	At legislature's discretion		0.50
	Unconditional dismissal possible by executive		0.00
	d. May CEO hold other offices in government?		
	No	X	1.00
	Only with permission of the executive branch		0.50
	No rule against CEO holding another office		0.00
2	*Policy formulation*	0.15	
	a. Who formulates monetary policy?		
	Bank alone	X	1.00
	Bank participates, but has little influence		0.67
	Bank alone advises government		0.33
	Bank has no say		0.00

	b. Who has final word in resolution of conflict?		
	The bank, on issues clearly defiend in the law as its objectives	X	1.00
	Government, on policy issues not clearly defined as the bank's goal or in case of conflict within the bank		0.80
	A council of the central bank, executive branch, and legislative branch		0.60
	The legislature, on policy issues		0.40
	The executive branch on policy issues, subject due to process and possible protest by bank		0.20
	The executive branch has unconditional priority		0.00
	c. Role of the government's budgetary process		
	Central bank active		1.00
	Central bank has no influence	X	0.00
3	***Objectives***	0.15	0.15
	Price stability is the major ~~or only~~ objective in the charter, and the central bank has the final word in case of conflict with other governments objectives- and support general policies of government leading to sustainable economic growth. Act with principle of an open market economy	X	1.00
	Price stability is the only objective		0.80
	Price stability is one goal, with other compatible objectives, such as a stable banking system		0.60
	Price stability is one goal, with potentially conflicting objectives, such as full employment		0.40
	No objectives stated in the bank charter		0.20
	Stated objectives do not include price stability		0.00
4	***Limitations on lending to the government***		
	a. Advances (limitation on nonsecuritized lending)	0.15	
	No advances permitted	X	1.00
	Advances permitted, but with strict limits (e.g., up to 15 percent of government revenue)		0.67
	Advances permitted, and the limits are loose (e.g., over 15 percent of government revenue)		0.33
	No legal limits on lending		0.00
	b. Securitized lending	0.10	
	Not permitted	X	1.00

	Permitted, but with strict limits (e.g., up to 15 percent of government revenue)		0.67
	Permitted, and the limits are loose (e.g., over 15 percent of government revenue)		0.33
	No legal limits on lending		0.00
	c. Terms of lending (maturity, interest, amount)	0.10	
	Controlled by the bank	X	1.00
	Specified by bank charter		0.67
	Agreed between the central bank and executive		0.33
	Decided by the executive branch alone		0.00
	d. Potential borrowers	0.05	0
	Only the central government		1.00
	All levels of government (state as well as central)		0.67
	Those mentioned above and public enterprises		0.33
	Public and private sector	X	0.00
	e. Limits on central bank lending defined in	0.025	
	Currency amounts	n.a.	1.00
	Shares of central bank demand liabilities or capital		0.67
	Shares of government revenue		0.33
	Shares of government expenditures		0.00
	f. Maturity of loans	0.025	
	Within 6 months	n.a.	1.00
	Within 1 year		0.67
	More than 1 year		0.33
	No mention of maturity in the law		0.00
	g. Interest rates on loans must be	0.025	
	Above minimum rates		1.00
	At market rates		0.75
	Below maximum rates		0.50
	Interest rate is not mentioned	X	0.25
	No interest rate on government borrowing from the central bank		0.00
	h. Central bank prohibited from buying or selling government securities in the primary market?	0.025	
	Yes		1.00
	No	X	0.00

2) NATIONAL BANK OF SLOVAKIA

Variable number	Description of variable	Weight	Numerical coding
1	*Chief executive officer (CEO)*	0.20	
	a. Term of office		
	Over 8 years		1.00
	6 to 8 years		0.75
	5 years	X	0.50
	4 years		0.25
	Under 4 years or at the discretion of appointer		0.00
	b. Who appoints CEO?		
	Board of Central Bank		1.00
	A council of the central bank board, executive branch, and legislative branch		0.75
	Legislature		0.50
	Executive collectively (e.g. council of ministers)		0.25
	One or two members of the executive branch- President of Slovakia upon recommendation of the government and with approval of the national Council of the Slovak Republic	X	0.00
	c. Dismissal		
	No provision for dismissal	X	1.00
	Only for reasons not related to policy		0.83
	At the discretion of central bank board		0.67
	At legislature's discretion		0.50
	Unconditional dismissal possible by executive		0.00
	d. May CEO hold other offices in government?		
	No	X	1.00
	Only with permission of the executive branch		0.50
	No rule against CEO holding another office		0.00
2	*Policy formulation*	0.15	
	a. Who formulates monetary policy?		
	Bank alone	X	1.00
	Bank participates, but has little influence		0.67
	Bank alone advises government		0.33
	Bank has no say		0.00

	b. Who has final word in resolution of conflict?		
	The bank, on issues clearly defined in the law as its objectives	X	1.00
	Government, on policy issues not clearly defined as the bank's goal or in case of conflict within the bank		0.80
	A council of the central bank, executive branch, and legislative branch		0.60
	The legislature, on policy issues		0.40
	The executive branch on policy issues, subject due to process and possible protest by bank		0.20
	The executive branch has unconditional priority		0.00
	c. Role of the government's budgetary process		
	Central bank active		1.00
	Central bank has no influence	X	0.00
3	***Objectives***	0.15	
	Price stability is the major ~~or only~~ objective in the charter, and the central bank has the final word in case of conflict with other governments objectives- and support general policies of government leading to sustainable economic growth. Act with principle of an open market economy	X	1.00
	Price stability is the only objective		0.80
	Price stability is one goal, with other compatible obejctives, such as a stable banking system		0.60
	Price stability is one goal, with potentially conflicting objectives, such as full employment		0.40
	No objectives stated in the bank charter		0.20
	Stated objectives do not include price stability		0.00
4	***Limitations on lending to the government***		
	a. Advances (limitation on nonsecuritized lending)	0.15	
	No advances permitted	X	1.00
	Advances permitted, but with strict limits (e.g., up to 15 percent of government revenue)		0.67
	Advances permitted, and the limits are loose (e.g., over 15 percent of government revenue)		0.33
	No legal limits on lending		0.00
	b. Securitized lending	0.10	
	Not permitted		1.00

	Permitted, but with strict limits (e.g., up to 15 percent of government revenue)	X	0.67
	Permitted, and the limits are loose (e.g., over 15 percent of government revenue)		0.33
	No legal limits on lending		0.00
	c. Terms of lending (maturity, interest, amount)	0.10	
	Controlled by the bank	X	1.00
	Specified by bank charter		0.67
	Agreed between the central bank and executive		0.33
	Decided by the executive branch alone		0.00
	d. Potential borrowers	0.05	
	Only the central government	n.a.	1.00
	All levels of government (state as well as central)		0.67
	Those mentioned above and public enterprises		0.33
	Public and private sector		0.00
	e. Limits on central bank lending defined in	0.025	
	Currency amounts	X	1.00
	Shares of central bank demand liabilities or capital		0.67
	Shares of government revenue		0.33
	Shares of government expenditures		0.00
	f. Maturity of loans	0.025	
	Within 6 months	X	1.00
	Within 1 year		0.67
	More than 1 year		0.33
	No mention of maturity in the law		0.00
	g. Interest rates on loans must be	0.025	
	Above minimum rates	X	1.00
	At market rates		0.75
	Below maximum rates		0.50
	Interest rate is not mentioned		0.25
	No interest rate on government borrowing from the central bank		0.00
	h. Central bank prohibited from buying or selling government securities in the primary market?	0.025	
	Yes		1.00
	No	X	0.00

3) NATIONAL BANK OF HUNGARY

Variable number	Description of variable	Weight	Numerical coding
1	*Chief executive officer (CEO)*	0.20	
	a. Term of office		
	Over 8 years		1.00
	6 to 8 years	X (6years)	0.75
	5 years		0.50
	4 years		0.25
	Under 4 years or at the discretion of appointer		0.00
	b. Who appoints CEO?		
	Board of Central Bank		1.00
	A council of the central bank board, executive branch, and legislative branch		0.75
	Legislature		0.50
	Executive collectively (e.g. council of ministers)		0.25
	One or two members of the executive branch- by the president of the Republic on proposal of the Prime Minister	X	0.00
	c. Dismissal		
	No provision for dismissal		1.00
	Only for reasons not related to policy	X	0.83
	At the discretion of central bank board		0.67
	At legislature's discretion		0.50
	Unconditional dismissal possible by executive		0.00
	d. May CEO hold other offices in government?		
	No	X	1.00
	Only with permission of the executive branch		0.50
	No rule against CEO holding another office		0.00
2	*Policy formulation*	0.15	
	a. Who formulates monetary policy?		
	Bank alone	X	1.00
	Bank participates, but has little influence		0.67
	Bank alone advises government		0.33
	Bank has no say		0.00

	b. Who has final word in resolution of conflict?		
	The bank, on issues clearly defined in the law as its objectives	X	1.00
	Government, on policy issues not clearly defined as the bank's goal or in case of conflict within the bank		0.80
	A council of the central bank, executive branch, and legislative branch		0.60
	The legislature, on policy issues		0.40
	The executive branch on policy issues, subject due to process and possible protest by bank		0.20
	The executive branch has unconditional priority		0.00
	c. Role of the government's budgetary process		
	Central bank active		1.00
	Central bank has no influence	X	0.00
3	***Objectives***	0.15	
	Price stability is the major ~~or only~~ objective in the charter, and the central bank has the final word in case of conflict with other governments objectives- and support general policies of government leading to sustainable economic growth. Act with principle of an open market economy	X	1.00
	Price stability is the only objective		0.80
	Price stability is one goal, with other compatible obejctives, such as a stable banking system		0.60
	Price stability is one goal, with potentially conflicting objectives, such as full employment		0.40
	No objectives stated in the bank charter		0.20
	Stated objectives do not include price stability		0.00
4	***Limitations on lending to the government***		
	a. Advances (limitation on nonsecuritized lending)	0.15	
	No advances permitted	X	1.00
	Advances permitted, but with strict limits (e.g., up to 15 percent of government revenue)		0.67
	Advances permitted, and the limits are loose (e.g., over 15 percent of government revenue)		0.33
	No legal limits on lending		0.00
	b. Securitized lending	0.10	
	Not permitted	X	1.00

	Permitted, but with strict limits (e.g., up to 15 percent of government revenue)		0.67
	Permitted, and the limits are loose (e.g., over 15 percent of government revenue)		0.33
	No legal limits on lending		0.00
	c. Terms of lending (maturity, interest, amount)	0.10	
	Controlled by the bank	n.a.	1.00
	Specified by bank charter		0.67
	Agreed between the central bank and executive		0.33
	Decided by the executive branch alone		0.00
	d. Potential borrowers	0.05	
	Only the central government		1.00
	All levels of government (state as well as central)		0.67
	Those mentioned above and public enterprises	X	0.33
	Public and private sector		0.00
	e. Limits on central bank lending defined in	0.025	
	Currency amounts	X	1.00
	Shares of central bank demand liabilities or capital		0.67
	Shares of government revenue		0.33
	Shares of government expenditures		0.00
	f. Maturity of loans	0.025	
	Within 6 months		1.00
	Within 1 year		0.67
	More than 1 year		0.33
	No mention of maturity in the law	X	0.00
	g. Interest rates on loans must be	0.025	
	Above minimum rates		1.00
	At market rates		0.75
	Below maximum rates		0.50
	Interest rate is not mentioned	X	0.25
	No interest rate on government borrowing from the central bank		0.00
	h. Central bank prohibited from buying or selling government securities in the primary market?	0.025	
	Yes	X	1.00
	No		0.00

4) National Bank of Poland

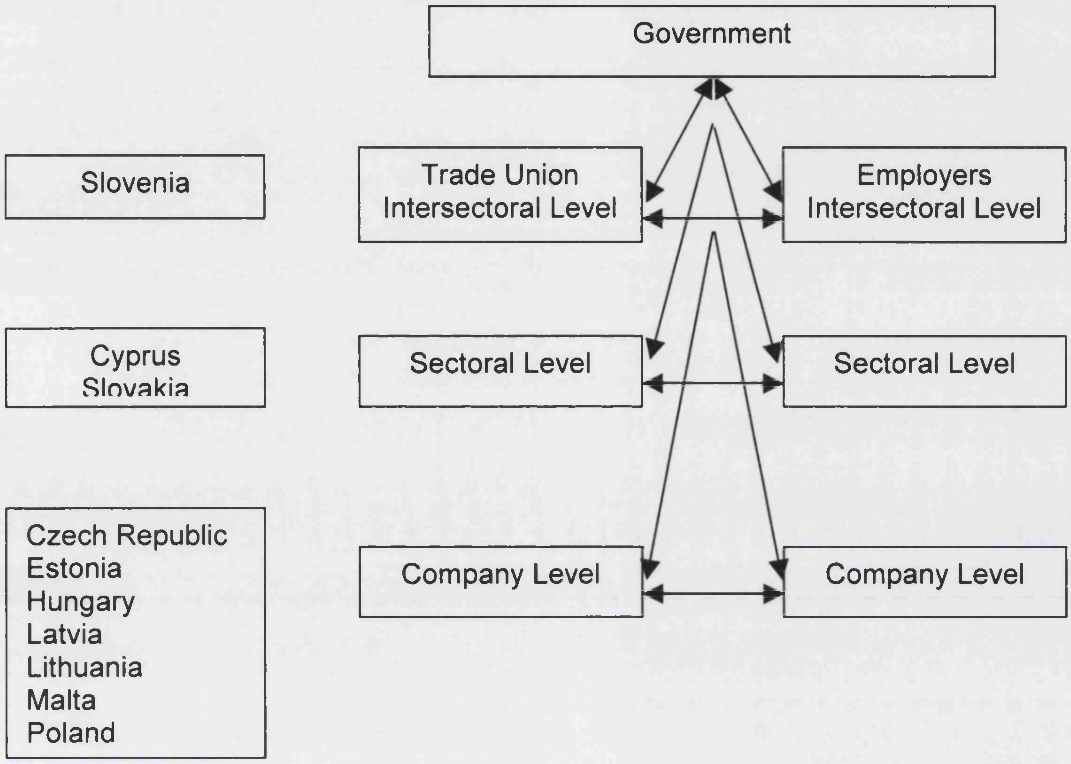
Variable number	Description of variable	Weight	Numerical coding
1	***Chief executive officer (CEO)***	0.20	
	a. Term of office		
	Over 8 years		1.00
	6 to 8 years	X (6years)	0.75
	5 years		0.50
	4 years		0.25
	Under 4 years or at the discretion of appointer		0.00
	b. Who appoints CEO?		
	Board of Central Bank		1.00
	A council of the central bank board, executive branch, and legislative branch		0.75
	Legislature- at request of the President of the Polish Republic	X	0.50
	Executive collectively (e.g. council of ministers)		0.25
	One or two members of the executive branch		0.00
	c. Dismissal		
	No provision for dismissal		1.00
	Only for reasons not related to policy	X	0.83
	At the discretion of central bank board		0.67
	At legislature's discretion		0.50
	Unconditional dismissal possible by executive		0.00
	d. May CEO hold other offices in government?		
	No	X	1.00
	Only with permission of the executive branch		0.50
	No rule against CEO holding another office		0.00
2	***Policy formulation***	0.15	
	a. Who formulates monetary policy?		
	Bank alone	X	1.00
	Bank participates, but has little influence		0.67
	Bank alone advises government		0.33
	Bank has no say		0.00
	b. Who has final word in resolution of conflict?		

	The bank, on issues clearly defined in the law as its objectives	X	1.00
	Government, on policy issues not clearly defined as the bank's goal or in case of conflict within the bank		0.80
	A council of the central bank, executive branch, and legislative branch		0.60
	The legislature, on policy issues		0.40
	The executive branch on policy issues, subject due to process and possible protest by bank		0.20
	The executive branch has unconditional priority		0.00
	c. Role of the government's budgetary process		
	Central bank active	X	1.00
	Central bank has no influence		0.00
3	***Objectives***	0.15	
	Price stability is the major ~~or only~~ objective in the charter, and the central bank has the final word in case of conflict with other governments objectives- and support general policies of government leading to sustainable economic growth. Act with principle of an open market economy		1.00
	Price stability is the only objective	X	0.80
	Price stability is one goal, with other compatible obejctives, such as a stable banking system		0.60
	Price stability is one goal, with potentially conflicting objectives, such as full employment		0.40
	No objectives stated in the bank charter		0.20
	Stated objectives do not include price stability		0.00
4	***Limitations on lending to the government***		
	a. Advances (limitation on nonsecuritized lending)	0.15	
	No advances permitted	X	1.00
	Advances permitted, but with strict limits (e.g., up to 15 percent of government revenue)		0.67
	Advances permitted, and the limits are loose (e.g., over 15 percent of government revenue)		0.33
	No legal limits on lending		0.00
	b. Securitized lending	0.10	
	Not permitted	X	1.00

	Permitted, but with strict limits (e.g., up to 15 percent of government revenue)		0.67
	Permitted, and the limits are loose (e.g., over 15 percent of government revenue)		0.33
	No legal limits on lending		0.00
	c. Terms of lending (maturity, interest, amount)	0.10	**n.a.**
	Controlled by the bank		1.00
	Specified by bank charter		0.67
	Agreed between the central bank and executive		0.33
	Decided by the executive branch alone		0.00
	d. Potential borrowers	0.05	**n.a.**
	Only the central government		1.00
	All levels of government (state as well as central)		0.67
	Those mentioned above and public enterprises		0.33
	Public and private sector		0.00
	e. Limits on central bank lending defined in	0.025	**n.a.**
	Currency amounts		1.00
	Shares of central bank demand liabilities or capital		0.67
	Shares of government revenue		0.33
	Shares of government expenditures		0.00
	f. Maturity of loans	0.025	**n.a.**
	Within 6 months		1.00
	Within 1 year		0.67
	More than 1 year		0.33
	No mention of maturity in the law		0.00
	g. Interest rates on loans must be	0.025	
	Above minimum rates		1.00
	At market rates		0.75
	Below maximum rates		0.50
	Interest rate is not mentioned		0.25
	No interest rate on government borrowing from the central bank		0.00
	h. Central bank prohibited from buying or selling government securities in the primary market?	0.025	0
	Yes		1.00
	No	**X**	0.00

For the interpretation of the Polish central bank law and calculation see Dvorsky (2000:10)

Appendix 2: Main levels of collective bargaining in the acceding countries (wage negotiations)



Source: Euro Found (2004: 9)

Appendix 3: Main social partners

Main social partners in the Czech Republic

Trade unions
Association of Independent Trade Unions
Christian Trade Union Coalition (KOK)
Confederation of Art and Culture (KUK)
Czech-Moravian Confederation of Trade Unions (CMKOS)
Trade Union Association of Bohemia, Moravia and Silesia (OSCMS)

Employers' associations
Confederation of employer and entrepreneur associations (KZPS)
Confederation of Industry of the Czech Republic (SP CR)

Main social partners in Slovakia

Trade Unions
Confederation of Trade Unions of the Slovak Republic (KOZ SR)

Employers' associations
Federation of Employers' Associations of the Slovak Republic (AZZZ SR)
Union of Employers of the Slovak Republic (RUZ SR)

Main social partners in Hungary

Trade unions
Autonomous Trade Union Confederation (ASZSZ)
Confederation of Professional Trade Unions (ESZT).
Democratic Ligue of Free Trade Unions (FSZDL)
Forum for the Cooperation of Trade Unions (SZEF)
National Confederation of Hungarian Trade Unions (MSZOSZ)
National Federation of Workers' Councils (MOSZ)

Employers' associations
Hungarian Industrial Association (OKISZ)
National Association of Employers (MaOSZ)
National Association of Entrepreneurs (VOSZ)
National Association of Hungarian Industrialists (MGYOSZ)
National Association of Industrial Corporations – Chamber of Artisans (IPOSZ)
National Association of Strategic and Public Utility Companies (STRATOSZ)
National Federation Consumer Co-operatives (AFEOSZ)
National Federation of Traders and Caterers (KISOSZ)
Union of Agrarian Employers (AMSZ)

Main social partners in Poland

Trade Unions
All-Poland Trade Union Agreement (OPZZ)
Solidarity trade union NSZZ
Trade Union Forum

Employers associations
Business Centre Club Employers Association
National Confederation of Polish Employers
Polish Confederation of Private Employers
Union of Polish Crafts

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