



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



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ABSTRACT

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

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

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

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

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

situation is as good as others claim: “The idea that the euro has ‘failed’ is dangerously naive. The euro is doing exactly what its progenitor (...) predicted and planned for it to do” (Palast, 2012).

In the opinions and projections I express, I am far from the nationalist megalomania, such as nurturing a pipedream of Poland becoming a “great power” (Friedman, 2009) or even a “European economic power”. We are in for nothing of that sort and while such illusions provoke more amusement than anger, we need to be aware of how great Poland's contemporary significance is in geopolitics, especially on the continental scale. Undoubtedly, it is greater in the context of politics than economy, but the intersection of those two elements is truly stronger than ever before. In this very context, it is worthwhile and necessary to look at the challenges facing Poland in relation to euro. Other post-socialist countries also have similar dilemmas, and as the European Union expands, there will be more of these,¹ but here let me focus on threats and opportunities shaping up for Poland in this area.

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

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

1. Global turbulences and European drift

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

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

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

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

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

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

unique, one in a history event, and something similar won't be repeated elsewhere. Even if it is theoretically feasible vis-à-vis certain countries, it is extremely unlikely. Thus, despite all recent and forthcoming obstacles, the EU deepening and enlargement will continue, because the only sensible outcome from the difficulties and volatilities of the second decade of 21st century is an escape forward. The Eurosceptic mode will cease and the enlargement of the eurozone – of course, accompanied by the improvement of its governance – will contribute to eroding such sceptic approach still further.

2. From destruction to construction

Of course, if somebody claims that, in the light of the growing xenophobia and parochialism – from the USA to France, from Venezuela to Nigeria, from the United Kingdom to Turkey – there will come a turning point after which globalization will collapse; if somebody believes that, as a result of the drift of the last several years, EU is in the state of inevitable decomposition, then he or she is asking quite different questions to those we are dealing with here. What I am striving to answer is how to couple economic and political dilemmas to move from the threat of destruction to the opportunity of constructing something better. In other words, I claim that the future will be shaped rather by the new pragmatism, and not by the new nationalism (Economist, 2016; Kolodko, 2017).

Poland has virtually nothing to offer to the world and cannot directly support globalization. It produces just under 0.9 per cent of the global output, and represents just 0.5 per cent of the world's population; and yet, at the European level, maybe ironically, Poland has never had a greater chance to make a creative contribution. It is so because Poland's accession to the eurozone, and thus strengthening the European Union, would send a clear signal to the other parts of the world experimenting with their regional integration that such processes are making sense and are able to calm the temporary worries.

Economists have their idiosyncrasy of attaching too much weight to economic issues. Well, this is our domain, while, in reality, economic interests are all too often sacrificed at the altar of politics; all too often, the non-economic lack of common sense prevails over economic pragmatism. This is why such pragmatism should be sought all the more. However, let us start with politics.

If Poland's government, having a definite support of the president and a majority in both houses of parliament, announces, in concert with the National Bank of Poland, its readiness to start efforts to adopt euro, this would change not only the European politics. In a situation where a structural and institutional crisis of the EU is underway, where the scenario of the “Europe of two speeds”³ can be more and more clearly seen on the horizon, where new nationalism rather than new pragmatism (Kolodko, 2014b; Bałtowski, 2017) seems to be taking the upper hand (Economist, 2016), strengthening one of the main links of the process that is the European common currency project, would be of fundamental importance to the economic integration with all of its political and cultural consequences. And not only to ours, the European one, as the EU is being watched with attention worldwide – from MERCOSUR in South America to ASEAN in South East Asia, from SADC in the south of Africa to ECOWAS in its West, from NAFTA to SAARC in South Asia. If the integration in Europe is successful, it will also gain momentum in other parts of the world, and the regional integration processes are a great way to adapt to the challenges of globalization.

Poland joining the Eurozone would have a special meaning in the light of the United Kingdom exiting the European Union. As part of the Eurozone, Poland would immediately cease to be a peripheral country and become an important element of the core of this formation, on par with Spain having a similar population potential, and the Netherlands, which has similar GDP.⁴ This is even more obvious against the background of the idea of so-called multi-speed Europe.⁵ If Poland wants to be included in the core of it, it must be the member of the eurozone. Things could be that way, especially while the position of Italy, unable to cope with its secular stagnation, is relatively weakening. The courageous accession of the tiny Lithuania to the common currency area two years ago did not change the continental geopolitics, whereas our accession to it (which would be achievable in 2020 at the earliest, if the current government decides so what, unfortunately, is not going to be the case) would be of major significance.

Since we are talking about politics, it is clear that we need to take the opportunity to give up on the illusory attempts to replace the Weimar triangle with the Visegrad square and let go of the pipedreams of a Poland-led *intermarium*.⁶ Poland is not supposed to lead but it should not be on the margin, either.

³ Actually it would be more appropriate to talk of “Europe of three” or even “four speeds”, as we have not only 19 European Union member states which belong to the Eurozone and 9 member states outside it, but also 15 more states which, while being European, are not part of the EU – from the very rich Iceland, Norway and Switzerland to the very poor Albania, Bosnia and Herzegovina and Moldova.

⁴ While Poland has a population of 38.5 million, and a GDP at purchasing power parity (PPP) of ca. USD 1.05 trillion, the Netherlands is inhabited by ca. 17 million people and has a GDP of USD 866 billion, and Spain – by 48.5 million people with a GDP of USD 1.69 trillion. Per capita income in those three countries stands, respectively, at USD 27,700, 50,800 and 36,500 (PPP).

⁵ The scenarios of hypothetical different paths and scopes of the European Union further integration have been publicly presented in the “Reflection Paper ...” on May 31st, 2017 (European Union, 2017).

⁶ *Intermarium* is the idea of a bloc of countries stretching from the Baltic Sea on the north to the Adriatic and the Black Sea on the south. Originally it was a plan, pursued after World War I by Polish leader Józef Piłsudski, for a federation, of Central and East European countries. It remains doubtful which countries should be covered by this format. The core would be comprised of the Visegrad Group (Poland, the Czech Republic, Slovakia and Hungary), Baltic countries (Estonia, Latvia and Lithuania) along with Romania and Bulgaria, yet sometimes also Belarus and Ukraine are mentioned as well. The similar to *Intermarium* is another project, also inspired by Poland – so-called *Three Seas Initiative*. It is an informal platform designed to secure political support and facilitate action in specific cross-border and macro-regional projects between twelve EU member countries located between the Adriatic, the Baltic and the Black seas: Austria, Bulgaria, Croatia, the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Romania, Slovakia and Slovenia. Both, the *Intermarium* and the *Three Seas Initiative* are seen by some analysts as efforts aiming at weakening the EU integration and the Brussels-based European Commission and Frankfurt-based European Central Bank leaderships. Interestingly, President Donald Trump opted to visit Poland on his way to the G-20 Summit in Hamburg on July 6–7, 2017, and attend the meeting devoted to the *Three Seas Initiative*.

3. Benefits and costs

Political arguments will surely prevail but, truly, what should be more important is the economic ones. I would not advocate a decision on such an important issue as replacing the existing national currency with common European money, if I had any doubts as to the profitability of this venture. But I would not force such a solution, either, without first garnering support for it among a greater part of the society, which today is against it. The society, however, can be convinced with rational arguments proving that accepting euro would be beneficial to the Poles. There have already been such a time, more or less ten years ago, when a great majority of Poles were in favour of the euro, but the politicians did not follow the *vox populi* then. Now they should not go against it, but instead garner relevant support as a result of a matter-of-fact and fair debate.

Here, I leave aside the imperative to make a relevant amendment to the Constitution, because if the Law and Justice government, in the current political set-up, put forward this proposal, it would easily have the necessary qualified quorum, as it would get support also from some MPs from the opposition benches. This is especially true of those who constantly declare their support for free market economy and European integration.

The greatest benefit would be the elimination of the currency risk in the area where turnover is settled in euro (and in currencies quite rigidly linked to it), and this accounts for ca. 70 per cent of our exports and imports. Many entrepreneurs are disoriented as to the profitability of various ventures as they do not know what their costs and revenue will be in international relations, and thus they have no guarantee as to their potential transactions. This uncertainty spreads to the sphere of investment, because as long as there is no way to tell what will be profitable to manufacture, the profitability of investment projects is also unknown. The exchange rate's unpredictability is one of the underlying causes of the relatively low capacity utilisation, followed by a weak dynamics of investment or, at times, its absolute level even diminishing. Since this is obviously harmful to the economic growth, the introduction of the euro would eliminate this factor.

At the end of the day, the prices of goods and services that we buy on the market include transaction costs resulting from converting Polish zlotys into euro and back in exports, imports and foreign travel. On that account, as it can be estimated, we pay, first as manufacturers, and then as consumers, over a dozen billion zlotys more. This is roughly what we spend on the 2–3 percentage points of the higher VAT. Latvians and Slovenians are spared this cost (and, at the same time, easy gain for financial intermediaries, banks and currency exchange bureaus, from which we should expect resistance to the introduction of the euro).

All this, by contributing to Polish companies' greater international competitiveness on the microeconomic scale and better stability on the macro scale, would drive the economic growth, and, consequently a more palpable improvement of the population's standards of living. I believe that being part of the Eurozone, in the next decade, we could achieve a roughly 0.5 per cent higher annual GDP growth. This is a lot as, in terms of compound interest, this would generate as much as 15% more in just one generation.

There is no validity to counterarguments put forward by the opponents of the euro, who claim that once we convert our earnings to it – with the average gross salary amounting to EUR 1200 in 2020 – they will drop in real terms; by no means. Not in principle as all prices will be converted as per the same rate, including rents and also taxes. So the purchasing power of earnings – salary, pension, scholarship, social allowances, and profits – will be the same before and after the convergence. Indeed, there will be cases of prices being rounded up, but, on the one hand, the scale of this phenomenon will be blocked by the strong consumers' position and by the competition on the market and, on the other hand, prices will be rounded down sometimes, too. Surely, this will not represent an inflationary impulse as inflation is a process of the overall price level growing, and in this cases we would, at most, deal with a short-term friction.

It's also hard to defend the argument that by having our own currency we can be shielded from the impact of external shocks. Sometimes we can, and sometimes the exchange rate fluctuations do more harm than good. Before the weakening of the Polish zloty helped Poland after the shock wave of the global economic crisis in the years 2008–09, the overvaluation of our currency – and let me remind you that at its peak it was exchanged at ca. 3.20 per euro – had carried with it a series of bankruptcies, even those of well governed companies. It contributed to a near-demise of the export-oriented shipbuilding industry, and it was hardly the only casualty of the practice of yielding to the dogma that a free and fully floating exchange rate system is perfect. Then, the undervalued exchange rate of Polish currency, the zloty (PLN) 4.90 for 1 euro was temporarily helpful, but earlier on the exorbitant rate of PLN 3.20 was doing permanent damage, eliminating from the market a number of well managed firms with skilled and disciplined staff.

The fluctuations from PLN 3.20 to 4.90 per euro represent a huge spread. They made themselves felt – though with a much smaller amplitude, something between PLN 4.50 and 4.15 – also at the turn of 2016/17, in connection with the turbulence around the internal non-economic policy in Poland and the surprising outcome of the US election, among other things. As for the non-economic turmoil, it has been caused mainly by the Law and Justice (PiS) party and its government's manipulations of the regulation of the Constitutional Tribunal and intervention in the organization and supervision of the justice system, as well as highly controversial reforms of the education system and public media. The tough opposition against accepting any refugees, according to the quota system earlier agreed by the EU, also contributed to such turbulence and deterioration of relations with the European Union and its most important members, that is, Germany and France.

I suppose it goes without saying that if the euro had been in circulation in Poland for years, like in Slovenia, where it was introduced in 2007, there would have been no foreign currency-indexed mortgage crisis, or the severe and unsolved problem of the Swiss franc debtors.

4. A lesser burden of debt

A major benefit of the euroisation of the Polish economy would be the palpable reduction of public debt and costs of its servicing. Poland's reserve assets amounts to nearly EUR 110 billion,⁷ or roughly one fourth of our national income calculated in GDP terms. It is a lot and it is very ineffective as, on balance, this costs us ca. 2% of the GDP, which stems from the variation between the percentage rate of reserves and that of the public debt. In other words, on the one hand, Poland has large funds invested in very low interest foreign securities, mainly secure and stable bonds to finance budget deficits of reliable governments from the US and Canada to Germany and France, to Australia and New Zealand; on the other hand, the government issues its own bonds and sells them abroad at a much higher interest rate. It is as if we were borrowing our own money from somebody, but at a higher interest rate than we receive from such person for lending him our money.

On our way to the euro, we need to rationally use these reserves, and there is no better way than to earmark their significant part – maybe up to 75 per cent – to repay some of the foreign debt. This would mean reducing the public debt by 17 percentage points, to ca. 35% of the GDP. Then we would find ourselves in the better league of countries, as the rating of the Polish economy would go up, both the official one expressed by credit rating agencies and the real one, expressed by financial markets.

I realize that it won't be easy to redeem our debt in foreign currencies, as the profitability of our bonds is very attractive to their holders. If we succeeded for less than the equivalent of 75% of reserves, even half of it would be of great significance. The same amount could go to a special sovereign welfare fund, out of care for the next generation, and the rest – to pay the contribution to the European Central Bank's capital and to the minimum reserves.

This would be a qualitative change leading to Poland's better international financial position and, while we're at it, to a drop in interest rates. Meanwhile, the budget would carry year to year a quantitatively lesser burden of the public debt.⁸ I hasten to add that this idea will face the most fierce attack – and, of course, not a direct one but one using other arguments – from the advocates of the international financial world, for whom it is as advantageous as it is costly for Polish taxpayers, to maintain such huge foreign currency reserves, on the one hand, and quite a big foreign debt, on the other; roughly a third of the debt is obligations to foreign partners.

5. Lessons from the Greek syndrome: from small frictions to a grand crisis

Maybe the weirdest argument against Poland's currency convergence is the supposition that joining the euro may lead to a similar crisis as the Greek syndrome (Galbraith, 2016). Why should it happen? Why not to follow the developments of the euro countries like Holland or Austria, or, as for the post-communist economies, Slovenia or Estonia? The latter seems to be much more likely, considering relatively strong fundamentals of Polish economy, much stronger than in Greece on the eve of her currency conversion from drachma to euro. Therefore, let us have a brief look into the Greek drama to see how different it has been from the convergence elsewhere thus far and how different the future Poland's, and other East and Central European countries', convergence could be.

It is amazing how a minor disturbance resulted in a crisis with European and even global implications. In 2010, the Greek budget deficit was only 0.2%, one five-hundredth of GDP of the European Union. Now it is a challenge that the Greek policies cannot cope with, even though there is a way out. Greece can either escape the mounting difficulties or allow them to crush the country's economy. To escape, it is necessary to reduce Greek debt by about half. Of course, provided that Greeks will also do their part by changing the economic structure and properly setting its institutions. This is only possible with a social market economy, not a neoliberal economy, because pursuing the latter will be a continuation of the past, of a moth's flight into the fire, and it is not possible to fly in that direction for too long. The trick is to build an affluent society by properly associating concern for the economic efficiency with efforts to ensure social justice, and competition with stability. It is possible.

All it takes to get crushed is to insist on the current policy of further belt-tightening, cutting budget expenditures, raising taxes and, of course, privatizing, or selling national assets *en masse* to foreign entities (and selling them for cheap as whoever sells quickly, sells cheaply). What awaits at the end of this path is not stability, growth, and a transition to the phase of sustainable socio-economic development. What awaits there, is a crisis, even more serious than the one before, starting from Greece exiting the eurozone, the so-called Grexit, which would be more expensive not only for Greeks, but also for their foreign partners, especially from the European Union.

Careful observers could see certain analogies between the present harsh stance against Greece and the attempts to impose a similar policy on Poland in the mid-1990s. Some external institutions, ranging from the then orthodox International Monetary Fund, and the Polish homegrown neoliberals – as if not disgraced enough by the failure of their shock without therapy⁹ – called for similar moves. These would have by no means contributed to a more dynamic economy; instead, they would have certainly provoked even greater problems, starting from slow growth and increasing inequalities. However, back

⁷ Up to 39 per cent of Polish currency reserves are stored in US dollars, up to 29 per cent in euros. The remaining part of the portfolio is invested in other currencies, plus a relatively small portion in gold.

⁸ In 2017, the budgetary cost of servicing the public debt in its foreign part amounts to over PLN 10 billion (cost of servicing the domestic debt is slightly over 20 billion). It has increased by 2.7% compared to 2016.

⁹ Kolodko and Rutkowski (1991) were writing about "shock without therapy" as these processes were occurring.

then, it was possible to effectively resist such pressures by implementing a proper program of structural changes – the “Strategy for Poland” (Kolodko and Nuti, 1997).

Joseph E. Stiglitz referred to this when he wrote:

Poland's former deputy premier and finance minister, Grzegorz W. Kolodko, has argued that the success of his nation was due to its explicit rejection of the doctrine of Washington Consensus. The country did not do what the IMF recommended – it did not engage in rapid privatization, and it did not put reducing inflation to lower and lower levels over all other macroeconomic concerns. But it did emphasize some things to which the IMF had paid insufficient attention – such as the importance of democratic support for the reforms, which entailed trying to keep unemployment and adjusting pensions for inflation, and creating the institutional infrastructure required to make a market economy function (Stiglitz, 2002, p. 181).

One can add that surely the then Poland's political position and overall geopolitical environment of those times did not favour imposing something like what Varoufakis describes as economic waterboarding (Varoufakis, 2015). At the early phase of the post-communist transition Poland took a dangerous turn, suggested by the ideology and policy of neoliberalism, but later, due to quitting such ill-advised road, emerged unscathed. Will Greece do the same?

Perhaps it is worth, in his context, highlighting one more similarity. The method often used when imposing wrong policies is to make irrational assumptions and to promote them publicly, of course making use of established “authorities” on economic matters and of “independent” media. And all this in order to give credibility to the incredible, bring the public around to the preposterous and gain approval for something that should be fundamentally rejected. Such unsuitable policy was shock without therapy in Poland in the early 1990s, needless cooling-off in late 1990s and the economy-stifling belt-tightening early in the second decade of the 21st century. Back in late 1989 in Poland, the GDP was expected to decline just for one year as a neoliberal economic policy based on wrong assumptions of the Washington Consensus was pursued. However, Washington Consensus had been tailored to the Latin American realities and did not sufficiently account either for cultural and social, or even for all economic circumstances of a deeply unbalanced real socialism economy (Williamson, 2005). So GDP was supposed to go down by just 3.1%, causing an unemployment of no more than 400 thousand (later on, it was supposed to steadily decrease) and a single digit inflation rate (on a monthly basis) within a quarter.

The reality turned out to be dramatically worse. The recession that started in the second half of 1989 lasted for two and a half years more, and the cumulated GDP drop reached, in real terms, as much as 18%. The unemployment level skyrocketed, eventually exceeding 3 million, which is over 20% of labor force, and the single-digit inflation rate on a monthly basis became a fact only in late 1997.

Back to Greece, it is already recording a primary budget surplus as in its budget it allocates less public money than it receives. In other words, if you leave out the costs of servicing public debt, the budget obtains more money than it is spending. We should acknowledge that nothing like that is happening in Italy or in France. But it is also necessary to note that the earlier demands of the “troika” for the surplus to reach 4.5% of GDP, were economically absurd and politically preposterous. The next proposal, this time by just the “dvoika” (the IMF did not make such radical demands), for the surplus to stand at 3.5% of GDP was also unacceptable. And even if the acceptance of it had been forced by political means, it would not have been possible economically.

Hence, the arguments that if Poland will join the euro, it will follow the Greek way into the paramount crisis are entirely unfounded. The problems of Greece are resulting not from its belongings to the eurozone, but from a series of the domestic economic policy mistakes, on the one hand, and from the ill-advised foreign bail-outs, on the other hand. There is not any unavoidable negative factor in the Greek syndrome that must be repeated in Poland's future membership in the eurozone.

6. Convergence exchange rate of paramount importance

Assuming that all this time Poland will comply with Maastricht currency convergence criteria¹⁰ – the way we finally do, and which is under threat if the current government's policy is continued (Assessment, 2016) – what matters most is the exchange rate at which the euro should be introduced. It is fortunate that zloty happens to be weaker now; it is estimated to be undervalued by 10–15 per cent. This is a good starting point for negotiating the convergence exchange rate, which should stand between 3.80 and 4.00 zlotys per euro. It's very important as an undervalued exchange rate drives imported inflation while overvalued zloty is harmful to exports by Polish companies, and, after all, we should pursue the strategy of export-driven growth. In other words, export should grow faster than import, and both these categories should grow faster than the GDP. To make it happen, export must be cost-effective but import cannot be too expensive, either. Hence the trick is to find an economically balanced exchange rate and to negotiate it politically first as the reference exchange rate and then as the one used for the final convergence.

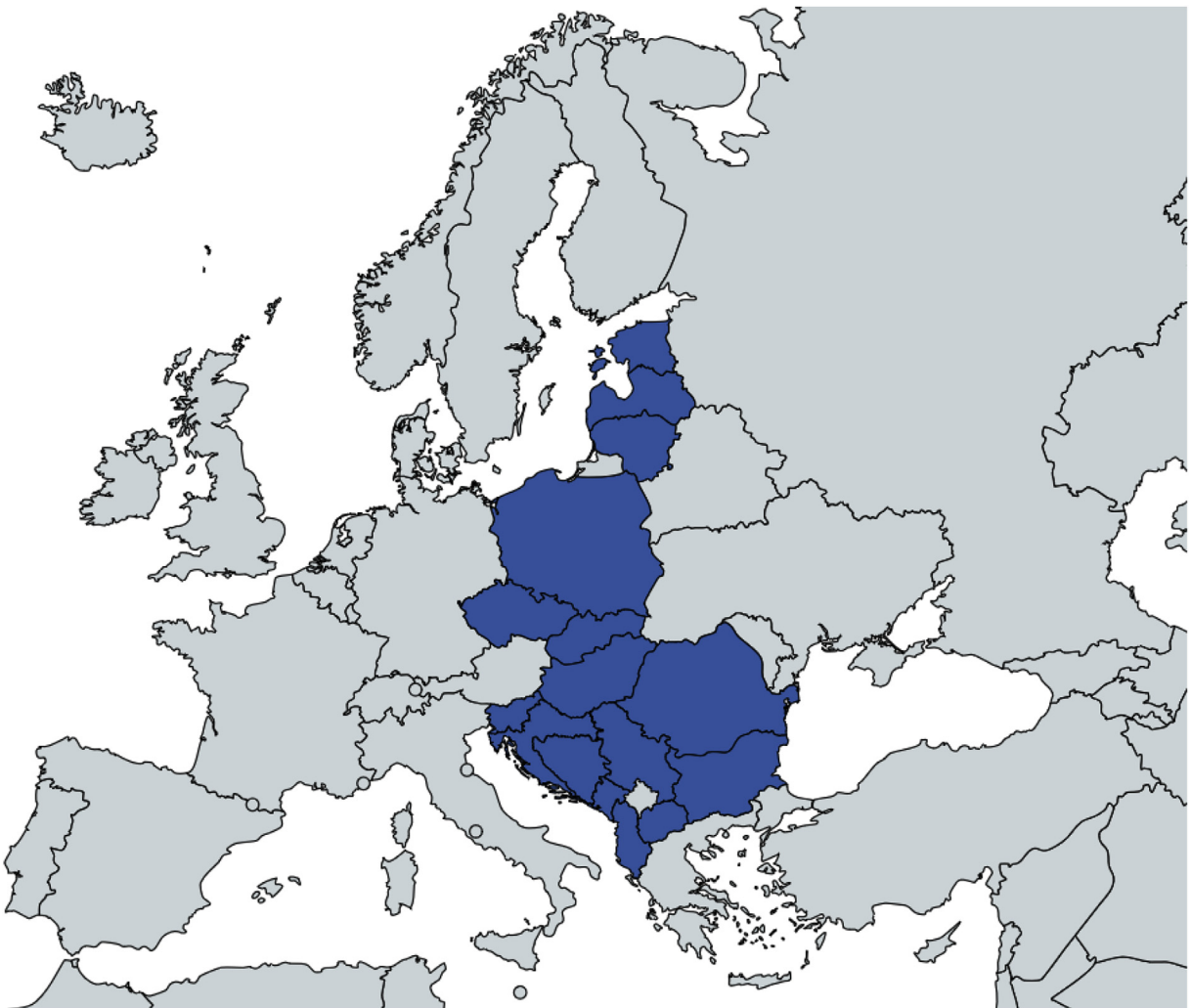
¹⁰ The Maastricht currency convergence criteria are the conditions to be fulfilled by country going to introduce the euro. There are five fiscal and monetary criteria: 1. The budget deficit (general government) must not exceed 3% of Gross Domestic Product (GDP); 2. The public debt must not exceed 60% of GDP; 3. The inflation rate cannot exceed by more than 1.5% inflation of the three most-stable European Union countries; 4. The candidate country must participate in the European currency exchange rate mechanism (ERM) for two years during which the maximum permitted band of fluctuations is $\pm 15\%$ of deviation from the determined central exchange rate; 5. The nominal long-term interest rate cannot surpass the interest rate of the three most-stable European Union countries by more than 2 percentage points.

It's worth pointing out that with Poland accepting the euro and the euro accepting Poland, we would see the trend reverse. Indeed, while pessimist opinions seem to be predominant, also in some professional circles, the strengthening of the common currency area by the largest of the 11 post-socialist transformation economies could contribute some optimist notes. While refraining from overestimating the expectations and from giving them more importance than to hard material facts, this is indeed important.

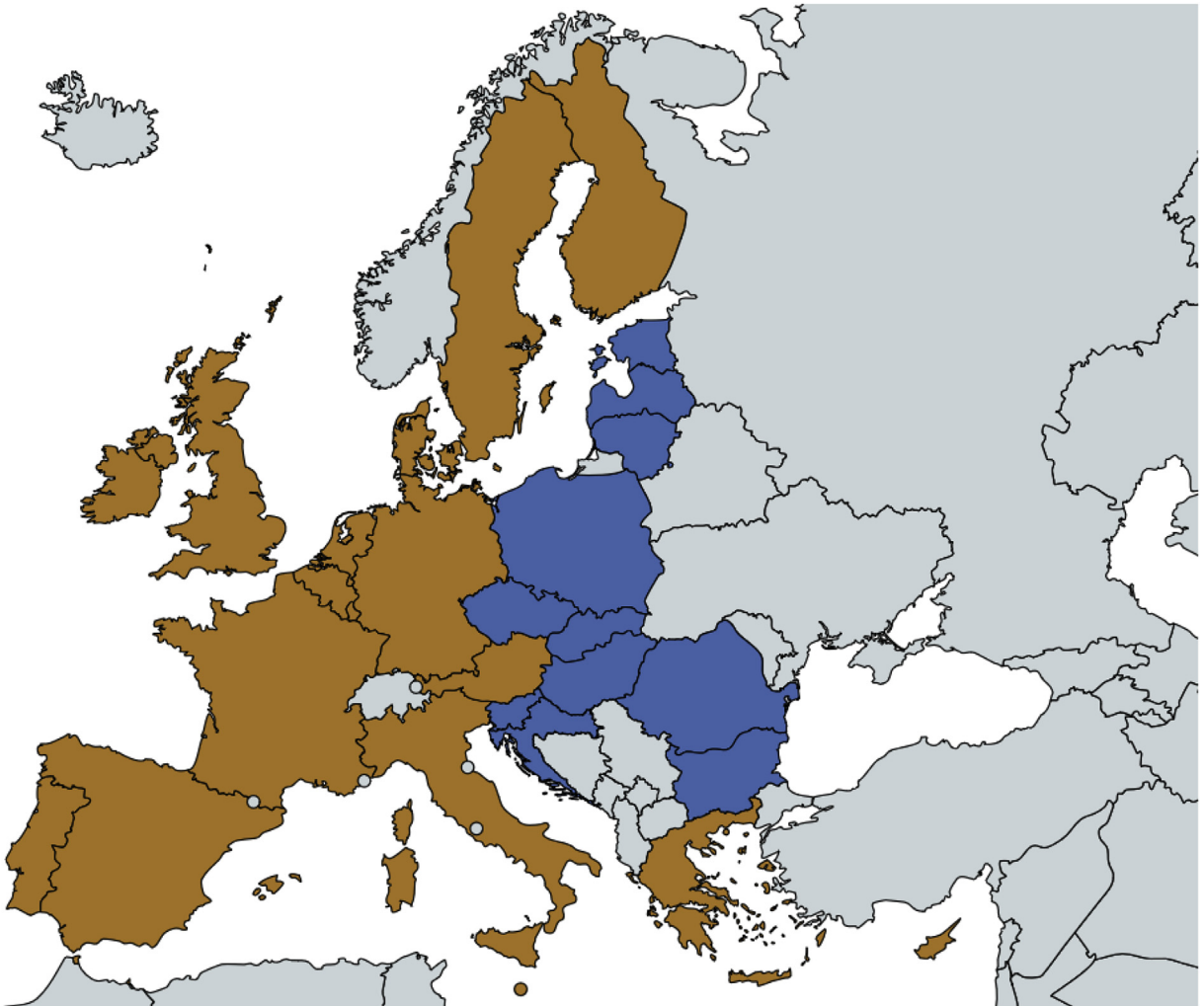
So, is it worth going towards the euro? Do chances of success, the arguments for, and the economics and politics of the whole endeavour speak in favour of it? Can we solve the Grexit problem, as there must be a clarity on this matter before we commit ([Galbraith, 2016](#); [Kolodko, 2016](#))? Yes, though we must be aware of the attendant risk and of the huge area of uncertainty. Nevertheless, it is easier to get away scot-free from the current crisis with Poland in the euro zone and the euro in Poland, and it may be beneficial to Poland, too.

Appendix

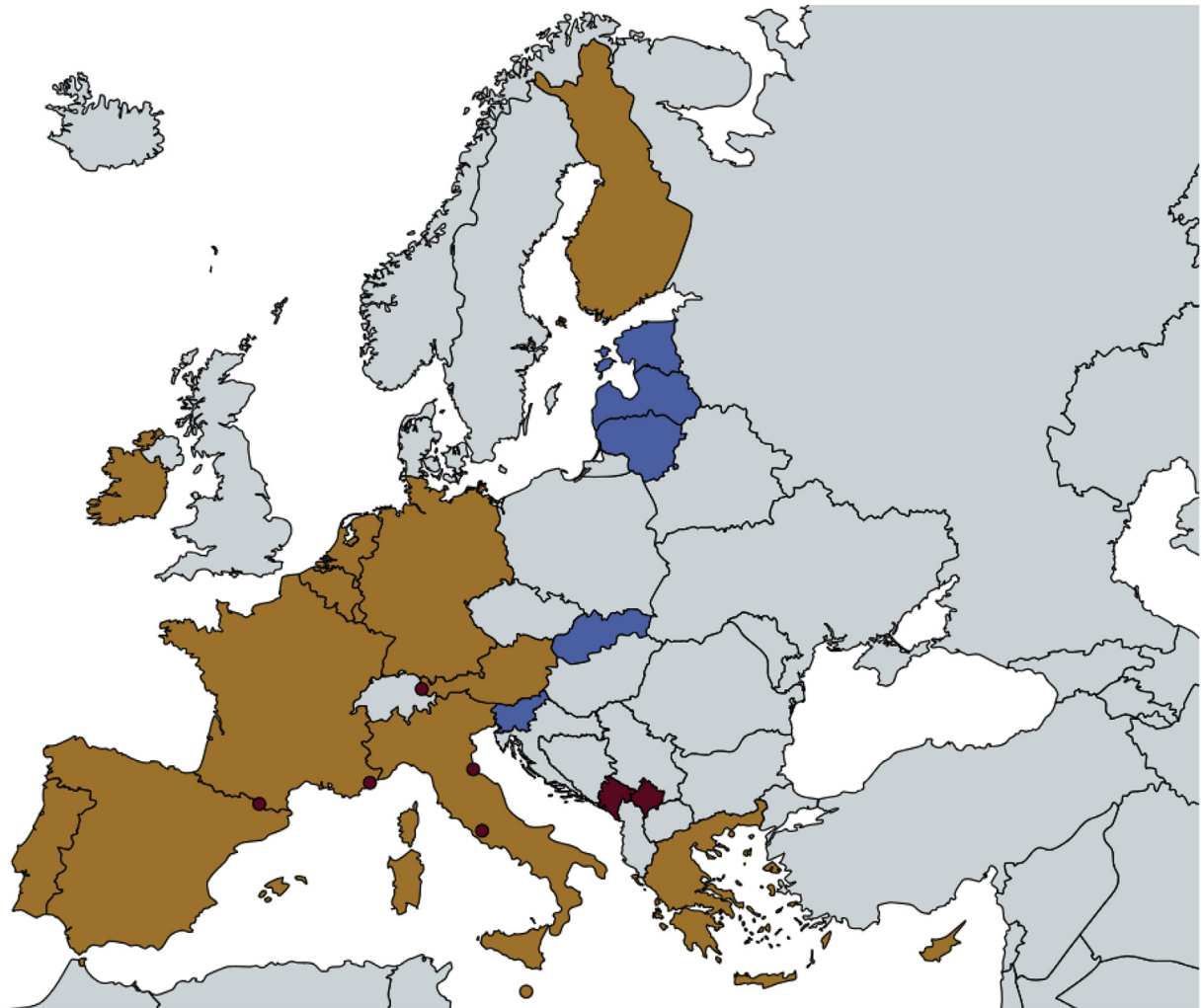
The 16 East Central European Countries: Albania, Bosnia and Herzegovina, Bulgaria, Croatia, Czech Republic, Estonia, Hungary, Latvia, Lithuania, Macedonia, Montenegro, Poland, Romania, Serbia, Slovakia and Slovenia.



The ECE members of the European Union: Bulgaria, Croatia, Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Romania, Slovakia and Slovenia.



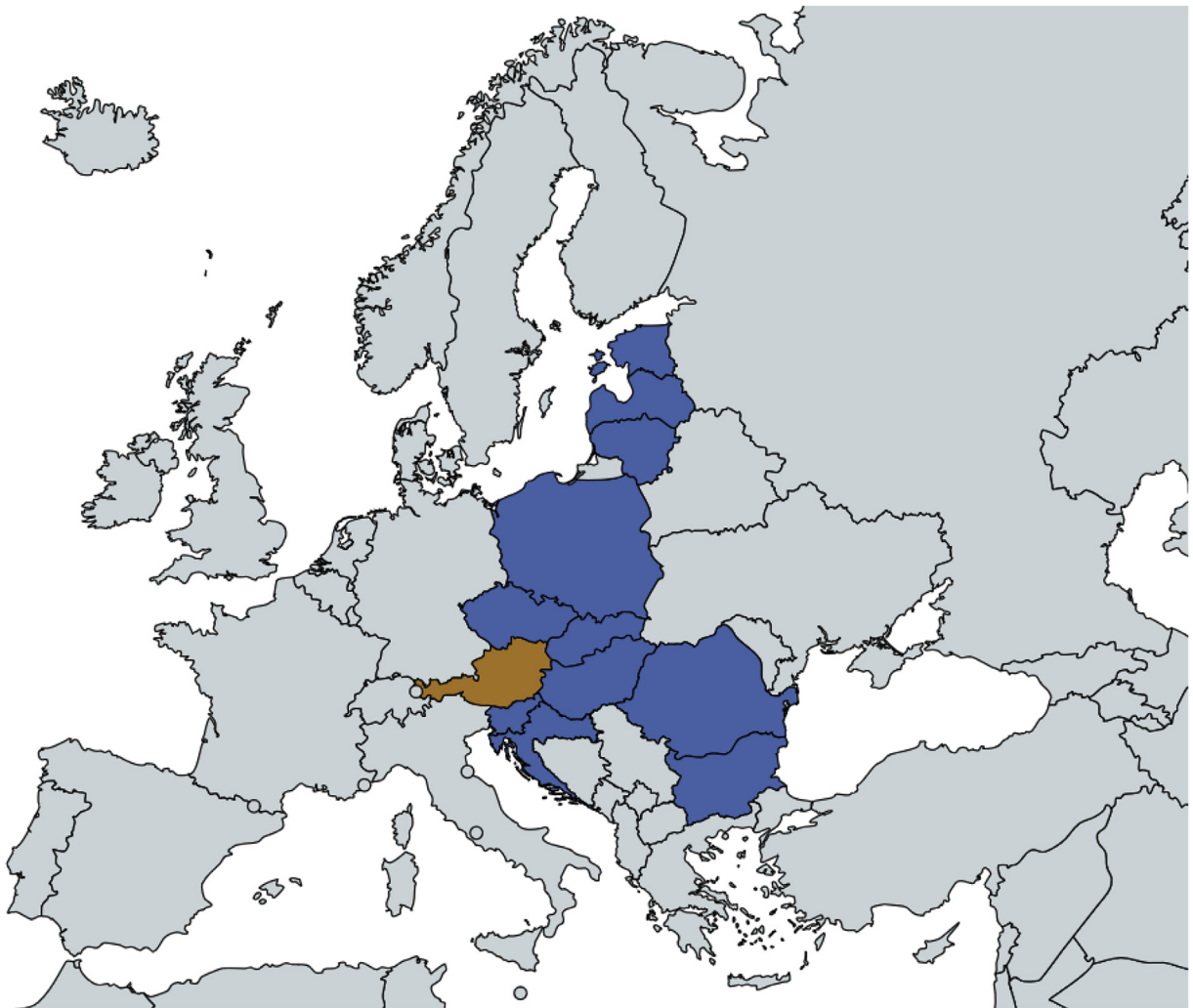
The ECE members of the Eurozone: Estonia, Latvia, Lithuania, Slovakia and Slovenia*



* In Montenegro and the territory of Kosovo the Euro is in circulation yet they are not the official members of the Eurozone, the more so since they are not even the members of the EU. Both have introduced the Euro as their currency on a unilateral basis.

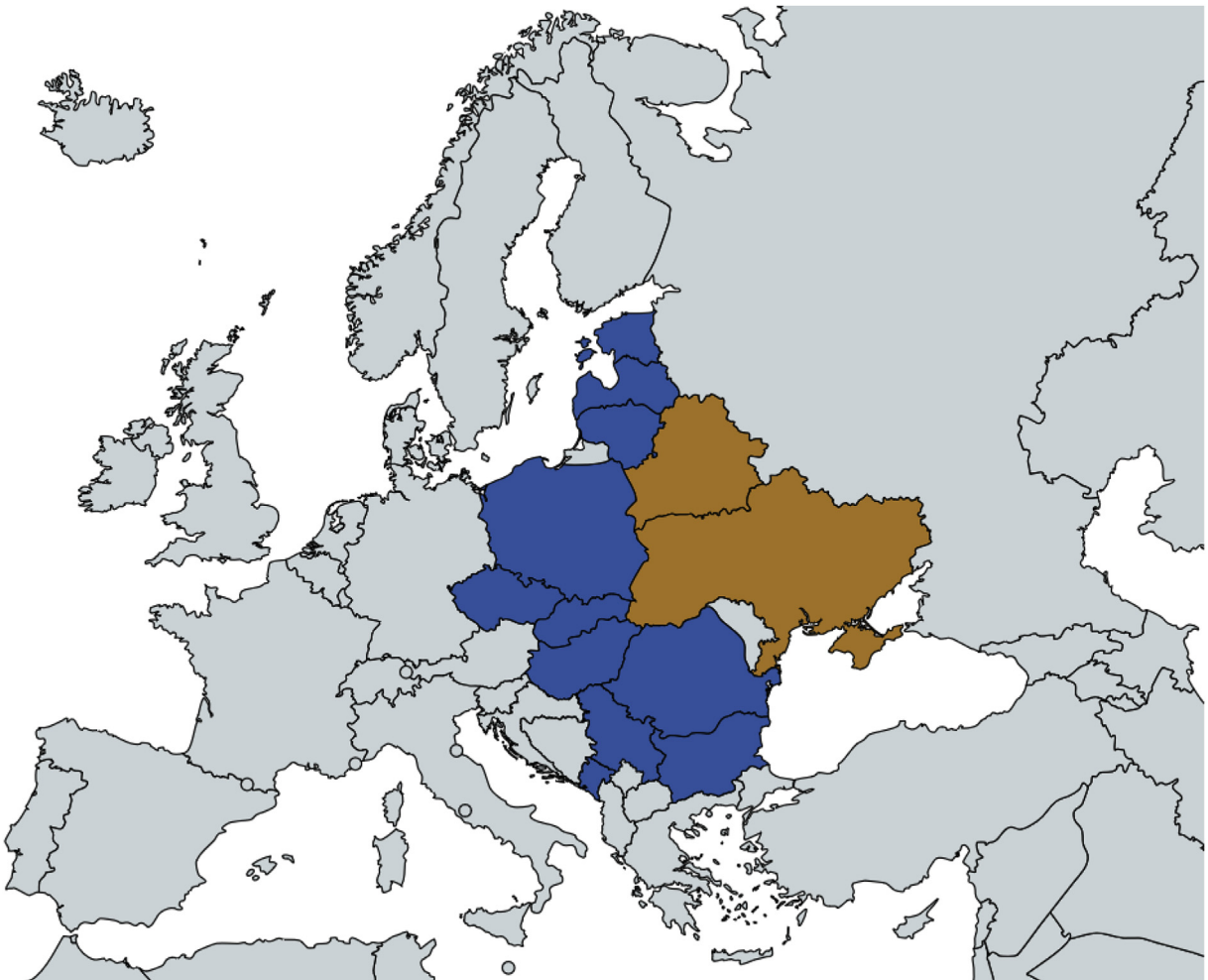
The Euro is also the legal tender in Andorra, Monaco, Lichtenstein, San Marino and Vatican (marked as the red dots on the map).

The ECE members of the Three Seas Initiative: Bulgaria, Croatia, Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Romania, Slovakia and Slovenia.



The Three Seas Initiative is an informal platform designed to secure political support and facilitate action in specific cross-border and macro-regional projects between twelve EU member countries located between the Adriatic, Baltic and Black Seas: Austria, Bulgaria, Croatia, the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Romania, Slovakia and Slovenia.

The ECE countries of the Intermarium bloc: Bulgaria, Czech Republic, Estonia, Hungary, Latvia, Lithuania, Montenegro, Poland, Romania and Slovenia.



Intermarium - the idea of a bloc of countries stretching from the Baltic Sea on the north to the Adriatic and Black Seas on the south. Originally it was a plan, pursued after World War I by Polish leader Józef Piłsudski, for a federation, of Central and Eastern European countries. It remains doubtful which countries should be covered by this format. The core would be comprised of the Visegrad Group (Poland, the Czech Republic, Slovakia and Hungary), Baltic countries (Estonia, Latvia and Lithuania) along with Romania and Bulgaria, yet sometimes also Belarus and Ukraine are mentioned as well.

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