Finding A Way In
Investigating the perceptions of the euro in the new Member States of the European Union through the cases of the Czech Republic and Hungary

by

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Abstract

This thesis examines how the various characteristics of the Central and Eastern European new Member States, as indicated by the case studies of the Czech Republic and Hungary, affect how elite monetary policy makers within these states perceive the euro, both politically and economically. In order to answer this question economic and political expectations of what one would predict the perceptions of the euro within these state to be are developed from the official sources and existing literature. The expectations reflect both the symbolic and political utility of currency in the development of collective sentiment as well as address the economic roles of currency. These expectations are then assessed against interview data collected from interviews with elite decision-makers within the Czech Republic and Hungary. Through this approach I argue that the opinions of elite decision-makers suggest that there is a complex interplay between the economic and the political regarding the perceptions of the euro within these states which reflect the unique character of these states. Moreover, I argue that even though the motivations of policy makers are in many cases particular to the NMS they are also run counter to some intuitive and scholarly predictions which indicate the need for further research.

Supervisor: Dr. Amy C. Verdun (Department of Political Science)
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<tr>
<td>CAP</td>
<td>Common Agriculture Policy</td>
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<td>CEECs</td>
<td>Central and Eastern European Countries</td>
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<td>CNB</td>
<td>Czech National Bank</td>
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<td>DG</td>
<td>Directorate General</td>
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<td>ECB</td>
<td>European Central Bank</td>
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<td>EMS</td>
<td>European Monetary System</td>
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<td>EMU</td>
<td>Economic and Monetary Union</td>
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<td>ERM II</td>
<td>Exchange Rate Mechanism II</td>
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<td>ERM</td>
<td>Exchange Rate Mechanism</td>
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<td>EU</td>
<td>European Union</td>
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<td>GDP</td>
<td>Gross Domestic Product</td>
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<td>LETS</td>
<td>Local Exchange Trading Systems</td>
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<td>MNB</td>
<td>Magyar Nemzeti Bank</td>
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<td>NMS</td>
<td>New Member State</td>
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<td>SEA</td>
<td>Single European Act</td>
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<td>SGP</td>
<td>Stability and Growth Pact</td>
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Dedication

To my Mother
Chapter 1: Introduction

1.1 Contextualization of topic and central question

Territorial currencies have played a large role in the construction of human collectives\(^1\) throughout history, most forcefully from the Roman Empire to the rise of the nation state in the nineteenth century. A single territorial currency is beneficial in the formation of economic collectives through the reduction of transaction costs and the facilitation of trade. At the same time a single currency has the capacity to contribute to the formation of political collectives by functioning as a material symbol of the collective with which people can interact and identify. As Thomas Risse (1998) states, to this end currency gives the collective ‘entitativity’ in the lives of its members and increases the feeling of attachment to the collective. In other words one currency can contribute in a political manner to the formation of a shared identity among its users as well as functioning in its economic capacity.

The multiple ways in which territorial currency contributes to the formation of collectives, is now being explored in relation to the euro where a territorial currency is for the first time, since the advent of the nation state representing a supranational territory. The most recent enlargement of the European Union (EU) on 1 May 2004 provides unique opportunities and challenges for the role of the euro. The inclusion of ten new Member States (NMS), most of whom are Central and Eastern European Countries (CEECs)\(^2\) introduces new issues into the study of Economic and Monetary Union (EMU).

As McNamara (1998:1) rightly points out EMU has ‘a purpose beyond the economic

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\(^1\) ‘Human collectives’ refers to supranational, national, and regional groupings of people.

\(^2\) NMS within this study, while acknowledging the presence of Malta and Cyprus, will refer most explicitly to the CEECs.
realm, acting as a central anchor for debates about political unification in Europe,' and indeed its study helps to ‘further our understanding of the role of the state and the nature of political power in a world where financial flows seem indifferent to national boarders and impervious to national control.’ As suggested by McNamara, given the central and far reaching significance of EMU numerous questions arise regarding the role and implications of the euro especially within context of Eastern Enlargement. It is with respect to questions surrounding the perception of the euro that this thesis makes its contribution.

All of the ten NMS will be required to adopt the euro as part of their membership of the European Union; they do not hold a formal ‘opt-out’ as is the case for Denmark and the United Kingdom. Each will be required to comply with all of the requirements of the eurozone: the convergence criteria and the Stability and Growth Pact (SGP). However, the NMS are unlike their predecessors and current eurozone members. The NMS will be the first to enter, following the completion of EMU and the introduction of the euro. Furthermore, they will join with a unique economic and political background from the existing EU-15, most having been communist states until 1989.

Despite these differences of context and circumstance between ‘old’ and ‘new’ Member States not much scholarly work has been devoted to exploring the implications

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3 All ten new Member States currently hold a derogation (that is a delay clause for adopting the euro) regarding the final stage of EMU. Countries like Denmark and the United Kingdom are given formal opt-outs. Sweden does not have a formal opt-out but has chosen not to participate in the euro just yet. Strictly speaking Sweden cannot choose to stay out, but in practice it can pursue policies in such a way so that it de facto stays out.

4 The new member states are required to join ERM II for a minimum of two years in which they commit to maintaining exchange rates within ±15% (de jure) and ±1.25% (de facto) bands around a parity peg to the euro. They must also satisfy the ‘convergence criteria’ in the year prior to euro adoption: public debt of no more than 60% of GDP (Gross Domestic Product), budgetary deficits at no more than 3% of GDP, inflation with 1.5% and long-term interest rates within 2% of the three Member States with the lowest inflation rates.
of these differences for how the euro is perceived in these states and the function it may have following enlargement in the formation of the EU as an economic and political collective. Current literature that deals explicitly with EMU and the NMS is almost exclusively economic and focuses on issues of transition and economic convergence stemming from euro- adoption (see literature review p. 14). As useful as this work is it does not facilitate a more comprehensive understanding of the perceptions and subsequent potentialities for the influence of the euro in the NMS.

This thesis examines the economic and political functions of territorial currency, in this case the euro, as they are perceived within the context of the NMS (in Central and Eastern Europe particularly). To explain this program of research further a couple of definitions need to be introduced. ‘Political’ whilst encompassing a number of factors will be interpreted primarily as reflecting the symbolic and ideational issues and potential roles associated with the euro. ‘Economic’ will be used in a chiefly conceptual sense to reflect the specifically economic considerations of the NMS and policy making actors regarding the euro. This definition of economic is distinguished from the more elaborate econometric calculations and modeling used in other studies examining the economic role of the euro in the NMS. My program of research consists of one central question that underpins this thesis: how do the various characteristics of the Central and Eastern European new Member States, as indicated by the case studies of the Czech Republic and Hungary, affect how elite decision makers within these states perceive the euro, both politically and economically?

This thesis approaches the core question in two ways. The first is from a theoretical perspective where, through the analysis of literature and primary and official
sources a set of expectations, political and economic are developed to respond to the question. Second, I further develop the analysis from the first approach through the use of elite interviews based on a questionnaire which reflects the earlier theoretical arguments and findings. These interviews are conducted with elite decision makers in two of the NMS, the Czech Republic and Hungary, are used to evaluate the extent to which the theoretical arguments are readily displayed in the responses of these elites.

The choice to use both theoretical analysis and empirical research reflects one of the main underlying assumptions of the thesis as well as a core aim of the project. First, this thesis assumes that there is a connection between the opinions and perceptions of elite policy makers and the policies which are produced. These policies then ultimately have an effect on the political and economic function of the euro (this assumption is further elaborated in Chapter Two). The inclusion of interview data is used to explore this connection between perceptions and policy.

In answering the core research question, the political dimension requires a much more intensive examination and consequently more speculative theorizations. The economic dimension is better explored by academics and therefore facilitates the development of a more concrete analysis regarding the relationship between the euro and the NMS. As a result my focus is more on the political dimension as this is where the more significant contribution can be made.

This thesis will not provide an 'answer' to how the euro will function within these NMS rather the object is to argue how and in what ways the characteristics of these states affect the views of monetary decision makers about the economic and political role of the euro. Moreover, it is argued that the context of the NMS is markedly distinct from that of
the current eurozone members and thereby new opportunities and challenges for the role
the euro will play exist. Simply put, the arguments presented here are preliminary in the
analysis of the euro and the NMS and are designed to help set the course of how the euro,
as the territorial currency of Europe, is examined within the NMS.

It is argued that ‘ideas do not float freely,’ that they are rather the products of, ‘actors’
experiences with their environment and interactions with other actors.’ (Risse-Kappen in
McNamara 1998: 5). It stands to reason then that given the unique experiences of the
actors within the NMS their ideas regarding EMU would potentially be different from
many of ideas held in the current eurozone. Moreover, as ideas are used by actors to
make key policy decisions (see McNamara 1998, Dyson 2000, and Verdun 2000) the
policy decisions made in the NMS regarding the euro might also be different and thereby
infuse the euro with unique and contextually specific potentialities for influence. On the
flip side of course it should be acknowledged that one might also find a parallel in the
ideas of NMS decision makers to some of the EU-15. For example these states may use a
country like Sweden as a precedent to justify their non-compliance with the convergence
criteria. They might also mimic the justifications of current eurozone members who are
either supportive of the euro or concerned about its performance.

To further clarify, the research question stems from the belief that there is a
connection between ideas, policy and outcomes. Therefore the research program is
designed to facilitate the exploration of the dialectic between ideas and policy choices in
the NMS insofar as they impact the role of the euro. Through assessing the opinions of
elite decision makers in two case studies (the Czech Republic and Hungary) and the EU,
and by exploring the impact of the unique context to these ideas provided by the NMS, I
argue the beginnings of a framework for understanding the role the euro plays in these states will occur.

Implicit within the core question are a series of sub-questions of interest to this study. These sub-questions deal most explicitly with the political dimension of the role of the euro insofar as these are the most unexplored to date, unlike the economic questions, and as mentioned are the direction towards which this thesis leans. How will the particular qualities of this group of states (that is economically small and relatively underdeveloped, previously communist and joining the euro without input into its creation and after its introduction) impact the symbolic role of the euro? To what extent will the euro contribute to a feeling of ‘one-ness’ between the CEECs as indicated by the cases, and the EU? Is there an awareness or intention within the CEECs to utilize the euro in a non-economic or symbolic way, or are economic rationales at the heart of the opinions regarding the euro’s role in these states?

Considering the above I argue there is the intention along with a reasonable expectation that the euro is poised to take on a role within the NMS which fuses the economic and the political functions of territorial currencies and which is distinct from its counter parts in the current eurozone. Furthermore I argue that while the economic considerations discussed in theory and held in practice are of a similar nature regarding the future role of the euro such is not the case with the political. Indeed it is my assertion that both the political considerations of policy makers and those suggested by theory are significant in understanding the possibilities for the role of the euro. However, I assert that the communist legacy, both as an economic and political influence concerning the role of the euro within these NMS is overstated.
1.2 The Foundations: A preliminary literature review in three parts

I distinguish three areas of literature which are essential in providing the context to the thesis and subsequently answering the research question. The first is literature concerning the connection between territorial currencies and the formation of collective identity. This body of literature serves to address the symbolic political dimensions of currency which are of primary concern. The second is the existing economic and political theories regarding the euro and its role in the current eurozone which are helpful insofar as they serve as starting points for discussions about the NMS. Finally, current economic and political literature on the euro and the relationship between the EU and the NMS in Central and Eastern Europe is included to survey this new field of study and the trends within it. These three literature reviews are included to give a sense of what is already known about the question and to highlight the numerous gaps in current scholarship regarding the NMS and the euro to which this thesis aims to make a contribution.

1.2.1 Establishment of historical connection between territorial currency and identity formation

A clear connection has been established between the construction of the nation-state's 'imagined community' (Anderson 1983) and collective political identity of its members and the rise of territorial currencies (Helleiner 1997, 2002, 2003). Based on the scholarship of theorists of money and the nation-state such as Giddens (1985), Helleiner (citations above), Zelizer (1994), Gilbert (1999) and Frankel (1977) it is evident that currency has been deliberately employed by the state to evoke and construct a sense of unity between the peoples of particular national territories. Currency, since the nineteenth
century has functioned to bind ‘the nation together politically’ (Helleiner 1997: 17) and express its ‘inner spiritual unity’ (Müller-Peters quoted in Helleiner 2002: 22). Karl Polanyi has argued that there is a ‘constitutive importance of currency in establishing the nation as the decisive economic and political unit of the time,’ thereby giving national currency great ‘integrating power’ (quoted in Helleiner 1997: 24).

This kind of binding and integration occurs in a number of ways. One primary way, which is explored by Hewitt (1999) and Rowlinson (1999), is the use of imagery on banknotes and coins. A single currency also functions as a common economic language and important method of social communication, which is essential in community building according to Deutsch (1966). Likewise, Helleiner (2002) argues that a single currency helps to bind peoples through the experience of a shared or common economic fate, which again elevates the role money plays in developing the collective. While scholars such as Cohen (1998) point to the deterritorialization or denationalization of money they acknowledge that currency is still relevant in the formation of collectives, economic and otherwise, through the trust relationships required for the success and stability of currencies.

Historically one can observe that currency functions as a significant contributor to the development of nation states and collective identities within these states and territories. Similar expectations and results have been found in the scholarship pertaining to the role of the euro in the twelve euro-zone countries. Indeed Minkkinen and Patomäki clearly articulate this when they refer to EMU as an ‘important symbol for the unity of Europe and for the possibility of imagining the Union as a proper political community.’ (1997: 11) The symbolic function of EMU in the political sense has been
added to the agenda of research since the late 1990s and has also come to the fore of the rhetorical pronouncements of the Union itself\(^5\) as well as the leading elites in some countries. This sentiment was evidenced most explicitly when former German Chancellor Helmut Kohl stated that the single currency was 'the symbol of European integration' (quoted in Risse 1998: 19).

As far as an explicit evaluation of the role of the euro in the formation of collective identity this has been most concretely explored by Risse (1998, 2003), Helleiner (1997, 2002, 2003), Kaelberer (2004) and Faist (2001) who all look at how the euro helps to enforce and delineate a common identity among peoples, albeit an identity that works in concert with national conceptions of identity. As mentioned, the euro brings what Thomas Risse calls 'entitativity' to the community, that is to say it makes the EU 'real' in the lives of the citizenry given that it is a material symbol of the EU which is used and interacted with on a daily basis (Risse 2003: 489). This concept will be developed more in the thesis. However, it is important to mention it at this juncture given that this attribute of the euro it is suggested is key in helping to concretize the EU in the eyes of citizens and thereby functions as a locus around which a European level identity has the potential to build. The arguments of these authors signal how the euro does not function in completely the same way as a traditional territorial currency but rather has the potential to contribute to the new form of collective identity being formed within and across the territory of the EU. This constructive role the euro plays in reference to collective identities is seen as complimentary to existing forms of social/collective identity is referred to as the 'marble cake' model (Risse 2003) or process of 'nested

\(^5\) Schmidtke (2004) discusses how the euro has been rhetorically employed as the principal symbol of European integration of an emerging European identity.
membership’ (Faist 2001). According to these theories European identity, which the euro helps to articulate, works with existing forms of identification but is still of significance to citizens.

From this literature we see that there is a connection between the introduction of a territorial currency in the nation state and collective identity formation within the state. The literature argues that national territorial currencies have facilitated identity formation through the imagery the currency displays, the common economic language and shared economic fate it provides, and its role as a means of social communication. It should be noted though that as Chown (2004) points out in his historical survey of monetary union the role of territorial currencies in the formation of collective identities is not a function limited to this time. Indeed, what we see in this literature is that in many ways the euro is helping to facilitate the development of a European collective identity in a manner similar to the way currency has functioned in the Nation State. However, while there are many parallels to the state, the collective identity at the European level is developing as a complementary identity to national identity. The importance of this literature for the thesis is the fact that it highlights the way in which the euro as the territorial currency of Europe has the capacity to function as a community builder from an identity perspective in ways similar although not exactly like that of national currencies.

1.2.2 Economic and Political literature regarding the role of the euro in the EU-15
There is an extensive body of literature regarding EMU, which pre-dates the actual introduction of monetary Union. Many point to Robert Mundell as the father of EMU as a result of his Optimal Currency Area (OCA) theory introduced in 1961. Indeed, OCA
theory was instrumental in the creation of EMU. However, in addition to Mundell, authors such as Balassa (1961) and Tinbergen (1965) helped develop many of the initial salient economic arguments on the determinants for whether or not monetary union would be a good policy choice for Member States, a topic that is still contentious today. Their economic arguments for whether or not a monetary union was good depended on whether or not Member States had (1) extensive trade relations with one another (2) were relatively ‘open’ economies (3) had similar policy objectives insofar as macroeconomic policy objectives (such as the inflation rate) was concerned, (4) and did not need the devaluation/revaluation instrument to correct imbalances in the economy (Balassa 1961, Tinbergen 1965). These considerations prompted Member States to adopt the ‘snake in the tunnel’ when the system of fixed exchange rates introduced at Bretton Woods dissolved. After the failure of the ‘snake’, the European Monetary System (EMS) was set up in December 1978 and launched in March 1979.

The EMS continued with relative success until the Exchange Rate Mechanism (ERM) crisis of 1992. In the interim and as a result of political will the concept of EMU was revived by Member States to make the first steps towards the creation of an economic and monetary union by mentioning the need for its creation in the Single European Act (SEA). This was further discussed at the 1988 Hanover meeting. It was the Delors report of 1989 which came to form the basis of how EMU would be set up and progress. The final step came with the Maastricht Treaty which gave treaty basis to the Delors blueprint. Further the Treaty stipulated the road to EMU that is the convergence criteria for the single currency. The decision to introduce a single currency was made because of savings in transaction costs but also because of the symbolic effects which
could not be fully achieved through merely irrevocably fixing the exchange rates. An added rationale as Wyplosz (cited in Chown 2004: 221) points out was that nations ‘like France, Italy and Spain gradually realized that they had lost control of their domestic monetary policy,’ which required a new arrangement in which they had a voice, such as EMU.

Scholars such as de Grauwe (1992) argue that the real virtue of a single currency would be the credibility factor it would provide nations with to what would by and large be seen as a reliable fixed exchange rate for Europe. In other words, Member States joining EMU have to be ready and able to give up the exchange rate instrument and be able to cope with a single interest rate for the entire EMU. As a consequence of these multiple rationales the EU elected to adopt a single currency as the final step of Economic and Monetary Union. There were clearly a multitude of motivations from both political and economic vantage points.

Current scholarship regarding EMU which has not been directed at the evaluation and analysis of historical development of EMU and its economic principles, not withstanding the aforementioned limited literature on identity and the euro, has tended to focus on governance of EMU (Torres 2004), the ideational aspects which influenced its construction and implementation, primarily regarding elites actors (see Marcussen 2002, Verdun 2000 and Dyson 2002), or has looked at the structural limits of EMU as they relate to the concept of legitimacy (see Verdun and Christiansen 2001, Schmidtke 2004 and Dyson 2000). Most recently, much of the political science literature has turned its attention to one of two topics regarding EMU and the euro. On the one hand there is an increasing interest in the issues surrounding the Stability and Growth pact (see Heipertz
and Verdun 2004) and the criteria associated with it. Much of the economics literature, which endeavours to look at EMU and the NMS, does so by evaluating the SGP guidelines and their potential effects on these states achieving real and nominal convergence with the rest of the EU. For the purpose of this thesis the relevant economics literature is that which deals with the effects of the convergence criteria on budgetary policies. These effects have been criticized as they were seen to have negatively influenced the economies and social welfare of member states (see Jenson and Pochet 1996, Eichengreen 2003). The other area of interest has to do with governance of EMU (Torres, Verdun, and Zimmermann 2004). This literature looks at the structure and function of the ECB and posits the challenges for addressing problems of democracy (Torres 2004) and efficiency in an ever-growing union.

The aforementioned literature is important to the research question because it discusses the current and historical context of EMU and demonstrates some of the issues of note when considering the existing eurozone. For example, the issue of ‘political will’ given that it is clear countries have to be favourable to a single currency or economic arrangement for it to work. Second, issues pertaining to fiscal policy as a result of the convergence criteria infuse EMU with concerns relating to the welfare state. Finally, issues of legitimacy, democracy and efficiency are shown to be a central concern of eurozone members and are sure to be complicated by the Enlargement and moreover influence the way in which NMS perceive their role in EMU (i.e. legitimacy increased or decreased in EMU? Does the euro increase the voice of the NMS in Europe? Will the euro help the NMS’ economies to function efficiently or not?) This literature makes evident the breadth and extent of the scholarship on EMU and orients the reader to some
of the existing issues presented by EMU which need to be considered when answering the research main question.

1.2.3 Current relevant scholarship on the NMS

On May 1, 2004 ten countries joined the EU and thereby, as a result of the requirements of their membership, presented the Union with the first candidates for euro adoption who had not acceded to the Union prior to the introduction of the single currency. The majority of the recent literature which examines this dynamic and which engages specifically with EMU and the NMS is economic and draws on much of the literature above. This economics literature begins from one of the first theoretical accounts of monetary union, Mundell’s Optimal Currency Area theory, mentioned above, was influential for the development of EMU originally. Building upon the work done by Bayoumi and Eichengreen (1993) and Blanchard and Quah (1989) economic scholars interested in the CEEC’s and the new Member States have used OCA to discuss the issue of EMU. These studies engage in economic modeling and hypotheses testing on issues such as business cycle alignment and asymmetric shocks in order to assess the costs and benefits of EMU. Indeed, much of the economics scholarship to date sees a real convergence taking place between the exiting eurozone countries and the NMS (see Boone and Maurel 1999; Koçenda 2001 and Kutan and Yigit 2002). Most studies however, including those conducted by Maurel (2004) and Kohornen (2003), inevitably come to conclusions that corroborate Frankel and Rose’s argument for endogenous OCA (1998) where countries become more aligned ex post (i.e. after joining the monetary union). Despite conclusions supporting endogenous OCA there is a significant
acknowledgment of the need for economic benefits to outweigh economic costs prior to joining EMU even if some of the benefits are long term and are predicted to follow EMU.

Another section of the current economics literature focuses on what economists seem to believe are the major challenges or potential costs for the NMS of joining the eurozone as a result of their having to meet the convergence criteria. The first, and perhaps most contentious of these has to do with the issue of fiscal policy and the role of ERM II, issues which as mentioned were of concern to the existing eurozone members given their potential implications on the welfare provisions. Buiter (2004) argues that the sole criterion which should be pursued by the NMS is fiscal sustainability with a quick transition through the ERM II stage of euro adoption. For Buiter, ERM II is at best an ‘irrelevant distraction’ (2004: 39). In agreement with this later point Eichengreen (2003) asserts that while euro adoption is the superior monetary policy option for the NMS there are many unnecessary obstacles in place. The most significant of these he finds to be the participation in ERM II even with plus-or-minus fifteen per cent bands. Eichengreen argues that the best way to ensure a sustainable move to EMU is to encourage fiscal consolidation by cutting expenditures, which will occur because of the requirements placed on the accumulated public debt and on the annual budgetary deficit combined with an inflation target of 1.5% of the EU average. Eichengreen and Ghironi (2000) further suggest that the integration of NMS whose structures differ significantly from the current eurozone members has the capacity to increase inflation and impede the development of a eurozone wide monetary policy that will be appropriate for all members. However, they posit that the addition of these new members will heighten the pressure for a ‘mutual

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6 In mid-2003 the EU Monetary Affairs Commissioner, Pedro Solbes, proclaimed that there would be a de facto ERM II band which would be narrow, presumably of ± 2.25% (cited in Dean 2004: 4).
surveillance of national fiscal policies’ Eichengreen and Ghironi (2001: 37) and regulation of financial institution; all of which they assert were already needed changes and are clear benefits of the process of euro adoption.

Finally, economics literature that is not specifically oriented towards the conditions for euro adoption from the NMS perspective peripherally deals with these issues through its examinations of the broader challenges facing an enlarged EMU. Authors such as de Grauwe (2004) and Amtenbrink (2003) are representative of this kind of scholarship. De Grauwe argues that in an enlarged euro area the capacity of the ECB to maintain monetary and financial stability and set interest rates that will reflect the needs of the whole eurozone will be threatened. Likewise Amtenbrink suggests that, in order to meet the challenges of an enlarged eurozone, changes to the existing structure of economic governance need to be made so that they take into consideration the problems of fiscal policy independence exacerbated in the NMS given their propensity for deficit spending on welfare programs.

While the economic literature in most cases acknowledges (though does not deal with) the fact that the method and timeframe for euro adoption is inherently political, the existing political science literature does not do much to flush out this observation nor does it substantively discuss the political role of the euro following its introduction in the NMS. The economic literature on transition economies – which would include the aforementioned studies – often, mentions the fact that these states are still in the process of ‘catching up’ following the end of communism. In political science the communist legacy has been examined by scholars such as Bratt (2003) who caution that the transition from communism to democratic market economies in both economic and political terms
should not be seen as a uniform process that took on the same shape in each nation in Central and Eastern Europe. However, there are similarities among these NMS. For example, the EU took on all of these states in one wave of enlargement, and their developments are seen as part of the supposed ‘Return to Europe’ (for a discussion of this concept see Schimmelpennig 2001; Sjursen 2002 and Sedelmeier 2000). It is in this context that much of the literature regarding the politics of currency union stresses the role of EMU as this concept will be further flushed out in chapter five.

As discussed in section 1.2.1 there is a body of literature by scholars such as Risse (2003), Helleiner (2002) and Kaelberer (2004) that link the single currency and the formation of a European collective identity. In fact Risse (2003) highlights how in the case of countries with a weak currency, such as Italy (which is also the case in the NMS), the euro and Europe have been seen as something to aspire to. Within this body of literature enlargement is usually mentioned peripherally and with the comment that perhaps the euro will function to consolidate a feeling of ‘Europeanness’ in the NMS. The discussions of the identity dimension in the NMS are currently not much more than peripheral and minimal speculation.

A final body of literature which is making an attempt to look at some of the long range effects and possible implications of the euro in the EU concerns fiscal policy and the possible retrenchment of the welfare state. As was highlighted in the survey of the economics literature in the CEECs there is a far reaching consensus among economists that fiscal policies must be sound in the NMS and that this requires them to be reformed. Authors with an eye to the political ramifications of these policy decisions such as Jenson and Pochet (1996) and Martin and Ross (2004) make connections between EMU and
changes to labour market and social policies which apply to the NMS. All in all the literature suggests that EMU and the fiscal policy requirements contained therein result in non-neutral effects on adjacent policy areas.

It is to be somewhat expected that the EMU literature would be in a stage of becoming and limited in many respects to learned speculation, given the newness of this enlargement and the fact that none of the NMS have joined EMU as of yet. Currently, economics literature leads the way in theorizing the implications of the euro in the NMS and some of the considerations which will or should be on the agenda for policy makers when considering their euro adoption strategies, such as fiscal policy reform and economic governance. Literature dealing with the NMS and EMU from a political vantage point is much less developed. However, this body of literature still offers relevant insights for this thesis as to some of the various characteristics of the NMS to be considered, such as theorizations regarding the role of the communist legacy and the 'return to Europe' phenomenon. As well this body of literatures has begun a discussion regarding the identity dimensions and the NMS. In addition to this there is discussion regarding the non-neutral effects of EMU on adjacent policy areas, centrally fiscal policy and the welfare state, areas intimately tied to the European psyche and suggested to be of central concern in the NMS. Much of these issues will be discussed in the following chapters but have been mentioned in this literature to better orient the reader to the current state of understanding regarding NMS and the euro.

1.3 Chapter Outline
There are six remaining chapters that comprise the body of this thesis. Chapter Two, ‘Methodology’ provides the rationale for the methodological choices made in the empirical investigation and throughout the research program. It also examines the construction and conduct of the questionnaire and interviews. Moreover, there is an in-depth explanation of the cases selected, the Czech Republic and Hungary, for the empirical portion of this project. Finally, the chapter identifies the limits of the study and the deliberate parameters set for the thesis.

Chapter Three ‘Exploring the utilitarian and symbolic role of currency in the formation of the ‘collective’’ develops the central groundings of this thesis. Whereas this introductory chapter provides a basic literature review in order to outline generally what is known which is relevant for the research question Chapter Three goes on from this foundation and examines the role of currency in historical perspective and in relation to the challenges imposed by current global economic realities all of which are important for properly contextualizing the discussion and arguments pertaining to the NMS and the euro. The role of currencies in this chapter is approached with reference to both the political and economic dimensions.

Progressing from this broader evaluation of the role of currencies in the formation of economic and political collectives’ Chapter Four ‘The role of the euro in the development of the European Union ‘collective’’ examines the currency of relevance to this study, the euro and how it has functioned up until the point of enlargement. As with Chapter Three this chapter looks both economically and politically at the role of the euro in the development of the EU community. The desired objective of including the broader discussion contained in chapter three with the more pointed analysis of the euro pre-
enlargement in Chapter Four is to trace the role of currencies and present a plausible and logical development towards the arguments made within this thesis. Moreover, the contextualization which Chapters Three and Four ensure that a reader has a more nuanced understanding of the ways in which territorial currencies have, and continue to be perceived and employed by the territories and groups they represent. Such an understanding also gives a baseline against which the analysis of the role for the euro in the NMS can occur.

Chapter Five, ‘Economics and Politics and the Expectations about Perceptions of the Euro in the NMS’ is of particular significance. This chapter provides the theoretical analysis of the qualitative differences of these countries, economic and political, from the current eurozone which are most often articulated within the literature and by the CEECs themselves. The chapter then goes on to explore and how these differences affect how the euro may be perceived by the NMS. In order to systematically deal with this undertaking the chapter categorizes the analysis into the admittedly artificial dichotomy of political versus economic and develops two sets of expectations for how the need and timing and role of the euro may be perceived. It should be noted that the object of this artificial divide is to provide a degree of clarity to an otherwise complex issue and from this then reconstitute more complete argument in response to the research question from a theoretical vantage point. It is on this more constructive footing that the chapter concludes and makes way for the empirical analysis.

Chapter Six, ‘Evaluating elite policy makers’ opinions of the euro in an enlarged EU’, reports and analyzes the findings of the series of interviews conducted with the two case studies and at the EU level. Whereas in Chapter Five there is mention of the
opinions and perceptions of elite decision makers insofar as these have been reported by ‘official’ and secondary sources. Chapter Six examines these opinions directly. The compilation of these opinions from the decision makers directly through in person interviews provides a more accurate depiction of attitudes, which is ultimately more useful. It is for this reason that an empirical section is included in the research program. The data are presented on the basis of the institutions, the countries and in relation to the other cases. The chapter then presents trends and a theme, present within the data, and evaluates how these cases reflect or challenge the analysis and theoretical arguments advanced in Chapter Five.

The final chapter simply titled, ‘Conclusion: A preliminary set of expectations for the political and economic perceptions of the euro in the NMS’ presents the answers the research question in light of the preceding chapters. It offers a clear statement of how the various characteristics of the NMS, as indicated by the case studies, affect their perceptions of the role of the euro. This chapter goes on to indicate how the findings of this thesis help to demarcate a path for future research regarding the euro and the CEECs.
Chapter 2: Methodology

2.1 Introduction

This thesis follows a traditional path of research drawing on both primary sources or ‘official’ sources (i.e. policy statements, press releases and government documents) and secondary sources (i.e. academic literature and newspaper/magazine articles).

Furthermore, additional data was collected in the form of interviews with elite decision makers. These interviews were conducted in the Czech Republic and Hungary and at the European Commission with those involved in monetary policy making. The following chapter discusses the methodology behind the structure of this project, and the choice made to use interviews. Section 2.2 explains the choice of a qualitative approach to the analysis and rationale for using interview data. Section 2.3 provides the details and reasons behind how the interviews were carried out and with whom they were conducted. Section 2.4 discusses the questionnaire. Section 2.5 provides an explanation for the choice of the Czech Republic and Hungary for the interviews. Section 2.6, examines the limitations of the study and section 2.7 offers a brief conclusion.

2.2 The Approach

Why a Qualitative Methodology?

There are two methodological options for approaching primary research available to an investigator, a quantitative approach and a qualitative approach. Neither approach is inherently better than the other in absolute terms rather it is the study which dictates the
more appropriate method. As mentioned in Chapter One the core research question that forms the foundation of this thesis is: How do the various characteristics of the Central and Eastern European New Member States, as indicated by the case studies of the Czech Republic and Hungary, affect how elites decision makers within these states perceive the role of the euro, both politically and economically? To augment the theoretical expectations of these perceptions, which will be discussed in Chapter Five, I chose to conduct interviews with elite decision makers. Implicit within my questions is the central role of elite perception and regarding the subject of monetary union and the euro. To investigate this in a more direct manner than is possible through the use of regular printed sources interviews were used. It is the contention of this thesis that perceptions and opinions as evidenced by the responses of elite decision makers provide immeasurable insight into how the euro may function within the CEECs given its impact on policy. Examining these opinions and perceptions of decision makers however does not lend itself well to quantification and statistical analysis. Therefore in this case the choice of a qualitative approach is far and away the most appropriate method.

Using Corbin and Strauss' definition of qualitative research, that is,

‘...any kind of research that produces findings not arrived at by means of statistical procedures or other means of quantification. It can refer to research about persons' lives, stories, behavior, but also about organizational functioning, social movements or interactional relationships,' (1990:17)

it is logical to favour a qualitative approach for this research program. The interview data collected in this study reflects the opinions and perceptions of a small group of elite decision makers. The reasons for this small group will be discussed in the coming pages. The result of this small sample is that there is not a large enough group of respondents to compile a data set of sufficient size to use a statistical analysis. Furthermore, the type of
information gathered is not such that a statistical analysis would reveal the intricate
details and answers which would be relevant to this study. It will be evident throughout
this chapter that a qualitative approach is the best possible for this thesis.

*Why Elite interviews?*

The above provides the general justification for the use of interviews within a qualitative
frame of analysis. Two further questions are central to the methodology of this study and
require additional explanation. First, why were *elite* interviews selected? Second, why
were elite decision makers involved in monetary policy in particular selected as
respondents and how is an elite decision maker defined in this study? The answer to the
first of these questions is that the objectives of the study were most completely achieved
through the use of the elite interview technique. Dexter (1970: 5) identifies three
characteristics of elite interviews:

1. stressing the interviewee’s definition of the situation,
2. encouraging the interviewee to structure the account of the situation,
3. letting the interviewee introduce to a considerable extent his notions of what
   he regards as relevant, instead of relying upon the investigators notions of
   relevance.

One of the primary objectives of this study is to ascertain what the opinions of the
interviewee, in this case elite decision makers are and what these have to tell us about
how the euro is perceived within the broader context of the Central and Eastern European
NMS. As a result it is paramount that the interviewee be allowed to convey their
interpretation of the motivations and opinions behind euro adoption and their view of
where these opinions come from rather than be guided too strictly by the agenda of the interviewer. As will be seen in the discussion of the questionnaire the questions were designed to highlight the key areas of interest and some the theoretical conclusions reached within Chapter Five, but in a way that allowed a more open-ended response by the interviewee. It was intended that the responses of the interviewees result in a data set which would contribute to the further inductive development of a comprehensive set of conclusions to answer the research question.

To answer the second question of 'why elite interviews with monetary policy makers and how is this defined by the study?' we need to look at the requirements of the study itself. To compile responses which would make possible an inductive development of reasonable conclusions interviews needed to be conducted with only the most senior officials. This ensured that the information provided would be accurate and well informed by the experience and extensive knowledge of the individual regarding the euro and monetary policy. Drawing from the information on how to define what elite is, as presented by Deutsch et al. (1967) this study defines and *elite* as a person engaged with both informal and formal policy making at societies national and supranational level who is a 'special' or 'functional' elite (Deutsch 1967: 4) engaged in monetary policy making in ways concerned with the adoption of the euro in the NMS or within a specific NMS. Their involvement in monetary policy making should afford them intimate knowledge of the policy process and the motivations discussed and employed during past and present decision making on monetary policy.

Another reason for using an elite interviewing technique with elite monetary policy decision makers lies in the core assertion there is a tie between the opinions of this
group of individuals and the motivations underpinning policy making in relation to EMU in the NMS, and that this connection ultimately dictates much of the role the euro will play in these states (see for further information Moyser and Wagstaffe 1987 and Deutsch, Ediger, Macridis and Merritt 1967). This assertion draws heavily on the results of an earlier study conducted by Verdun on the perceptions of EMU in Britain, France and Germany which affirms this link and highlights its utility in facilitating a more complete understanding of EMU (see Verdun 2000). In this case the link between elite opinions and perceptions and subsequent policies is helpful in facilitating a more complete understanding of how the various characteristics that comprise the national context of the NMS impact the views held about the euro.

While it is clear that there are many elite decision makers which have an influence on the euro and how it is introduced within these NMS, such as Prime Ministers offices, Foreign Affairs and social policy decision makers to name but a few, the decision to focus on a monetary policy elite only was a conscious choice. First, I am interested in investigating how those individuals involved with the initial euro implementation strategies perceive the currencies role. I wish to begin at the beginning as opposed to with adjacent policy areas. Second, while the political dimension would be more readily expected when interviewing an elected official or a person who is more removed from the economic policy it was of interest to me to investigate to what extent political and even symbolic considerations were on the minds of elites most closely tied to the economics of euro adoption.

2.3 The Interview
The interview method

After deciding on the approach to the interviews and a qualitative methodology, the method by which the interviews would be conducted is the next methodological choice. Rather than sending out questionnaires to the target list of respondents I elected to conduct semi-structured in person interviews. The first reason for this choice relates to the high level of non-response often experienced when sending out survey questionnaires (Verdun 2000: 104). Contacting individuals directly and meeting with them in person assured a response. Moreover, the quality of responses was enhanced by this approach and through the semi-structured nature of the interviews. Semi-structured in this instance does not refer to an ad hoc approach to the interview rather it means that while the same questions were asked to all respondents the interviewer was free to pose follow up questions and probe more deeply into answers when necessary for a thorough and clear response. This approach provided the interviewee with a platform to more fully explicate answers and respond to the why behind their comments. Such in depth answers to the questionnaire could not have been obtained through the use of survey questionnaires as the risk of partial or unclear answers would have been elevated had respondents been asked to write them down and return them to the investigator. Moreover, this approach allowed for the benefits of elite interviewing mentioned in section 2.1 to be realized.

The aim of these interviews was to obtain a fuller understanding of elite decision makers’ opinions and perceptions regarding the euro within their particular domestic context. This data are then to be used to contribute to the development of a more comprehensive response to the research question. As a result of this objective the quality
of responses was a primary concern. Quality for the purposes of this study is defined as a
detailed and specific response to the questions asked within the questionnaire that
clarifies the basis for the opinions expressed by the respondent and ensures that the
question is interpreted in the manner intended by the investigator. Therefore, while the
sample size possible for in person interviews was potentially smaller than it would have
been had questionnaires been sent out the responses obtained were of the higher quality I
sought.

To ensure that interview data are useful as part of an academic investigation it
should be obtained by the most systematic means possible. For this study I attempted to
ensure such systematization. The relative control achieved by means of conducting the
interviews in person and by one interviewer ensured that there was consistency in the
delivery of the questions so that all respondents were asked the same set of questions and
completely answered all questions. As a result it is possible to engage in a more reliable
comparison of the results of various interviews, which facilitate more rigorous and
methodical analysis. Once again, had questionnaires been sent out I would not have been
assured of complete responses to all questions across all respondents. Such a possibility
would have impeded the analysis of the results.

Finding the right person

With the structure and rationale guiding the interviews outlined the next step is to select
the appropriate respondents. The interviews were all conducted with officials currently or
previously involved with monetary policy making at the national level and in relation to
the European Union. The primary group of participants was high-level decision makers
within the Ministries of Finance and the national Central Banks, while at the EU level
decision makers in the Directorate General for Economic and Financial Affairs were
selected. In Hungary interviews were conducted with officials at the Ministry of
Finance and the Central Bank of Hungary (*Magyar Nemzeti Bank* (MNB)). In the Czech
Republic officials in the Czech National Bank (CNB) were interviewed and no officials
from the Ministry of Finance. The reason no interviews were conducted with the Czech
Ministry of Finance was that all those contacted within the Ministry were adamant that
there would be no difference between the opinions of the Ministry and those of the
National Bank. Whilst efforts were made to organize an interview in spite of this
information to ensure consistency between the two case studies this ultimately proved to
be impossible. As a substitute for the Czech Ministry of Finance an interview was
conducted with a member of the academic community who was also an economic
business consultant who had previously acted as an advisor to the Czech government on
monetary policy. At the EU level an interview was conducted with the individual
responsible for the unit on ‘Monetary Affairs within the eurozone and other Member
States; ERM 2’ within the Directorate General (DG) Economic and Financial Affairs. It
was hoped that interviews would also be obtained with individuals who had worked on
the EU Enlargement process within the Commission but after this unit was dissolved
following accession I was directed by all other contacts made to the aforementioned unit
and to the person with whom I ultimately spoke. In most cases only one individual was
interviewed per institution.

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7 The rationale for including interviews with elite decision makers at the EU level despite the focus on the
NMS at the national level will be explicated when discussing the choice of case studies upcoming in this
chapter.
In order to determine the correct person within the target organizations initial contacts were made with the institutions and elite decision makers identified by those institutions. Appropriate individuals were also identified by officials involved in economic and political portfolios at the Canadian Embassies in these countries. Finally, suggestions were made by other academics involved in this field of research. In most cases these initial contacts lead to referrals to the appropriate person. In all 53 contacts were made and six interviews conducted. After the correct person was identified a request for interview was made by formal letter and was accompanied by the questionnaire. This was done in order to give respondents a chance to prepare for the interview and provide preliminary information about themselves and their policies, which they deemed necessary. Shortly after this an interview time of 60-90 min was arranged by phone and confirmed by the investigator.

The interview

All of the interviews took place during a research trip carried out between 15 June 2004 and 6 July 2004. The interview always began with a confirmation of the respondent’s position and qualifications. This was done in order to ensure the correct respondent was being interviewed and to assess their background and qualifications as well as any political leanings that might affect their responses. In addition the confidentiality options, as outlined by the University of Victoria, were presented so that the respondent was able to specify their preferred level of confidentiality within which they would feel most able to speak freely and with the highest degree of honesty. Respondents were asked to identify when the opinions they presented were that of the organization or their own.
Both sets of opinions were seen as important as they were viewed within the study as having bearing on the particular motives underlying policy. After these preliminary steps were taken the formal interview began based on the questionnaire questions. All respondents allowed their interviews to be recorded to facilitate the accuracy of reporting. Each respondent was only interviewed on one occasion. As per University of Victoria regulations no incentives were provided for participation outside of providing a copy of the final research report.²

2.4 The Questionnaire

The questionnaire⁹ was designed to investigate the elements of the core question of this study based on the issues emerging out of the theoretical analysis. The questionnaire consisted of seven questions most of which were multi-part. The first set followed a temporal organization first dealing with opinions held prior to the introduction of the euro and during the Accession process and moved to those held after the introduction of the euro (that is to say after the introduction of euro banknotes and coins in 2001) and following Accession (1 May 2004). The questions ranged within this temporal divide from general open-ended questions to more specific. They touched on the perceived economic and political issues as well as on some of the more pertinent qualities specific to the CEECs suggested within the literature such as the communist legacy, their status as transition economies and the role of the ‘Return to Europe’. For example, question five dealt specifically with the perceptions of the impact the communist legacy had and has on

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² For more information on the ethics procedure followed please see Appendix A which contains the application to the University of Victoria for ethics approval for this project
⁹ For a complete version of the questionnaire as associated interview documentation please see Appendix B
the motivations underpinning monetary policy making in relation to euro adoption both politically and economically.

In some cases, such as with question four the respondents were asked to speculate on the euro’s role in relation to the citizens of their country. An argument could be made that such speculation regarding popular opinion would be unhelpful to the objectives of this study as it is unreasonable to expect a reliably accurate assessment of citizen opinion from decision makers. While this concern is certainly founded such speculation was in fact most helpful and useful to my particular research agenda. It has been shown that the beliefs elite decision makers hold regarding the sentiments of the population, that is to say their perception of the degree of popular support, have a direct impact on the policies they make that in this case speaks to the roles the euro is set up to play within these countries (see for example Jones and van der Bijl 2003; and Brezis and Verdier 2003).

The final question allowed the respondent to add any information they felt was relevant and which had not been addressed through their responses to the previous six questions. The method used allowed for both a structured interview with comparable responses to set questions while at the same time providing the respondent, by virtue of the final question with an opportunity to voice opinions not expressed in their responses to the formal questions. It also allowed the respondent to provide the investigator with information which may not have been available through other channels (information such as recent political developments or changes in policy not yet made public). As mentioned allowing the respondent the freedom to define what is relevant and offer their

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10 Eurobarometer data from ‘Candidate Countries Eurobarometer: First Results 2002’ showed a majority support for the euro in both case countries with 70% in Hungary and 53% in the Czech Republic.
interpretation of the issues being investigated are key features of elite interviewing which are facilitated by the way the questions were structured, in addition to the inclusion of the final open-ended question.

2.5 Case Selection: Why the Czech Republic and Hungary, and why the EU Commission?

The empirical investigation is limited to two of the new Member States, the Czech Republic and Hungary. In addition to these two cases empirical data was collected at the EU level in order to provide a context for the responses received within the Czech Republic and Hungary. Moreover, the EU level as represented by the Commission was included so that a comparison could be made between the opinions of decision makers at the supranational level and those held by elites at the national level. However, despite the rationale for including EU level responses this study focuses almost exclusively on the opinions of national elites, as the chief objective is ascertaining the views held by domestic level monetary policy makers within the NMS regarding the euro.

The choice for the Czech Republic and Hungary was based on a number of factors. The initial concern was selecting countries, which would be sufficiently similar to allow for the comparison and the control of as many variables as possible. In addition the countries selected needed to posses some of the particular qualities found in the Central and Eastern European NMS which differentiate them from existing member states and which are of interest to this study insofar as they impact their views and motivations for euro adoption. Simply put the cases selected were intended to function as the best possible preliminary indicators for all of the NMS given the limitations of this study. Choosing very different countries could have been fruitful so as to access the
importance of other factors...I believe that for the reasons mentioned above, and which will be elaborated on below I obtain relevant data that enables me to embark on the investigation of perceptions of the euro in the NMS.

The control variables are selected to facilitate a more fruitful comparison as they help to limit the number of extraneous factors that need to be considered in final analysis of the interview data. First, countries were chosen that were working with similar timelines for euro adoption. Both the Czech Republic and Hungary are aiming at euro adoption in 2009/10.\textsuperscript{11} Second, the cases were selected to reflect a similar sized economy. Both the Czech Republic and Hungary are relatively large economies in comparison to some of the other NMS.\textsuperscript{12} The choice of relatively large economies was made to ensure that we are not comparing apples and oranges (the situation for a small Member States, such as the Baltic states, might be different from that of larger/middle-sized CEECs). Third, these states are relatively open economies with the Czech Republic having a high degree of trade integration with the EU and Hungary increasing in this respect (see Korhonen and Fidrmuc, 2003). Finally, both countries are experiencing relative success in integrating with the EU unlike what has been claimed for example in the case of Poland, the largest NMS. This fact helps to limit the number of issues, which need to be addressed when looking at motivations concerning policy. For instance, regarding the funds to Poland from the Common Agricultural Policy (CAP), this may

\textsuperscript{11} According to the most recent October 2004 Convergence Report of the Commission (2004) both the Czech Republic and Hungary have not fulfilled the convergence requirements. Hungary has not completed any of the requirements and the Czech Republic has achieved price stability and long-term interest rate convergence.

\textsuperscript{12} The 2003 figures for GDP in millions of euros as obtained from Eurostat show the Czech Republic:75680.6; Hungary; 73235.4. These are the second and third highest GDGs of the NMS, Poland has the largest GDP.
complicate the relationship between the EU and this particular new Member State in ways that might blur the general question of the role euro in this new Member State.

In addition to the control variables presented, these two countries are selected for a number of qualitative differences and similarities they represent with respect to each other and to the other NMS that allow these two countries to suitably reflect many of the particular characteristics of the CEECs and make them more reasonable indicators for the remaining NMS in Central and Eastern Europe. First, both countries were communist economies until 1989. The presence of this particular quality is necessary in order to explore the extent to which the communist legacy impacts the views of decision makers regarding the euro; for example the role that the so called ‘Return to Europe’ plays in the minds of elite decision makers.

I then looked for countries where the elite decision makers’ opinions and the policy towards euro adoption were not exclusively positive. Countries such Cyprus, Estonia, Lithuania, Malta and Slovenia have been quick to support euro adoption and have been on the fast track to that goal.\(^\text{13}\) To begin to explore the multitude of dimensions operating within this decision making process, it is preferable to select countries within which one would expect to find some diversity of opinions. Another important qualitative difference regards the fiscal situation of the state. The Czech Republic and Hungary are both struggling with fiscal consolidation issues that place a strain on their abilities to comply with the convergence criteria and the SGP.\(^\text{14}\) Thus the issue of euro adoption will

\(^{13}\) All five of these NMS have indicated a plan to adopt the euro in 2007 or earlier making them the most optimistic of the ten new Members. Estonia currently has the earliest projection date for euro-adoptions possibly as early as 2006.

\(^{14}\) Budgetary deficit figures obtained from Eurostat (2003): the Czech Republic: 12.9%; Hungary: 5.9%
go hand-in-hand with an array of economic and political issues and deal with their position as transition economies.

These two countries were also selected because they differ from one another. In the run-up to EMU Hungary is pursuing an ‘ERM II shadow’ of a crawling peg to the euro with a plus-or-minus fifteen per cent band and inflation targeting of three to five per cent by 2005 (Dean 2004: 763; and Loli 2003) whereas, the Czech Republic is using direct inflation targeting of two to four per cent and a managed float (Dean 2004: 763). Furthermore, the selection of targeting exchange rate regimes versus a peg means that these states will have to respond differently to economic shocks throughout their euro adoption process which may impact their opinions depending on whether or not they are able to respond successfully to these pressures. This particular factor would not be seen in countries such as Latvia and Lithuania which are pursuing versions of a currency board that in essence eliminate these kinds of economic shocks.

The similarities between the Czech Republic and Hungry provide enough control to the empirics of the project to make this study manageable and deal with the specific interests of the study, such as the role of the communist legacy and the political and economic dimensions. Moreover, the size of these countries and the fact that they are experiencing moderate success in integration with the EU make them appropriately ‘middle of the road’ representations of the NMS. At the same time their euro adoption strategy and economic and political developments are significant to the functioning of the EU and therefore make them interesting in their own right. Likewise these countries are valuable for their differences, which will provide more diverse results and facilitate a more comprehensive analysis of the economic and political views held on the euro and
how these relate to the possible eventual functions of the euro in these states. Thus, given the limitations of this thesis and its objectives, the Czech Republic and Hungary represent the best possible selection for illustrative case studies.

2.6 Limitations of the study

Many of the limits to this study are intentional and designed to reflect the objectives and realities of the project. At the outset it is important to acknowledge what these limitations are as well as the strategies, which are used to mitigate the negative impact the limits might have on the wider project. Some of the limitations of this study have already been mentioned.

It is perhaps most useful to begin by addressing the intended parameters of the investigation. First and foremost this thesis is not interested in presenting a definitive picture of the role the euro will play in the NMS. Such an undertaking is well outside the scope and capabilities of a study this size. Moreover, while the NMS in Central and Eastern Europe do posses a number of similarities which have the potential to impact the role of the euro in similar ways across the borders of these states (these will be discussed in the body of this thesis) it would be naive to assume that the perceptions of the euro and the consequences of these views would be uniform between all states. One needs only look at the Eurobarometer data on the opinions regarding the euro in the current eurozone to appreciate the great diversity in the perceptions of the in each state.\textsuperscript{15} Rather, the intention of is to present some reasoned conclusions of how the particular qualities of the NMS as indicated by the cases of the Czech Republic and Hungary affect the views they

\textsuperscript{15} For a complete accounting of this diversity of opinion please see information in the Eurobarometer Flash EB 165 'The Euro, 3 Years Later' of December 2004, http://europa.eu.int/comm/public_opinion/flash/fl165_euro_en.pdf
hold about the political and economic roles the euro is likely to play. Simply put the
objective of this study is to contribute to the first scholarly steps in the study of the euro
in the NMS which deals with this subject from a qualitative vantage point emphasizing
the national sphere. It is not a comprehensive end to this discussion.

Within these parameters there are also certain structural limitations to the design
and the data. While the execution and structure of the data collection by means of
interviews is felt to be the most effective way to provide an empirical operationalization
to the theoretical analysis there are certain limitations, which bear mentioning. The first
concern is that respondents will not be truthful with their answers and will employ a
degree of ‘rhetorical action’ (Schimmelfennig 2001) and utilize the researcher as a
platform to advance and voice the agenda of the organization. In essence there is a
concern that the interviewer will become a tool for propaganda and therefore not gain the
increased understanding of the actual views of elite decision makers they are looking for.
This threat is of course very real however, it is not of great concern for the present
research. As mentioned the design of the questionnaire is such that answers are checked
as to whether they are organizational or personal opinions. This provides the respondent
with the option to give more than the rhetorical pronouncements of their institution and
has in the course of this research proven to give the respondent the ability to speak quite
freely and in more depth. Moreover, the use of a set questionnaire ensures the
comparability of responses within a given country and institution which increases the
likelihood that the investigator will achieve a more accurate view of which opinions are
institutional and which are specific to the individual.
Another limitation or criticism of this method is the questionnaire is structured in a way that leads the respondent to confirm certain conclusions while disproving others. In order to mitigate the chance of this type of bias and ‘leading’ the questions are structured towards a more open-ended model, which allows the respondent to provide the answer they feel is most apt. Moreover, when a question asks about specific issues or views it is balanced by articulating the opposite view within the same question to showcase both sides of the issue and thereby not disclose what may be perceived as the investigator’s bias or preferred answer.

It may be argued that the final limitation in the empirical investigation is the sample size. With an $n$ of only six interviews in two countries some may suggest that it is difficult to draw accurate and transferable conclusions regarding the views of the euro held in the new Member States. While in many cases the sample size is a large concern in this instance a limited $n$ was not a major concern, nor was the presence of only two case studies (the rationale for the selection of these two countries in particular is found in section 2.3). The interview data collected for this thesis was meant to augment the associated research undertaken. The intention is to use this data to identify issues or dimensions to the research agenda that may not be observed through other avenues of research. The data collected yielded noticeable trends in responses of significant size for analysis across an appropriate cross-section of institutions and decision makers.

Lastly, while not one of the most central issues in deciding the parameters and methods of this study, the manageability factor was considered in the decisions made. To make this thesis a manageable undertaking the number of interviews conducted needed to be of a sufficiently small size so that the data could be methodically and appropriately
analyzed within the confines of a Masters project. Limiting the interviews to only the most elite decision makers in the monetary policy field reduced the number of potential respondents to a size appropriate to the project.

2.7 Conclusion

This chapter has examined the methodology behind this thesis, and in particular explicated the choices made with regard to the interview method used. The most appropriate method for this study is a qualitative one as the data collected from interviews with elite decision makers and the information obtained through primary, secondary and official sources does not lend itself to the type of statistical analysis or quantification required by a quantitative methodology.

The interview itself was conducted in a semi-structured manner with emphasis being placed on quality responses. All provisions for confidentiality and a systematic conduction of the interviews were made. Furthermore, the questionnaire was designed to reflect the specific questions of the research agenda and the background research done on the topic but also allow the maximum amount of freedom for the respondents’ answers.

In order to obtain a manageable amount of useful data given the limitations of this study, the Czech Republic and Hungary were selected as case studies. To contextualize these responses an interview was also conducted with an official from the Commission of the EU.

This chapter has highlighted the high degree of thought and attention given to the methods chosen and the construction of the research design to ensure that academic standards and ethics guidelines were met. All of the choices made were intentional.
Chapter 3: Exploring the utilitarian and symbolic role of currency in the formation of the ‘collective’

3.1 Introduction

As Jonathan Kirshner states, ‘monetary phenomenon are always and everywhere political’ (2003: 3). It is this political element, which since the rise of territorial currencies as the medium of economic exchange in nation states has imbued currency with characteristics and capacities beyond its face value. Through this chapter both the political and economic (with emphasis on the former dimension) development of currency from the rise of the nation state in the 19th century to the present period is traced. Particular attention is given to the symbolic role that currency can play in the construction of political and economic collectives and the identities situated within these communities. Furthermore, the chapter addresses some of the challenges presented by new developments such as the deterritorialization of money (Cohen 1998) and how these come to affect the role of currency. It should be noted that while this chapter is oriented towards the politics of currency, the economic motives behind the creation and maintenance of territorial forms of money will be mentioned.

The reason for focusing on the political at this juncture is twofold. First, the economics of territorial currencies is dealt with to a sufficient extent within the discussion in Chapter Four of the euro in the current EU-15 and within the scope of the arguments made in Chapter Five. Second, whereas the economic elements of relevance for this thesis can be addressed within the aforementioned chapters and with peripheral reference here, the political dimensions are in many ways much less concrete and require
a more developed historical context and theoretical analysis. The connection between the economic and the political dimensions of currency is intimate; ‘economic logic limits the range of policy choices to a plausible set, but the outcomes observed are largely attributable to politics.’ (Kirshner 2003: 4) It is with this in mind that Chapter Three begins.

Section 3.2 examines the connection of territorial currencies and the rise of the nation state. This section discusses the various economic and political roles intended for currency when it was introduced. This section also delineates the material and ideational elements originally envisaged with the rise of national currencies and the interplay between the two dimensions. Section 3.3 examines the challenges to national currencies in the current context; it will not deal with issues specifically associated with the introduction of the euro as these issues are comprehensively addressed in Chapter Four. Section 3.4 concludes.

3.2 Territorial currencies and the rise of the Nation State in historical perspective
It is widely accepted that the social philosopher Georg Simmel together with Karl Marx laid the foundations of how social scientists think about money and social identities. Today much of what Simmel and Marx have argued has been criticized, but one point that was made by Simmel provides a very necessary starting point for the discussion of territorial currencies and the rise of the nation state. Simmel ‘saw money in relativistic terms as the functional category of modern civilization: the symbol of its spirit, forms, and thought.’ (Frankel 1977: 5) If one views currency in this inherently socio-political manner the question of how and in what way currency functioned in the rise of the nation
state becomes a multidimensional question with implications reaching far beyond the economic qualities of money as a medium of exchange and a store of value. As mentioned in Chapter One, examining currency in this fashion has driven the work of scholars such as Helleiner (1998, 2002), Hewitt, Zelizer, and Frankel. In this section I introduce some of the key ways identified and analyzed in which territorial currencies have functioned politically in the rise of the nation state.

Since the 19th century nation states have attempted to maintain ‘a distinct currency which is both homogenous and exclusive within their territorial boundaries,’ (Helleiner 1997: 2) as a chief symbol of state sovereignty. To this end currency has been used to construct the boundaries of the community in economic and symbolic terms. By binding the community in this way, territorial currencies have strengthened certain important features of the nation state. Helleiner (1997: 3) identifies three ways in which a territorial currency does this. First, a uniform territorial currency provides the nation state with economic territorial coherence. Second, a territorial currency provides a sense of collectivity which binds national citizens and contributes to the formation of an ‘imagined community’ (Anderson 1983). Finally, territorial currency gives the state a more direct link to the society it governs. The two sides of the money-state relationship as Gilbert rightly argues are nation-building and state-making whereby national currencies lend legitimacy to the state while at the same time the public becomes more dependent on the state. (Gilbert 1999).

The economic functions of a territorial currency through this mutually reinforcing state-society relationship are perhaps the most evident. As Heilpern has argued the presence of a national currency allowed the state to ‘insulate itself economically from the
world much more effectively,' (Heilpern: 20) in turn allowing the state to carry out the
economic policy it saw as most fit for its territory. At the time of the rise of the nation
state the industrial revolution had made it important to create a large-scale market within
which to conduct economic transactions. The introduction of territorial currencies made
the creation and facilitation of this market possible (Helleiner 1997:14). Moreover, the
introduction of territorial currencies served to undermine the local particularism of pre-
national economic life and reorient economic interactions towards a much more
nationally based project. National currencies encouraged market transactions throughout
the territory by increasing the ease and reliability of economic relations outside of small-
scale locales. This encouragement came through elimination of transaction costs and the
convertibility of currency. In essence national citizens could trust the worth and
applicability of their currency throughout the national sphere.

With the advent of the nation state, economic spaces became organized along
national lines and in the service of national citizens and governments. However, the after-
effects of creating this new national economic space are not limited to economics; they
spillover into other areas associated with the creation of the state. This is not to say there
is some kind of path-dependent functionalist development that occurred during the rise of
the state which automatically resulted in more political functions for territorial currencies.
Although, it is evident that while currency began as an economic tool and store of value it
developed a multitude of other roles which it could be argued mirrored a functionalist
development.

As currency became more political through its development through the
aforementioned process what comes to the forefront is that ideas achieve a central role in
shaping decisions about how money is used and the policies that surround it (see Goldstein 1993, Goldstein and Keohane 1993, McNamara 1998, Verdun 2002). National currencies and their role came about largely through ‘painstaking and deliberate activities of public authorities,’ (Zelizer cited in Helleiner 1997: 7) that intentionally utilized currency in non-economic ways. Most centrally national currencies were employed to reassert the connection between the state and society. Currency became a useful symbol ‘to remind people of their connection to the state and their oneness with it.’ (Helleiner 1997: 22)

What, however, were and are the particular qualities projected onto territorial currencies by policy makers that infuse them with the capacity to act symbolically in the direction of fostering collective national identities and promoting solidarity between citizens and the state? At its core, collective identity springs from groups of individuals who ‘perceive that they have something in common [and] on the basis of which they form an “imagined community”.’ (Risse 1998: 7). Implicitly, this involves the social construct of a definition regarding who the community is, that being the construction of the ‘in’ group, in reference to what and who is not part of the community, that being the ‘out’ group. Social Identity theory and Self-Categorization theory flush out in a more thorough manner the ways in which this process of delineating the collective occurs.

However, stemming from these theories most principally are the ideas that differentiation between groups is asymmetrically and positively biased in favour of the in-group (Müller-Peters discussed in Beckmann 1996). Furthermore, the principle of ‘meta-contrast’ states that ‘the greater the perceived differences between groups in contrast to the difference within one’s own group the greater the group’s collective identity.’ (Risse 1998: 7).
Moreover, these communities in order to maintain cohesion over time need to be
‘constantly reified in order to [be] meaningful objects of identification.’ (Risse 2003:
499). The role of symbols becomes important as a way in which these principles are
enacted and identity constructed. In the case of the state currency is used to reify the
community within the territory. These principles of meta-contrast and self categorization
are facilitated by the demarcations currency provides with respect to what can be viewed
as within the community and what is external to it.

Currency has strong symbolic power and is thus able to tie the collective together
within the parameters of the nation state. Helleiner has argued that there are five primary
ways in which we can look at the relationship between money and collective political
identities. The first is to look at the role of imagery on money. As Hobsbawm notes
money is the ‘most universal form of public imagery’ (Helleiner 2002: 185). Those who
use the national currency relate to the symbols currency carries with it daily and as such it
has the advantage of working as a constant reminder of the nation. The currency then
becomes an important tool for the dissemination of nationalist imagery. This fact, as
pointed out by Hewitt (1999), resulted in the deliberate and organized placement of
nationalist images on money especially during the rise of nationalism and the project of
colonialism. Particularly during the rise of the state these images projected the nation into
the lives of most of the citizens due to the pervasiveness of money and the fact that
images did not require a literate subject to interpret them nor a common spoken or written
language between users, thus making the impact of the images on money even more
universal.
Second, currencies have functioned as a medium of *social communication* between the peoples of the nation ‘creating a common ‘economic language’ with which the citizens of the nation could communicate.’ (Helleiner 2002: 189). The greater the amount of social communication and the easier it was, Karl Deutsch (1953) argued, the greater the impact on the emergence of national identities. This social communication function also pertains to bringing those ‘outside’ of the project of the nation ‘in’ by acting as a ‘radical leveller’ (Marx 1974) between peoples so that when one begins to use the territorial money they become integrated into the community. As such national currencies once again impact identity formation and help define who is a part of that identity.

Third, territorial currencies contribute to the formation of political identities by providing those within the territory with *‘collective monetary experiences and communities of shared fate’.* (Helleiner 2002: 191, emphasis added). When there are monetary changes, be they to the supply of money or the value etc., they are experienced by all who use that money as part of the territory to which the currency is attached. This experience of course can prompt negative as well as positive community sentiments depending on the changes experienced. The point however, is that the experience is collective and therefore impacts the formation of the collective identity of peoples. For instance, the British pound sterling is closely attached to a sense of ‘Britishness’ by virtue of the shared national experience attached to it of Britain as a great power and the strength of the pound as the former world reserve currency (Risse 1998: 11).

The fourth dimension is the connection between *money and popular sovereignty.* As Helleiner points out, ‘in modern cases where a national currency has been managed closely in line with popular preferences, it has indeed often been associated with a
national identity.' (Helleiner 2002: 194). Therefore, when the will of the people is manifest in the management of the currency there is a value-added to the effect the currency has on the formation of collective identity. Finally, there is the concept of money's *emotional role* in identity formation. As Adam Müller argues money functions as a way for the state to awaken the feeling of 'oneness' the people have with the nation (cited in Helleiner 2002: 195). Moreover, the fact that fiduciary forms of currency were issued required a trust to be formed between state and society, which contributed to community formation.

Historically it is evident that currency helped to delineate the boundaries of the state in both physical and psychological ways. It was deliberately utilized to open up an economic space on a national level while at the same time foster feelings of nationalism and oneness between members of the state. When attached to the nation building project currency played an important role in ensuring the political and economic necessities of the state and the connection between these two elements.

3.3 New developments in the role of territorial currencies

There was a clear agenda for the political and economic role of territorial currencies in the 19th century with the solidification of the nation state. However, the economic and political landscape has experienced much change since the rise of the nation state. Some of these changes have affected the role that currency plays in relation to the state and its citizens and with some changes it remains to be seen how they will impact the role of currency. This section examines current challenges to and for territorial currencies and
discusses the possible ramifications this may have for the roles identified for currency to play discussed in the preceding section.

Hymans in his 2004 survey of currency iconography points out that 'states are more likely to increase their legitimacy by using currency to signal their embrace of values in tune with the spirit of the times.' (2004: 6) Moreover, the spirit of the times is not a constant and is prone to shift such as that discussed by Inglehart and Meyer's 'cultural shift theories' (1997), within which they argue that 'with the passage of time certain ideas and values have risen and fallen internationally.' (cited in Hymans 2004: 8). While Hymans' study examined iconography, the notion of using currency in a manner that is commensurate with the 'spirit of the times' is not a new concept. Indeed, authors such as Dalton (1967) and Baker (1987) have echoed this sentiment and argued that money and its uses 'reflect the structure of the economy, the social structure of the market economy' (Baker cited in Wolters 2001: 8). The idea that the role currency plays reflects the context within which it is placed and that this context is not static and is affected by shifts in ideas and values raises some interesting and important questions. After all, how will territorial currencies function in an age where making 'unrestricted capital flows a condition of membership in the global economy' (Kirshner Wall Street Journal 9/2/98 cited in Kirshner 2003) has become the norm?

To begin to answer this question and eventually relate it to the current research agenda we need to know what the challenges presented by the modern economy are and in what ways this might affect the role of currency. One author who has looked critically and in a primarily political way at some of the new challenges facing states and their economies is Benjamin Cohen. He raised the concept that money in the age of
international finance has become ‘deterritorialized’ with currency arrangements operating in ways, which circumvent the state. Within this new geography of money there has emerged a new hierarchy of currency as well as alternative currency arrangements. For example the United States dollar has a de facto role as the world’s reserve currency making it more powerful and influential than other types of currency that are measured against this. As a result the issuer of this currency, the United States wields more influence globally. Moreover, liberalization of financial markets divorces individuals from the state insofar as they are to an extent able to choose the currency they interact with, that is to say they choose the ideas they interact with as represented by the currency.

Another example that has become less prevalent but still challenges traditional organizations of currency post-19th century is the reintroduction of Local Exchange Trading Systems (LETS). LETS are ‘self-regulating economic network[s], operating as a system of accounts, which allows its users to issue their own currency.’ (Wolters 2001: 11). Some scholars go as far as to argue that they should be further implemented at the sub-national level (see Maruyama 1999). The ever-important economic and political boundaries, which territorial currencies help to delineate while not gone, are challenged in many ways by these developments.

Another current development that impacts the traditional influence of money in the nation state relates to recent technological innovation in the form of electronic and digital money. The power of currency to reinforce the idea of the nation and help foster an affinity between the citizens of the national territory came through its ability to reify the state into a concrete symbol that would be interacted with on a daily basis. Currency was a tangible means of social communication whose images were chosen to
intentionally reflect the idea of the state and the values of each nation. The more people engage with intangible forms of currency the less opportunity there is for the realization of the symbolic function of currency to act or build collective identity.

3.4 Conclusion

It would be entirely premature to suggest that these recent changes to currency eliminate the political power it has to impact the development of an economic and identity-based collective. The opening up of these more transnational, supranational and local economic spaces may in fact help to ‘promote different senses of identity in both a symbolic and concrete fashion than the national identities that territorial currencies encouraged.’ (Helliener 1997: 29) What we are witnessing is a cultural shift in ideas, a ‘neo-liberal turn’ (see Dyson 2000, 2002 and Wylie 2002 for further discussion) that is placing currency on a different stage where it may in fact influence a new context within which currency can operate in political ways. Evidence of these new ideas and their impact on currency arrangements is found in EMU and the euro. Within the new context it creates, many scholars posit there are multiple potentialities for this supranational currency to impact the development of the European collective in ways which have, and continue to parallel the national modes of influence and create new methods of impact. That is to say there is room to view the euro as having some of the same great ‘integrating power’ (cited in Helleiner 1997: 28) that Karl Polanyi has identified in relation to the nation state. It is with respect to both the concrete and theorized influence of the euro that the Chapter Four begins.
Chapter 4: The political and economic roles of the euro in the development of the European Union ‘collective’

4.1 Introduction

As was the case with the introduction of territorial currencies during the rise of the nation state the euro was introduced to facilitate the economic goals of the European Union and the development of the common market. The historical context out of which the euro was born introduced it as the final stage of EMU. The euro was designed to stabilize exchange rates in an increasingly turbulent global financial environment, reduce transaction costs and make a more ‘European [as opposed to German based] monetary regime’ (see Verdun 2002 for further expansion on these ideas). However, while the broad rationales underlying EMU are of great interest the objective of this chapter is to address a narrower element of EMU related to the euro as the single currency of a group of EU Member States and their citizens. This chapter examines the role of the euro in developing the EU ‘collective’\(^\text{16}\) of these states and citizens.

This chapter considers the euro in light of the role of territorial currencies within the nation state presented in Chapter Three. Chapter Four uses this national model as a framework for discussing the economic and political role of the euro in the formation of the European ‘collective’ as a means to identify the similarities, difference, opportunities and challenges facing the euro in this capacity. The analysis of the euro’s role in the

\(^\text{16}\) When discussing the development of the EU ‘collective’ I am referring to the development of the ‘human collective’, as per the definition provided in Chapter One which defined ‘human collectives as supranational, national, and regional groupings of people.’ In this case the collective is a supranational grouping of people and its development and it refers to all aspects of strengthening the ties between peoples at the supranational level i.e. common identity.
construction of the European ‘collective’ with reference to the original eurozone members is done to provide the framework necessary to examine the euro in the NMS.

In section 4.2 the rationale for using the role of territorial currencies at the national level as the starting point for examining the euro is explained. Section 4.3 provides a brief analysis of the economic ways the euro has contributed to the development of the EU ‘collective’. Section 4.4 examines the political ways in which the euro contributes to the formation of the EU ‘collective’. Throughout this section the challenges and possibilities for the euro to wield political influence by virtue of its unique supranational character and non-state status are also explored. Section 4.5 concludes.

4.2 Why the national model? The rationale for starting from a state-centric understanding of territorial currencies

There are a number of reasons why I argue it is valid to use the state-centric framework developed in Chapter Three to begin to analyze the euro’s role in developing the collective in the EU. The most obvious reason is that these connections between what is know about currency in the formation of the state and what is occurring in the EU with the introduction of the euro has already been made (although in its infancy). For example, work by Helleiner and work by Thomas Risse, as well as rhetorically advanced by the EU itself\(^{17}\) have linked the national model to the EU with regard to the way in which currency can contribute to the formation of European collective identity, a key component of the formation of the EU ‘collective’. Moreover, there is the geographic

\(^{17}\) The explicit intention to use the euro as a symbol of identity can be seen in much EU rhetoric and in a number of European Commission publication such as the 1995 Green Paper: On the Practical Arrangements for the Introduction of a Single Currency. This fact is also discussed in Schmidtke 2004.
connection which is made whereby the euro is a territorial currency for members of the eurozone just as national currencies have been in the past.

A further fact that validates the choice to begin within the framework of the nation state and currency is that in many discussions of European integration the Westphalian model of analysis is employed. This model ‘encourages us to see regional integration centering on the EU as a re-enactment of the traditional processes of state-building from the seventeenth through to twentieth century.’ (Caporaso1996: 35).

Therefore, as there is a basis for evaluating European integration as a process, which in some ways mimics the historical development of nation states it is a logical starting point to engage in a preliminary analysis of the euro in the EU as also potentially mimicking the role of national currencies during the rise of the state. This analytical frame provides one set of potentialities that could be expected for the role of the euro and is therefore a reasonable starting point.

Another benefit to beginning with the frame of the nation state and territorial currency is that in instances of ‘misfit’ (Börzel and Risse 2000) there is room to explore how and to what extent the role of the euro may have a different impact than what has been observed in the national sphere, and what the causes for this difference might be. It is my contention that starting with the national model provides direction and grounding for the analysis of the euro. Moreover, this model offers the investigator specific elements of the connection between territorial currencies and the formation of human collectives to explore. This chapter’s objective is to find out what similarities and differences between the national model and the EU’s experience with the euro exist.
These points of synergy and contrast are then used in subsequent chapters to investigate how the might function and be viewed in the NMS.

4.3 The economics of the euro in forming the European ‘collective’

The introduction of a single currency into a territory during the rise of the nation state was done to further solidify the economic cohesion of that territory, and ensure economic stability upon which the citizenry could depend. Furthermore, the presence of a single currency facilitated the development of a common market within the state by removing internal transaction costs. The euro has embodied many of these same economic functions within the eurozone.

The introduction of the euro is the last step in EMU and a major component in ensuring the success of the common market. By introducing a single currency the presence of exchange rate volatility between eurozone members is removed. This was important for most Member States given the virtual collapse of the Exchange Rate Mechanism (ERM) because of exchange rate turmoil in 1992-93 (Gros and Thygesen, 1998 cited in Verdun 1999). Moreover, a single currency for eurozone members means that transaction costs between these countries are reduced thereby further facilitating intra-European trade. The facilitation of trade and the further stabilization of the common market are primary economic reasons for the introduction of a single currency.

Economic motivations contributed to the development of a territorially ascribed single currency, which would be used within the boundaries of the participant nations and in their interactions with one another. The reality of one currency for the eurozone territory is that it defines where the boundaries of ‘collective’ of European States begin and end,
that is which states and citizens are within and which are external. From economic
vantage point the euro sets the parameters of the eurozone community and thereby
contributes to defining the European ‘collective’.

The euro is also a key economic symbol of defining who the EU is within the
globe. The choice of a single currency to represent the eurozone to the world is the EU’s
response to the current global economic environment discussed in Chapter Three. The
current international economic landscape is characterized by unrestricted capital flows
and volatility, a reality that has served to divorce states from their traditional monetary
sovereignty. As a result the jump to a supranational monetary authority and single
currency is in an effort to address this lack of national influence and control in the
monetary sphere. The euro therefore represents the shift in monetary authority from the
exclusively national realm and infuses it with all of the economic authority European
states have placed in the supranational sphere. The euro as such is a powerful economic
demarcation of a pan-European, supranational economic agreement between these states.
The euro, by defining a majority of EU members as a group in global economic affairs
further solidifies the eurozone as a collective in the eyes of the international
community.¹⁸

¹⁸ This thesis is not concerned with an in-depth examination of the economic motivations which lead to the
adoption of the euro as the focus is on the perceptions of the NMS and not the existing eurozone members.
However, it should be noted that there were a number of important economic rationales for EMU which
pertain to dealing with the global economic environment. For example the ‘credibility issue’ articulated by
De Grauwe (1992) where the cost of not moving to a single currency is that investors will not necessarily
believe that the exchange rate will always remain fixed. The decision by the majority of Member States at a
Summit in 1988, which was reaffirmed at the June 1989 and Maastricht 1991 Summit, that the symbolism
(and a small additional saving that would arise from not having transactions costs with more than one
currency) would be worth introducing a ‘single currency’ as opposed to merely fixing exchange rates
irrevocably confirmed this belief.
4.4 The politics of the euro in forming the European ‘collective’

While the economic role of the euro is perhaps more apparent given the economic nature of currency the political role of the euro is vital to understand in order to appreciate the various ways in which this currency may come to effect the development of the European Union as a political collective as well as an economic one.\textsuperscript{19} The main constructive element of the political role of the euro is its capacity to contribute to the formation of collective identity. The political role of the euro is also important to the extent that politics are at the heart of some of the key areas of contestation between the national model and the euro, once again making politics important for understanding the euro in the EU. This section is dedicated to exploring this political dimension.

\textit{Mimicking the rise of the nation state: The impact of the euro on the development of the political collective in Europe, exploring collective identity building}

To start the analysis of the political role of the euro let us examine in what ways the euro has the potential to mimic national currencies and become a ‘culturally embedded’ source of identity for Europe (Beckmann 1998: 5). In Chapter Three, five modes were introduce dealing with the political influence money may have in the construction of the ‘collective’ within a given territory. Using these five modes as a guide certain possible instances for the euro to contribute to the formation of the European ‘collective’ and an associated identity in Europe emerge. As Helleiner (2002) discusses the possible applicability of the five modes specifically to the European case I do not wish to retread

\textsuperscript{19} The Treaty on European Union or the Maastricht treaty which came into force in 1993 began the establishment of the EU as a political project more directly. Subsequent treaties such as the Treaty of Amsterdam, 1999 and the Treaty of Nice 2003, and critically the most recent treaty to establish a European constitution have all developed this dimension.
this ground. Rather I suggest some possible avenues, with reference to the principles Helleiner outlines, for the euro to function an integrating force for the EU in ways which have implications for the current research agenda.

At the core, collective identity springs from groups of individuals who “perceive that they have something in common [and] on the basis of which they form an ‘imagined community’. ” (Risse 1998: 7) The boundaries of this community are structured on the development of a definition of whom and what belongs within the community and what and who are outside. The delineation of the ‘in’ group and the ‘out’ group and the impact this demarcation has on the formation of collective identity was discussed in Chapter Three with references to Social Identity theory, Self-Categorization theory and the principle of ‘meta-contrast’. In addition the need for constructed communities to be continually reified in order to be a meaningful source of identification was explored with regard to the role currency could play in facilitating community construction and social identification. Given that a national currency could contribute to the formation and reification of national communities and their associated identities there is a reasonable expectation that the euro can have the capacity to help facilitate the construction of the community and collective identity within the eurozone.

As mentioned, the euro defines a concrete boundary for the community of eurozone members. It constructs a physical economic boundary around a majority of the EU’s geographic area and in this respect concretely outlines the ‘in’ from the ‘out’. While this delineation is not entirely correlated to the membership of the EU and as such is not a fully pervasive means of defining a pan-European collective it is looked to as a symbol of the EU. As indicated by a 2002 Eurobarometer survey, 49% of citizens say the
euro is what the EU means for them personally, clearly illustrating the euro’s role as defining what constitutes the Europe to significant portion of European people (Eurobarometer 57 Spring 2002) and that not having the euro would delineate those external or ‘out’ of the EU group for these people. The euro is a source within the eurozone of commonality between peoples and subsequently a source of differentiation from other peoples and their currencies. Taking the Eurobarometer data as an indication we can see it is not unfounded to view the euro as functioning as a significant symbol of the community around which the collective identity and feelings of ‘oneness’ (similar to those sentiments currency prompted at the national level) at the European level can develop and deepen.

The second component to collective identity formation mentioned is the necessity of constant reification of the community. The euro has in this respect one of its biggest opportunities to impact the formation of the EU collective. It brings ‘entitativity’ to the community, that is to say it makes the EU ‘real’ in the lives of the citizenry given that it is a material symbol of the EU which is used and interacted with on a daily basis (Risse 2003: 489) The euro helps citizens to ‘feel European integration in its most tangible form.’ (Verdun 2002: xiii) The implications of the euro as a tangible and pervasive community symbol are large. Through its use by European citizens the euro becomes, as Helleiner had dubbed it, the ‘economic language’ (2002) of Europe and as such one of the chief vehicles of social communication between people who at the present time are extremely heterogeneous in their respective means of written and verbal communication.20 As a result of the creation of a tangible symbol for social

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20 Currently, there are 20 official languages within the EU (http://europa.eu.int/comm/education/policies/lang/languages/index_en.html).
communication between peoples the euro helps to strengthen the identification between these peoples.

Images on the euro banknotes and coins are another vehicle for the EU to foster feelings of cohesiveness amongst its citizenry. Helleiner rightly points out that there is 'limited use of imagery on the new euros to cultivate a common European identity.' (Helleiner 2003: 239). However, while he interprets this as diminishing the current potentiality for symbolic impact of the euro I argue for another interpretation of this reality. The expressed intention of the EU in terms of constructing a pan-European identity is to make it complementary to national identity (European Commission 1995: 48-9). As such, the images currently used are directly compatible with this objective as they attempt to showcase both national symbolism and European symbolism. This reinforces the compatibility of the national and European identities while maintaining that there is a European dimension.

Creating symbols that reflect the intended complementary relationship between national and European identity has been hard to do in a material sense prior to the euro. The fact that the images contained on euro notes seeks to reinforce an identity which is not intended to dislodge current national identities differentiates euro note images from the those found on national currencies. However, the EU is nevertheless using the images on the euro to reinforce the type of identity it espouses to create. The message conveyed by the imagery on euro notes while different from national imagery found during the rise of the nation state is more consistent with the incremental approach to integration ascribed to by the EU and its desire to remain compatible with the nation state. As Hymans notes the images on euro banknotes may not provide a 'springboard' to leap
from a national identity to a citizens self identifying as ‘European’ but it may act as a ‘doorway or a bridge’ to a common European sense of community (2004: 25).

Moreover, I argue that the imagery found on the euro notes and coins is being used in a way which confirms Hyman’s (2004) argument that the iconography found on currency is used by states to reflect their embrace of the values and ‘spirit of the times’. By aligning images on currency with the so-called ‘spirit of the times’ the legitimacy of the issuing body, in this case the European Union is increased. Clearly, the spirit of these times and the values of the European Union and its members contain the sentiment that the national and supranational ought to be complementary. By using symbols that reflect such a complementary vision I argue the EU increases its legitimacy. It does so by aligning itself to more socially acceptable values and sentiment of citizens and members of the Union, with regard given to the relative place of national and supranational identities. This is done rather than attempting to reflect an exclusively European identity, which at this juncture would most assuredly be in conflict with the ‘spirit of the times’. An increased legitimacy for the EU as an actor facilitates the development of a human collective at the European level.

Through the ability of the euro to materially define the bounds of community, act as a means of social communication infused with deliberate imagery between overwhelmingly diverse peoples which reflects the intended version of European identity sought (a complementary identity), and by functioning as an explicit source of reification for the European community the euro clearly has a series of potentialities for working in

\[21\] However, it should be notes that insofar as this imagery reflects the pervasive desire for a complementary vision of identity it also reflects certain values which are out of synch with the so called ‘spirit of the times’. This disjuncture will be discussed in the following section of this chapter.
ways similar to nationally defined territorial currencies. However, in addition to these similarities there are particular realities in the EU that create marked differences from the nation state. While as shown these differences still result in the potential to help aggregate and articulate a European collective identity it is also important to explore in what ways these specificities can act as barriers to the political influence the euro can wield in the formation of the European ‘collective’.

*Realities of the EU: Barriers to the political influence of the euro in forming a European ‘collective’*

There is not much debate about the fact that the European Union is a qualitatively different entity from the nation state, albeit one which some feel follows a similar path of development. These differences problematize our understanding of the development of the European Union as a collective. As a result of this problematization of our traditional state-based understanding of territorial communities it is difficult to fully conceptualize the development of a collective and a pan-European identity stemming from a supranational European community. Moreover, any symbol or instrument that is meant to solidify an increased sense of European collective identity is also subject to these problems and challenges. Therefore, while we can conceive of the euro as having real capacities for fostering the development of the EU collective it would be naive to articulate the positive prospects without acknowledging and exploring those aspects of the integration project which may serve as impediments for the euro in contributing to the development of the collective.
There are three key themes that showcase some of the most fundamental and immediate issues impacting the role of the euro in building the EU collective. Two of these can be grouped under the heading of legitimacy issues, one which is more directed at issues of accountability and conceptions of democracy held by citizens of the EU and one which is most centrally related to the legitimacy of the ideational practice of EMU. The third theme deals with what I label a ‘temporal disjuncture’, which involves the problems associated with the development of an economic union and community prior to the establishment of a political community and demos. At the center of these three issues are challenges to the construction of a coherent European collective community and identity. These issues also prompt a more critical exploration of which side of these potentially disaggregating challenges the euro lays, what in fact the euro symbolizes under these circumstances, and how this is can be problematic for its political role. All three of these themes have serious implication for the current research agenda when it comes to discussing the NMS, their qualitative differences from the EU-15, and the role of the euro within these states.

The implementation of EMU resulted in member states delegating monetary authority to the supranational level. This had the effect of divorcing ‘responsibility for economic and monetary decision making from accountability to the electorate.’ (Verdun and Christiansen 2001: 266). Moreover, the institutions and structures which are now responsible for this policy field, the European Central Bank (ECB) and its component parts, for example its governing council, are not responsible to the people of Europe through any sort of democratic process (Verdun and Christiansen 2001: 268). This is completely in line with the intentions of EMU to retain central bank independence but it
strikes at the heart of the ‘meaning of democratic rule as it is institutionalized in national contexts,’ (Schmidtke 2004: 22) and as it is understood by national citizens. It alienates monetary policy from the majoritarian decision making processes most central to the national democratic process (Zürn 2000: 191) and leaves what Schmidtke refers to as a ‘legitimacy gap’ between efficient policy making and the demand for democratic accountability (2004: 12).

While the ramifications of this popular alienation are many, as far as the potential for the integrative and community construction capacity of the euro are concerned they are quite dire. As noted there was a strong connection made during the development of the nation-state between money and popular sovereignty, which was mutually reinforcing. Through the democratic accountability of those who made monetary policy the citizenry felt more connected to their currency and the state that currency represented. Given this tight connection, the power of money in forming political identity was enhanced and made more stable. In the case of the euro the lack of democratic legitimacy is resulting in a ‘dangerous [an increasing] political alienation,’ (Dyson 2000: 214) of the people from the EU. Such a fact makes the euro as a symbol which is intimately tied to EMU all the more distant from the people and infuses it with notions of illegitimacy.

Moreover, while democratic processes and connections to monetary policy at the national level serve to provide a more stable connection between the currency, as a symbol of unity, and the people the absence of theses processes make EMU and the euro more reliant on output legitimacy, that being acceptance created by system effectiveness (Scharpf 1997). This is inherently more unstable than input legitimacy under which legitimacy is derived from democratic procedures. The potential consequence of output
legitimacy is that the political impact of the euro will be far more variable and dependent on its economic performance. This has the potential to work against the ability of the euro to act as a community builder and source of identification over time.

Granted there is a degree of output legitimacy which is present for every economic system and which in times of poor performance can have a negative impact on the perception of a territorial currency and its subsequent role in identity formation and community reification (Helleiner 2003: 242). Therefore, if ‘EMU and the single currency [are to be used] as a tool to get closer to that political vision [of Europe],’ (Englemann, Knopf, Rosher and Risse 1997: 127) then the instability that comes with output legitimacy is all the more problematic for the construction of collective identity. The fact that economic integration is the most established facet of European integration, and as such is a logical locus of identity formation, without the safety net of pre-existing political community instability in the economic sphere is particularly damaging to the influence of the euro politically and as an identity markers.

The second way in which the legitimacy of the euro is undermined stems from the disjuncture between the elite neoliberal consensus at the level of monetary policy making elites (see Marcussen 2000 and Wylie 2002) and the ‘deeply entrenched public support for welfare state goals in Europe’ (Dyson 2000: 214). It is with respect to this disjuncture that the euro should it mimic the values of elites may come to symbolize values which are out of synch with ‘the spirit of the times’ as construed by those supporting a more ‘social Europe’. While the shift from Keynesianism to neoliberal ideas in the 1980s made the economic consensus between elites at the European level possible (Wylie 2002: 79) it brought EMU into direct conflict with popular opinion in many states over the central
concept of social redistribution. Such a conflict strikes at the Kantian perception of legitimacy under which legitimate policy comes from 'policies based on shared principles which are morally defensible.' (quoted in Dyson 2000: 213). By locating the value community of Europe as separate from the 'functional process of economic...integration,' (Schmidtke 2004: 20) the euro as symbolic of those processes is separated from the popularly shared moral principles of the people regarding welfare, thus making EMU and its symbol, the euro, illegitimate. The norms institutionalized in EMU are neoliberal norms as such it can be argued that the euro as a symbol of EMU represents these norms and not the norms associated with the welfares state and redistribution held by much of the citizenry. Given the central role norms play in the formation of identity (Risse 1998: 6) such a normative disjuncture between EMU and society could result in a further negative potentiality for the euro's role in identity formation.

The final theme that presents challenges to the euro's potential to contribute to the formation of the EU collective and associated identity is the 'temporal disjuncture' which exists between the creation of the economic community of Europe and the political community. Scholars have approached the question of the necessity of a demos and political community as a pre-requisite to democracy and legitimacy and the effects of the development of the economic community first to such legitimacy (see for example Verdun and Christiansen 2001, Zürn 2000 and Morris 1998). However, they have not dealt, at any length with how symbols, such as the euro, will function with an as of yet underdeveloped political community.
4.5 Conclusion

This chapter has explored the roles of the euro, both political and economic, in the development of the EU collective. The chapter has investigated the positive and constructive avenues for the euro to impact the development of an EU collective in ways which at times mimic the nation state and at times act in ways unique to the EU. The inverse of these constructive capacities has also been explored through the articulation of three themes, which act as potential barriers for the euro to contribute to a collective in the EU. As outline at the start of this chapter by using the framework developed in Chapter Three regarding the rise of the nation state and territorial currencies a EU specific framework for the role of the euro in the development of this collective has been articulated. The points of synergy and contrast between the state-based frame and the EU have helped to highlight the prospects and pitfalls for the euro as a symbol and key component of building the EU as a human collective. What can be stated is that the euro with all its similarities and differences from national currencies is definitely a player in the construction of a cohesive European community. How these economic and political roles will function in the NMS and how they will be perceived in these states assessment of the need and timing of the euro is explored in the next chapter.
Chapter 5: Economics and Politics and the Expectations about Perceptions of the Euro in the NMS

5.1 Introduction

The remaining chapters of this thesis are dedicated to investigating the connection between theory, practice and ideas. In the preceding chapters I have argued that currency, the euro included, plays a number of political and economic roles within the territory it represents. I have asserted that in some of its functions the euro parallels the role of territorial currencies during the rise of the nation state while in others it is unique because of the context of the EU. Certain challenges and opportunities for the euro to operate in a constructive manner towards the development of the EU collective exist. This chapter explores how the specific characteristics of the NMS will impact these challenges and opportunities or open up new avenues for the euro’s role. Building on the foundation laid down in previous chapters I offer a set of expectations regarding how these NMS perceive the need and timing of the introduction of the euro in their country. To assess these theoretical expectations, I conducted interviews with elite decision makers in two countries, the Czech Republic and Hungary. The data collected are evaluated in Chapter Six to assess the degree of fit between the expectations I outline in this chapter and the opinions of elite decision makers within these two countries.

The current Chapter maintains the organizational and analytical division between economics and politics. Section 5.2 develops expectations for euro’s role within the CEECs as obtained from the Economics literature and the preceding analysis. Section 5.3 presents the expectations for the role of the euro in the CEECs derived from the Political
Science literature. Section 5.4 argues that although the division between economic and politics is analytically beneficial for evaluating the interview data, in the final analysis one should expect to find a combination of both economic and political factors. Section 5.5 concludes.

5.2 Economic Expectations

As shown at both the level of the nation state and the European level a single currency helps to define the economic borders of a specific geographic area. The economic reasons why regions or states adopt a single currency have been elucidated in the literature reviews presented in previous chapters. To reiterate, the theoretical basis of the EU’s economic choice for the euro has been based on Mundell’s OCA (with some initial additions from Balassa and Tinbergen see Chapter One p. 11) and directed towards the development and successful maintenance of the European single market. More specifically the EU has based the management of the euro on the central goal of price stability and the belief that a fixed exchange rate and single interest rate (assuming low inflation) for the whole EU is good. To this end the Maastricht convergence criteria have been developed to help ensure the success of the single currency and price stability.

Most of the scholarship regarding the NMS and the euro has focused on the economics. These economic contributions have evaluated whether or not the euro and its associated convergence criteria were appropriate in the context of the CEECs. They have examined what, if any, adjustments should be considered given the particular nature of these states. Before reiterating what the findings of these projects have been it is important to discuss how economics views the particular nature of these NMS. First, for
the most part the NMS are small, less developed transition economies\textsuperscript{22} still working on the shift from a command economy to a capitalist system. Second, they have small markets which are more susceptible to the ‘competitive pressures on the EU internal market’ (De Grauwe and Lavrač 1999: 5) than the current eurozone members. The possible and actual consequences of these NMS characteristics have been the focus of much scholarship in the field of economics.

As mentioned in Chapter One, many scholars believe that there need to be major adjustments within the CEECs fiscal policy in order to ensure that these states will be able to experience economic success following their adoption of the euro. In the eyes of many these adjustments require a major retrenchment of the high welfare spending within these nations (see for example Eichengreen 2003 and Buiter 2004).\textsuperscript{23} Scholars have questioned whether or not the loss of the devaluation/revaluation instrument and the ERM II phase are helpful in facilitating the development and catch-up of these economies in the short term to the other eurozone nations. For instance, Buiter (2004) sees the ERM II phase as a detrimental pause on the road to the euro and the associated monetary policy which he argues is superior to the existing domestic policy of many of the CEECs.

Overall, in the Economics literature scholars argue in favour of euro adoption in the CEECs. The timetable for this adoption of course it is argued by scholars of economics is affected by a variety of conditions which are particular in many cases to the NMS in

\textsuperscript{22} A ‘transition economy’ in the case of the CEECs refers in general terms to the movement of these states from a command economy to a market based economy, that is to say a capitalist system. This process entails price and external liberalization, ‘establishing property rights and a market for trading them’ (Gros and Steinherr 2004: 60) and the establishment of economic stability and the development of fiscal policy. However, this definition is highly contested. Questions of when is transition over, What will the legacy of the Soviet system be to how do we predict the path of transition have formed the basis of many works (see Lavigne 1999; Gros and Steinherr 2004; Blejer and Škreb 2001 and Kornai 1995)?

\textsuperscript{23} There are obvious political consequences for any reduction in social spending and welfare retrenchment. These will be examined in the political expectations section 5.3.
question and often dependent upon political rationales. Generally, however the major issue for when and under what conditions these states should join the eurozone is contingent the states’ ability to attain macroeconomic stability. This state of being is to be achieved through a two pronged strategy of ‘structural reforms and sectoral adjustments [with] macroeconomic stability following next’ (De Grauwe and Lavrač 1999: 8, see also Vinhas de Souza and van Aarle 2004 and Dean 2004). They also argue that endogenous OCA\textsuperscript{24} will occur and convergence of the NMS with the existing eurozone members will happen \textit{ex post}. This convergence after joining will allow the euro to play a positive economic role in the NMS and facilitate economic growth and development of their domestic economies.

Given these arguments, what perceptions of euro adoption should one expect to observe within the NMS? Based on the aforementioned economics scholarship I argue we should find the following. First, one should find a favourable stance regarding the adoption of the euro under circumstances \textit{when having fixed exchange rates and a single interest rate (assuming low inflation) are deemed economically beneficial} by policy makers. However, the constraints presented by the requirements of the euro adoption process, such as the length of the ERM II phase, may impact when fixed exchange rates would be perceived as economically beneficial. The tension lies between NMS viewing complete inclusion in the euro and the ‘fix’ on exchange rates coming with that as having economic benefit while not wanting to comply with the two years to be spent within ERM II. Some NMS may want to retain the devaluation/revaluation instrument longer in the run-up to the euro as a way to ensure a greater degree of convergence with the current

\textsuperscript{24} More information regarding endogenous OCA its development and definition is presented in Chapter One p. 14 in this thesis.
eurozone and increase their chances for a successful introduction of the euro. The lack of this possibility may impact how long it takes for fixed exchange rates and a single interest rate to been viewed as economically beneficial.

Second, it is expected that there will be a particular focus on the issue of fiscal policy and its sustainability. As transition economies these states still maintain a high level of welfare expenditure as a carry over from their past status as communist countries (e.g. in the areas of healthcare and pensions). In order to become fiscally sustainable, and comply with the convergence criteria much of this expenditure needs to be reduced which means cutting funds from previously central policy areas.

As a result of the rationales behind the focus on fiscal policy and because of the possibly negative reaction to ERM II and its impact on a favourable opinion of fixed exchange rates and single interest rates these states may view the possible economic role of the euro and its adoption unfavourably in the short term. Overall, though, one expects there to be a belief that the euro will have a positive economic effect in the long term through its ability to facilitate these nations’ full integration into the European economic project which will aid in their economic growth and transition.

5.3 Political Expectations

It is often acknowledged within the economics literature that the decisions made regarding the adoption of the EMU will in the end be governed by politics and not by economics alone.\textsuperscript{25} Many of the issues related to the euro are indeed political, and the

\textsuperscript{25} For example Marie Lavigne at the outset of her book on economic transition states that the study of the post-soviet states and their transition to capitalism and to the EU requires a 'more complex approach, closer to the 'political economy' concept'. She argues that one may find inspiration in ...the combination of
NMS possess many characteristics (both similar to and different from the current eurozone members) which highlight the significance of politics in understanding the role of the euro and how it is perceived within these states. Despite acknowledging the influence of politics there is still a much less developed body of scholarship, and presence of domestic information from the NMS regarding these political issues and how the specific realities of the NMS impact the perceived role of the euro in these states. Therefore, in contrast to the development of expectations regarding the economic perceptions of the role of the euro, the political expectations are much less flushed out in the current literature. As a result, these sets of expectations are much more open to inference and speculation. However, by using the literature already reviewed, and what is available regarding the NMS, in conjunction with the base understanding of political dimension of the euro’s role in the eurozone articulated in Chapter Four I confidently present a set of political expectations. These expectations are presented in relationship to the central political factor or characteristic regarding the NMS present within the literature that they relate to. There are four main political factors/characteristics and therefore four expectations presented.

The first and most central characteristic specific to the CEECs which impacts the expectations for the perception of euro from a political science vantage point is the role of the communist legacy. Much has been written regarding the way in which the communist past of many of these states has influences their political culture (Brezis and Verdier 2003; Fowler 2004; Hanley 2004and Higley, Pakulski, and Wesolowski 1998), their ideas regarding fiscal policy and spending (Hochreiter and Wagner 2002; economics with political science.'(1999: xiv) Other examples of scholars who have echoed this sentiment are De Grauwe (2004); De Grauwe and Lavrač 1999; Cohen 1998.
Devereaux 2003 and Ringe 2004) and their domestic conceptions regarding their membership in the EU as a ‘Return to Europe’ (Schimmelfennig 2001; Sjursen 2002 and Sedelmeier 2000). The centrality of the communist legacy and the ‘Return to Europe’ is echoed in statements by policy makers. I argue therefore that it is reasonable to expect that the communist legacy and the ‘Return to Europe’ sentiment would also figure prominently in the perception of the euro’s role within these previously communist NMS. As a result these states will adopt the euro when they meet economic conditions but also when the Member State considers there to be significant the political benefits. These political benefits are intimately tied to the communist legacy such as the euro currency being seen to symbolize a ‘return to Europe’ and a differentiation from the communist past.

Associated with the communist legacy the next characteristic relates to the connection between currency and collective identity. The concept that currencies have the capacity to foster the development a collective identity has been established previously in this thesis and is central in exploring the politics of currency. As I articulated at the outset of this thesis the symbolic dimension of the political is central to this work. The identity building capacity of currency is intimately tied to the symbolic dimension as has been shown in the previous chapters and as such is a main characteristic in assessing the political dimension of the euro in the NMS. Many of these nations have not had domestically controlled currencies for very long, having regained economic autonomy only following the end of communism in 1989. As a result currency has been divorced from a tight association with the development of a national consciousness in the way seen in nations such as the UK and the United States. Moreover, as mentioned in Chapter
Three, currency as a national symbol of identity is a contingent symbol dependent upon its performance, that is to say ‘output legitimacy’ (Scharpf 1997 see also p. 64 of this thesis). Most of the NMS’ currencies have been weak and as such have not been a source of stability and pride, once again diminishing the capacity of currency to act as a symbol of these national collective. As a result the second expectation is that because the pattern of currency as a symbol of national identity has not been established which may serve to diminish the symbolic power of currency.

Another symbolic dimension pertains to the fact that despite the dependency of currency on ‘output legitimacy’ for its symbolic power the euro may still be able to act as a symbol of the EU collective with which these states might identify. This could be achieved because of the same ‘output legitimacy’ criteria which has diminished national connections to currency if the euro delivers the stability and economic growth national currencies within the NMS have failed to do. Although, as mentioned in Chapter Four, the dependence on performance is a potential threat as well as opportunity for the euro to act. Certainly a potential for influence for the euro exists even in the face of the particular realities of a communist past and lack of historical connection to national currencies.

What cannot be inferred is to what extent the communist legacy and the presence of symbolically unimportant existing currencies will heighten or diminish the extent of the euro’s symbolic function. However there is still cause to advance the third expectation that there may be a desire to foster a European dimension to the national collective identity which is facilitated by the euro and its potential to provide economic stability.

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26 While previous understandings of the role of currency in the formation of national identity and human collectives has been outlined within this study and applied here to the NMS I have been unable to find any study on the role of currency in post-socialist states national identity formation. However, the lack of attachment to national currency with the case studies will be demonstrated through the empirical data collected.
In the expectations developed regarding economics and the role of the euro in the NMS the issue of sustainable fiscal policy was highlighted as having a significant impact on the possible perceptions of the euro. The issue of fiscal sustainability is also important when developing the expectations from the political vantage point. The fiscal consolidation argued as necessary by many economists would result in many cases in the possible retrenchment of the welfare state within these NMS (particularly in the Czech Republic and Hungary which run high deficits to finance welfare programs such as pensions and healthcare) (see Martin and Ross 2004 for a discussion of EMU and social policy). The political ramifications of this possible retrenchment are intimately tied to how the euro is perceived in these states and its role. As argued in Chapter Four should the euro be viewed as a symbol of neoliberalism and its associated policies which negatively impact the welfare policies supported by the citizenry then the euro might experience a negative reaction thereby not facilitate the symbolic inclusion of the NMS into a common European collective and identity.\footnote{While there is not much in the way of statistics with regard to public opinion on welfare spending in the Czech Republic and Hungary data collected in a 2003 Eurobarometer qualitative study found that within both countries there was support for continued expenditure in on social and welfare programs. However in Hungary this support was not qualified by the acknowledgement of the problematic fiscal situation and deficit whereas this was mentioned by Czechs interviewed (Eurobarometer 2003)} In many ways this issue can be construed when applied to the perceptions of decision makers as a power consideration insofar as it connects to maintenance of power within the state. If the policy regarding the euro is received negatively or is seen to undermine important policies, such as welfare policy this has implications on the legitimacy of the decision makers’ authority. As such, one would expect decision makers to be sensitive to popular support. This brings us to the fourth expectation that the way the euro is perceived will be connected to the popular response to the social ramifications of fiscal consolidation required for the adoption of
the euro. *A positive popular sentiment for the euro and its associated policy changes is required before the euro is adopted.*

5.4 The interplay between politics and economics

By examining the existing economics and politics scholarship on the NMS and their adoption of the euro I have developed two statements of what one might expect to find when examining the perceptions of the euro with these states. Dividing the economic and political perspectives helps to provide a better understanding of what each area of research considers to be central and important to understanding the euro in this new context. However, each of these areas alludes to the central influence of the other. Within the economics scholarship I have mentioned there is a pervasive argument that politics will be the final determinant for when the euro is adopted and how it is perceived in the NMS. Political Science also acknowledges that the economics behind the single currency is of importance as well in discussing the issues of ‘output legitimacy’. In most cases, whether the primary focus of analysis is economics or politics, there is mention of the other and an effort to incorporate an understanding of the concerns and issues impacting the euro associated with each (see footnote 20 above). It is because of this precedent and the nature of EMU and the euro as both a project of economics and of politics that I argue that one should expect to find both economic and political rationales behind the perceptions of the euro within the NMS. What is unknown, however, is whether or not this interplay is heightened within the NMS or if either economics or politics plays a larger role as a result of the particular qualities of these states, such as their economic
status as transition economies (which has a central influence on their relationship and policy choice associated with the euro).

The empirical section will maintain the division between politics and economics and examine the aforementioned expectations during the interviews in the hopes of understanding more clearly the degree to which political and economic concerns are present and significant as well as in what way, if at all, political rationales and economic rationales are intermingled.

5.5 Conclusion

Both economics and politics scholarship provide certain expectations as to how the euro may be perceived in these NMS. Each perspective also posits a number of important factors which impact these perceptions and are particular to these NMS. From the foundation constructed by examining the role of currencies during the rise of the nation state and the role of the euro in the current eurozone and its application here in considering the NMS it is clear that in both the economic and political fields have something to offer. For example, OCA theory or the connection previously advanced between money and collective identity formation. Moreover, it is evident that each area acknowledges the importance of the other and suggests that a combination of both politics and economics understandings are likely to impact the role of the euro and the perceptions of the need and timing of the euro in the NMS.

From these preliminary expectations the next step is to examine to what extent these expectations are present within the minds of elite decision makers within the Czech Republic and Hungary. Interviews which are guided by the expectations developed in this
chapter. These questions are then used to ascertain to what extent the expectations presented in this chapter are present in the perceptions regarding the economic and political role of the euro held by these decision makers. Chapter Six reports the findings of these interviews and analyzes the degree to which the perceptions voiced in the interview data fit the expectations outlined in this chapter.
Chapter 6: Evaluating elite-decision makers opinions of the euro’s role in an enlarged EU

6.1 Introduction

This chapter serves to evaluate preliminarily the expectations developed in the previous chapter through their comparison with the data collected from a series of semi-structured interviews with elite decision makers. This comparative analysis is designed to facilitate the further development of the expectations for how the euro is and will be perceived in the NMS. This more comprehensive statement of expectations serves then to answer the research question posed within this thesis. The value of including interview data is based on the premise that there is a tie between the perceptions of elite decision makers and the policies they ultimately enact. By unearthing what elite decision makers believe with regard to the role of the euro and questioning the reasons behind these opinion one is better able to judge what in fact underpins the way the euro is perceived and as such how this might impact the euro in the NMS politically and economically.

Six interviews were conducted in two countries, the Czech Republic and Hungary, to provide data that could be used to evaluate the degree to which the opinions of elite decision makers fit with the preliminary theoretical expectations are accurate. Furthermore, an interview was conducted at the EU level to help contextualize the responses from the national policy makers and to investigate preliminarily the degree to which the opinions held at the national level corresponded to the perceptions and opinions of those at the supranational EU level. This chapter reports and analyzes the
results of those interviews. Section 6.2 will briefly restate the expectations developed in
Chapter Five and the way these were incorporated into the interview. Section 6.3 reports
the results of the interviews conducted in Hungary and compares the results from the
MNB and the Ministry of Finance. Section 6.4 follows a similar pattern for interviews
conducted in the Czech Republic at the National Bank and with a former advisor to the
government and analyzes the results from each interview in relation to the others. Section
6.5 focuses on the interview conducted at the European Commission. Section 6.6
identifies general trends and themes horizontally across the data from both countries and
the EU. Section 6.7 concludes.

6.2 Expectations for interview data

As discussed in Chapter Five two sets of expectations can be distilled regarding the likely
perception of the euro within the NMS, an economic set and a political set. These
expectations are coloured by the specific character of these states and are distinct in many
ways from the view of the euro within the current eurozone as a result. Prior to reporting
the interview data it is helpful to restate briefly these two sets of expectations.

Expectations from economics:

The NMS will favour adopting the euro when having fixed exchange rates and a common
interest rate are deemed economically beneficial to them (to the extent that these benefits
outweigh the economic costs and when fixed exchange rates and a single interest rate,
assuming low inflation, are deemed good). This belief in the economic benefit will be
dependent upon NMS agreeing that the constraints posed by the adoption of the euro are
acceptable. This may be adversely affected by a negative opinion of these constraints such as the structure of ERM II. Second, there will be a particular focus on the issue of fiscal policy and sustainability. Overall however, one expects to find that the euro is perceived to have a positive economic effect over the long term.

*Expectations from Political Science:*

There are four main political factors/characteristics and therefore four expectations from the view of political science regarding how the NMS will perceive the euro. First, these states will adopt the euro when they meet economic conditions but also when these NMS consider there to be significant political benefits. These political benefits are intimately tied to the communist legacy such as the euro currency being seen to symbolize a ‘Return to Europe’ and a differentiation from the communist past. Second, because the pattern of currency as a symbol of national identity has not been established as a historical reality one should also consider the possibility that symbolic power of the euro may be diminished. However, because the euro may deliver economic stability there is still cause to expect that there may be a desire to foster a European dimension to the national identity based on the principle of ‘output legitimacy’. Finally, one can expect that the way the euro is perceived will be connected to the popular response to the social ramifications of fiscal consolidation required for the adoption of the euro. A positive popular sentiment for the euro and its associated policy changes is beneficial in advance of the euro being adopted.

These expectations were used to develop the questions which comprised the questionnaire for the semi-structured interviews. As the methodology has been covered in
Chapter Two it suffices to say that the purpose behind the questions developed was to obtain an added insight into where and under what circumstances the elite decision maker's opinions were the same as those expected or differed. Furthermore, through the interview process a greater understanding of the reasons behind instances of divergence from expectations it was hoped would be gained. Appendix A contains the actual questionnaire used to get at these answers.

6.3 Hungary- report results and analysis

Two interviews, both with high-ranking officials, were conducted in Hungary; one interview at the National Bank of Hungary and the other at the Ministry of Finance. The results from these interviews are reported first by organization. Within these organizational categories the information is further subdivided to reflect the divide between economics and politics. Within this section some preliminary analysis occurs however, the majority of the analysis follows in sections 6.5 and 6.6.

Hungary - National Bank of Hungary (Magyar Nemzeti Bank) (MNB)

During this interview with a high-ranking official\(^25\) in the MNB the core benefits articulated as central to the euro adoption strategy developed by the MNB were economic in nature. He believes that the central benefits of euro adoption are the elimination of transaction costs, permanent increases in Gross Domestic Product (GDP) over the long term projected at between 0.2 - 0.3 per cent, a decrease in the volatility of the exchange

\(^{25}\) While the respondent did not ask to remain anonymous the decision to do so was made for two reasons. The first was to ensure uniformity in the reporting as some of the respondents wished to remain anonymous and second we felt that there would be a greater capacity to report all of the findings of the study without censure if the identities of the individual respondents remained anonymous.
rate, and a single interest rate which would also lead to an increase in GDP growth projected to be between 0.08 - 0.13 per cent.29 Also mentioned during the interview was that any economic costs such as the loss of seigniorage revenue, or the elimination of the devaluation instrument and independent monetary policy were more than made up for by the economic benefits and the currency stability which would be achieved under EMU. The respondent did however acknowledge that in order for euro adoption to be successful, and for Hungary to meet the convergence criteria, there would need to be greater fiscal consolidation. This has yet to occur and due to recent slippages in fiscal performance which has resulted in the timeline for euro adoption being extended to 2010. These responses suggest that the economic motivations affecting euro adoption strategies and contributing to opinions held about the euro predicted in Chapter Five (fixed exchange rates are deemed good, single interest rate is deemed good and sound fiscal policies are present) are in fact on the minds of policy makers at the MNB.

With regard to the political dimensions of the euro what does one find in the opinions of the MNB elite? Of interest to this study are the non-economic, that is to say political and symbolic, motives as much as the economics. When probing the official interviewed on these non-economic motives there was a certain degree of hesitancy to speak to them. However, while he felt that it was not the official role of the bank to assess the non-economic factors his opinion was that there were in fact non-economic dimensions to the euro, which were apparent. He felt that the adoption of the euro by all of the CEECs would strengthen the relationship Hungary would have within a unified Europe. Furthermore, by partaking in the process of euro adoption and the eventual shift

29 It should be noted that the figures reported are those provided during the interview and are therefore only current as of June 2004 and are reflecting the views of this period.
to the single currency Hungary would achieve an added legitimacy within Europe through their full participation in the economic decision making within Europe. However, this it not to say though that they felt they would achieve a large degree of influence given the relative size of their economy or a greater position globally (global legitimacy it was mentioned would come through involvement with the OECD and other more broadly international organizations).

Moreover, he stated that the MNB’s perception of public opinion was that it largely favours the euro. He believed this to be due both to the emotional element associated with adopting the euro and the practical. Although it was quickly pointed out that the practical advantage of having a more stable currency was in his opinion at the centre of public support more than any type of symbolic or emotive response to a so-called ‘return to Europe’ or a desire for a European collective self which the euro might signify. While the fiscal consolidation believed to be necessary by the MNB would in all likelihood draw significant public criticism it was felt that once the people observed the successful introduction of the euro into other CEECs, namely Slovenia and Slovakia prior to Hungary that they would once again be supportive. Furthermore, the ever-increasing level of euroization in private debt within Hungary would again reinforce a positive opinion of the euro. That being said it was communicated however that the Ministry of Finance and the Government might be swayed by the negative response to cutting back the welfare provisions and possibly delay entry further. At no point would this official concede that the euro adoption strategy or motivations behind it had a connection to the communist legacy within Hungary, which would change the role of the euro, perceived or actual.
These responses show, albeit to a limited extent despite the economic-centric role of the MNB within Hungary policy makers acknowledged political factors. It would be overly zealous to say that the symbolic role of the euro as indicating the 'return to Europe' was a primary motive for the MNB despite the suggestions to the contrary within the literature. Nor would it be correct to posit based on this interview that a perceived increase in international legitimacy derived from adopting the euro was a central motive. It is true that becoming a more complete member in Europe and part of the EU appears to be a key motivation for the MNB’s euro adoption strategy but not to the extent that there is a significant emotive connection to the euro driving policy.

The role of popular support is acknowledged as highly relevant for the Ministry of Finance and the Government in the opinion of the MNB, which they predict to be favourable towards the euro (this is clearly a power consideration). As far as the MNB is concerned though popular support should not be considered as an important prerequisite for the introduction of the euro and the smooth transition to the currency. Politically speaking it is clear that from the opinion of the MNB the practical elements of the politics behind the euro are of central importance to the citizenry. That is to say based on the interview data it is more important that the euro will bring a more full inclusion in the decision making of Europe for Hungary and will provide more stability for the Hungarian people economically speaking than the symbol it may represent of a ‘return to Europe’ or the transition from communism. Furthermore, the willingness of Hungarians to adopt the euro as far as this support is perceived by the MNB is as much tied to a lack of attachment to the present Hungarian currency, the Forint, as it is to a desire for the euro and a greater affinity with Europe.
Rather than covering the responses in detail of the high level official interviewed in the Ministry of Finance it is perhaps most useful to highlight those responses which diverged from the MNB. The main economic motivations once again appear to be present in the case of the opinions of elite decision makers in the Ministry of Finance. In particular the fixed exchange rate is seen as providing an increased capacity for Hungary to ‘catch-up’ through the facilitation of debt payments and attracting foreign investment. Moreover, the convergence criteria would prompt the needed sound fiscal policies, which were in the opinion of the respondent required prior to accession. However, there was an additional concern voiced from this institution. Of note was the belief that a decreased and single interest rate might create a bubble economy\(^\text{30}\), which would ultimately be damaging to growth and stability within Hungary. This concern was offset by the perceived increase in international trade that would be encouraged by a lower interest rate. From an economic vantage point the euro is viewed positively with benefits outstripping costs. Many of the opinions held regarding the euro were tied to rationales provided by OCA theory for the introduction of a single currency.

There was once again reluctance to acknowledge the euro as a symbol of a ‘return to Europe’ or the beginning of a pan-European identity in terms that related in any way to the former communist system. However, there was a belief voiced during the interview

\(^{30}\) A ‘bubble economy’ or economic bubble can be defined as what occurs when ‘speculation in a commodity causes the price to increase, thus producing more speculation. The price of the good then reaches absurd levels and the bubble is usually followed by a sudden drop in prices, known as a crash.’(Wikipedia 2005) In many cases economic bubbles are tied to inflation and its causes which is why economists stress the necessity of low inflation when dicussing a single interest rate in order to avert this problem.
that despite the central motivation to increase growth through euro adoption the euro would also be an ‘intuitive’ symbol of a closer relationship with the rest of Europe and a return to that collective. It is interesting to note that there was the assertion made in the interview that the issue of popular support for the euro was not of concern to the policy makers within Government. To contextualize this statement the official said that first they did not believe there to be a high degree of emotional attachment to the Forint which would prompt a desire to keep it, and second the stability gained ex post EMU would shift any negative public opinions regarding the requirements for membership and the loss of the national currency. It was also acknowledged that the Hungarian government generally agreed that euro adoption was a good thing as was EU membership, which it was stated, obviously helped motivate policy making in the pro-euro direction. Moreover, the government ‘officially’ believes that the adoption of the euro will increase their legitimacy within Europe and internationally and this is certainly one of the political motives to euro adoption. This ties into the power considerations of government and the euro with respect to adjacent policy areas. On this point the respondent differentiated his personal opinion from that of the government and stated that he felt the influence and legitimacy gained by Hungary adopting the euro would still be relatively small given the size of the country.

6.4 Czech Republic- report results and analysis

Czech Republic- Czech National Bank (CNB)

31 The word intuitive was used explicitly in the interview.
Similar to their Hungarian counterparts the officials at the CNB were initially concerned with the economic factors and motives surrounding euro adoption but when asked were sure to acknowledge and comment upon a more political set of motivations/factors. Two CNB officials along with one former advisor to the Czech government on monetary policy were interviewed, as I was unable to obtain an interview with the Ministry of Finance for those reasons mentioned previously. Both CNB officials and the private individual were essentially voicing similar opinions. This served to highlight a sense of uniformity within the opinions of the CNB and those engaged with monetary policy making in the Czech Republic. As a result they are reported and analyzed together.

The initial view held regarding the euro by the CNB was cautious, but during the 2001/02 periods the exchange rate came to be viewed as a shock generator. As a result of the instability attributed to the exchange rate the CNB and the Ministry of Finance came to a pro-euro, that is to say a pro-fixed rate (provided by the euro in this case) stance, which remains as of the date of writing. However, the opinion within the CNB regarding the benefit of a fixed exchange rate at the present moment is not so enthusiastic insofar as they believe that large countries such as the Czech Republic require a float and independent monetary policy during transition to manage challenges such as fiscal problems not as prevalent in small countries. Moreover, during the interviews both officials expressed the opinion that Czech monetary policy was internationally credible with a relatively stable exchange rate which has been the case since the transition in 1989. The policy while pro-euro has taken an ‘as soon as ready’ approach where the timeline they advance of 2010 is realistic as opposed to quick.
Given the opinions voiced about the efficacy and suitability of current Czech policy the CNB and the Czech government lobbied for flexibility on the Maastricht criteria, but this was denied by the Commission. While in order to argue the specifics of the move to a single currency OCA has been employed the timeline advocated for 2010 is based upon the realities of the Czech economy and the desire for stability. From these responses it is appropriate to say that the CNB see euro adoption as contingent upon the fixed exchange rate being deemed good and a single interest rate similarly being deemed good. However, under the 2010 timeline for adoption the CNB does not currently view these two criteria as immediately beneficial to the Czech Republic.

Main issues according to those interviewed which prevents a current preference for fixed exchange rates and interest rates has to do with fiscal pressures and the need to engage in major fiscal reform and retrenchment of social spending. At the present time there is no political will to engage in these reforms and in fact the Social Democrat Party currently in power is increasing social spending. Once again the political dimension of fiscal consolidation is central to decision making regarding euro adoption. This is predicted by the literature discussed as a central issue in the adoption of the euro and within the CEECs particularly. There is a clear opinion amongst these elite decision makers that sound fiscal policies prior to euro adoption are necessary. The economic issues affecting policy regarding the euro, fixed exchange rates are deemed good, single interest rate is deemed good and sound fiscal policies are present, are of explicit concern to the CNB and are corroborated by the information obtained in the interviews. There is however a cautious approach which believes there is a significant utility to independent
policymaking, more so than was indicated in the Hungarian responses, at this juncture, which will be restricted under EMU.

One of the main political factors coincided with what was initially an economic issue, this being fiscal policy (this was central to the comments made during the interviews although it was by no means the sole political element touched upon). All three respondents felt that the euro was an important indicator of full integration with Europe and a ‘return to Europe’ in this sense. They did not believe the euro to be symbolic to any greater extent than this and were clear in their opinion that the euro was not a symbol of the transition from communism. In fact there was a strong opinion that the Czech Republic had left the communist legacy well behind and were catching-up just fine without the euro and EMU. It should be noted that in one of the interviews it was mentioned that the current Prime Minister was employing the rhetoric of the symbolic ‘return to Europe’ to foster support for accession and the euro. The symbolic dimension, while prevalent in literature regarding the euro and its possible areas of influence is not identified by those interviewed in the Czech Republic as centrally important.

The concept of popular support and political legitimacy were not communicated as big issues with regard to the euro. It was felt that people were somewhat ambivalent to the koruna, the Czech currency, and would not be concerned with abandoning it or with the adoption of the euro as such. There was some expectation that closer to the adoption of the euro public opinion might intensify but that this would not have a large effect on the adoption of the euro. The clear outline for how and when the euro will be adopted is already present in the CNB adoption strategy developed with the Ministry of Finance and should in their opinion occur regardless of the level of popular support. Moreover, the
idea that legitimacy would be enhanced by euro adoption to the extent that it would be used as a central motive for euro adoption was not validated by the comments made in the interviews.

A central issue mentioned which was not in direct response to one of the more pointed questions was that the whole strategy could change as a result of political factors. In particular they referred to the upcoming selection of four new CNB board members by the euro-sceptic president Klaus in February 2005. Since these new members will be able to form a majority on the seven-member board they could change the CNB's euro strategy. While the respondents felt this would be unlikely they believed the possibility bore mentioning given President Klaus' vociferous opposition to the EU and the fact his board appointments could not be rejected. The political climate and the presence of elite support are of concern within the CNB perhaps more so than the presence of popular support and external legitimacy. Of course it is impossible to know the degree to which those factors might be influencing the decisions of President Klaus even though it is appropriate to say that based on the interview data they are not central.

Clearly elite monetary policy makers in the Czech Republic follow the pattern observed in Hungary of preferring to rationalize the motivations behind the adoption of the euro and the role it will play on economic grounds. However, when asked to consider the political they acknowledge that political factors also have a significant role to play.

6.5 EU level- report results and analysis

32 These CNB Board selections were upcoming as of the date of the interview. Since the new appointments in February of this year there has not been any change to the strategy of the Czech government with regard to their adoption of the euro. See website http://www.cnb.cz/en/
Directorate General Economics and Finance of the European Commission

After contacting a number of individuals in the Commission involved in monetary policy making in relation to the NMS and the CEECs at the EU level each of them directed me to one and the same individual. As a result of this consensus on who should be interviewed within the Commission only one interview was conducted. After contacting this individual and confirming this person’s credentials\(^3\) I was satisfied that this individual would be able to provide an accurate portrait of the institutional opinions of the Commission. To repeat, this individual was interviewed for the purposes of assessing the EU level opinions regarding the NMS and the euro, and the possible economic and political role the euro may play. As there is only one set of responses to report representing the EU level I will discuss the interview topic-by-topic.

The initial motivations voiced during the interview for why euro adoption is a requisite of membership in the EU pertained to the initial motivations for the creation of the euro. In the opinion of the respondent these motives were and are mainly economic as expressed in the Maastricht Treaty, and designed to avoid competitive devaluations within the EU and ensure the success of a Europe-wide common market. This being said the respondent did acknowledge the overlap between economic rationales and political reasons for the creation and adoption of the euro even though the focus presented during the interview was largely economic. The respondent did mention the rhetorical expression of policy makers with the EU to have the currency contribute to the

\(^3\) Due to issues of confidentiality I am unable to report the specific credentials of the individual interviewed in any way which might identify them. Generally, it can be said that this particular respondent has extensive experience at both the national and EU level in monetary policy and had been engaged in the euro adoption process for some time.
development of a pan-European identity which would be carried over, of course, into the NMS when they eventually adopted the euro themselves. In the opinion of the respondent, there is nothing left to be gained by the NMS (or other non-eurozone members) through an independent monetary policy. The interviewee was sure to mention though that the value of EMU and indeed a common monetary policy was not shared even still by all officials within the Commission despite the official view that a single currency and nominal convergence was the most preferred course of action for the EU.

The nominal economic convergence required of the NMS prior to euro adoption the respondent expressed to be necessary and appropriate although it was stressed that it was equally important that these new members adopt realistic and country specific timeline for adoption. In the professional opinion of this official the timeline for adoption of 2010 given by Hungary and the Czech Republic is both realistic and appropriate. Moreover, the economic policy restrictions required for euro adoption in these and the other NMS are changes that are necessary even outside the bounds of the Maastricht criteria, namely fiscal consolidation.

In discussing the economic issues of the euro the politics of the currency was unavoidable in the responses provided. It was mentioned following the responses given regarding the convergence and economic merits of a single currency that the convergence criteria were too often employed by states as a way to offset the domestic criticisms they encountered. The ‘blame Brussels’ strategy was used by many states as a way to make unpopular decisions more palatable. The respondent felt that there was not an appropriate

34 The ‘blame Brussels’ strategy refers to the tendency for national politicians to attribute any EU policy likely to ‘receive less than universal applause’ (Patten, 2001) from their domestic populations to requirements imposed upon them by the EU Commission and parliament, that is any EU institution not comprised of national representatives. This strategy does not reflect the true structure of how decisions are made at the EU level. Nevertheless it is employed at the national level to deflect criticism.
balance between self-blame and blaming the EU given that at its core the EU is a group of nations who made these decisions. It was the opinion of this official that the blame EU strategy was already occurring in the NMS and was elevated as they felt much was being imposed on them by the EU, despite the fact that many of the changes required for euro adoption were positive from the perspective of the Commission.

With regard to the questions dealing with legitimacy the respondent, not surprisingly felt the legitimacy of NMS would be increased through their participation in the euro as would their voice in decisions. Internationally speaking, however it was the perception of this individual that nations still felt that their legitimacy lay in their involvement in organizations outside the EU, such as the International Monetary Fund.

Perhaps some of the most interesting responses provided by the interviewee pertained to the symbolic role of the euro. At the outset the interviewee stated that officially the EU was interested in using the euro as a symbol of the EU and a European identity. In the opinion of this policy maker however, the euro in reality is at its core a contingent symbol. The influence of the euro depends directly on its performance which complicates the actual symbolic potential of the euro to function as the EU officially would like it to in this sphere. When the euro is seen as enhancing the prosperity of the nation then the euro and by extension participation in the EU is viewed in more of a positive light. When there are negative consequences of euro adoption perceived by the citizenry then it undermines the euro’s capacity to act symbolically in non-economic ways. For example the respondent cited the unfounded perception by Italians that the euro has been the source of inflation, which has resulted in decreased support for the currency. A logical derivative voiced by the respondent of this pattern is that the
symbolic potentialities available to the in the NMS will also be tied to the performance of the euro and its perceived effects. This opinion confirms the idea that the euro has the capacity to function as a symbol albeit one dependent upon 'output legitimacy'.

6.6 General trends and themes across cases and respondents

Comparing the cases: trends and divergence at the national level

Within both countries the opinions of elite decision makers place economic issues at the forefront of consideration in the policy making process. This is not altogether surprising considering the mandate of this group of people. All officials interviewed were intimately tied to the economics of the euro and associated policy making in these countries. In the Czech Republic and Hungary elite opinions support the economic expectation for the euro outlined; fixed exchange rates are deemed good, single interest rate is deemed good as governing their when they will elect to adopt the euro. There is also a desire to have sound fiscal policies present prior to euro adoption. This emphasis on fiscal consolidation is most probably a derivative of the fact that these two countries in particular run the highest deficits in the CEECs and need to make the most drastic cuts in order to satisfy the three per cent of GDP deficit criteria (see footnote 4 above). Respondents in both countries also acknowledge that fiscal consolidation would be one of the chief political sticking points on the road to the euro as cuts to social spending would not be popular. 35

Whilst the economic expectations are present in both countries, the Hungarian policy elite is much more sympathetic to these indicators whereas the Czech respondents

35 See Lipsmeyer and Nordstrom (2003) for information on welfare spending preferences in the NMS.
felt that current policies were quite effective in achieving the economic objectives of the country. The constraints of the convergence criteria which were expected to impact the opinions of the euro in the short term were only of concern within the Czech context. However, as noted by one Czech respondent the choice to remain outside the eurozone indefinitely is not a viable policy option and as such a realistic timeframe of when fixed exchange rates and a single interest rate would be valuable provides the best option. This opinion confirms the last expectation that the euro would be viewed positively overall for the benefits it would bring in helping to facilitate the much need economic growth for these transition economies.

In evaluating the political expectations once again there are more parallels to be found between the two cases. The 'Return to Europe' was perceived by those interviewed as a full integration with the European Union, which is something they legitimately deserve as a European country. There was however, a reluctance to link this 'return' with the completion of the transition from communism. This opinion was not expected. Of those interviewed all felt, with the exception of one respondent in the Czech Republic that the citizens in their countries would feel an added closeness or unity as a result of the euro. They did not however make an expressed link between this intuitive belief and the motives underlying their policy making and their approach to euro adoption. There was not a specifically expressed desire to foster a European level identity amongst the citizens of their countries through the adoption of the euro. Nor was there an expressed perception that this new identity would highlight a differentiation from their communist past.
In general terms the politics behind the adoption of euro was perceived to be important to the respondents, such as fiscal issues related to the public opinion concern. However, the symbolic role the euro would play in these countries was not given a lot of weight in the decision-making or in the opinions held by the respondents. Specifically, as far as public opinion was concerned neither group of respondents felt it to be all that necessary for the implementation of their euro adoption strategies. What was seen as important, and more so in the Czech Republic as a result of current political factors, was the presence of a pro-EU government. All of the respondents were acutely aware of the impact a euro-sceptic government could potentially have on the adoption strategy and a successful introduction of the euro. The potential for the adoption of the euro to facilitate greater legitimacy at the EU level was considered to be an obvious outcome of the euro whereas in the international arena the respondents did not feel that the euro would elevate their stature. So while the euro acts as the common external economic symbol for the eurozone (see Chapter Four) to have the euro function in this capacity for these NMS was not seen as an added benefit. The fact that political considerations were found in the perceptions of this group of decision makers is an interesting and less expected finding given the economic focus of the respondents.

The symbolic role of the euro was diminished in its capacity to represent a transition from communism and a ‘return to Europe’. Furthermore, respondents were reluctant to make more than an intuitive prediction regarding the potential for the euro to function in a pan-European identity building capacity through its intentional presentation as this kind of symbol within these countries. One key reason cited by respondents in both countries was the lack of attachment the citizenry held to the current currency and
the fact that currency had not been viewed within their respective nations as a nation-building symbol. Many posited this lack of attachment was intensified by the persistent weakness of the domestic currency and the economic instability it generated. Because the euro was perceived to engender stability it was all the more attractive economically although not symbolically. This opinion is consistent with the expectation that the lack of attachment to national currencies would be a factor in the domestic perceptions regarding the euro in the NMS. Although the lack of symbolic weight afforded the euro as a result of the euro’s capacity to bring economic stability does not support the expectation for the euro to have an added symbolic potential at the level of EU identity construction.

*Contextualizing the National in Reference to the Supranational*

In order to present a more balanced empirical account the EU level was included in the interviews conducted to assess the degree to which the responses provided aligned with the opinions of policy makers at the supranational level. With regard to economics there appears to be a high degree of convergence between the two. The national interview responses also highlighted economics as their most primary concern in the adoption of the single currency. Moreover, the pursuit of a realistic and appropriate timeline for the introduction of the euro was seen as centrally important. The one deviation from a general alignment of opinions with regard to the economic utility of the single currency was the belief held by the CNB in the maintenance of independent monetary policy for the short term. As mentioned the Commission and the respondent did not view independent monetary policy as beneficial and felt the requirements for membership or convergence criteria were appropriate. This is not an altogether unbelievable disjuncture
of opinions, after all one would expect the Commission to support its own policies and for some national banks to prefer independent policymaking.

There was also a lack of sensitivity on the part of the Commission to accept the ‘blame Brussels’ tactic for deflecting national criticisms regarding policy choice, such as fiscal consolidation, which in the opinion of the Commission are necessary even outside the bounds of the convergence criteria and euro adoption. Granted respondents in both Hungary and the Czech Republic acknowledged the need to engage in fiscal consolidation outside of their euro accession strategies but they were also quick to point out that the ability to link these measures to requirements imposed upon them from the EU made it easier to do. This difference of opinion is also not surprising as it clearly reflects the tensions present between the national and supranational levels of governance in the European Union. What it does not show though is a difference in focus on one of the potential impacts of the euro, that being fiscal policy.

The politically determined roles of the euro perceived by national policy makers and by the supranational policy makers are also quite closely aligned. With regard to the role of public opinion and the effect of the euro on legitimacy issues the two are in agreement. Where an interesting divergence occurs is with regard to the symbolic role of the euro. The perception of the euro as symbolic of the end of communism and as the final stage in post-war development is considered to be one of the roles that joining the euro will play as far as the Commission is concerned. As mentioned by all of the national respondents, not only is this aspect not considered by those involved in monetary policy making regarding the euro it is vehemently denied.
With regard to the euro being perceived as a symbol of European identity and working to contribute to the development and diffusion of this identity within the NMS there was difference in degree between the perceptions of the Commission and the national level. In contrast to the national responses regarding the euro and collective identity, which were intuitive, the Commission actively argues for the euro to be used as a tool of collective identity construction. By actively employing the euro as a tool of identity construction the Commission acknowledges that the euro is a contingent symbol dependent upon its output for its influence. In not one interview within the Czech Republic or Hungary was this contingent symbolism acknowledge.

6.7 Conclusion

The interview data collected in Hungary, the Czech Republic and at the EU level confirms many of the expectations regarding the economic and political motives underpinning euro adoption. It noteworthy, however, that whilst economic motivations seem to be less contentious between what is seen as important at the supranational level and what is important to national policy makers, the political motives present more surprises. It appears that even though the 'Return to Europe' and the fostering of feelings of attachment to euro and a collective identity are central to the rhetoric of the EU in the run up to NMS adopting the euro this is much less significant for the national policy makers. Moreover, there is a lack of weight given by national policy makers to the role that public opinion plays in their decision making. These results are of note and have interesting implications for the expectations developed in Chapter Five. The points of synergy and divergence between the interview data and the theoretical expectations
require a rearticulating of how we understand the perception of the euro within the NMS. It is evident from what has been reported that while there is a high degree of fit between what is theoretically predicted and what is observed from the opinions of elite decision makers there are significant points which do not fit, most significantly the role of the communist legacy. These findings are interesting insofar as it showcases the fact that elite monetary policy decision makers, whom one would expect to emphasize the economics of the euro are also reflecting upon the political dimensions of the currency even when they are not explicitly basing decisions upon these reflections. Chapter Seven is the rearticulating of expectations for the NMS given the responses of the interviews.
Chapter 7: Conclusion: A preliminary set of expectations for the political and economic perceptions of the euro in the NMS

7.1 Introduction
Throughout this thesis I argue that to answer my research question regarding the perceptions of the euro in the NMS and how the specific characteristics of these states affect the perceptions of elite monetary policy makers it is necessary to draw not only on the theoretical understandings contained in the literature but also evaluate the extent to which what these literatures suggest is present in the ideas and opinions of these elites. I assert that it is possible to develop a more grounded and comprehensive set of preliminary expectations regarding how the role of the euro is perceived in the NMS, by evaluating the expectations developed from secondary and official sources against interview data. Furthermore, by choosing to gather interview data from two case studies, the Czech Republic and Hungary which represent much of the diversity and particular qualities of these NMS the expectations developed will have applicability to the eight remaining states. Chapter Seven provides the conclusion to the thesis by presenting the answer to the research question and outlining the agenda for future research. Section 7.2 will present the final set of expectations regarding the domestic perceptions of the euro in the NMS which reflect particular characteristics of these states as the answer to my research question. Section 7.3 concludes and outlines the agenda for future research.

7.2 Final conclusion: What to expect when expecting the euro in the NMS
The analysis of the interview data suggests that there needs to be a re-evaluation of the expectations held regarding the perceptions of the NMS in the run up to the adoption of the euro. At first glance many of the initial assertions regarding how the euro may be perceived in the NMS by elites found in the literature and in the rhetorical pronouncements of various governing bodies are in fact substantiated by what those decision makers interviewed have to say. However, some of the key expectations, chiefly from the political perspective, do not appear to be present in the minds of these individuals. It is from these points of contestation between the empirical data and the initial economic and political expectations I developed that I argue expectations held regarding the perceptions of the euro by elite policy makers in the NMS need to be rethought. Such a rethinking given the interview data leads to the development of the final set of expectations which I argue are more comprehensive in answering my initial research question: *How do the various characteristics of the Central and Eastern European New Member States, as indicated by the case studies of the Czech Republic and Hungary, affect how elite decision makers within these states perceive role of the euro, both politically and economically?*

First, any understanding of the perceptions of the euro in the NMS must first acknowledge that *both* economics and politics are at play even though the economic perceptions are more prevalent and often the first to be mentioned in any discussion of the euro in these states. So when answering my research question which asks the investigator to consider both politics and economics it is important to look at the interplay between the two. This interplay was verified by the expectations from the theoretical analysis and the interview data. To flush out the final answer to this thesis though I will
maintain the division between the economics and politics as it has been done throughout the previous chapters.

*Expectations from Economics:*

From the perspective of economics the expectations developed from the literature regarding how the various characteristics of the NMS, such as their status as transition economies, impacted the perceptions of the euro are generally correct when evaluated in the case studies. Much like the original eurozone countries these states favour adopting the euro when having fixed exchange rates and a common interest rate is economically beneficial to them to the extent that these benefits outweigh the economic costs. However, the belief in the economic benefit of fixed exchange rates and a single interest rate are dependent on concluding the time at which the constraints of euro adoption, specifically ERM II are no longer an issue. This may result in a negative short term view of the euro. This is supported by the opinions of policy makers within the Czech Republic primarily who favour a more independent economic policy than what is available under the Maastricht criteria. On the flip side though Hungarian officials did not voice this concern indicating that the expectation of ‘some’ states having a negative short term view versus ‘all’ is more in understanding this perception of the euro. Second and intimately tied to the status as transition economies in a stage of economic development, as has been explained in Chapter Five, there is a particular focus on the issue of fiscal policy and sustainability.

Overall however, in the long term one expects an overarching belief that the euro will have a positive economic effect through its ability to facilitate full integration into
the European economic project which will aid in economic growth and transition. Both within the Czech Republic and Hungary the opinion of long term economic gain was evident. Officials in both countries believed that the euro would facilitate economic growth, transition and convergence with the EU-15. There was a strong opinion voiced in both countries though that the influence each nation would yield would be minimal given their size relative to most current members.

*Expectations from Political Science:*

The political dimension of the euro was found to be much more contentious when comparing the empirical data with the expectations developed from the literature to appreciate how the perceptions of the NMS regarding the euro are affected by the particular qualities of these states. The first expectation that these states will adopt the euro when they meet economic conditions but also when the Member State considers there to be significant the political benefits and that these political benefits are intimately tied to the communist legacy such as the euro currency being seen to symbolize a ‘return to Europe’ and a differentiation from the communist past is generally correct. Within both the Czech Republic and Hungary the political dimension of the euro is acknowledged as being relevant in the formation of policy regarding the euro and the perceptions of the currency. However, the expectation that these political benefits are intimately tied to the communist legacy is not as prevalent. In both the Czech Republic and Hungary elite decision makers were quick to diminish the symbolic domestic role of the euro as indicating ‘Return to Europe’ and a differentiation from their communist past. Their Communist past, as such, they argue, has little to do with the desire to adopt the
euro. This indicates that when studying the NMS and the euro the communist legacy
should not be overemphasized as impacting the perceptions of the need and timing of the
euro. This finding stands in opposition to many of the commonly held perceptions within
academia and the rhetoric of the EU.

The second expectation is partially correct. Certainly, policy makers and scholars
alike are correct to assume that the pattern of currency as a symbol of national identity
has not been established as a historical reality and that this has an effect on the perception
of the euro. However, rather that overtly diminishing the symbolic power of the euro this
reality rather diminishes the negative backlash to the giving up on national currencies.
The lack of attachment to national currency is relatively neutral in its impact on the
symbolic potential of the euro.

The third expectation that because the euro may deliver economic stability there is
still cause to expect that there may be a desire within the NMS to foster a European
dimension to the national identity based on the principle of 'output legitimacy' is once
again partially correct insofar as elites predict that how the euro performs when
introduced will impact the symbolic role it plays. Despite the diminished influence of the
communist legacy there appears to be a trend, if not an out and out desire, to view the
euro as fostering a European dimension to the national collective identity. Though, the
identity dimension of the euro I argue may well be similar to the identity building role it
plays in the current eurozone countries and no more so given the hesitancy in the Czech
Republic and Hungary to give much weight to the 'Return to Europe' or communist
legacy. The euro is still a contingent symbol which is heavily reliant on 'output
legitimacy' to ensure its impact on identity. On this point the particular qualities of the
NMS seem not to wield a significant impact which would differentiate them from existing eurozone members.

Finally, the expectation that the way the euro is perceived will be connected to the popular response to the social ramifications of fiscal consolidation required for the adoption of the euro and therefore a positive popular sentiment for the euro and its associated policy changes is required before the euro is adopted is not as significant as predicted. While, officials in the case studies were quick to dismiss the role of popular support in the development of policy regarding the euro they did concede that it would likely play a role as the adoption of the euro came closer. While underestates there is clearly a power considerations on the part of decision makers at play. Furthermore, the fact that there is a lack of significant attachment to the national currency combined with a desire for economic stability, seen as available through adopting the euro, means that most people in their opinion were generally supportive of the euro, thus making outfall from negative public opinion less of a worry. Included within the discussion of popular support there was also voiced the necessity for a pro-EU government to affect the opinion of the euro. Politicians use negative commentary about the euro when they are against the EU (e.g. such as that mentioned in the interviews conducted in the Czech Republic) and positive commentary when they are for the EU. This however, has yet to impact significantly the domestic perception of the euro or the adoption strategy.

The split between economics and politics has been analytically helpful in answering the research question. The last piece of the answer though as mentioned is that while the political and economic perceptions of elite monetary policy makers are impacted by the particular character of the NMS in the above mentioned ways the areas
of politics and economics are not independent in these states. Both political and economic justifications and arguments invoke considerations central within the other.

7.3 Agenda for future research

The questioning and rethinking of the economic and political perceptions of the euro in the domestic arena of the NMS has been the project of this thesis culminating with the statement made in section 7.2. What this thesis suggests though for the project of future research is to take the preliminary framework I have developed for evaluating the political and economic perceptions of the euro in the NMS and apply it to the remaining eight states not examined within this thesis. This should afford researcher the opportunity to flush out more of the details of the various characteristics of each of these states. This group of NMS is not homogenous, and while the two cases chosen were selected to act as the indicators for the other NMS specific case studies of each of these states are required. Moreover, more in-depth examinations of some of the points raised in this thesis need to be explored even within the cases I look at. Furthermore, because this thesis has indicated the value of conducting interviews with elite decision makers in order to gain added insights for this particular issue it would be beneficial to conduct a greater number of interviews with monetary policy makers in all of the NMS. It would also be helpful to include elite decision makers in some of the adjacent policy areas such as those associated with social policy and international and European affairs.

While the primary objective of this thesis has been to provide a preliminary answer regarding how the NMS perceive the euro, it has also served to test whether or not this approach to understanding the issue is fruitful. Additionally, the thesis has started
the process of navigating the best way to investigate this new area of the euro in the NMS in a manner which is reflective of the specific character of these states then currently available in any significant way. It is to this end that this thesis has made its contribution and it is the task of future research to explore more fully the nuances of these states and their relationship with the euro.


Patten, Chris ‘Sovereignty, democracy and constitutions - finding the right formula’ 2001 Schuman Lecture, Australian National University April 19, 2001 Canberra Aus European Commissions delegation to Australia
http://www.ecdel.org.au/pressandinformation/schumanlecture.htm June 20, 2005


Human Research Ethics Committee  
Certificate of Approval

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<th>Principal Investigator</th>
<th>Department/School</th>
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**Project Title:** Perceptions of Role of Economic and Monetary Union and the Euro in the New Member States  

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**Certification**

This certifies that the UVic Human Research Ethics Committee has examined this research protocol and concludes that, in all respects, the proposed research meets appropriate standards of ethics as outlined by the University of Victoria Research Regulations Involving Human Subjects.

Dr. Martin Taylor  
Vice-President, Research

This Certificate of Approval is valid for the above term provided there is no change in the procedures. Extensions or minor amendments may be granted upon receipt of "Request for Continuing Review or Amendment of an Approved Project" form.
Research Project: Perceptions of role of Economic and Monetary Union and the euro in the New Member States  
Researcher: Melissa Padfield  
Funding Agency: University of Victoria EU Initiative and Social Science and Humanities Research Council of Canada

General Information about the Interview

In this interview we shall be focusing on the process of Monetary Policy convergence between your country and the European Union. In order to understand that process, I would like to ask you questions about a variety of issues. Some have to do with your countries rationale for its position on membership in Economic and Monetary Union (EMU) and the subsequent adoption of the euro. I am interested in your perceptions of what forces both economic and otherwise lay behind your country’s current decisions regarding EMU and the euro as well as how these may have changed throughout the course of the Accession process. Other questions will relate to how your former position as an Accession country in the Central and Eastern European region through the 1990s and into the new millennium has affected these motives and rationales.

Before we start the interview I would like to ask whether or not your organization has a written statement regarding its position on EMU and the adoption of the Euro by your country. Next, I shall ask you when I may interpret your opinion as the policy, strategy, or view of the organization, and ask you if you can indicate when you are providing me with a strictly personal opinion.

After asking you about your function within your organization and how long you have been working there, your academic background and political colour/preference, I would start asking the following questions:

Questions:

1. Even though membership in EMU was required as part of your country’s membership in the European Union what was your organization’s initial attitude towards EMU? Did you feel it would be beneficial for your country?  
   a) If you did perceive EMU to be beneficial could you elaborate on what benefits you initially believed it would deliver?  
   b) Was it the opinion of your organization initially that you should attempt to adopt the euro as soon as possible, that is to say at the end of the mandatory two years post-membership exchange rate stability?

2. Were the initial opinions held by your organization regarding EMU and the euro based solely upon the economic role that EMU would play or were their other, non-economic
factors (e.g. ideational factors) taken into consideration when formulating your initial opinions?

3. It has been said that joining the European Union signals a “return to Europe” for your country.
   a) Do you feel that by adopting the euro and becoming members of EMU your country becomes more a part of Europe?
   b) Did you feel that the adoption of the euro and participation EMU enhances your legitimacy and influence as an actor in the EU?
   c) Did you feel that the adoption of the euro and participation in EMU enhances the position of your country internationally or do you feel that there is no appreciable significance in this regard to your participation in EMU and the euro-zone?

4. There may be potential symbolic and economic benefits for your country associated with joining the euro.
   a) Do you feel that on a symbolic level the euro will result in the citizenry of your country feeling that they belong more to the EU and to Europe?
   b) Do you feel that the potential symbolic benefits of the euro and EMU help to counteract some of the constraints which result from EMU such as having less control over exchange and interest rates and inflation?
   c) Overall do you feel that the symbolic benefits of the euro will enhance the economic prosperity of your country?

5. Do you feel that given the previous communist system within your country that the symbolic role of the euro is enhanced in that it may function as a material representation of your shift to capitalism in a more powerful way than your current currency?

6. Since the introduction of the euro in 2001 there have been fluctuations in support for the euro in your country at times, such as in Autumn of 2003 when public support was on the decline. While this has now leveled off with the majority on support of the euro has there been a significant change in the opinion of your organization regarding EMU and the optimum timing for adoption of the euro in response to these shifts in public opinion?
   a) Do you still feel that there is a significant economic benefit to joining EMU and the euro-zone which will offset economic constraints? Could you please point out what you feel to be the core economic benefits?
   b) Do you still feel that there will be a symbolic benefit to the adoption of the euro and EMU both on a domestic and international scale?
   c) Have there been other factors in addition to the introduction of the euro in 2001 which have altered your perceptions and opinions regarding EMU and the euro?

7. Is there anything else which would like to add to this interview?