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**Ezoneplus: Research project, European Commission, Fifth Framework Programme, 2001-2004**

## Editor's Note

Welcome to this year's last issue of the Ezoneplus Newsletter. This issue announces the Ezoneplus conference "Strategy of EMU enlargement" in Warsaw, December 12, 2003. In addition, we want to draw your attention to the Ezoneplus Summary Report "Policies". Moreover, we provide you with a survey of our latest Ezoneplus Working Papers."

At last you may find helpful the table of contents of a recent publication distilled from the Ezoneplus Conference "The European Union Enlargement: socio-economic impact".



### 1. Ezoneplus Conference in Warsaw, December 12th

#### **"Strategy of EMU enlargement"**

The Conference is organised by the Warsaw School of Economics. We cordially invite you to attend the event on December 12, 2003. Please see the programme below:

## **Plan of the conference**

## Day 1, Friday

### 9.00 – 10.30 Opening session

- 9.00 – 9.15 Official opening  
Representative of the European Commission  
Prof. Dr M. Rocki – Rector, Warsaw School of Economics  
Prof. Dr K. Zukrowska – Warsaw School of Economics  
Prof. Dr M. Bolle – Freie Universität in Berlin
- 9.15 – 10.15 Opening lecture  
J. Krzysztof Bielecki – Chief Executive Officer, Pekao S.A. –  
*Polish strategy of accession to the EMU and expected problems*
- Discussion
- 10.15 – 10.30 Coffee break

### 10.30 – 14.00 Session I – Conflict of fiscal and monetary restraints with social demands

#### **Conflict of fiscal and monetary restraints with social demands**

- Prof. Dr. K. Zukrowska – Chair of the panel
- 10.30 – 11.45 Short presentations
- Dr. V Bárta, National Bank of the Czech Republic – *Strategy of accession to the EMU*
- Representative of the European Central Bank – *ECB view on Eastward Enlargement of the EMU*
- Prof. Dr. J. Hausner – Minister of Economy, Labor and Social Policy – *Social issues of EMU accession*
- Prof. Dr. W. Orłowski – Advisor in Economic Affairs of the President of Poland – *Fiscal policy in Poland in perspective of EMU accession*
- Dr. B. Grabowski – National Bank of Poland – *Strategy of budget consolidation*
- Prof. Dr. W. Ziółkowska – National Bank of Poland – *Monetary policy in Poland in perspective of EMU accession*
- 11.45 – 13.00 Discussion within the panel
- 13.00 – 14.00 Lunch break

## 14.00 – 16.15 Session II – Presentation of Ezoneplus research results

14.00 – 14.45 **Monetary policy** – presentation of the Ezoneplus report

Prof. Dr. V. Lavrac – University of Ljubljana – Chair  
Prof. Dr. R. Orsi – University of Bologna – presentation  
Prof. Dr. A. Sławiński – Warsaw School of Economics, NBP – comment  
Prof. Dr. D. Rosati – Warsaw School of Economics, NBP – panel  
Prof. Dr. J. Caetano – University of Evora – panel

**Presentation of  
Ezoneplus research  
results**

14.45 – 15.30 **Fiscal policy** – presentation of Ezoneplus report

Prof. Dr. R. Orsi – University of Bologna – Chair  
Prof. Dr. K. Zukrowska – Warsaw School of Economics – presentation  
Prof. Dr. B. Samojlik – Warsaw School of Economics – comment  
Dr. K. Rybiński – BPH PBK S.A. – panel  
Dr. M. Rutkowska – National Bank of Poland – panel  
Prof. Dr. H-D. Jacobsen – Freie Universität in Berlin – panel

15.30 – 16.15 **Social dimension** – presentation of Ezoneplus report

Prof. Dr. T. Paas – University of Tartu – Chair  
A. Kemmerling – Freie Universität in Berlin – presentation  
Prof. Dr. Mieczysław Kabaj – Institute of Labour and Social Affairs – comment  
T. Wiśniewski, Ministry of Economy, Labor and Social Policy – panel  
Prof. Dr. J. Kiander – University of Helsinki – panel

**Social dimension –  
presentation of  
Ezoneplus report**

## 16.15 – 16.30 Official Closing of Day 1

Representative of the European Commission  
Prof. Dr. K. Zukrowska – Warsaw School of Economics  
Prof. Dr. M. Bolle – Freie Universität in Berlin

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## 2. Summary Report 2003

Ezoneplus Summary Report 2003 is now published:

**Bolle, Michael (Ed.). Eurozone Enlargement - Reshaping Policies and Social Conflicts. Berlin: Berliner Wissenschaftsverlag, 2003. ISBN: 3-8305-0576-0**

**Outcomes of the EMU enlargement process with emphasis on monetary and fiscal policies, on exchange-rate regimes and on the social dimension**

This Summary Report reflects outcomes of the research project "The Eastward Enlargement of the Eurozone (Ezoneplus)" that has analysed these challenges with particular emphasis on monetary and fiscal policies, on exchange-rate regimes and on the social dimension of the EMU enlargement process. It will be shown that structural asymmetries in an enlarged currency union will only slowly proceed towards a convergence of welfare states across EU -25. The pace of this process depends largely on the willingness and capability of political decision-makers at all levels to coordinate the policies in question.

### **Introduction**

Achim Kemmerling, Hanns-D. Jacobsen

*Ezoneplus* started with two cardinal assumptions: (1) Although EMU may not be an optimal currency area, it may become one as a common currency sets in motion endogenous processes of enhancing intra-EU trade and capital flows. The prime empirical task for the first stage of *Ezoneplus* was therefore to show to what extent the reshaping of markets has already taken place when current and new EMU member states are compared. (2) Reshaping does not take place instantaneously and is not evenly balanced across all types of markets. Moreover, it has to be accommodated by the social and political sphere in all countries. Since reshaping entails a heavy burden of structural adjustment, it is likely to produce societal unrest and political bargaining over the costs of adjustment. The second major task of this project is to track these social and political conflicts and to relate them to the pivotal policy area for *Ezoneplus*: exchange-rate policies.

Correspondingly, the first stage of *Ezoneplus* investigated both problems, and our findings are summarised in the first summary report (*Ezoneplus* 2002). In the following second, report we aim at extending our previous discussions on the question of how policies have been reshaped in the wake of enlarging the currency union. The following three sections show the evolution of three major policy areas: (1) fiscal and monetary policy, (2) exchange-rate regimes, and (3) the discussion of what we call the social dimension, i.e. social, labour and transfer policies. Assessing these three policy areas will allow us to be prepared for the final step of *Ezoneplus*, giving adequate policy responses that combine economic efficiency with the issue of how to achieve social and political acceptance of such policy measures.

The first part of the summary report deals with the question to what extent fiscal and monetary policies have already been reshaped by the prospect of an enlarged EMU. In the introduction to this part, **Meyer** sketches some of the basic trade-offs fiscal and monetary policies face these days. The adoption of a common currency means for new entrants that they have to shoulder the burden of additional reforms, but that these, at least in the short run, will not be implemented on a one-to-one basis, since social and political costs would be too

high. **Lavrač** shows in more detail the kinds of trade-offs involved in meeting the Maastricht criteria and the related debate on the Stability and Growth Pact (SGP). Contrary to monetary policies in CEEC, that already exhibit reshaping and preparation for EMU to a great extent, fiscal policies are much more difficult to adapt to the needs of ERM2, let alone EMU. **Zukrowska** and **Sobczak** show the trajectories of budgetary positions of current EMU member states. They argue for a certain policy reversal before and after EMU accession and show why CEEC may face similar problems.

The second part takes up these lines of reasoning, but from a different perspective: the choice of exchange-rate regimes. **Orsi** and **Iacone** focus on the temporal and cross-country variation of exchange-rate regimes in the last decade. Reshaping is visible for all countries: monetary and exchange rate policies have clearly shifted from the needs of early transition to the problem of integrating CEEC into a common European economic area. Due to historical and economic factors, however, CEEC exhibit a marked diversity in the choice of exchange-rate regimes. Obviously, there does not exist a unique policy optimal for all countries. More importantly, most countries – apart from the small Baltic economies – did not opt for one of the two famous corner solutions: fixed or float. To the contrary, CEEC have aimed at paving the way to a monetary policy by the use of (some form) of pegged exchange rates as nominal anchors. The Maastricht criteria will remain the ‘route’ to be taken by these countries. This section concludes with two major recommendations: (1) Entry to EMU should happen as soon as possible, (2) before entering ERM2 countries should prefer to float rather than to fix their exchange rate prematurely.

The third part discusses both the reshaping of certain policy areas and the socio-political repercussions of an eastward enlargement of EMU. The focus lies on the potential for social conflict enhanced by the enlargement process and the consequences for national policy-making. **Kemmerling** addresses the political economy of major issues concerning national welfare states. He argues that there is substantive political resistance against the flexibilisation of labour markets and social policies. This has implications for both national wage bargaining systems and national net contributions to the EU public budget. He projects that the SGP will be put under increasing pressure, since politicians will fear the negative consequences of fiscal retrenchment, and that CEEC could manage to double their share of EU transfers once they join EU and EMU. In his last section, the author discusses so-called ‘soft issues’ such as public opinion on the adoption of the Euro. The analysis of micro-data shows that although support is primarily driven by national legacies, welfare state institutions may well play a role in cushioning the short-term costs of *Ezoneplus*.

### 3. New Ezoneplus Working Papers

#### **(1) Working Paper No. 17, September 2003**

Vladimir Lavrac (ed.), Katarzyna Zukrowska, Dominik Sobczak, Massimiliano Marzo: Final Report: Monetary and Fiscal Policy

This report reflects on recent trends in fiscal and monetary policies at the onset of EU-enlargement. Particularly, the authors focus on necessary adjustment processes for future EU-members. How to smooth best the transition period between "normal" EU-accession and eventual participation in the Eurozone? Having conducted empirical regional reports, the Ezoneplus research consortium combines the results in two main parts: Katarzyna Zukrowska and Dominik Sobczak reveal trends and risks in fiscal policy issues, such as divergent consolidation policies in Western Europe, possible lessons for CEE countries and the importance of the Stability and Growth Pact. Then, Massimiliano Marzo elaborates a comprehensive picture of the impact of monetary policy, especially inflation targeting in three CEE countries.

[Link to the paper](#) (PDF 421KB)

**How to smooth best the transition period?**

#### **(2) Working Paper No. 19, September 2003**

B.Yilmaz, S.J.Ergun: The Foreign Trade Pattern and Foreign Trade Specialization of Candidates of the European Union

The main topic of the paper is optimal dynamics, i.e., timing of entry of the accession countries in the ERM 2 and EMU. Some of the crucial questions addressed in the paper are as follows: a) Should accession countries aim at an early or a delayed entry into the EMU? b) What are economic and other arguments for an early or late inclusion? c) What are the institutional external constraints which may prevent an early inclusion of accession countries? Institutional rules of the phased process of monetary integration for the accession countries are not quite transparent and leave much room for discretion to the EU side. In such circumstances it is difficult for the accession countries to devise clear and consistent strategies with respect to the timing of entry in the ERM 2 as an interim institutional mechanism in the run-up to the EMU.

[Link to the paper](#) (PDF 1,24 MB)

**How long is the way to catch up with the European Union?**

### 4. Book on Ezoneplus Évora Conference

The Conference "The European Union Enlargement: socio-economic impact", which took place on the 11th of April 2003 by initiative of the European Documentation Centre of the University of Évora, presented as its main objective the dissemination and discussion of the results of investigation developed by national and foreign researchers on the issue of the EU enlargement. It was an explicit intention of the organizers to promote the debate on this issue, involving not only the academia but also local and regional institutions, business associations and the general public. It is our opinion that the wide and motivated participation in the event, together with the quality of the presentations, demonstrate that the objectives were fully attained. The Conference was an open space to exchange views on the near future of the

**The socio-economic impact of European Union enlargement**

EU, thus contributing for further enlightening the public on a crucial subject for the construction of a new Europe. The publication in book of the communications appears as the logical corollary of that initiative, contributing to a wider dissemination of the relevant information on this issue.

The results are now published: (you may find the complete document at [www.ezoneplus.org](http://www.ezoneplus.org)):

José Manuel Caetano (Ed.). *The European Union Enlargement - Social and Economic Impacts*. Évora: Centro de Documentação Europeia, 2003. (ISBN: 972-9051-41-0)

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