

Robert Schuman Centre
for Advanced Studies

The Internationalization of
Finance and Defense in
Postcommunist Poland

Rachel Epstein

RSC No. 2003/2
European Forum Series

EUI WORKING PAPERS



EUROPEAN UNIVERSITY INSTITUTE

Robert Schuman Centre for Advanced Studies

European Forum

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This Working Paper has been written in the context of the 2001-2002 European Forum programme on “Europe in the world: the external dimensions of Europeanisation” directed by Professor Helen Wallace with Mark Pollack and Professor Jan Zielonka as Associate Directors.

The Forum examined the various ways in which the European Union’s policies and practices are exported to neighbours, partners and associates. Over the year Fellows involved in the Forum looked at particular policy issues, particular patterns of association, especially the enlargement process, and some elements of the transatlantic relationship. Papers presented explored the range from substantive policy to broad norms and values as they impact on how the EU addresses the challenge of partnership with third countries.

ABSTRACT

Why do states comply with norms of international institutions when those norms contradict domestic preferences? Polish domestic political interests favored preserving Polish autonomy over capital allocation and military security. Why then, did the Polish Ministry of Finance abandon bank consolidation plans in 1996 and privatize its state-owned commercial banks primarily with foreign capital? And why did defense officials abandon a politically popular territorial defense program in 1998 that would have contributed to Poland's defense self-sufficiency?

In the debates about bank consolidation and territorial defense, the definition of "national interest" was at stake. These cases show that definitions of "security maximization" and "economic best practice" ultimately depend on the social and political context in which those terms evolve. Uncertainty and institutional flux characterized the unique period of post-socialist transition. Taking advantage of this fluidity, international institutions, including the Bretton Woods institutions, the European Union (EU), and the North Atlantic Treaty Organization (NATO), engaged Polish policy makers with persuasion, social influence, and conditionality in order to harmonize the national and international articulation of interests. I will show how a sequencing model that includes both persuasion and social influence resulted in matching Polish policy with international institutions' ideologies. This led to the internationalization of Polish defense planning and banking, where internationalization refers to the yielding of national autonomy to the demands of multinational collective security arrangements and the global economy, respectively.

Keywords: international relations, Poland, socialization, security/external, political economy, NATO, economic policy, institutionalisation.

INTRODUCTION

Why do states comply with norms of international institutions when those norms contradict domestic preferences?^{*} Polish domestic political interests favored preserving Polish autonomy over capital allocation and military security. Why then, did the Polish Ministry of Finance abandon bank consolidation plans in 1996 and privatize its state-owned commercial banks (SOCBs) primarily with foreign capital? And why did defense officials abandon a politically popular territorial defense program in 1998 that would have contributed to Poland's defense self-sufficiency?

In the debates about bank consolidation and territorial defense, the definition of “national interest” was at stake. These cases show that definitions of “security maximization” and “economic best practice” ultimately depend not only on pre-existing domestic preferences, but also on the international institutional environment. In the unique period of policy uncertainty and institutional flux that characterized transition, international institutions, including the Bretton Woods institutions, the European Union (EU), and the North Atlantic Treaty Organization (NATO), engaged Polish policy makers with persuasion, social influence, and conditionality in order to harmonize the national and international articulation of interests. I will show how a sequencing model that includes both persuasion and social influence resulted in matching Polish policy with international institutions' ideologies. This led to the internationalization of Polish defense planning and banking, where internationalization refers to the yielding of national autonomy to the demands of multinational collective security arrangements and the global economy, respectively.

CONSTRUCTIVIST APPROACHES TO NORMATIVE CHANGE

I engage several strains of constructivist scholarship here, all of which concern the degree to which the “logic of appropriateness” informs behavior. In its most pristine form, the logic of appropriateness underlies behavior that is “taken for granted” and is consistent with an actor's identity. Such behavior is guided by a sense of what one “should” do in any given situation. This is in contrast to the “logic of consequences” in which an

^{*} I would like to thank Peter Katzenstein, Jonathan Kirshner, Valerie Bunce, Matthew Evangelista and Chris Way for comments on an earlier draft of this paper. I am also grateful to the Einaudi Center at Cornell University for financial support to carry out the field research for this project, as well as to the Robert Schuman Centre for Advanced Studies at the European University Institute.

actor makes a self-interested cost-benefit calculation and takes a decision on that basis (March and Olsen 1989; 1998). The distinction is important for two reasons. First, constructivists seek to show that there are non-material forces in the international system that inform states' behavior. Second, presumably, policy that is grounded in beliefs is more sustainable than policy that results from coercion.

Recent constructivist scholarship focuses on persuasion through social learning because it is in that political and social micro-process that an actor's sense of appropriateness changes (Checkel 2001, 559). At the other end of the constructivist spectrum is "strategic social construction" in which policy makers change their political positions based on external ideational pressure—from non-governmental organizations (NGOs) or transnational human rights networks, for example (Keck and Sikkink 1998; Risse, Ropp and Sikkink 1999; Finnemore and Sikkink 1998). The fact that there is no evidence in such cases that policy makers change their personal convictions, but rather conform in the face of opposition, puts this version of constructivist analysis closer to instrumental action (Schimmelfennig 2000a; 2001).

There are at least two additional categories of socially-driven interest alteration between these two extremes of obligatory and instrumental logic that do not rely on traditional bargaining or contractual institutionalist forms of coercion.¹ Alastair Iain Johnston points out that in addition to persuasion, mechanisms such as shaming, opprobrium, backpatting and cajoling can encourage actors to change their views. These are all social categories that are separate from material incentives that might also change actors' policy positions without changing the fundamental convictions of those actors (Johnston 2001, 488-489 and 494). These forms of social influence may be categorized as either "mediated informational influence" or "mediated normative influence." According to Johnston, mediated informational influence takes place when an actor believes X before a social interaction, but upon learning that everyone else believes Y, comes to believe that Y is the answer because everyone else cannot be wrong. Mediated normative influence, on the other hand, is manifested when, before a social interaction, an actor believes X. Upon learning that everyone else believes Y, however, the actor changes his or her public position to Y in order to avoid "rocking the boat," even while continuing to believe that X is the answer (Johnston 2001, 499-500).

One could argue that since, particularly in the case of mediated normative influence, actors change their public positions without privately accepting them,² that compliance under pressure from social influence is another form of instrumental action. While the logic is similar to that of contractual institutionalism, it is also true that effective social influence of this kind relies on group dynamics, not material incentives. Since constructivists in international relations are interested in emphasizing the non-material structures that inform interstate behavior, these categories of behavior fall within the bounds of the constructivist ontology (Hopf 1998; Wendt 1999).

Among the most difficult tests for constructivists is to show that persuasion and social influence affect state behavior even in issue areas that are at the core of national security. If Alexander Wendt is correct in asserting that anarchy in the international system is “what states make of it,” (Wendt 1992) then it must be possible to socialize states to act in cooperative ways, just as the international system has at various times socialized states to prioritize self-preservation and relative gains (Waltz 1979). If constructivists’ basic claims are correct, international institutions should be able to dissuade states from pursuing defense self-sufficiency or financial autonomy. Moreover, they should be able to do it with mechanisms ranging from persuasion to social influence.

Checkel and Johnston each propose “scope conditions” under which persuasion is most likely to occur.³ Specifying the conditions under which political outcomes are affected by social learning is an important contribution to constructivism, but this kind of persuasion in isolation from other mechanisms is unlikely to lead to policy implementation in the range of contexts that are of direct concern to students of IR. Moreover, according to the scope conditions, persuasion is most likely to take place among actors who are already politically aligned, thus limiting the analysis to marginal shifts in policy, rather than dramatic ones. Finally, although these scope conditions focus needed attention on micro-processes, they do not reveal why persuasion leads to macro-normative changes in some instances but not others. Given these limitations in the existing literature, what we need now is an integrated approach to understanding persuasion’s role in policy implementation that reflects the socializing effect of international organizations. Understanding the systematic relationship between persuasion and social influence will allow us to predict what conditions contribute to the sustainability of policy implementation.

A SEQUENCING APPROACH TO PERUASION AND POLICY IMPLEMENTATION

International institutions, including the Bretton Woods institutions, the EU, and NATO, internationalized Polish financial and defense policy primarily through setting the terms of debate and defining what constituted “rational” policy solutions. Western advisers enjoyed enormous ideological power in the wake of the cold war. In the financial sphere, they used their authoritative positions as well as the massive policy failure represented by state-socialism’s collapse to privilege a narrow set of policy prescriptions that favored the market mechanism as a means of resolving political conflict. In the military-security sphere, NATO promoted both democratic control over the armed forces in postcommunist states, and equally important, a conciliatory tone toward the Soviet Union and later, Russia. By the mid-1990s, these same institutions, in cooperation with Polish pro-Western reformers, delegitimized Polish domestic policy proposals that contradicted these principles by shaming and isolating their advocates.

Cooperation rather than conflict characterized interaction between Polish policy makers and their foreign advisers during the first phase of transition (1989-1993). This should not obscure the fact that international institutions were exercising their influence during this period in profound ways through the provision of ideas. In addition, they were, primarily through social learning, building political coalitions with those sympathetic to their approach to reform and gaining knowledge about local conditions. Both processes contributed to the capacity of foreign advisors and their Polish interlocutors in the second phase of transition (1994-1998) to use social influence to encourage the abandonment of programs that were at odds with the international institutions’ own ideologies.

International institutions used two modes of agenda-setting in these respective phases of transition to cultivate Polish interests in favor of internationalizing solutions to policy dilemmas. The first was the provision of ideas (Evangelista 1999). Western experts dispense “technical advice” as politically neutral, particularly concerning economic policy (Kirshner forthcoming). Such assistance is ideological, however, in so far as it is a unified, coherent, value-laden program with distributional consequences. Technical experts nevertheless portray their assistance as politically neutral, not as a duplicitous act, but because they themselves take the values embedded in their policy prescriptions for granted. In this way, international

institutions relocate debate from whether outcomes that they prefer are desirable to the methods of achieving those outcomes.

The second mode of agenda setting (more common in the Polish case during the second phase of transition), is “organizing bias,”⁴ also known as “alternative specification” (Schoppa 1997).⁵ This is the process by which international institutions organize certain conflicts into politics. By characterizing a condition as problematic, international institutions provoke a domestic debate that local politicians would not necessarily have engaged in otherwise. Further, by weighing in on one side of the debate and organizing social interactions to persuade domestic actors to join their side, international institutions change the domestic balance of power in favor of their own position.

I propose four scope conditions that explain domestic compliance with international institutional norms, even when those norms expressly contradict domestic priorities. The scope conditions all concern the degree to which international institutions are able to control the domestic debate. A key part of the theoretical framework is the path-dependent, sequencing nature of the scope conditions.

Phase One: Explaining Social Learning

Consistent with both Johnston’s and Checkel’s findings, persuasion through social learning is an essential element in the political process. This kind of persuasion is most likely to occur in the wake of policy failure when the targets of persuasion have few prior assumptions about how best to formulate policy. In transition states, these conditions are most likely to prevail early in transition. Second, persuasion is most likely to occur when the persuader is an authoritative member of an organization from which the target actor would like to win social affirmation or approval.

Phase Two: Explaining Policy Implementation

The third hypothesis I propose addresses the conditions under which persuasion then translates into policy implementation (and continuity of a particular policy after implementation). Policy implementation that is consistent with international institutional ideologies will take place if foreign advisors cultivate transnational coalitions that include politically-positioned domestic actors. By activating these transnational coalitions, foreign

advisors can use mechanisms of social influence to ensure policy continuity. Social influence may take place in either public or private settings and it may include coercive measures. Nevertheless, it is social influence, rather than bargaining in the contractual institutionalist sense, precisely because it is the sense of political isolation that persuades actors to comply with international institutional demands. Domestic participation in such coalitions is important because it contributes to the legitimacy of international institutions' claims that their programs are not externally imposed.

Finally, my fourth hypothesis is that policy implementation consistent with the ideas and interests of international institutions is most likely when the targets of social influence aspire to membership in international institutions with exclusive ideologies. Ideological consistency between national policy and international institutions is crucial to domestic actors whose political legitimacy depends on international recognition.

The advantage of this approach is that it can explain both marginal and radical policy shifts in directions consistent with a persuader's ideas and interests. Second, clearly not all actors within a domestic political setting are socialized either to the same degree or at the same time. Given the inevitable differences in the pace and depth of socialization, this approach nevertheless explains why policy implementation takes place. Third, the hypotheses taken together are also suggestive of the kind of institutional arrangements that result in enduring policy change. International institutions that have fixed ideologies constrain the programmatic basis on which national figures can mobilize political support because some degree of matching national and international institutional political programs is central to politicians' legitimacy. This is especially true where domestic programs are under constant international scrutiny. In Poland, policy makers, even those of different political parties and platforms, had an ever shrinking range of policy options over time because of that country's early engagement of international institutions' financial and ideological support.

METHODOLOGY: IDENTIFYING PERSUASION AND SOCIAL INFLUENCE

The purest form of persuasion or social learning is characterized by internally motivated agreement with the persuader. The difficulty in measuring the degree of persuasion is that there are few definitive external

indicators of when persuasion has taken place. Actors may claim that the persuader has successfully changed their views, but whether the target actor has internalized those views is difficult to discern. This methodological dilemma exacerbates the problem of distinguishing between constructivist and rationalist categories of analysis.

In interviews with policy makers, it is easier to identify strategic behavior (the logic of consequences) than norm-driven behavior (the logic of appropriateness) because politically, actors may have incentives to conceal their personal convictions if they are at odds with the prevailing ideology. Nevertheless, there are ways of determining whether an actor has changed his or her public position with or without private acceptance. I have used interview data to compare Polish politicians' positions on issues after interactions with international institutions with earlier written statements on the same issues. In the interviews, I asked what the policy makers' current positions were, both publicly and privately, in addition to the reasons behind their positions. Normative consistency in their answers with the policy positions of the international institutions that had prompted change indicated a change in view. Irony concerning the policy positions of international institutions that objected to Polish domestic preferences suggested public conformity with a set of ideas that had not won private acceptance with the interviewee. Similarly, a policy-maker's private rejection of an international institutions' policy agenda co-existing with public conformity to the same international institution's program clearly indicated some other reason for compliance than persuasion in its most pristine form.

Discerning the motivations behind policy positions is important for specifying the conditions under which social, as opposed to material, incentives, elicit change. However, my argument about under what conditions persuasion translates into policy implementation and sustainability relies as heavily on the institutionalization of exclusive ideologies through domestic public policy as it does on proving that an actor's personal convictions have changed. That is why, in the presentation of evidence, I stress what Polish policy makers state publicly, not just whether it was persuasion, social influence, or coercion that produced such statements. Once policy makers institutionalize a particular portrayal of the national interest that is consistent with the international institutional environment, it becomes increasingly difficult to propose competing ideas (i.e. that it was the Polish state's role to protect Polish control over domestic capital allocation or that Russia was the primary threat to national security).

Institutionalization of public policy that mirrors international norms, which are themselves embedded in the international environment, limits the bases on which politicians can mobilize domestic political support.

EVIDENCE 1: THE INTERNATIONALIZATION OF THE BANKING SECTOR IN POSTCOMMUNIST POLAND

Why, despite domestic interests to the contrary, did Poland privatize the majority of its banking assets with foreign capital? Similarly, why did Poland forgo the opportunity to build a Polish-owned banking conglomerate that would have been internationally competitive? By the year 2000, 70% of Poland's banking assets were foreign owned. Given the range of options at the outset of transition, one might have expected a wide-ranging debate about the possible ways of organizing the banking sector, but there was in fact little discussion about the merits of maintaining a role for the state in domestic credit allocation in Poland in the first years of transition. After the 1993 elections, when postcommunist politicians introduced competing ideas that suggested the state should play a directive role in economic development, international financial institutions, including the IMF, the World Bank, and the European Bank for Reconstruction and Development (EBRD), narrowed the scope of debate and limited the policy options available to Polish politicians.

The privileging of foreign investment and the abandonment of bank consolidation plans are surprising outcomes for three reasons. First, according to earlier research on the structure of finance and the development of the state, late developers tend to use state capacity to marshal and coordinate national resources in an effort to catch up. With control over credit, the state apparatus may be able to employ "leap-frog" techniques, in which economically less developed states can accelerate development by importing technology.⁶ Second, a range of historical experience shows that under some conditions, particularly with regard to strategic sectors such as finance, the state may be able to improve upon the efficiency of markets (Haggard and Lee 1993, 11-13). Most economic success stories of the post-war period include cases of centralized credit allocation. Third, from a political perspective, states have often considered it advantageous to protect their banking sectors from foreign ownership. Independent sources of finance help bolster state autonomy.

The scope of Poland's embrace of the market is also surprising given American and West European reluctance to make their own banking sectors available to foreign ownership. These are, after all, the models that Poland was striving to emulate in the postcommunist transition. Although OECD countries putatively have market access to one another's banking sectors, there is *de facto* protection, such that on average, only between 10 and 20 percent of most OECD banking assets are foreign owned (Godula 2000, 4; *Economist* 28/8/1999, 58).⁷ States have traditionally protected this strategic sector from foreign ownership in order to preserve international competitiveness, even in the midst of European integration. Since foreign ownership of Polish banking assets approached 60% in 1999, Polish observers, concerned about foreign ownership, have noted that foreign banks will make business decisions based on economic conditions in the home country. This has raised the fear among Poles that if Polish enterprises seek financing for a sector that is in direct competition with the same sector in the financing bank's home country, that bank will in turn fail to make the loan (Godula 2000).

The Twinning Arrangements

Despite these domestic political reservations about selling this strategic sector to foreign investors, international institutions and the first wave of Solidarity reformers set that trajectory together beginning in 1990. Although the Bretton Woods institutions began advising Poland on financial reform much earlier (1986), the opportunity for dramatic change obviously widened with the first partially-free Polish elections in 1989. One of the first foreign interventions with regard to banking reform occurred in late 1989 at a conference on the outskirts of Warsaw.⁸ Jeffrey Sachs, who would later figure prominently in Poland's macroeconomic stabilization plan by providing a Harvard economist's imprimatur, made a number of sweeping remarks about the imperative of modernizing and privatizing Poland's banks. He suggested that the Polish government enlist the financial assistance of the international financial institutions to finance a training program between Western and Polish banks. Theoretically, this would be a way of providing Polish banks with Western know-how, while simultaneously generating interest among Western banks in investing in their Polish counterparts.

Later that same day, Stefan Kawalec, whom Balcerowicz had appointed to General Director in the Polish Ministry of Finance in charge of banking

reform, contacted Anthony Doran. At that time, Doran was the International Finance Corporation's (IFC) chief in Warsaw. Having both been at Sachs' talk earlier that day, Kawalec and Doran met in Warsaw to discuss the feasibility of setting up a training program along the lines that Sachs had suggested. A year later, in the spring of 1991, the "Twinning Arrangements" were announced, although the training had already been underway for some months. The World Bank, initially critical of the concept, later adopted it as its own at the IFC's urging. The World Bank then funded the bulk of the project, and began planning the expansion of the program into other countries.

Consequences of the Twinning Arrangements

From the perspective of encouraging relationships between Western and Polish banks that would result in investment, the Twinning Arrangements were only modestly successful. One bank, Allied Irish, invested in its "twin" in Poznan, Wielki Bank Polski S.A. (WBP), while none of the other partnerships materialized directly into business ventures between partners (McCrossan 2001, 21-22). However, both the Italians and Dutch (UniCredito and ING) did invest elsewhere in Poland's banking sector at later dates.⁹

The fact that the Twinning Arrangements were voluntary and mostly unsuccessful obscures their broader political ramifications. The partnering program was legitimate not for the proven quality of the idea,¹⁰ but because of its origins. The debate about the course of banking reform was set in terms of privatization, with foreign investors being privileged in that scenario. At this stage, there was no debate about commercialization under state control before privatization, an alternative that only emerged with the return of the postcommunists to power in Poland in 1993. These ideas about how best to modernize Poland's banking sector were also significant in the next stage of banking reform. Kawalec, the central figure in organizing the Twinning Arrangements on the Polish side, was later also instrumental in designing the bank bailout plan that relied heavily on foreign ideological, technical and financial assistance, as well as domestic preferences.

The Twinning Arrangements were significant for the way in which they typified many transnational coalitions between Poles and international institutions in the first phase of transition. Early in transition, in the wake of state socialism's massive policy failure, Polish policy makers were quite

open to persuasion. Having studied markets but having never constructed them, Solidarity reformers had little of their own expertise, although they did want to undermine the state's power. Moreover, the persuaders in this case were representatives of authoritative organizations whose approval Polish reformers sought. Thus, the international financial institutions cultivated a coalition of pro-market reformers within the Polish Ministry of Finance that would later act as legitimate purveyors of the international financial institutions' arguments when those ideas came under attack from domestic sources. The Twinning Arrangements were also significant for the way in which they allowed international financial institutions and foreign investors to structure the debate in Poland about how best to bring the Polish banking sector into technological conformity with their Western counterparts. According to one World Bank official,

we wanted to see this market become as competitive as possible, as quickly as possible. . .we were not wedded to the idea that domestic ownership have priority—not at all. . .I think in this vein the World Bank and others chose not to understand what the implications of this approach were for the local market and government.¹¹

Bank Bailout and Restructuring: Securing Foreign Assistance

As was true in all east European economies in the early 1990's, Poland's banking sector faced a debt crisis in 1990 and 1991. With the onset of macroeconomic stabilization in Poland on January 1, 1990, otherwise known as "Shock Therapy," enterprise exposure to market forces and the consequent drop in output led to a significant proportion of non-performing loans.¹² Many of the major banks became technically insolvent. In response to the crisis, Polish reformers called on several of the international financial institutions, including the IFC, the World Bank, the European Bank for Reconstruction and Development, (EBRD) and the IMF for technical advice. After devising a bailout and restructuring plan, the Polish Ministry of Finance applied for financial assistance to many of the same institutions.¹³

In conjunction with the bank bailout program that Kawalec had devised, the Polish government sought out two sources of foreign financial assistance. The first was a World Bank loan called the Enterprise and Financial Sector Assistance Loan (EFSAL) of \$400 million.¹⁴ The IMF provided the second source of foreign financial assistance. In 1990, the IMF had set aside a \$1 billion zloty stabilization fund in connection with the onset of "shock

therapy” macroeconomic stabilization. The fund was never used for that purpose, however. In light of the looming banking crisis, the Polish Ministry of Finance proposed using the stabilization fund to recapitalize the state-owned banks. The IMF attached one informal condition to the arrangement: that the Polish government make a good faith effort to privatize the remaining state owned banks by 1996. Because the Polish politicians in power at this time were free-market enthusiasts from Solidarity, whom the international financial institutions (IFIs) had already persuaded of the efficiency of the market, they welcomed this conditionality.

In October 1993, with the Polish communists’ return to power (the Democratic Left Alliance SLD and the Polish Peasant Party PSL), a new set of ideas regarding the restructuring Poland’s banking sector entered the debate. According to Grzegorz Kolodko, the new SLD Minister of Finance, the rush to privatize Poland’s banks was a mistake.¹⁵ Kolodko believed that there was no technical reason to privatize state-owned enterprises sooner rather than later. He pointed out that there was no correlation between a country’s rate of privatization and its economic performance.¹⁶ Further, he argued that rapid privatization would complicate the process of institution-building that is essential to enhancing the state’s regulatory capacity. Finally, he maintained that rapid privatization of Poland’s banks would mean the *de facto* sale to foreign interests because early in transition, the domestic market had not yet evolved to a point of being able to absorb such investments—it was still too capital-poor.

Kolodko wanted to commercialize some of the state-owned banks, consolidate them, and postpone their privatization for two reasons. The first was that if privatization were carried out rapidly, the enterprise would not have reached its potential value, thus cutting into the state’s revenue from the sale. The second was that rapid privatization in Poland’s transition economy would have precluded the possibility of Polish investment in the banking sector because at that time there was insufficient domestic capital to absorb the enterprises. By postponing privatization, Kolodko hoped to fulfill two developmental goals. The first was to maintain the state’s role in credit allocation. The second was to eventually create a Polish-owned internationally competitive banking conglomerate.

Consolidation under state direction would have had to be completed quickly, however, in order to privatize on terms favorable to maintaining Polish ownership. Given Poland’s aspirations to join the OECD and the EU, the

country would eventually have to comply with a number of market access rules.¹⁷ In addition, the 1991 Council of Ministers decree that set a 30% limit on any single foreign investor in any single bank would be lifted in 1997 in accordance with Poland's European Union Association Agreement (*Warsaw Business Journal* 24/11/1995, 1).

The government's plans to consolidate several of Poland's banks in late 1995 caused an outcry. Aside from the domestic complaint that the Ministry of Finance was trying to "pick winners" and therewith subvert market logic, one of the banks slated for consolidation had already been partly privatized. Bank Przemyslowo-Handlowy of Krakow (BPH) was in large part divided between 4 major shareholders, including the Polish State Treasury (46.6%), the EBRD (15.06%), ING Bank (10.1%), Daiwa (4.57%). In addition, GE Capital as well as other Polish banks had expressed interest in investing in BPH not long before the consolidation announcement. Although the proposed move by the Ministry of Finance would have been technically legal, opposition was intense (*Warsaw Business Journal* 8/12/1995, 3).

When officials at the U.S. Treasury, including at that time Lawrence Summers, David Lipton and Robert Rubin, learned of the SLD's bank consolidation plans, they took action to persuade Kolodko to drop the program.¹⁸ In a private meeting with Kolodko in Washington, D.C., they argued that state-led consolidation was at odds with basic principles of a market economy. State-orchestrated plans such as these were anti-competitive. This was especially problematic in Poland, they argued, where it was the post-communists who were pursuing policies that resembled central planning of the previous era, as well as protectionist policies designed to favor domestic, over foreign, investors. The U.S. Treasury warned that this would raise concerns among foreign investors more generally. Further, they argued that the Polish government could not afford to potentially slow the privatization of state-owned enterprises in light of the government's budgetary priorities. Finally, the U.S. Treasury, contending bank consolidation was not in the spirit of the earlier agreement to privatize all the state-owned banks by 1996, threatened to withhold the next tranche of recapitalization funds.

Kolodko also received damaging press coverage. The foreign business press quoted critics who called the plan a "collectivization move," who further compared it to 1945 "when the communists gave peasants small pieces of land, only to take them back again" (*Warsaw Business Journal* 8/12/1995,

3). A journalist from Poland's leading newspaper, *Gazeta Wyborcza*, which was founded by Solidarity activists, asked Kolodko at a press conference in Washington why he was "re-communizing" Poland's banks.¹⁹

In 1996, Kolodko and the SLD dropped the bulk of the bank consolidation plans.²⁰ But the intensity of the conflict with the IMF and the U.S. Treasury over the issue and the political damage unleashed by the press led to a series of policy changes well beyond the scope of the consolidation issue. Not only did the SLD drop bank consolidation, but they also initiated a fast-track privatization scheme for the banks that had previously been slated for consolidation, and sought out foreign capital for the task. Further, they used the revenue from those privatizations to implement a tax cut. In addition, in light of the political outcry against consolidation, SLD deputies in the Parliament sponsored legislation outlawing the consolidation of any bank that was not 100% state-owned. This was largely a symbolic act given the small number of banks remaining that would fit that criterion. Finally, Kolodko went on to become a visiting scholar at IMF headquarters in Washington, D.C. after his tenure as Polish Minister of Finance ended.

Abandonment of Bank Consolidation: Mediated Normative Influence

The SLD's abandonment of bank consolidation, and with it hopes for an internationally competitive banking conglomerate that could be subject to state influence, is a case of mediated normative influence. Kolodko believed that state control over domestic credit allocation was a potentially powerful developmental tool. He continued to believe this in the wake of the confrontation with both domestic opposition and the IMF, EBRD, and U.S. Treasury. However, because the political pressure threatened to portray him as an unreconstructed communist in a country where state-socialism had been thoroughly discredited, he chose to comply with IFI norms that defend the validity of the market as a preferred means of resolving political conflict.

The political turmoil surrounding the bank consolidation plans did not occur in isolation, however. Those events and the political response to them were a consequence of previous phases of persuasion, coalition-building, and monetary agreements. When the Bretton Woods institutions and the EBRD lent financial support to Poland's bank restructuring, they did so with an exclusive ideology that is guided by market principles. Thus, even as electoral politics in Poland signaled a domestic desire to change course with the victory of postcommunist parties in 1993, the international institutions'

previous structuring of debates that were consolidated in financial agreements limited the degree to which Polish politicians could subsequently alter the liberalizing course.

Although Kolodko did face the prospect of losing the \$200 million remaining that U.S. Treasury officials threatened to withhold if the Polish government had gone forward with bank consolidation, this is not a case of simple coercion. There are three pieces of evidence that counter the strictly materialist interpretation of this outcome. First, Kolodko himself emphasized the wide-ranging nature of the political pressure he faced. Second, if funding had been the only consideration, it is likely the Polish government could have financed the remaining recapitalization because the \$400 million that the Sejm had legislated for emergency adjustment assistance to sensitive enterprises was provided by the World Bank instead. Finally, the SLD's full policy reversal after confrontation with the IMF, the EBRD, and U.S. Treasury, not just on bank consolidation, but also on bank privatization and taxation, suggests that the conflict elicited a more market-oriented approach from the postcommunist government. Thus the money carried significant symbolic weight, but more important was the social pressure that delimited the range of policies that could be portrayed as pro-capitalist and pro-Western.

EVIDENCE 2: THE ABANDONMENT OF TERRITORIAL DEFENSE IN POLAND

Poland's abandonment of territorial defense (*Obrona Terytorialna--OT*) shows that approaches that assume the national interest is exogenous obscure the political process through which interests come into being. Interest formation in this case highlights two additional effects of NATO's intervention in Polish defense planning. NATO changed the balance of power between competing groups in Polish politics and society, undermining nationalist, militaristic, and arms producing constituents (also see Dragsdahl 1998). In addition, it has softened the rhetoric among Polish politicians about the eastern threat to Polish security and internationalized Polish defense planning in addressing security challenges. This has prevented a security dilemma from arising between Warsaw and Moscow. A narrower range of defense planning policy options enjoys legitimacy within Poland than would otherwise have been the case. In particular, NATO, through persuasion and social influence, weakened the coherence of

arguments that derived their credibility from a perceived need to restore Poland's defense self-sufficiency.

Territorial Defense in the Post-Communist Period

Obrona Terytorialna (OT) was a national defense program championed by members of the Solidarity Electoral Action (AWS) coalition and members of the conservative Polish Peasant Party (PSL). Leading up to the 1997 parliamentary elections in Poland, the AWS began suggesting that Poland halt further contraction of the armed forces. When communism collapsed, the Polish armed forces numbered 400,000. As NATO membership became a reality, that number was consistently shifted downward. In 1997, with a projected 250,000 soldiers serving in the army, as many as 150,000 would be assigned to territorial defense. In addition, this program would have included the capacity to mobilize 1.5 million conscript reservists who would have undergone 3 months of training (*Gazeta Wyborcza* 15/9/1997, 5). Armed with mobile grenade launchers, antitank and antiaircraft rockets, mines, and other small arms, a "mass component" of the Polish armed forces would be responsible for defending the territory around their residences (*Rzeczpospolita* 1/9/1997, 7).

Territorial defense reached beyond perceived technical defense needs, however. Proponents of the plan believed that national defense "prepared and functioning at peacetime, is a sort of tool used to create, shape, and define the future of the Polish State" (*Rzeczpospolita* 1/9/1997, 1). As such, proponents of territorial defense conceived of the program as incorporating the entire society. Their aim was to dispel the notion that national defense is the exclusive domain of governing officials and the armed forces. One defense expert argued, for example, that the "conviction that the people's authorities and their armed forces guarantee security to the state and to the nation, and that the armed forces are a guarantor of our independence. . . is absolute nonsense" (*Rzeczpospolita* 14-15/8/1997, 4).²¹ Instead, territorial defense is believed by its supporters to require the participation of all social institutions (*Polska Zbrojna* 28/3/1997, 11-12). Moreover, advocates have proposed that universal military education be introduced in secondary schools to cultivate "patriotic awareness" among Polish citizens (*Gazeta Wyborcza* 21/4/1998, 3).

The arguments in favor of territorial defense centered on the need to develop an independent defense capability. NATO's Military Committee had put the threat of a Russian resurgent military capability below "regional instability, rogue states and calamities associated with a lack of natural resources" (Dragsdahl 1998, 2). Many Polish defense experts, however, including a number of high-ranking military officers and defense and foreign policy officials, argued that although the threat of global conflict had diminished, "this does not mean it can be ruled out altogether" (*Polska Zbrojna* 2/1/1998, 10-11). Sitting between Germany and Russia, Poland, *OT* advocates argued, "lies on the border of two areas with totally different cultural, social, and economic traditions. . ." which, although presenting "great economic opportunities. . .also means that there is possibility of a serious threat" (*Rzeczpospolita* 14-15/8/1997, 4).

The literature supporting the development of territorial defense persistently reveals a fundamental doubt in the credibility of NATO's commitment to central and east Europe (*Gazeta Wyborcza* 12/2/1997, 5; *Rzeczpospolita* 1/9/1997, 7).²² Romuald Szeremietiew, a long-time Polish defense official who began serving as Deputy Defense Minister after the 1997 national elections, conceded that "Although the alliance with NATO is favorably different from Poland's military unions with Great Britain and France [in the past] the old mentality remains intact: we cannot manage without the West" (*Rzeczpospolita* 22/1/1998, 6). Territorial defense was an appeal to reverse that mentality. Supporters discussed the program in terms of hedging against future uncertainty. The longevity of NATO and the depth of its security commitment in combination with wariness concerning developments in the East, particularly in Russia, Ukraine, and Belarus, fueled the desires among the most cautious to develop an independent defense capability.²³

Others complained that as of 1997, there were no agreed-upon plans for the defense of NATO's eastern flank, which was evidence of the uncertainty inherent in the transitional phase of the alliance.²⁴ Finally, fluctuating estimates of the costs of NATO enlargement (the Pentagon and the U.S. Congressional Budget Office produced very different figures) undermined the credibility of NATO's security guarantee in the eyes of Poles. This uncertainty pushed some in the Polish defense-planning establishment to consider what would be necessary to defend Poland, as opposed to what was financially feasible.²⁵

The process of negotiation and reconciliation with NATO actually began in 1991 and 1992, five years before territorial defense became an issue in Polish politics. Although NATO officials initially made it clear that enlargement was not in the offing, by late 1992, the alliance's position had softened (De Wijk 1997). As NATO moved closer to Poland and began introducing formal and informal channels of communication and cooperation, a conflict of ideas and strategies emerged. Polish politicians were insistent on membership, both because they wanted to "return" to the West, and because they wanted protection against Russian revanchism, should that materialize (Grayson 1999, 161-162).

From their earliest meetings with Polish defense and foreign policy officials, however, NATO officials began coaching Polish politicians about how to justify their position.²⁶ NATO officials argued that contrary to Polish insistence, Russia did not pose a significant threat to Polish or alliance security. Although alliance officials were willing to concede that the future was uncertain, they also argued that Poland would alienate itself from the alliance and exacerbate its relations with Russia if it continued to articulate its need to join NATO in terms of securing itself against the East. Not only did this advice from NATO reflect the alliance's evolving strategic vision, but it also reflected its desire to cultivate conciliatory relations with Moscow. NATO would not be able to persuade Russia that NATO enlargement was not directed against Russian interests if potential members insisted that Russia continued to pose a threat to European stability.²⁷

As a consequence of this coaching, Polish politicians changed their rhetoric about why they should be admitted to the alliance. In subsequent public pronouncements, they emphasized the need for democratic values, increased transparency, defense cooperation, and political stability, both within Poland and within the region. All of these were justifications that NATO officials had told them privately would be appropriate reasons for Poland's inclusion.²⁸ Eventually, Poles who had never had direct contact with the alliance in the post-cold war era articulated these more moderate views that focused on Poland's internal stability and modernization.²⁹ Although in this phase of the transition NATO was able to change the way Poles articulated threat perceptions and appropriate responses, the process of negotiation did not eliminate the perceived desirability among the most conservative political forces in Poland of some degree of defense self-sufficiency.

International and Domestic Opposition to Territorial Defense

NATO objected to Polish territorial defense on several grounds. The program, and the ways in which its supporters were popularizing it, called the credibility of NATO security guarantees into question. Second, as already noted, it was perceived by the alliance to be antagonistic toward Russia. Third, NATO officials questioned the efficacy of territorial defense. In the post-cold war era with the dissolution of the Soviet Union and conflict in the Balkans, NATO's mission had changed considerably from defending Western European territory from Soviet aggression. The newest Strategic Concept placed emphasis on building the capacity to conduct "out-of-area" operations. This requires that member states develop light and technologically sophisticated units that are highly mobile and deployable to any point in Europe or on its periphery. This conflict of security perceptions speaks to the issue of what constitutes a threat to Polish and NATO security, as well as to what, from Poland's past, was still valid for the present.³⁰

Polish opponents of the program argued that the larger questions of Poland's foreign policy orientation and the mentality of its fighting forces were at stake. Philosophically, Polish foreign policy and defense elites who are most supportive of rapid integration with NATO and fulfilling the alliance's agenda argued that more than defense dollars were at stake. One foreign policy expert was critical of territorial defense, not only on the basis of its technical incompatibility with NATO, but because the program is associated with elements in Polish politics that favor political neutrality and defense self-sufficiency.³¹ Internationalist politicians in Poland fear that territorial defense would result in the militarization of society and the resurgence of the idea of "Wielka Polska" (Great Poland).³²

NATO's Tactics: Reversing the Policy

In closed-door meetings, NATO representatives, in delegations to Poland and to the Polish delegation in Brussels, repeatedly stressed that they would prefer that Poland focus on the basic issues of integration and compatibility with the alliance rather than expending effort and resources on territorial defense. They argued that because Poland did not, for example, have a single transport vehicle capable of moving troops,³³ it was of no consequence how economical territorial defense would be relative to operational forces; every defense dollar should be allocated to modernizing

and equipping NATO-capable forces.³⁴ The message was clear and consistent enough that it was well known around the Polish Ministry of Defense in Warsaw that there was a definitive clash of interests, and that *OT* had become a sensitive subject.³⁵ In much the same way NATO officials had argued that justifying Polish membership in the alliance with the Russian threat did not serve Polish interests, NATO officials claimed in this case that Polish supporters of *OT* misunderstood both the realities and demands of Poland's geostrategic position.

These multiple encounters between NATO and Polish officials, although raising awareness that *OT* was controversial, proved insufficient by themselves to change Polish policy. The U.S. embassy, in cooperation with at least one Polish critic of territorial defense, arranged a meeting with Polish Deputy Minister of Defense, Romuald Szeremietiew, in early 1998.³⁶ He was, following the election, the most powerful civilian official who supported the program.³⁷ A conservative member of Solidarity Election Action (AWS), Szeremietiew "passionately invokes the feeling of civil duty and does not hesitate to hit a patriotic cord" in his public speeches and writings promoting the program.³⁸

In the meeting with Szeremietiew at the U.S. embassy in Warsaw, NATO officials emphasized a number of points. First, they were meeting with Szeremietiew directly to provide assurances that regardless of historical precedent set by Poland's Western allies, NATO would not abandon a member state in a time of need. Second, they argued that Russia did not pose either a short or medium term threat, but that NATO would nevertheless continue to assess the situation and adapt its strategy accordingly. Finally, given these facts, NATO argued that it was unnecessary for Poland to pursue territorial defense. In addition to these substantive arguments, the meeting included a forceful message. In what one U.S. official who was present described as a "hard" encounter, American officials told Szeremietiew that he should not pursue the plan. It was not compatible with NATO's top priorities at this time, and thus out of step with Poland's interests. There were many other more constructive projects Szeremietiew could promote while in office, NATO officials pointed out. They urged him, "don't do this."³⁹ Shortly thereafter, he stopped pursuing the plan, although there was no formal public admission that *OT* was inconsistent with NATO objectives.

Subsequent to these events, Szeremietiew denied that *OT* had ever been in conflict with NATO. Substantially altering the original intent behind territorial defense, he re-articulated the once-perceived need for *OT* as consistent with NATO aims, and explained its abandonment exclusively in terms of domestic debates and budgetary constraints. He also explained, however, with some irony, that Poland in recent years had become a “gentle country.” For example, he pointed out that although Belarus continued to conduct military exercises that would appear to be directed against Poland, Poland, because of its membership in NATO, would not conduct counter-exercises.⁴⁰

Abandonment of Territorial Defense: Mediated Informational Influence

The U.S. embassy in Warsaw achieved the territorial defense policy reversal in what appeared to be a single, crucial meeting. However, the alliance had been creating the conditions necessary to encourage Szeremietiew to drop the plan over a period of years. It was high level German and American officials who first suggested to Polish defense officials in 1991 that appropriate diplomatic gestures might strengthen their ties to NATO. From that time forward, Polish representatives were open to persuasion on a range of issues, including Poland’s potential role in NATO, civil-military relations, justifications for membership, and collective security.

Dynamics between NATO and the Polish military-defense establishment in 1991 and 1992 do not definitively confirm the first hypothesis, namely that persuasion is most likely in the wake of policy failure when the persuadee has few prior assumptions about how to structure policy. The military did not face as severe a policy failure in the wake of state-socialism as economic sectors did. Moreover, although Polish civilians had few cognitive priors about the technicalities of organizing civil-military relations (all the defense experts under state-socialism had been military personnel) they certainly did have cognitive priors about Poland’s national interests and its geostrategic position.

The second hypothesis, that persuasion is more likely to occur when the persuader is an authoritative member of an organization from which the persuadee seeks acceptance, explains why this early set of Polish defense reformers accepted NATO’s strategic vision and collective security. However, it is important to note that the early set of reformers was not persuaded uniformly. Some admitted that they took NATO’s position

publicly, especially concerning Russia, but privately held different convictions.⁴¹ Others, however, wanted to use NATO's model as a tool for modernizing Polish society, even if membership in the alliance was never in the offing.⁴² What they did have in common, however, and what proved crucial to the defeat of territorial defense five years later, was that they all remained committed to articulating NATO's ideology once it became clear that the alliance objected to *OT*. This was true even after NATO had promised Poland inclusion in the first round of enlargement, thus in the absence of any material or membership incentive.

This leads to the third and fourth hypotheses concerning policy implementation and policy sustainability. International institutions are able to use transnational coalitions that they have cultivated with domestic actors to exercise social influence. At the Madrid summit in July 1997, NATO formally invited Poland to join. This fact coupled with the repeated contacts in Brussels and Warsaw where NATO officials voiced their doubts about the utility and compatibility of territorial defense increased Szeremietiew's political isolation over time. This was particularly true within the Ministry of Defense where even the Minister of Defense, Janusz Onyszkiewicz, expressed no enthusiasm for the plan. In addition, although editorials that were critical of *OT* continued to appear in 1998, the key erstwhile supporters of the program had fallen silent on the issue, including Jan Parys, Radek Sikorski, and Bronislaw Komorowski. Although Parys and Sikorski were still privately sympathetic to the idea in 1999, they were no longer submitting editorials to mobilize support for the program.

This is in all likelihood a case of mediated informational influence, although the evidence is not conclusive. Szeremietiew probably changed his position as a consequence of being politically isolated and because he reached the conclusion that given what everyone else believed about Poland's security situation, he must be wrong. As Poland's ties to NATO grew stronger, as contacts increased, and particularly because NATO invited Poland to join the alliance, defense self-sufficiency enthusiasts' claims that Poland needed an elaborate territorial defense seemed increasingly untenable. These claims would have been far more sustainable had NATO chosen not to include Poland in the enlargement. In an interview, Szeremietiew admitted only to having been persuaded that *OT* would not be cost effective.

Two pieces of puzzling evidence suggest this might instead be mediated normative influence, however. The first is that Szeremietiew ironically

referred to Belarus' military maneuvers and pointed out that Poland would not respond because of its commitments to NATO's strategy. This indicates that Szeremietiew still believed, even after the social interaction with NATO officials, that Polish dependence on Western security guarantees was misguided. Second, NATO invited Poland to join the alliance in July 1997. Thus during much of Szeremietiew's campaign to build political support for territorial defense, he was aware that NATO's commitment to Poland was growing. Nevertheless, the argument that NATO's direct confrontation of territorial defense shifted Polish perceptions away from believing Poland needed territorial defense is more plausible.

In keeping with the fourth hypothesis, NATO's exclusive ideology facilitated Poland's rejection of territorial defense in 1998. In addition, in the wake of this confrontation, it will be still more difficult for Polish policy makers to pursue similar plans in the future. Within the confrontation over *OT*, supporters of the program tested the limits of NATO's flexibility. Because of the demands posed by political legitimacy, Polish politicians must reconcile their positions with those of the international institutions of which they hope to remain members. Increasingly in Europe, national politicians face two constituencies: one domestic and one international. Reconciling the constraints of both limits the scope of the domestic political spectrum.

ALTERNATIVE EXPLANATIONS

With regard to the internationalization of Polish banking, one plausible alternative approach is the "globalization" thesis. Jeffry Frieden and Ronald Rogowski present one version of this thesis in their analytical overview of how the "exogenous easing of international exchange" provides incentives to engage the global market. Lower transportation costs, improved infrastructure, government policy, economies of scale and total factor productivity have lowered the cost of international transactions, thus raising the relative price of domestic transactions (Frieden and Rogowski 1996, 26). Although Frieden and Rogowski are referring to tradable goods throughout most of the article, they make the point that the logic does not differ significantly for services and finance.

In the Polish case, this kind of positive political economy would emphasize the efficiency gains to be reaped from open markets. This approach maintains that institutional convergence is the logical outcome given

economic arguments that suggest market competition accelerates modernization and ensures efficient capital allocation (Maxfield 1997). Positive political economy takes the definition of “economic best practice” for granted, however, without problematizing the political and institutional context in which that definition has evolved. In addition, this style of analysis ignores the debate among domestic and foreign actors that includes considerations other than economic efficiency. The evidence in Poland shows that actors were as concerned with demonstrating their capitalist credentials as with producing “efficient” outcomes, not least because there was no initial agreement on what the appropriate emphasis on efficiency should be compared to other political objectives.

Both the persuasion/social influence model that I present here and positive political economy would predict the same outcome for Polish banking—namely, its internationalization. However, the two approaches specify different processes, which are both politically and theoretically important. The evidence shows that this was not a case of domestic actors responding to exogenous changes in the international global economy. Rather, internationalization of banking in Poland can be explained as a process in which international financial institutions interpreted market pressure to Polish politicians. The IMF, the U.S. Treasury, and the EBRD argued that market pressures exist, that these market pressures produce certain effects, that these effects are important in capitalist economies, and that therefore they should be important to Poland. Arguments that point to globalization as the causal mechanism in liberalization tend to understate the range of policy choice and obscure the political struggles behind those decisions. Even given international market pressures to privatize the banking sector, there was still considerable room for maneuver. It was political, rather than economic, pressures, that led to the outcomes under investigation here.

Similarly, Poland’s abandonment of territorial defense challenges rationalist accounts of state behavior. Structural realism purports to explain balancing among states in the international system, and thus a small state’s defense planning policy falls outside its purview. However, one can usefully apply realism’s rationalist assumptions to the Polish case to test the validity of those assumptions. If the international system is indeed characterized by anarchy and if states are self-regarding security maximizers, realists might predict that Poland would forego territorial defense once the country had been promised membership in NATO because Polish policy makers would

reason that their security would be better served by coordinating with the alliance.

The political process through which Poland fully embraced collective security strategies in NATO does not bear out this line of reasoning, however. There was no agreement, either among Polish policy-makers or between Polish policy-makers and NATO, about what the salient threat was. Reconciling these differences was a matter of using persuasion and social influence to encourage Polish defense officials to publicly articulate the alliance's strategic vision as opposed to one that was domestically driven. It is important to note in this regard that Poland was already assured membership in NATO when Szeremietiew made his bid to launch *OT*, and that further, the threat of exclusion from NATO was never used to win Polish compliance. Rather it was through persuading politically positioned defense and foreign policy officials to adopt the alliance's threat perceptions that NATO encouraged Poland to internationalize its defense planning.

CONCLUSION

In the course of internationalizing Polish defense and banking, a range of international institutions pursued broadly similar strategies. The scope conditions I used to explain policy implementation that is consistent with international institutions' norms draws on recent constructivist contributions that specify the conditions under which persuasion is most likely to occur. Because persuasion alone does not indicate when policy implementation or continuity will result, I have developed a sequencing model that suggests when international institutions will be able to build on persuasion to ensure policy implementation or policy continuity. Assuming international institutions have engaged in persuasion with politically positioned domestic actors first, they will be able to exercise social influence in subsequent phases of policy making. International institutions' exclusive ideologies also constrain the range of domestic policy choice because maintaining legitimacy requires the harmonization of domestic policy with the international institutional environment.

The two cases differ along three dimensions. Although they are different issue areas, my research shows that they are nevertheless both equally subject to social construction. The relevance of constructivist analysis is highlighted further by the fact that finance and security are traditionally considered to be elemental to national survival. Second, there were financial

incentives to comply in the banking case, but no such incentives in the territorial defense case. This corroborates my claim that in the banking case, foreign financial aid was not decisive. Rather, it was social pressure. Finally, the key figures in the two cases were subject to slightly different forms of social influence. The finance minister avoided “rocking the boat” when he abandoned bank consolidation, whereas Szeremietiew, the deputy minister of defense, was overwhelmed by a competing interpretation of the facts.

Despite these differences, the outcomes are largely the same because international institutions pursued similar strategies in both cases. Poland has internationalized both its defense planning and banking sector in conformity with international institutions’ ideologies. Of central importance in this process was the cultivation of transnational coalitions that included domestic actors who were legitimate purveyors of the international institutions’ agendas. This increased the sense of social and political isolation among politicians who promoted programs that challenged international institutions’ ideologies.

I have placed strong emphasis here, not just on what actors believe as a consequence of social interaction, but also on what they say publicly. The constructivist concern with persuasion is important because it points to the non-material structures that inform interstate behavior. However, it is not the only way that social forces affect policy outcomes that have consequences both for domestic and international politics. Social influence is a powerful mechanism in the reconciliation of national interests with an institutionally integrated international environment, such as that which prevails in Europe in the wake of the cold war.

Rachel Epstein
rachel.epstein@iue.it
Robert Schuman Centre for Advanced Studies
European University Institute
and
Graduate School of International Studies
University of Denver

¹ In contrast to constructivism, contractual institutionalism claims that institutions only change actors’ strategies, not their interests. Institutions do this by providing information, reducing uncertainty, and by changing actors’ cost-benefit calculations with material incentives. This is also referred to as “neoliberal institutionalism.” For

exemplary works, see Keohane 1984; Haftendorn, Keohane and Wallander, 1999; Wallander 1999; and Wallander 2000.

² Johnston 2001 cites Festinger in Booster 1995, 23-24.

³ Checkel argues that persuasion is most likely to take place if 1) the persuadee is seeking new information in the wake of policy failure, 2) if the persuadee has few cognitive priors concerning the issue area, 3) the persuader is a member of an authoritative institution to which the persuadee aspires to become a member, 4) if the persuader acts out principles rather than lectures the persuadee about them, and 5) if the social interaction in which persuasion is to take place is carried out in a private, unpoliticized setting. Johnston's first three are similar to Checkel's; on the last two, he proposes instead that persuasion is more likely to occur if the issue area under consideration is highly technical and if the persuadee is exposed to the persuader's ideas on repeated occasions. See Checkel 2001, 562-63; and Johnston 2001, 498-499.

⁴ Lukes points out that it is the "supreme exercise of power to get another or others to have the desires you want them to have. . ." (Lukes 1974, 23).

⁵ Schoppa does not use the term as a sociological category, however, just as a method of mobilization.

⁶ Alexander Gerschenkron argues that countries that develop late rely on a centralized state to finance industrialization (Gerschenkron 1962). There are few if any historical precedents in which less-developed states have caught up exclusively with laissez-faire policies, though theoretically it could be possible. But, note two scholars: "It is more likely, as many recent analyses of the catching-up processes over a wide range of economies indicate, that the process requires state involvement" (Landesmann and Abel 1995, 146).

⁷ Ewa Godula notes that "it appears that although OECD member states are formally entitled to have unlimited access to other members' banking markets, in reality there is no such thing as full liberalisation." Most OECD countries register between 10 and 20% foreign ownership in their banking sectors, with few exceptions. The *Economist* notes that "In some countries inside the European Union, financial regulators strive diligently to prevent foreigners from buying local banks. But in the East European candidates for EU membership, they lay out a welcome mat."

⁸ This discussion is based on the author's interview with former International Finance Corporation official A, Warsaw, October 8, 1999.

⁹ ING invested both in Bank Slaski S.A. in Katowice (controlling) and Bank Powszechny Handlowy (BPH) in Krakow (14% as of 1999). UniCredito eventually bought a controlling share in Pekao S.A.

¹⁰ Note that the World Bank was initially skeptical of the idea because it had not been tested, and also, in all likelihood, because it was coming from the IFC, which has a long-standing rivalry with the World Bank. Author's interview former IFC official A.

¹¹ Author's interview with high level World Bank representative in Poland, 1990-1994, Warsaw, November 11, 1999.

¹² In reference to central and east Europe generally, this drop in output was more severe than the recession the region suffered through during the Great Depression.

¹³ Author's interview with Polish Ministry of Finance official B, 1990-1993, Warsaw, October 10, 1999.

¹⁴ Kawalec had secured parliamentary support for these funds in advance in the event that the Bretton Woods institutions declined Poland's application. Author's interview with Polish Ministry of Finance official A, Warsaw, November 2, 1999.

¹⁵ The following discussion is based on the author's interview with former Polish Minister of Finance A, Washington, D.C., February 18, 2000.

¹⁶ In a similar vein, Vladimir Popov argues that government policies (he surveys "shock therapy" versus "gradualism") may be inconsequential to economic performance in transition. Better predictors may include prior conditions, such as militarization of the economy and the degree of distortion (in agriculture and industry) to world markets at the time of transition (Popov, forthcoming).

¹⁷ By 2000, the EU hoped that member and aspirant countries would agree to the freedom to establish financial institutions in member countries, the "freedom of services across borders, mutual recognition of standards or regulations, and ability of the national financial authorities to supervise financial institutions they license according to European standards" (Silitski forthcoming, 11).

¹⁸ The United States had contributed \$200 million of the \$600 million bank bail-out fund administered by the IMF, formerly the zloty stabilization fund. Author's interview with former Prime Minister of Poland A, London, May 26, 1999.

¹⁹ Author's interview with former Polish Minister of Finance A.

²⁰ Although part of the Pekao S.A. consolidation did go through, that bank was then sold to UniCredito of Italy and the German insurer Allianz in 1999.

²¹ This military affairs expert, Bronislaw Komorowski of the AWS, has served as deputy defense minister of Poland as well as the Chairman of the Sejm Defense Committee. He argued further in this article that, contrary to conventional wisdom, national defense is not only a military issue, but rather an issue that involves the organization of society.

²² Proponents of territorial defense compared Poland's contemporary security arrangements with those in 1939. The weeklong resistance at Westerplatte against the Germans proved that with relatively few and light arms, Poland could mount a successful defense against surprise attacks. Moreover, the West's failure to abide its security commitments reinforced the conviction among defense planners that Poland should develop an independent military capability regardless of NATO security guarantees implicit in Article 5 of the Washington Treaty.

²³ Author's interview with Polish defense and foreign policy official A, former Deputy Minister of Foreign Affairs; former Deputy Minister of Defense, Warsaw, August 4, 1999.

²⁴ Authors' interviews with Polish defense and foreign policy official B, formerly of the Sejm Defense Committee and Polish Ministry of Defense, Warsaw, August 16, 1999; and former Polish Minister of Defense A, Warsaw, August 11, 1999.

²⁵ Author's interview with Polish General Staff official A, Warsaw, August 27, 1999.

²⁶ Author's interviews with Polish defense and foreign policy official A; and former Polish Minister of Defense B, Gdynia, August 23, 1999.

²⁷ Author's conversation with NATO Military Staff official A, Bratislava, August 24, 1999.

²⁸ Author's interviews with Polish defense and foreign policy official A; and former Polish Deputy Minister of Defense A, Garmisch Partenkirchen, July 6, 1999.

²⁹ Author's interview with former Polish head of state A, Warsaw, August 26, 1999.

³⁰ Another reason proponents of territorial defense wanted to pursue it was that it symbolized Poland's newly-won independence. Its symbolic value was enhanced by the fact that Poland had tried to develop *OT* as a member of the Warsaw Pact, but the Soviet Union prevented this for fear of how national military capabilities could be used to challenge Soviet domination (Jones 1981).

³¹ Author's interview with founding Member A of the Atlantic Club in Poland, Warsaw, September 1, 1999.

³² Author's interview with former Polish Deputy Minister of Defense A.

³³ The Balkans were used as an immediate example here. Polish troops that were eventually sent on peacekeeping missions traveled by train.

³⁴ Because Poland lacks transport capability, the battalion sent to Kosovo in the recent NATO mission there traveled by train. The mission was delayed further when the Hungarian Parliament equivocated on whether they would allow Polish troops to pass through their territory for the mission in the Balkans, bringing embarrassment to pro-NATO political factions in both countries.

³⁵ Author's interview with Ministry of Defense official B, Warsaw, August 13, 1999.

³⁶ Author's interviews with U.S. Official No. 2, U.S. Embassy in Poland, Warsaw, July 1, 1999; and former Polish Deputy Minister of Defense A.

³⁷ Szeremietiew narrowly lost out in the battle in 1997 to become Poland's Minister of Defense to Janusz Onyszkiewicz, who proved to be far less supportive of *OT*.

³⁸ Author's interview with U.S. official No. 2, U.S. Embassy in Poland, Warsaw July 1, 1999.

³⁹ The substance of the meeting was recounted to the author by U.S. official No. 2 from the U.S. Embassy in Poland. This official was also responsible for briefing Szeremietiew beforehand about what would be conveyed in the meeting so that he would be prepared with a response.

⁴⁰ Author's interview with former Deputy Minister of Defense B, Warsaw, December 1, 1999.

⁴¹ This includes two former ministers of defense and one former deputy minister of defense.

⁴² This includes two deputy ministers of defense and two high-level foreign policy and defense specialists.

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