

# Open Research Repository

## On the future of transition/studies

Item Type	Book chapter
Authors	Csaba, László
Publisher	Nova Science
Download date	2024-10-03 14:52:49
Link to Item	<a href="http://hdl.handle.net/20.500.14018/13522">http://hdl.handle.net/20.500.14018/13522</a>

## ON THE FUTURE OF TRANSITION/STUDIES/<sup>1</sup>

By László CSABA<sup>2</sup>

**ABSTRACT:** This paper is an attempt to analyze two, partially overlapping issues: the future of the transformed societies and perspectives of the broad field of studies on transition. We offer, with the benefit of hindsight, some clues on concepts, measurement, sustain and integrate the process in the context of Europeanization. Then we look at the implications of the 2007-2009 financial tremors and suggest insights for the future on two planes. For the economies themselves conditions for sustainable development need to be recreated in a regular manner. For the studies on transition economies better integration in the established lines of development research is advocated.

\* \* \* \* \*

**In the following study we shall cover six issue areas in trying to offer a bird's eye view on the accomplishments and shortcomings of systemic change. The genre does not allow for a monographic treatment with the presentation of facts and figures in detail, nor can we offer a thorough analysis of counterposed ideas and competing explanations. Therefore we shall try to address some of those issues which have proven to be decisive for the outcomes primarily from the point of view of economic theory. The latter we interpret as useful knowledge aimed at and also able to deliver explanations and also suggestions for improving real world situations in and for many people in several countries/more on that in Csaba,2009a/. Therefore we do not subject to criticism transition related studies for aspiring to be policy relevant. Nor do we doubt the ensuing value loadedness and the subsequent diversity of views, values and assessments anchored in competing world views, which is a state of normalcy in all the social sciences.**

**What we find more perplexing has been the rather weak methodological foundations of the field. We do not miss the presence of formalized**

---

<sup>1</sup> Comments by G.W Kolodko and V.Popov are appreciated with the usual caveats. Final version in: KOLODKO,G.W. – TOMKIEWICZ,J,eds: *Twenty Years of Transition: Achievements, Problems and Perspectives*.New York: Nova Science, pp221-235.

<sup>2</sup> Member of the Hungarian Academy of Sciences and Professor of Economics, Central European University, University of Debrecen and Corvinus University of Budapest.

approaches, since those have been abundant ever since representatives of the mainstream ventured to this exotic field of research. What we object is the unwillingness of many authors to cope with improvements of globally available knowledge, and also, the rather delayed and partial reflection of transformation-related experiences and insights in the global cutting edge research. For instance the article of Djankov et al/2003/, figuring for years as one of the most frequently downloaded contribution to the relatively most prestigious American journal of the field, *Journal of Comparative Economics* fail to offer more than a mere formalized presentation of some of the elementary issues. Meanwhile they do not even attempt at providing either an improved analytical framework for policy research, or feeding back the complexities of the empirical material in the broader mainstream methodology. Similar weaknesses can be seen in the broad-brush assessment on the role of domestic ownership of reforms versus the dictates of the international financial institutions/IFIs as presented by di Tommaso et al/2007/ in the journal of the Royal Economic Society of Britain.

Finally the erosion, on occasion even the collapse in 2008-2009, of countries previously portrayed as frontrunners of transformation, such as the Baltics – most notably Estonia – but also of Hungary and Bulgaria, moving away rather than converging to the single currency area might well call for an overall re-launch of the entire academic enterprise. While we do not take predictive power to be the sole or even the major criterion of academic soundness, it is truly perplexing to observe how few wake up calls were sounded in the community of analysts and how ill-prepared both the respective societies and polities have been for the rainy days. It is little consolation that international agencies have mostly proven to be equally taken by surprise. While analysts as eg. those of Austrian National Bank/Backé et al, 2007/ or Darvas and Szapáry/2008/ have called attention to the dangers of a Latin American type of derailment, i.e one based on the amassing of debts by the *private sector agents*- most particularly the households- in *foreign currency* against the more traditional east European pattern of state-led indebtedness, these warnings have fallen by and large on deaf ears.

It is truly telling that both the officials in the respective countries, as represented by the fiscal authorities, but also the current commentary and related short and medium term forecasts of central banks, one

could find hardly any reflections of those concerns. Forecasts of a recession emerged- in 1989-1993 as much as in 2007-2009- *only during and after the onset of the actual contraction*, and this holds also for most international observers as well. While assessing the severity of the turmoil, its causes and ramifications in 2007-2009 has been by no means easier and more professional than that of 1997-99. This applies not only, not even primarily in the postcommunist region, it still tells a lot about the state of profession how perfunctory the analyses of the 2000s have proven, especially in hindsight.

In the following we shall address some of the focal points of transition theory, i.e major issue areas around which the debates have been revolving over the past two decades, thereby hoping to contribute to a better understanding of the state of affairs and its ramifications.

### *How to Manage Systemic Change?*

From the very outset one of the most emotional and politically perhaps weightiest issue has been the idea of speed and scope of transformation, including the dilemma of simultaneity and sequencing of individual measures, including potential synergies across the individual measures or the lack of those. This debate has, in most countries and much of the literature in and around the region, been conducted under the misnomer of „shock therapy versus gradualism”. This counterposition was perhaps inevitable due to the imminent needs to communicate in shorthand form, especially in the ever more powerful electronic media. However, as it could be seen early on/Wagener,ed 1993/ and proven in more detail in hindsight/Popov,2007/ this has lent the debate an entirely false meaning. It seemed, especially for policy-makers, that changing institutions, especially informal ones, were just a matter of taste and deliberation, good or bad temper, good or bad luck. Likewise, the usual tendency to equate wholesale transformation with disinflation and fiscal stabilization in the elementary sense, has proven to be a fallacy loaded with political and economic ramifications/Kolodko,2000/.

This is not to claim that matters of sequencing, speed and scope were outside of the *scope of deliberation*, in business and political, social and health care decisions alike. By the same token, economic and systemic matters may and should indeed be approached in a variety of ways, as

**they usually are in mature democracies and also in the international political economy of policy reforms as well. Still the unfortunate spread of a misnomer has contributed to lasting misunderstanding in policy-making and the academe alike.**

**For one, it has been common knowledge at least since the changeover of the IFIs from their traditional focus on current account adjustment and supporting sectoral adjustment loans to much more ambitious structural adjustment programs, calling for institutional reforms often deeply intervening in the *modus operandi* of the social model of respective recipient states, that the measures featuring in the two types of activity differ fundamentally in scale, scope, time horizon and controllability in detail. While short term fiscal adjustment measures can and should often be implemented and controlled, if needed, by the week, as Hungary, Latvia, Ukraine and many other countries could experience in the 2008/2009 period, institutional reforms, especially ones of long term nature, as in the pension and health care systems, in education or regional arrangement may take a decade and longer.**

**For this reason alone, not to speak of the *technical complexity and of the societal contestability* of the measures, because of their often unforeseeable side effects- that, alas, often dominate desired and planned outcomes, and certainly also owing to the major changes taking place in the overall environment, these changes are often burdened with trial and error nature. Self correction, including changes of the original objectives, means, financing or the composition of the mix of the preceding has always been part and parcel of the exercise.<sup>3</sup> And while the IFIs have proven generally unsuccessful with their broader ambitions/Krueger,1998/, the delineation of reforms of various scale, scope and significance has remained a lasting concern for the construct of any economic strategy aiming at more than drifting along the changing mood of the public, or fashions in the economics profession.**

---

<sup>3</sup> For instance, the collapse of several major financial institutions have resulted in the loss of pension provision for millions of employees in the US and elsewhere. These included not only those employed in those corporations, where private provision mostly implied investment in the own corporate's fund, but also of those completely ignorant -future- pensioners whose pension funds, public or private, invested in papers of the financial institutions that eventually collapsed. Likewise the problem of millions of small business owners, who owe their fortunes to lax taxation of the Thatcher period in England, but find themselves inadequately covered by now, has reached social dimensions. The replication of the same in 'new Europe' boasting flat tax experimentation is hard to avoid in the future.

From the above said it follows that already the first steps, that by now count among the received wisdom over how to manage successfully the wholesale transformation of socio-economic systems, as opposed to narrow reforms within any economic order, i.e stabilization, liberalization, institution building and privatization/SLIP/ already entails a *series of subsequent and potentially synergic steps*, that can never, not even in abstract terms, be implemented all at once. Moreover, 'gradualism' in reality implies just the opposite to what journalistic overusage has created of the term. Namely it is anything but tinkering with long overdue measures in order to avoid political conflict. Gradualism in the original sense means taking the long view, setting a timetable, and dosing the measures so that the synergies could work out. For instance abolishing trade restrictions in a period of 5 years, or opening up the capital account for a variety of transactions with a horizon of 5-8 years count among the platitudes of the policy of economic reforms also in developing countries.

By contrast in the postcommunist context the meaning of the terms were perverted. Gradualism was equalled with timidity and unwillingness to change, radicalism was seen as a value on its own right. And while nobody wonders that certain measures can and should be implemented by the stroke of a pen, it is perplexing, even with the benefit of hindsight, reading about propositions of say, privatizing entire <sup>4</sup>industries in weeks or months. Wherever it happened, such as in Russia's unfamous loans-for-shares privatization, or during the privatization of Hungarian energy sector, both in 1995, considerations of creating competition, improving corporate governance, protecting public coffers and ensuring transparency, in all caring for a *sufficient amount of turnarounds* as well as a *sustainingly contestable market*, i.e the two preconditions for lasting efficiency improvements have been openly disregarded. The unfavorable consequences are well known by now and not even being disputed by those having advocated the above listed options.

---

<sup>4</sup> Therefore we must find as perplexing to observe recurring preaching about the imminent need to introduce all conceivable steps at once, especially if it is portrayed as a side condition for success, as in Bokros/2009, pp239-240/. In reality, especially under democratic societies and legislative control, the opposite seems to be the case, where preconditions of synergies is the masterful sequencing of measures, in a first things first logic.. By contrast, launching reforms on all fronts, especially ones lacking obvious synergies, as e.g in health care, higher education and the territorial pattern of public administration, is a recipe for chaos and social unrest.

### *How to Measure Success of Transformation?*

The issue of measurement figures high in the methodological and thus academic soundness in any discipline, and far not only in the natural sciences. It is also common knowledge, that measurement is not an *a priori* exercise that could or should be conducted in separation from the conceptual-analytical framework derived from broader theoretical considerations. This platitude has become crowded out from much of economic analyses especially during the 1980s and 1990s, when formalization in general, and the refinements of mathematical methodology in particular have often been considered to be the hard core of the profession. With the predominance of the positive economics paradigm measurement has become everything and interpretation next to nothing. Under this circumstances it is perhaps inevitable that also in interpreting the outcomes of the one-time historical event, the wholesale transformation of entire socio-economic order in over two dozens of countries, preoccupation with numbers has taken a preeminent role.

There is of course nothing wrong with trying to measure whatever is to be measured in any of the disciplines. It is however somewhat more problematic if measurement follows habits, customs, data availability and preconceptions rather than analytical grounding in theories. As long as systemic change- the entire collapse of the Soviet Empire – has taken most of the profession and the public at large by surprise, this was perhaps inevitable, despite the obvious drawbacks. For one, comparative economics presupposed the everlasting existence of diametrically different economic systems following their respective irreconcilable logic of their own. On the other hand, reform economics has also taken the defining features of socialist system as given, such as one party dominance, prevalence of public property, lack of capital markets and currency convertibility/Kaase et al eds, 2002/. Finally external advisors, most prominently, though by no means exclusively in the IFIs, tended to downplay the complexity of the challenge. Following their mandate, their experience and also convenience, they equalled transformation with balance of payments adjustment at worst, and with an augmented structural adjustment program at best.

As a result there has long been no agreement over how to measure progress made on the road of systemic change. International agencies,

who had an immediate interest in deciding if a country has already matured for a market economy in the full, such as GATT/WTO, OECD, EU and most prominently the EBRD, have developed a set of indicators trying to underpin the policy assessments, no agreement on those has emerged. Moreover, despite the remarkable progress and complexity of those, especially by EBRD and OECD, less overshadowed by immediate geopolitical concerns than say, the *avis* of the EU Commission, these advances are yet to find their feedback in the indicators that are being used for policy assessments. In the long run, it seems, it is certainly the Human Development Indicators, as developed originally by UNCTAD and currently also in use by the World Bank, that may convey the accomplishments and the lack of those on the ground. It would require perhaps a monograph joining previous ones by several authors including the present, if a state of art account of those accomplishments were to be presented. However for the present analysis' perspective it may suffice to formulate a few remarks.

Since that the long term nature of systemic change was not understood properly, the tendency to rely on the most pedestrian short term indicators of the business cycle prevailed. While it is perhaps inevitable in journalistic reporting, there developed a degree of 'beauty contest' across the transforming economies, and far not only in view of their prospective joining or not joining the EU. Short term macroeconomic indicators, despite their well known unreliability<sup>5</sup>, have been in use to evaluate longish processes in an extremely unprofessional manner. The conventional warnings about the much bigger than usual *uncertainty of the numbers*, especially of quick releases, tended to be disregarded.

As a consequence both media and media-led public opinion and policy-makers had *a tough time in figuring out reality and developing rational expectations* relating to the future. In part, because of the limited understanding of the nature and the time scope of the

---

<sup>5</sup> Data collection based on surveys are notoriously unreliable at times when the composition of the observed entity undergoes a fundamental change. Also, while big socialist firms had an incentive to overreport their performance, small privat business the world around is known to have an incentive to underreport it for tax reasons. Incorporation of the irregular economy, accounting on occasion up to 40 per cent of output in postcommunist and other emerging economies, was slow to find its way to the national accounts. Inability to observe a quickly changing environment has produced embarrassing mistakes, even if no intention to manipulate statistics for political or prestige reasons were around. Having worked at a data processing and research unit at the time the present author could closely observe heroic attempts by the ministry of finance, the central bank, joined by the statistical office and private observers, to come up with something credible in terms of numbers during the most turbulent years of 1988-1997.



exercise/Kornai,2008/ and in part due to the misleading signals that emerged from statistics. In terms of the first task, expectations of immediate improvements and of gains without pains were widespread, often fuelled positively by political discourses. In terms of the second a tendency to overrate recession and underrate recovery, overstate social costs and underrate improvement in consumer welfare and competition, prevailed at least for a decade.

This situation is exacerbated by the frequently *unprofessional reliance on statistics*, comparing the socialist period with its net material product performances to the transition period performance measured at GDP or even GNI. Likewise in the reliance on the pre-crisis numbers fundamental feature as of disequilibria, such as shortages or quality mismatches, lack of services etc were neglected.

In terms of growth there was a limited understanding of the inevitability of fall of output, due to the collapse of Comecon market and due to enhanced competition and monetary tightening, i.e an outcome of the interaction of three contractionary policies/Csaba,1993/. By contrast the usual reference was to postwar reconstruction and the Marshall Plan, two mistaken perceptions for substantive and political reasons/the EC being absorbed in its deepening to EU/. The drift between expectations and reality could not have been bigger/cf also Berend,2006/.

As a consequence, the emergence of mass unemployment, sooner or later in each of the countries, was encountered with dismay. The latter was legitimate insofar in the frontrunner countries unemployment rates far exceeded what could be the natural rate, i.e 5-6 pc, and reached double digit numbers. But policies, as well as the profession, was not much better prepared for this eventuality than was the public at large.

Measures to mitigate this major social problems were thus figuring high on the agenda of most transition countries. While laggards, including the Czech Republic in the 1992-98 period, tried to postpone structural change, with foreseeable ramifications for growth and productivity, as well as export performance, frontrunners *committed different mistakes*. Namely they instituted, under the threat of imminent social explosion, lavish schemes of early retirements and disability schemes, actually in

most cases borrowed directly from then existing Scandinavian and continental European arrangements. It is telling that Hungary joined, as early as 1991, i.e. immediately upon its signing, the Social Charter of the Union/currently still hotly debated i.a. by Poland and Britain/. As a consequence social spending in several of the countries, most notably in Hungary and Poland – but not in the Baltic states – exceeds considerably that of the EU average/MNB,2008/. Pension outlays constitute a heavy burden already now on public coffers, from 10 to 17 pc pa/Antal,2008/. These items create a problem owing to the problem of aging, widespread tax evasion, legalized tax holidays- to foreign investors and small business – and illegal work, the latter undermining registered formal employment especially in medium sized firms.

These are only some of the reasons why conventional measures of economic success, such as general government – even less central government – deficits, explicit public debt, unemployment rate and the like tell precious little about the actual state of the transforming economy, especially in the longer run perspective. The fact e.g. that the Czech Republic has traditionally registered low inflation is only in part to be attributed to traditional Czech fiscal conservatism. An equally important part of the story has been delayed adjustment of administered prices to 2007-2008. As Fialová and Janáček/2009,pp16-20/ explain, discontinuation of adjustment of administered prices plus the recession were the reasons behind the return to the 2 per cent y-o-y level in the 2009-10 period. Likewise the flaring up of inflation to no less than 5.5 pc pa in Slovenia immediately upon the country's joining the single currency in 2008, against the euro area average of 3.3 pc<sup>6</sup> is a clear indication of the weigh-in syndrome, i.e. of delaying some overdue price adjustment due to cosmetic reasons.

If we take into account the implicit debt in the pension system, as well as the foreseeable costs of covering sizable parts of the small business people via social security, and add to it the difficulty of rolling back of disability and early retirement schemes/as evidenced by similar attempts in Italy and Holland/ we may venture to advance a much more *pessimistic overall assessment* of perspectives than was customary up until recently, quite apart from the repercussions of the financial crisis. This applies both to sustainability of public finances and the ensuing

---

<sup>6</sup> ECB: *Statistics Pocket Book*, February,2009. Frankfurt/M., p 38.

growth potential, if both indicators are calculated in a realistic, rather than a patriotic manner. In a way, unresolved structural or third generation reforms are bound to exert much earlier *a growth dampening effect, and that in a secular fashion*, than the level of development- or in other words, the catchup potential- of the transforming economies would imply, if unconditional convergence to EU average levels were our underlying assumption.

### *How to Sustain Transition?*

This issue counts among the evergreens of both growth analyses and in the political economy of policy reforms. In short, the puzzle goes as follows. If reforms are reverted, their positive impacts can not be harvested, or at least not by those governments who committed themselves to those policies which often entail unpopular measures, such as closures, enhancing the retirement age, or introducing co-payments to previously freely provided services across the board. By contrast, if reforms breed fruit, there might emerge the false impression, luring especially the political class, that *further action is no longer needed*, since conditions for sustaining growth have already been created and the time to enjoy the benefit of previous pain has come.

Let us add, that the lull in structural reforms in old EU has, in the current decade, created fertile ground for inaction in most of the new member states, with the exception of Slovakia/Csaba,2009b/. Moreover, the windfalls originating in high fuel prices have created the false impression of the Russian economic miracle, that seemed to be sustainable even if institutional reforms were to remain limited/Havrylyshyn,2008/. While it could be seen that this illusion is false it has undoubtedly impressed policymakers in east and west alike until as late as the last quarter of 2008.

One of the deeper causes for the ongoing uncertainty in terms of assessing which structural reforms matter how much and also in putting numbers on them is *the disagreement in the broader/mainstream* on the relevance of institutions as well as over the mechanisms through which they influence growth performance on the long run/cf Paldam and Gundlach,2008/. We may perhaps consider then as a derivative of the broader problem the circumstance that in transition related discussions, where the outcome of the above mentioned debate

could/have been/ crucial in deciding *which institutions should come first and why*. Furthermore in both the broader and in the area specific debate we are to a large extent moving on uncharted waters in trying to establish the *size and the nature of the gaps* between actions and outcomes.

In some cases this should not pose a major problem. For instance changing bankruptcy legislation or abolishing currency controls act immediately, or in weeks rather than years. By contrast changing the civil code, setting up an independent regulatory agency in the energy sector, or instituting pension reforms definitely have a long time span and *a respective lag* in impacting the outcome. The earlier mentioned examples on the collapse of previously highly appreciated private schemes may well provide a feedback also in normative thinking over the optimal size of risk community, or the optimal mix of private, nonprofit, and public provision, which in turn may change the target state, aimed at via reform measures.

While on the general level agreement exists over the claim that 'policies matter and so do institutions', on a more operational level less certainty exists. For instance, while general considerations would long have warranted the demonopolization of the Russian oil and gas sector, reality has proven to be different. The gas sector was by and large exempt from privatization, not least owing to social considerations and a distorted market structure/Ahrend and Thompson,2005/. Meanwhile foreign penetration in the largely privatized oil sector remained limited, and as the ongoing wrangling with British Petroleum during 2006-2008 indicated, *insider domination* – and by the same token the existence of an endogenous private sector, with incumbent interest allied with parts of the administration- *can limit strategic presence* even of the mightiest foreign players. As long as this is the case, it is difficult to forecast and measure *how much 'marketization'* can indeed take place in the largest transition economy. Even less valid claims may be advanced if someone- such as historians or policy-makers- were to ask economists to quantify the impact of institutional change on Russian economic performance over the 1999-2008 decade.

The impact of institutional change on economic performance has often been indirect. For instance banking crises in Latvia and Romania in the mid-90s have not stopped both nations from growing impressively in

the decade to come. While the causal link between finance and development remains disputed in the broader literature/Gradstein,2004/, the spillover of the 2007-2009 international financial crisis has only underscored the relevance of *continuous institutional improvement* in emerging economies, if growth is to remain sustainable and socially appreciated. The relevance of this question, in turn, can not be regressed on growth, inflation, or even on the evolution of indicators of the depth of financial intermediation.

For these reasons we are continue to *sail largely in the dark* if we were to formulate in a positive manner *what relevance should be attributed to the improvenemt of financial sector* in a latecomer transition economy in general. While in the cardinal sense nobody doubts that being solid is a good, even indispensable thing, in the ordinal sense of *sequencing* it remains an open question if anyone can claim that 'without a sound financial sector no growth is feasible', even if it remains a platitude in the long run. As it is known, east Asian countries could grow, for about three decades, without good financial systems, thus the urgency- as different from the relevance- of acting on banking reform soon remains contestable. True, this is no longer the case since their opening of capital accounts, but sequencing of such step has precisely been in the focus of debates in and about postcommunist transition.

Similarly calls for a 'strong government' remain valid. Studying the African economies eg has led the IMF/2008/ to conclude that creating a functioning administration is a *sine qua non* for growth to resume. Moreover creating peace and a minimally functioning government has allowed Sub-Saharan Africa to grow by over 5 pc pa in the 1993-2008 period, i.e on par with the average of developing nations. This was achieved even if structural change was limited. Still, as evidenced by the Russian and central Asian cases, a *strong* government is not to be equalled with a *non-predatory* government committed to the public good, rather than to any vested interest group, as theorized by Olson/2000/. *An activist government may, in reality, be the exact opposite to the normative view.*

It would be difficult to put *a measure on the strength of the government*. Its size- expenditures as a percentage of GDP – is a good indicator in terms of showing the political involvement and redistributory practices. The latter of course must have an impact on growth. However this

impact is rather indirect and depends, to a large degree on the pattern and quality of governmental spending. For instance Scandinavian economies over the past 15 years have though substantially diminished the share of public spending – by a margin of 5 to 15 percentage points of GDP/ECB:op.cit/- however they remained still big 'tax and spend' governments. Notwithstanding this circumstance their competitiveness, as indicated by World Economic Forum and IMD in Lausanne, has remained continuously high. This was due to the *targeted and good quality spending*, which diminish substantially transaction costs, enhance employability of persons, wouch warranty for *enforcement* of contracts and legislation/including tax laws/, and ensure *transparency* of operations. In other words, externalities provided by the government compensate for the high tax burden.

What follows from the above said is twofold. *First, the size of the government does matter and should not be considered as by and large irrelevant,*<sup>7</sup> particularly if we are to measure progress from a fully nationalized economy on the road to market order. Second, while size matters, this is perhaps not the whole story also not in our case. It is perhaps not entirely by chance that the IFIs, otherwise following mainstream economics in trying to put numbers on everything, have been converted in the current decade to the wisdom of *good governance*, which can not be quantified. It is intentionally vague and also open to some interpretation, contextuality and influence by local, cultural and historic factors, usually outside the scope of economic analyses.

In the context of postcommunist change it implies, that numbers matter. The fact, that Russian government centralized nearly 40 per cent of GDP in 2008, or even Baltic States and Slovakia centralize 33-37 per cent of their GDP is itself a *disproof* of the alleged neoliberal dogma reigning the region. On the other hand, experiences in the Putin presidencies in Russia and the practice of big government in Hungary in the 2002-2008 period both have proven *ineffectual* and unable to institute those forward looking investments, that would have been required to sustain growth. The latter include investment into organs sustaining the rule of law, environmental protection, physical infrastructure, human capital accumulation and the like. Marginalizing opposition is one thing, spending for externalities and the common good

---

<sup>7</sup> Cf also the broader empirical proofs offered by Justensen/2008/.

is an other. For this reason, *activist and active* governmental involvement in the economy remain two different cups of tea.

For this reason both quantitative and qualitative indicators of 'rolling the state back', and the ensuing overall assessment if it has gone too far, far enough, or conversely, can in most cases not be unambiguously presented. One needs, it seems, case by case analyses to see, if – as in Hungary – *governmental overextension in one area may hardly be compensated with idle governance in other areas*, the latter often actually complementing the former. Activity in productive investment does not compensate for lack of strategy and spending on environment, social integration of the Roma, and generally improving the employability of people, especially of the lower skills via including them in a process of lifelong learning. Tax returns granted to foreign investors will hardly compensate for lack of deregulation and intransparent, arbitrary tax administration, both sadding the growth of small business ssector, the major provider of productive jobs/ on the latter cfNGFM,2008/.

The bottom line of the argument in the present section is the need for *continuous and renewing/revolving analytical activity* and also *governance*, far not only from central authorities, and definitely not in a constructivist manner following a preset master plan. By contrast, calculability and delivery on quantitative targets, such as deficit, debt, inflation, is perhaps the bst way to generate that social trust that is required for broader reforms – structural and institutional- to survive a single electoral cycle, which is often a professional minimum requirement in normative and also technical terms.

### *How to Europeanize Transition?*

While the change from communist to market economies is one that can by no menas constrained to a single continent, still the majority of the cases has taken place in Europe. Furthermore the idea of „European-ness” and the slogan of „return to Europe” have both proven to be formative in the perceptions of the elites.

Those perceptions have proven to be even more defining in the countries which stood a chance of joining the European Union. While the EU can by no menas be equalled to „Europe” in historic, political or even economic terms, the EU has undoubteldy been the anchor and

thereby the point of reference for policymakers for over 15 years. In fact, ever since the launching of the PHARE program and signing the trade and cooperation agreements in 1988 the EU has aspired to be an active policy entrepreneur in central and Eastern Europe/Schimmelfenning and Sedelmeier, eds,2005/.

This has basically been one of the major successes in the process of European integration, all the more so as it has coincided with the single currency project. Transition economies in their bulk went out of their ways to meet the criteria set by the EU, whether or not those made sense in terms of their narrower context. For instance balancing the budget before most of the SLIP agenda is over, or spending on environmental protection a lot before its broader concept and European framework materialized, might well have been seen as premature.

Studying the process of Europeanization has shown that the perception of being a good European at one point, and the real threat of being excluded from the club at an other point, might well have played decisive roles in settling domestic power struggles and also thereby in setting the trend in economic policies, as exemplified by the catchup of Slovakia and the drift of Hungary in the 1997-2008 period/Györffy,2009/.

Studying this process might be interesting in underscoring a double process. On the one hand a tendency of overzealous copying EU standards could be observed. At a deeper level, however, adjustment has proven often formal, perfunctory and eschewing the new rules of the game has been anything but exceptional. For this reason delivery remained also rather limited. If eg fiscal adjustment takes place only via short term measures, or if environmental laws are merely promulgated but not enforced, especially against business interest, the outcome is likely to be meagre. These dualities may be among the explanatory factors for the less than expected improvements that took place upon full EU membership. Since the political class tended to overrate those potential gains and thus public opinion expected perhaps too much in terms of individual material gain, non-delivery on those „pedestrian issues”, be that lower prices or more employment, has immediately contributed to the disenchantment with EU in the new member states.



While one should not, for a moment, be surprised to see the preeminence of domestic factors over European and global ones in setting outcomes in the longer run, it is still remarkable to observe how little *internalization of EU values*, be that the spirit of cooperation, or the adherence to the rules of the single market, have been shaping the *policy practice* in the new members in most of the time since accession. This observation applies to the pre-crisis period as well. In turn, it is less surprising to see the new members not having come up with their own agenda in EU matters, which could well have followed a more transition-specific agenda than the customary deals reached by the Franco-German-British trio in the current decade. While complaints on the lack of attention, on occasion, assistance proliferate, original suggestions emanating from the region would be hard to spot in the entire 2004-2009 period.

### *How to Manage Globalization in Transition?*

While it is anything but surprising to see that transition economies are confronted with a series of stresses coming from their embeddedness in the global arena/Kolodko,ed,2005/ it would be difficult to overlook that the spillover of the 2007-2009 financial crisis has entailed also new challenges. First, all countries were confronted with sizable declines in their output, with Russia, Hungary and the Baltic States falling in recession. This fact alone has uncovered how shaky the foundations of economic growth in the 2000s have been and how vulnerable the financial systems of those countries has remained, despite considerable improvements in the preceding decade/Pálosi-Németh,2008/. As the cited monograph explains, integration in the global capital markets remained one-sided and evolution of local capital markets and their regulation has been lagging behind in qualitative degrees.

The collapse of the Baltic Miracle, as well as the struggle of Bulgaria with exiting the currency board at times when external disequilibria would have called for devaluation, have clearly showed how *ephemeral shortcut solutions in economic policy might be*. Saving the laborious task of institution building and regulation has though helped in the short and medium run to anchor expectations and create price stability. However when things have become more complex, with the passage of time the lack of regulatory instruments in fiscal and monetary policy has backfired, as a consumption boom fuelled basically by domestic markets

and financed by households in foreign currency could not be counteracted.

Hungary and some other countries have also experienced the drawbacks of an entirely globalized banking system, with the financial institutions of the eurozone protecting themselves but letting down their affiliations. While up until recently foreign strategic ownership counted as an asset, now it turned out to be a liability. Yet another major strategic issue to be reassessed for the theory of transition and development.

When one speculates about how much the EU could or should have done in terms of regulation as well as in terms of crisis management in warding off the global crisis in the financial sector, it is *difficult to delineate the responsibility of old members from the new ones*. The former failed to agree over elementary joint supervision as suggested by the Lamfalussy Committee back in 2001. The new ones on their turn, thought that regulation on the EU level can be outsourced to the old members, while the sunny days of cheap external finance and the general expectation of their quick adoption of the euro will take care of everything in terms of ensuring solidity in their domestic financial institutions.

### *Is Transition Over?*

One of the most emotional debates, especially though not exclusively in political science, has been the idea if and when transition can be declared to be over. It goes without saying that Europeanization is neither meant to homogenize, nor does it deliver in terms of standardization, despite recurring attempts of the bureaucracy to benchmark and regulate a number of issues, from the nature of chocolate to airline security, whether or not the competences have already been transferred to Brussels. Ireland and Finland are likely to remain two rather distinct models of the European economy on any plane one cares to mention/Sapir,2006/.

If this is the case there is no easy textbook answer to our question, as we can always wonder if the present stage is already the terminus or not. In the current literature two approaches emerged. In one, it is by and large over, even if conspicuously lagging behind what a truly revolutionary

change should have entailed, as the outcome is qualitatively congruous with western practices/Kis,1998/. By contrast, others highlight the lasting structural dissimilarities/Keren and Ofer, 2007/that render postcommunist societies still very unlike anything 'normal' in the sense of Kuznets. Yet another observes may also have a point in highlighting: the current crisis is yet another indicator of the incompleteness of institutional and regulatory change, often termed as third generation reforms. Welfare systems in general and pension systems in particular are far from sustainable. If we adopt the second line, transition is not yet over.

Whatever way we conceptualize the answer, it remains an open issue if and to what degree conditions of sustainable *development*- which is much broader than mere quantitative expansion- have been brought about in the once Communist economies. Vladimir Popov/2009/highlighting the importance of contextuality may be right in stressing the point: the common task might be to create markets while not weakening the state to the point so that to be captured by interest groups or positively fail in meeting its basic functions. In this line of thought, we may add, trial and error is unlikely to be a transient phase of the transition economies. More probably it is likely to sustain long after the memories of Communist rule have faded in the region. And this is likely to require, also in the long run, an analytical frame, which is not after benchmarking and optimization. By contrast, it appreciates *trial and error as the normal way of operation of evolving economic systems*, especially under globalization- a point traditionally advocated by the Austrian school of economic thinking.

## R E F E R E N C E S

1/AHREND,R. And THOMPSON,W./2005/: Unnatural monopoly: the endless wait for gas sector reform in Russia. *Europe-Asia Studies*, vol.57.no.6.pp801-822.

2/ANTAL,L./2008/: Nyugdíjreform-dilemmák: jövedelemelosztási arányok és makropénzügyi egyensúly./Dilemmas of pension reform: income distribution and macroeconomic equilibrium/. *Competitio*, vol.7.no.1.pp5-32., available at: [www.econ.unideb.hu/kutatas/competitio](http://www.econ.unideb.hu/kutatas/competitio)

3/BACKÉ,P. – ÉGERT,B. – WALKO,Z./2007/: Credit growth in central and eastern Europe revisited. Vienna: Austrian National Bank, ÖNB *Focus on European Integration*, no2/July, available also online.

4/BEREND,T.I./2006/: *An Economic History of Twentieth century Europe: From Laissez-faire to Globalization*. Cambridge and New York:Cambridge University Press.

5/BOKROS,L/2009/A reformok kritikus tömege/The critical mass of reforms/.in:MURAKÖZY,L.ed: *A jelen a jövő múltja*/Present is the past of future/. Budapest: Akadémiai Kiadó, pp194-240.

6/CSABA,L./1993/: After the shock. In: SOMOGYI,L.ed: *The Political Economy of the Transition process in Eastern Europe*. Cheltenham and Brookfield: Edward Elgar, pp88-108.

7/CSABA,L./2009a/: Orthodoxy, renewal and complexity in contemporary economics. *Zeitschrift für Staats- und Europawissenschaften*, vol.7.no.1.pp1-32.

8/CSABA,L./2009b/: Causes and consequences of a new type of macroeconomic populism in central Europe. In: CSABA,L.: *Crisis in Economics?* Budapest: Akadémiai Kiadó,pp87-115.

9/DARVAS,Zs and SZAPÁRY,Gy/2008/: Strategies of joining the euro. In: BUTI,M.ed: *The Euro at Ten*. Brussels: EU Commission,November.

10/DJANKOV,S. GLAESER,E. – LaPORTA,R. – LOPEZ-de-SILANES,F. –SHLEIFER,A./2003/: The new comparative economics. *Journal of Comparative Economics*, vol.31.no.4.pp595-619.

11/ FIALOVÁ,K. - JANÁČEK,K./2009/: Czech economy at the beginning of 2009: sharp fall in economic activity. Prague: Komerční Banka, *Economic Trends*, no 59/February/.

12/ GRADSTEIN,M./2004/: Governance and growth. *Journal of Development Economics*, vol.73.no.2.pp505-518.

13/GYŐRFFY,D./2009/: Structural change without trust:reform cycles in Hungary and Slovakia. *Acta Oeconomica*, vol.56.no.2.

14/ HAVRYLYSHYN,O./2008/: Growth recovery in CIS Countries: the minimum threshold of reforms. *Comparative Economic Studies*, vol.50.no.1.pp53-78.

15/IMF/2008/: Regional Economic [Outlook:Sub-Saharan Africa](#),2009.Washington,D.C-October, available at: [www.imf.org](http://www.imf.org)

16/JUSTENSEN,M./2008/: The effect of economic freedom on growth revisited. *European Journal of Political Economy*, vol.24.no.3.pp642-660.

17/KAASE,M. – WENINGER,A. – SPARSCHUCH,V.eds/2002/: *Handbook of Three Social Sciences in central and Eastern Europe: Economics,Political Science and Sociology*. Berlin: GESIS and Collegium Budapest.

18/KEREN,M and OFER,G./2007/: Are transition economies normal developing countries? In: ESTRIN,S. – KOLODKO,G.W.- UVALIC,M.eds: *Transition and Beyond*. New York etc: Palgrave,pp58-88.

19/KIS,J/1998/: Between reform and revolution. *East European Politics and Societies*, vol.12.no.2.pp300-383.

20/KOLODKO,G.W./2000/: *From Shock to Therapy*. Oxford:Oxford University Press.

21/KOLODKO,G.W.ed/2005/: *Globalization and Social Stress*. New York: Nova Science Publishers.

22/KORNAI,J./2008/: *From Socialism to Capitalism*. New York: CEU Press.

23/KRUEGER,A./1998/: Whither the World Bank and the IMF? *Journal of Economic Literature*, vol.34.no.4.pp1893-2020.

24/MNB/National Bank of Hungary/2008/: *Jelentés az infláció alakulásáról/Inflation report/*. Budapest: May, available also at: [www.mnb.hu](http://www.mnb.hu)

25/NGFM/Ministry of National Economic Development/2008/: *A kis- és középvállalkozások helyzete – 2007, éves jelentés/ Annual report on the state of SMEs in 2007/*. Budapest, September- English language summary available at: [www.ngfm.gov.hu](http://www.ngfm.gov.hu)

26/OLSON,M./2000/: *Power and Prosperity: Outgrowing Communist and Capitalist Dictatorships*. New York: Basic Books.

27/PALDAM,M. And GUNDLACH,E./2008/: Two views on institutions and development: the Great Transformation and the Primacy of Institutions.*Kyklos*, vol.61.no.1.pp65-100.

28/ PÁLOSI-NÉMETH,B./2008/: *A feltörekvő országok tőkepiacai a globalizáció folyamatában/ Capital markets of emerging economies in the process of globalization/*. Budapest: Akadémiai Kiadó.

29/ POPOV,V./2007/: Shock therapy versus gradualism revisited: lessons from transition economies after 15 years of reforms. *Comparative Economic Studies*, vol.49.no.1.pp 1-31.

30/POPOV.V./2009/: Lessons from transition economies.Helsinki: *UNU WIDER Research Paper*, no 15/March, available also at: [www.wider.org](http://www.wider.org)

31/ SAPIR,J./2006/: Globalization and the reform of European social models. *Journal of Common Market Studies*, vol.44.no.2.pp369-390.

32/ SCHIMMELFENNING,F. and SEDELMEIER,U.eds/2005/: *The Europeanization of Central and Eastern Europe*. Ithaca,N.Y.: Cornell University Press.

33/di TOMASSO,M. –RAISER,M.- WEEKS,M./2007/: Home grown or imported? Initial conditions, external anchors and the determinants of economic reform in the transition economies. *Economic Journal*, vol.117.no.520, pp 858-881.

34/WAGENER,H.-J.ed/1993/: *On the Theory and Policy of Systemic Change*. Heidelberg and New York: Physica Verlag.