DABROWSKI,MAREK – ROSTOWSKI,JACEK,EDS: ***THE EASTERN ENLARGEMENT OF THE EUROZONE***. Heidelberg – New York etc: Sringer Verlag, 2005, 232 pages, index, price 69.90 euro

The Warsaw-based CASE institute for social and economic research has been one of the strongholds of liberal thinking ever since the onset of transition. Headed by Professor Marek Dabrowski the center is one of the hubs of networks of researchers in and on central and eatern Europe understood in a broad meaning, that is encompssing the Caucasians, central Asia, southeast Europe, and of course, Belarus and the Ukraine. A third defining feature of this venture is the strong presence of young and youngest researchers. While many of these end up in policy making and the business community, CASE has remained the home of able young researchers, who are able to publish their output as working papers, available through one o the most professional websites of Europe. Furthermore the institute is involved in publishing activities, with a special emphasis on leading western academic publishing houses in order to ensure quality control. The present volume under review is the most recent one of a series of such endavors, where a major policy-relevant area is being scrutinized from the point of view of theory, techniques and applications alike. Like always, the book consists of contributions by more established researchers – like the editors – and yound academics applying the more recent techniques of analysis. The outcome is a healthy mix of different approaches, where each contributor retains his/her individuality, still the overview produces a single unified structure.

The book consists of 12 chapters, with the introductory chapter raising the issue of timing – when best to join the eurozone/since the obligation to enter EMU is derved from the terms of accession treaties signed in Athens in April,2003/. The the following chapters address various aspects of joining from the theoretical and technical perspective. Chapter 2 by Maliszewska and Maliszewski is devoted to the contentious issue if the exchange rate is a shock genrator or a shock absorber. If it were a shock absorber, giving up sovereign exchange rate policy would consitute a sacrifice, that new EU members should be vary of. If, however this is not the case in a small open economy – and the authors argue convincingly in this line – then giving up exchange rate policy to the ECB is not a sacrifice at all, it can rather be an advantage/of giving up yet another shock generator/. In chapter 3 Blaszkiewicz-Shwartzman and Wozniak raise the question if new members meet the so-called optimal currency area criteria of Robert Mundell, i.e if they are structurally fit for EMU membership? This strongly technical chapter concludes/pp58-59/ that this is unlikely to be a bigger challenge than it was for the southern EU – now EMU – membrs.

In chapter 5 Radziwill and Malewski address the potentially contentious issue of wage flexibility, since giving up the exchange rate instrument puts the burden of adjustment on labor markets. They find/p.85/ that discretionary monetary policy in the period running until 2002 was more of a shock generator than an absorber, whereas country experience vary quite a lot in terms of wage rigidity. The mirror image of the former is presented in chapter 8, when Siwinska and Bujak analyze the other major instrument for adjustment in a monetary union, fiscal policy. In their analysis of the macroeconomic consequences of discretionary fiscal policies they show/pp139-140/ that consumption in transition economies does not react in a linear fashion to changes in iscal policy, thus Keynesian type of counter-cyclical fine tuning does not seem to be a realistic option anyway/with or without Stability and Growth Pact/.

In what may become the most controversial chapter , no 9 Jacek Rostowski argues for a stricter application of the SGP – contrary to the policy decisions reached during the March 2005 Brussels Council. He advocates more rules-based behavior, automatic triggers and sanctions for non-compliants and a suspension of voting rights on financial matters for the trespassers as long as their fiscal adjutment plan is not approved by the others. But the major – and toughest – proposition is to push for obligatory national rules/p.154/ that, if not observed, would lead to automatic exclusion from the eurozone and loss of voting rights in the ECB council. Knowing political realities it seems unlikely that any of the German, French,Italian or British governments will ever subscribe to such – technically rational – suggestions.

In chapter 1o Zoubanov addresses the consequences of uneven growth in a monetary union. This , fairly technical chapter yields some interesting conclusions. For instance that having countries grow above the average does not necessarily produce inflationary effects in the currency zone, temporary output losses emerge only if labor markets are rigid, and if the ECB sets inflation so that to protct the interest of slow growing countries, that indeed may turn into higher zone-wide inflation /pp180-182/.

In chapter 11 Paczynski analyzes ECB decision-making in an enlaed EMU, and models the forseeable difficulties of working with 25 agents, and evaluates the ECB reform proposals of March 2003, and finds that giving up the one man – one vote procedure is though a must, however a number of well established procedures, such as the ones adopted in the IMF can solve the problem. Of course, here again the clash of economic and political rationality comes to the fore again, with new member states unilkely to give up their newly won sovereignty/Poland being a forefighter of this approach/.

In the concluding chapter Marek Dabrowski wraps up the volume in his Strategy for EMU enlargement. He makes a number of major observations, such as the need for a broad anti-inflationary consensus before any monetary policy discretion could be approved. He argues quite convincingly on pp 206-210 that, contrary to frequently voiced claims, there is no serious academic proof that there were a trade-off between nominal and real convergence of the new EU member states, since even those staying out of EMU will have to follow disciplined fiscal policies. The prospect of EMU membership may serve as a viable incentive to institute those politically unpopular measures that are neded fo a high growth scenario anyway. By contrast, neither price stability nor crdibility of the single currency will be threatened by a fast adoption of the euro /pp221-222/. The only problem with the conlusion is, that at the time of writing it is the larger Central European countries who may stay out, whereas the tiny states may actually rush in joining the single currency by 2007-2008.

It would be hard to serve justice to such a broad variety of papers in a short review. However I wish to underscore the consistency in editing the book, that allows though for the usual and inevitable technical and analytical disagreements, however does not lead to a lack of concept or message. This collection opf papers, some of them more technical, others more policy oriented, is a must reading for anybody conducting serious research on the enlarged European Union in general and on the final phases of transition in the new member states in particular. While policy-makers may adopt choices different from the one advocated by the authors in this volume, their solid analysis gives a clear indication of what are the costs and benefits of the individual, competing options. A good buy to any library with an academic or policy interest in Central Europe.

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