

EUROPEAN INTEGRATION AND MODELS FOR EMERGING ECONOMIES

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ABSTRACT: This chapter elaborates how first the perspective, later accession, finally actual membership has contributed to shaping the economic order in the formerly Communist countries of Central and Eastern Europe. We posit that while the process of becoming a member had been helpful, actual membership has proven to be more ambiguous in terms of achieving developmental objectives. We find that non-membership, whatever its causes might have been, has invariably proven inferior in all walks of life. Thus delaying full membership in the EU, or aiming at an in-between solution, as proposed by a considerable part of the literature, was a dead alley. By the same token very real difficulties of and from EU membership can not be remedied by an exit option modeled on UK experience².

In the final decade of Communist rule over Central and Eastern Europe the societal consensus across various political and economic streams has been formed around their *agreement on the final objective of transition*. This was simple and complex at the same time: to become a 'normal country'. The latter implied a rejection of most of the attempts of the 1920 to 1990 period, which aimed at putting these countries a different trajectory from their historic path. This was more of a version of 'national self-purpose', as various but common exceptionalisms were termed during the interwar period. Later, with the formation of the Eastern Bloc, more precisely of the Soviet Empire in 1949, being different from the 'capitalist world' obtained a value of its own right. Being Socialist implied the aim, and often the actual outcome, of doing things differently from how these were done in the West.

From Moscow to Brussels

By the *annus mirabilis* of 1989 the pre-eminent view was that the attempt to create a new world has proven to be a failure/cf the overview of Berend, 1996/. Therefore, no matter how different the values, objectives, style and social anchoring of the individual political movements and schools of thought had been, there was a broad agreement on the terminus: *a parliamentary democracy and*

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² Draft chapter for GEVORKYAN, A. ed: *The Oxford Handbook of Postsocialist Countries*. Oxford-New York, 2023/ Useful comments by I.T. Berend, P.Á. Bod, D. Győrfy and I. Szelényi are appreciated, with the usual caveats.

market economy of the West European type. The frequently quoted *bon mot* of later Czech President Václáv Klaus, 'the third way leads to the Third World' aptly encapsulates the bottom line.

But what does 'being like the West Europeans' really mean? It has not been clear at the time, nor is there an agreement on that today. At the time of changes, the currently ruling theory of 'Varieties of Capitalism'/Hall and Soskice, 2001, Amable, 2003/ was not yet developed. Furthermore, as in any pluralistic system, a healthy competition of views and objectives on what is or is not desirable, has been in existence. Thus the natural division across social democratic, liberal, conservative, green and radical streams of thinking has resulted in competing platforms, economic and political alike.

On a more practical level, various countries of Central and Eastern Europe, not to mention the successor states of the Soviet Union, were in very different levels of market maturity at a time when the European Union has just entered the decisive, final stage of its deepening, the Economic and Monetary Union/Csaba, 1995/. This fundamental state of affairs has resulted in two basic consequences.

- A. The EU has adopted a fairly distanced approach to the enthusiastic new applicants, questioning their ability to implement the necessary changes, and also expressing its own reservations of the unreformed European structures to accommodate the growing diversity which was only to be expected should 13 new members, as distinct as Malta and Poland, eventually accede/Winters, 1994/. While the principle of taking upon board 'any European democracy' had been anchored in the Treaty of Rome, no operational strategy of dealing with largely enhanced diversity³, level of development differences, and not least funding requirements were at hand. The already visible mounting difficulties of German re-unification in the 1990-93 period/Sinn and Sinn, 1993/ have made the largely unspoken but powerful slowdown in the enlargement a given. In stark contrast to the political and ideological triumphalism of the early 1990s enlargement took 15 years, longer than any of its predecessors.
- B. The European impact on systemic change has worked on two, largely unrelated levels. At the more abstract level the example of EU states, especially the Franco-German coordinated market economy, has exerted a formative influence on the way of thinking in the entire region. Institutional and policy choices, from setting up Constitutional Courts/an instance unknown in the Anglo-Saxon world/ to independent and powerful competition agencies to ensure proper market behavior, are prime examples for this hidden, but powerful influence.

³ Insiders ascribe the contemporary British support for Eastward enlargement to the consideration that a largely diffuse Community is simply unfit for Franco-German top-down administrative practices.

Meanwhile, at the level of practical policy-making the European Union adopted a purist, didactic approach in the process of *acquis screening*. Once the countries concluded the first round of their accession negotiations, *expert groups from the Commission conducted field research on the ground to check if implementation of EU arrangement had been real and effective, or just formal*. This process – comparable to a school examination – was decisive in the political option to accept 10 countries and delay three.⁴ Interestingly, and tellingly for the future, this pedantic, headmasterish approach has proven to be by and large futile, as early commentators/Ganev, 2013/ were no slow to point out.

The European Influence: Three Stages

The EU influence on systemic change has been undeniable and commentators single it out as a kind of Rubicon influencing both the nature and the dynamics of transition. This holds primarily for the revived historical drift between Eastern Europe, the former Soviet Union less the Baltics, the Balkans and the rest referred to for shorthand as Central Europe/Gevorkyan, 2018/. But the relevance of European lure has been formative in shaping the life-cycle of the liason. *The first stage* leading to accession, covers basically the first fifteen years of transformation, when doing 'anything it takes' to be inside was the rule. *The second stage* was that of sobering. Being inside, though on highly unequal terms⁵, and observing the process which culminated in Brexit, though started already with the Dutch, Irish and French rejection of the European Constitution in 2005, resulted in a cooling down of enthusiasm. No major European initiative was related to the new members, while old members were engaged in quarrel.

Finally *the third stage* is the post-2012 period. This was marked by a large jump in deepening, exemplified by the Fiscal and Banking Union of 2012 and the transformation of the ECB into a lender of last resort, by the unlimited supply of liquidity and the unconventional measures of intervention, including direct purchases of state and corporate bonds. In the meantime, the Visegrád Four have exhibited signs of illiberal democracy, combined with unorthodox economic policy, increasing statism and *a general distancing from the rules-based architecture of Europe*. Without putting the blame

⁴ In the case of Croatia the unsettled issue of war crimes of the 1990-95 military conflict with Serbia and insufficient cooperation with the Hague Tribunal explained the delay until 1 July 2013, while the Ten were accepted already in December 2002, a decade earlier/entering in force from May,2004/. Bulgaria and Romania were delayed until 2007 for insufficient progress, though the political commitment to take them on board was extended already in 2002, with an official deadline also granted.

⁵ The best known example is agricultural supports. Due to lack of funding, new members received a mere 25 pc of the direct income support enjoyed by farmers of old members, with an incremental evening out by 2013 only.

unilaterally on the EU *one may observe the diminishing influence of the EU arrangements on anything that happened in Central Europe in the decade after 2012*. In a way, developments in Ukraine in the post-2013 period are illustrative of the weakening influence of the EU on members of the Eastern Partnership/Duleba, 2022/, let alone on Russia and Turkey, the major geopolitical contenders.

In the following pages we shall try to provide a chronological narrative. Trying to avoid normative claims, we focus on the much narrower issue in line with the theme of the current volume. Namely *what kind of influence could the EU exert on the dynamics and outcomes of systemic change?* We are aware of the fact that domestic balance of forces are always decisive. However, given the historic uniqueness of the EU this organization has continuously shaped the lot of its members, from France to the UK, from Greece to Finland. Thus the question we address is both relevant and answerable on the grounds of comparative analysis, even if a full-scale documented academic answer would require a monograph rather than a book chapter.

Stage One: The Age of Dreams/1989-2001/

The comprehensive and ambiguous story of Eastward enlargement of the European Union is a rather well documented story from both sides/Balázs,P.,ed, 2014, Dougd- Hoen, 2022/. There is a broad agreement across the authors that the first decade, which actually started much earlier with trade re-orientation and liberalization in the East/Csaba, 1990/, culminated in a euphoric turn at the *annus mirabilis*, followed by high expectations of a fast and smooth accession process.

As the preliminaries, the Union first signed 'deep and comprehensive partnership and cooperation agreements', first with Poland and Hungary in 1988, later with Czechoslovakia, Romania, Yugoslavia and Bulgaria in 1990. These deals, which resemble to a large degree to the agreements signed with Ukraine in 2013 as well as to the Accession Agreement with Turkey of 2001, *containing also a national program for the adoption of the acquis* launched in the same year.⁶

These special agreements have two fundamental features. *First*, they represent a commitment on the side of the Community to lead the negotiations up to eventual full membership, provided the applicants fulfil the /then valid/ criteria prescribed for it. *Second*, it also involves a serious commitment on the side of the applicant, to adopt the arrangements of the Union, irrespective of their merits or de-merits.

⁶ We do not cover the latter country, being outside the scope of the present volume, despite the obviously relevant parallels. For details of the various editions of the Turkey-EU agreements including the exact wording and timelines cf the website of Republic of Turkey, Ministry of Foreign Affairs, Directorate for EU Affairs: *Accession Partnership Documents*. Ankara, last retrieved on 9 May, 2022.

For instance, few if any analysts would qualify the Common Agricultural Policy in its present shape as an expression of ultimate wisdom, either in terms of economic or environmental policy. Still, if some country wishes to join in the EU, the qualities of the CAP are by no means liable to discussion or criticism of any sort. They are simply to be taken over. Thus the national programs for the adoption of the *acquis*, with concrete measures and deadlines, which is utterly unlike the general declarations of intent, whereby the very same countries join the United Nations or the OSCE, or the Council of Europe, by merely declaring their general consent to the guiding principles of these organizations.

By the same token, the EU could and did aspire to be *the lighthouse for the conduct of systemic change in Central and Eastern Europe*. At this juncture of time 'everybody' wanted to be 'like us', by emulating the West European practices as the best of all conceivable options. And indeed, if we compare the progress of those countries, which ended up in the safe haven of the EU in 2004 and 2007, with the evolution in other countries, from Serbia via Ukraine to Kazakhstan, the judgement is fairly unanimous/Roaf et al, 2014/. In short, despite the growing role of Euro-skepticism in the mainstream discourse, both political and academic, *the assessment over the basic question if it was any better in any plane to be outside rather than inside the EU is crystal clear*. It speaks for itself that traditionally reserved nations, like the Czechs and the Latvians, or populations who actually had to sacrifice part of their living standards at periods of time, as the Greek, the Irish or Romanians, never seriously supported parties favoring the exit from the EU.

Postcommunist countries in their bulk applied for EU membership in 1991 to 1994. The principal decision over enlargement, by formulating explicit entry criteria took place in June 1993 at the Copenhagen Summit, and the operational policy decision for implementing this weighty option was taken in December 1997 in Luxembourg. The humanitarian intervention in Rumpf-Yugoslavia in 1999 actually speeded up the process, not least because the applicants were, by that time, members of the NATO alliance.

Looking from our angle the argument may be formulated as follows. For the core members of the EU the two fundamental tasks for the 1990s were the following. *First*: managing the European Monetary Union until the introduction of the single currency, both as bank money/1999/ and cash forms/2001/. This itself implied a momentous challenge, both technically and politically/Issing et al, 2004/. In short, since the currency is perhaps the most visible symbol of national sovereignty, pooling it into a common monetary unit had been a gargantuan task, despite the considerable preliminaries, esp of unilaterally fixed exchange rates.

The *second*, equally demanding task was the completion of the Nordic enlargement, with Sweden, Finland and Austria by 1995. Though these rich nations were for years associate members, and also

were net contributors to the joint budget, this was a tough ride. Due to historic reasons, that we can not detail here, the commitment to neutrality and self-rule has turned the three countries into difficult partners. The protracted wars following from the disintegration of Yugoslavia/Ramet, 2002, Gallagher, 2003/ with the active involvement of NATO and its major members, has created an additional challenge to what was seen by the British as a mere industrial free trade zone with a bit of farm subsidies.

In short, Eastern enlargement can not and should not be interpreted just on its own, since doing so we would miss that context which has been decisive from the outset: the geopolitical dimension. The ups and downs of the 15 years following 1989, the collapse of Communism, *have largely been molded by global events, rather than the bits of pieces of developments on the ground.* The very fact that the EU finally took ten new members on board, while actual maturity, if taken earnestly, was reached by a maximum of two or three applicants – Malta, Czechia and Hungary – was an imprint of the shadows of yet another American military intervention in a European conflict – for the first time since World War Two.

Under this angle the favorable impact of the EU perspective becomes even more pronounced. Following four to six decades of totalitarian rule, it was only legitimate to advance a variety of strategies on how to do things better than under Communism. However, as the contemporary summaries of the evolution of social science thinking in the region/Wagener, ed., 1998, Kaase et al eds, 2002/ indicated, the interwar period and the reform socialist period⁷ have not produced insights that could have been productively applicable under a fundamentally changed set of parameters, local and global alike. Issues like capital market liberalization, competition policy, managing multi-party elections, or constructing a system of higher education in line with the needs of a democratic society and of the age of the internet, could not simply be dusted down from the archives, or taken over from good western textbooks.

In short, as long the EU served as a sort of 'straightjacket' in disciplining the free flow of imagination by the locals, coercing as different countries as Cyprus and Latvia to follow identical patterns in terms of systemic orientation, *it has provided a shortcut solution to most of the problems.* The alternative of endless speculation and experimentation has not proven superior outcomes in places like Russia or Turkey for that matter. In this first 15 years Central and Eastern European countries, and the two Mediterranean islands could adopt arrangements, which may not be the best and the brightest of the globe, but have been tested by the time in continental Europe.

⁷ WE discuss our reading of the latter in a separate chapter in this collection, thus skip the details here.

As a participant observer I can not stand making a small but important remark. With the time passing and the level of abstraction increasing academic analysts have a tendency of *under-estimating the huge technical, practical and political complexities of introducing a modern market economy*. While at one level we might claim that 'transition' was easy, insofar as both the starting point and end-point was known, we may also contend the opposite.

The moment we cease to discuss abstract models and perceptions, the question of 'what kind of market' and 'what kind of governance' only gains in relevance. As in mature democracies, *most policy debates do revolve precisely around these issues, for which we do not have an unambiguous answer* in any of the textbooks, since these embody deep value-loaded judgements. To give but one example, whether the tax system should be based on a flat rate, or be progressive, or – due to exemptions and preferences – be de facto regressive, as in the USA and the Baltics, is not a matter of professionalism. It follows from our philosophy about the nature of 'good society' or 'just society' for that matter. If we accept this line of argument, the favorable role of the EU is entirely unrelated to the fact, if the CAP or cohesion policies, or more recently the Green Deal of 2019 does reflect the best of all conceivable theoretical options in any of the fields they cover. They are practical, available and workable.

The Second Stage: Sobering by Membership Practices/2002-12/

In theory, membership in the European Union pre-supposes a vibrant market economy, as the second among the Copenhagen criteria of 1993 stipulated. As seen above, the awkward process of acquis screening served precisely the purpose of checking on the ground, if and to what degree, obligations have indeed been implemented. Notwithstanding this circumstance the decision over enlargement – both the scope and timing – has been a strategic option. The *foundational consideration was the need to stabilize the Eastern neighborhood*, as clearly expressed in the rulings of the Helsinki Summit of December 1999, when the European Defense Strategy was strengthened and complemented with a Rapid Reaction Force. As later revealed by various rounds of political and military conflicts in Ukraine, but also in Syria, Libya, Lebanon and West Africa, this capability has remained fragmentary, and the ability of the Union to project its visions through military means if necessary has stayed in an incumbent stage, not least due to the disagreements among the member states⁸.

From our perspective it means, that – contrary to the formal procedures – *actual meeting of membership criteria has never played a decisive role, either in joining*⁹, let alone in actual behavior and

⁸ For an extensive account of these interrelationships cf the monograph of the former Commissioner, Péter Balázs/2016/.

⁹ The best known examples are the negative view of the Commission on Greece in 1981 and the supportive view rejected by a referendum in Norway in 1972 and 1994.

standing of the new members. Certainly this mishap has been solidified by the openly skeptical and minimalist approach of the old members, having led to the rejection of the Constitutional Treaty. The latter, which was an outcome of the Intergovernmental Conference of Nice in 2003-2004¹⁰ has refrained from making major steps toward supranationalism, and preserved the basically intergovernmental character of integration. This sustained also in the currently valid Treaty on the EU, the Lisbon Treaty/in more detail cf the volume of Bickerton et al, eds, 2015/.

This largely unforeseen state of affairs implied inter alia that a gradually emerging sovereignist approach prevailed over various initiatives for deepening. From the point of view of the new member states this implied, that the *mission civilizatrice*, feared by some and welcomed by others, has remained to a large degree an empty shell. Community organs were lacking both the sticks and the carrots to discipline non-abiding members – as in the extreme cases of the Southeast European members, documented in the above cited paper of Ganey/2013/. Annual assessment by the Commission rarely went over exerting more impact than article 4 consultations by the IMF in a country not being under a stand-by.

Despite the long period of preparation, the institutional arrangements, including informal practices of the administration as well as of the corporate sector, were in a somewhat half-baked stage. Progress against state socialist practices was undeniable and impressive in all walks of life, from media pluralism to central bank independence, opening up to foreign direct investment and privatization also in the financial sector. However, the customary observation of external analysts, be they from the OECD or the World Bank, was that a lot remains to be done in order to achieve actual compatibility with the West European policies and practices alike.

Importantly, especially from hindsight, there has never been either a timetable, or a list of performance criteria, against which progress in the new member-states could have been measured¹¹. Once membership was attained, further progress, even if it was formalized, tended to become disputed, dodged, or simply forgotten. To give just one example, adopting the waste water directive Hungary earned a long transition period, from 2002 to 2020. However, by the final deadline only very partial progress could be reported. Say, only half of the waste water of the capital city is being systematically and fully cleaned. In the meantime the formerly independent Ministry for Environmental Protection has been merged with the Ministry of Agriculture already in 2014. It was

¹⁰ Cf the documents of this and the successive ICGs, as well as the ensuing Lisbon Treaty of 2009 in: www.consilium.europa.eu/en/documents/intergovernmental-conferences, last retrieved on 10May, 2022.

¹¹ Such a formal and quantitative set of criteria was developed and actually applied by the European Bank for Reconstruction and Development in its annual *Transition Reports*. The only problem is that EBRD is not an EU organ, and its focus since 2014 has been relocated to the Middle East and North Africa, both in terms of funding and in terms of research output.

relocated in 2022 to the Ministry of Industry, the great supporter of big foreign investments in rubber tyre and accumulators, to mention two lines that are obviously not precisely environmental friendly.

Perhaps the most telling example of the lack of improvement is the non-introduction of the single currency by three out of the four Visegrád Countries. While Slovakia, Slovenia and the Baltics all succeeded in maturing for membership in the EMU, the three bigger nations have yet to deliver this step. Which is certainly surprising given their level of development, societal near consensus favoring the euro, and not least experiences of the practical benefits for citizens of being part of a currency union, by saving on transaction costs and enjoying the benefits of enhanced competition on a market close to 500mn people, i.e larger than that of the United States.

It is received wisdom by now that introducing the euro is not a matter of financial sequencing, but one of overall and long term economic strategy. Going over to unilateral pegging of the exchange rate, taking upon the commitment of a rules-based fiscal policy, while working on the gradual liberalization of labor markets is a truly systemic choice: an option for a market economy. While some critics like to mock it as extended German *ordo-liberalism*, no matter how we name it. The bottom line remains, that a commitment to price stability and fiscal orthodoxy is the precondition for EMU membership to be beneficial, for the corporate sector and consumers alike. This has been the case of the Baltics and Ireland, Finland and Spain, but not for Greece, France and Italy.

Therefore it is legitimate to argue, that governments of Central and Eastern European large countries *have not been ambitious enough to take up the initiative for more radical change* in the second decade¹². It was not 'reform fatigue' as in the case of France and Italy, or financial fragility which has deterred them from the strategy they agreed to in 2002, when they signed up for EMU membership as well, as part and parcel of full and equal membership.

Without wishing to enter in the nitty-gritty of detailed policy analysis of the period we may highlight the following. If in the first decade the prospect of a full membership in the EU was sufficient to galvanize elite consensus in favor of doing some unpopular, though necessary measures, such as allowing for the closure of big and famous factories, or liberalizing many previously protected sectors, *this consensus has gradually been drying up*. It was replaced by a degree of agnosticism, one which gives in to pressures by interest groups and ideologies, when it comes to sustaining competition as a formative principle of the market order. One of the reasons for our purposefully general and vague formulation is that one can not claim, that traditionally right wing forces, liberals and conservatives, would have been drivers of a pro-market line, while left and green movements would have opposed

¹² We refrain from referring to the libraries of self-justifying defenses and excuses produced by central banks and Treasuries alike, supported by a small but vocal segment of the local and English-speaking profession.

it. In reality, a strange mixture of ad-hoc coalitions and policy-games yielded a trend which is best described as drifting.

It is important to note: the full blame for the lack of progress can not be put on the shoulders of the Community and its old members. Their foot-dragging and rather myopic actions were used as pretext and points of reference in local politics. *The real movers of the backtracking were local interests*, of industrialists and bankers, of less skilled labor and pensioners, rather than any direct influence which originated in Brussels or Frankfurt, London or Berlin.

Successive governments in the new member-states *were running out of steam at times when major second and third generation reforms*, as those of public administration, of regional development or of the health care system *could have been put on the agenda*. True, the Community has not urged, let alone to have held accountable, any local government for the promises of radicalizing reforms made upon accession. But, as in any democratic society, the initiative to change, especially in a major way, can and should come from within. Once the professional and political conviction of, say, the virtues of a funded pension system emerge, the change in the right direction will happen. By contrast, if partial privatization is perceived and presented as a way of torturing 'men on the street' without any good reason, and subserving interests of foreign capitalists, reform of the welfare state is unlikely to make headways.

Interestingly, but unsurprisingly, conservative parties of the region, as Fidesz in Hungary, PiS/Right and Justice in Poland and ANO in Czechia were in the forefront of resisting the pressure for Eurozone membership. But the left-leaning governments in Hungary were no guarantors of improvement, while their counterpart, the Slovak SMER-SD of Robert Fico has actually managed successfully the switch to single currency at a time of a financial crisis, already back in in 2009, as its neighbors continued the wait and see approach ever since¹³. This *conspicuously non-ideological dividing line across the countries* may deserve a special attention/though not in the present chapter/.

The Third Decade: the Rise of Illiberalism/2012-2022/

Illiberalism in the region has not been introduced along a master plan, by an act of will of one or a few rulers, as in 1949 Communism had been. It has gradually emerged, not even in each country/the Baltics and Romania are exceptions/. Despite the considerable body of political science literature analyzing the process, we can not see even a minimum of consensus over the reasons and the outcomes of this change. What everybody agrees is that it has not been a *coup d'etat* as in Turkey

¹³ Slovenia was the first postcommunist country to join EMU in 2007, while Slovakia was followed by Estonia in 2011, Latvia in 2014 and Lithuania in 2015.

following the failed military takeover of July 2016. It has not been a pre-planned set of policies as in Russia under Putin already during his first tenure of 2000 to 2008. It evolved through a series of changes, which looked at first merely of style rather than substance/Körösényi-Patkós, 2017/. Whatever we think about the components and motivations of this change, by now nobody would doubt that the model of an illiberal market economy is the relevant framework for interpreting developments in Central and Eastern Europe¹⁴.

First and foremost: the region has had a long history of authoritarian policy and statist economy. In short, pro-market, liberalizing periods have rarely been more than strange interludes among the dominant periods of state-run, top down attempts at modernization, which mostly failed to produce real catching up with the core economies of the West/Berend,2020, Morys, ed., 2021, both volumes providing ample statistical evidence supporting this claim/. The Soviet inspired and dominated reconstruction following World War Two, and the entire state socialist period was axiomatically one of top-down modernization, an attempt when spontaneity was seen with suspicion in all walks of life, from culture to daily conduct of family affairs, and of course the economy.

Against this background the first two decades of transition following the change of regime, when the trinity of privatization, liberalization and the building of market institutions prevailed, must be seen as an exceptional period. This applies both the the visionary, long-term orientation of many of the projects actually implemented, but also the *Zeitgeist*, favoring individual initiative, private provision of social services, opening up of economies and societies, and the toleration of pluralism in all walks of life, from textbooks to religious – or secularizing – tendencies of competing nature.

Without being exhaustive on the issue we may cite contemporary analyses/Kolodko-Tomkiewicz, eds, 2010/ highlighting *the broad social dissatisfaction with the outcomes of systemic change*. While economic performance had been indeed impressive – though by no means exceptional in contemporary global standards – the political perception of a large majority has been that of dismay and dissatisfaction. The electorate in its bulk considered the outcomes of the market play *illegitimate and unjust* – though perhaps more so in Russia and Ukraine, than in Central Europe. Thus parties on Left and Right equally could win elections by promising to remedy the injustices triggered by the policies of transition, which were portrayed as haphazard, ideological, subservient to foreign interest, or just disregarding the interest and the feelings of the majority.

Let us note: *the populist turn of politics is not a regional phenomenon*. This change of heart has not originated in Central and Eastern Europe. The very term ‘illiberal democracy’ was coined by the

¹⁴ For a broad, exhaustive and interdisciplinary discussion of related issues cf the Handbook /HOLMES.S., et al, eds, 2022/.

American columnist Fareed Zakaria/1997/ without any reference to the postcommunist countries. Likewise in the watershed article of Larry Diamond/2002/ postcommunist change was a clearly marginal issue when emergence of populism was diagnosed. However, this means that the illiberal turn in the postcommunist countries, was not a unique phenomenon, anchored in local conditions only, but part and parcel of a global trend of declining acceptance of liberal market economies and parliamentary democracies.

The big question to be addressed here is the following. *How come that the Community, which has acted as an anchor for systemic change in the first two decades, has proven to be by and large a toothless lion in the third?* How come that the interplay of local and supranational, of economic and ideational, of planned and spontaneous factors and processes have failed to act as a bullwark against this trend? Given that the populism in Western Europe remained a limited and transitory line, with Brexit not having been followed by the exit of Dutch, French, Italian or Czech, let alone by Greek or Spanish exodus, the answer is not trivial.

Our preliminary answer goes as follows. Whereas the crisis management in the EMU has resulted in deepening integration, thereby stepping over intergovernmentalism, *in most postcommunist countries a different logic prevailed.* In the latter states long-term path dependency prevailed. Statist habits, expectations and policies were espoused by political forces keen to redistribute the fruits of change and integration in favor of their own respective constituencies. While the Community made giant steps toward supranationalism, and also to following a pro-market logic of crisis management, to the point of changing the traditional continental models of the market economy/Epstein,2017/, in the postcommunist region, with the exception of the Baltics and Slovakia, the revival of statism was foundational for the outcomes.

Analysis of crisis-management in the EU/Gyórfy,2018/ has been pretty clear about the subordinate role of Community arrangements over local balance of forces in deciding how and through what means financial shocks were eventually remedied. In the cited book the comparison of Greece, Hungary, Latvia and Romania was indicative of the pre-eminence of local conditions, both ideational and interest-based, in setting the stage for actual policies. Critical observers, as Önis and Kutlay/2020/ talk about not just the weakening but a positive loss of what they term 'the transformative power of the Union on its periphery'.

Far the most relevant innovations of the third decade were the establishment of *the Fiscal and Banking Union from 2012 and the turning of the ECB into a true lender of last resort.* The latter implied the unlimited supply of liquidity to central banks of the Euro area, as well as the use of unconventional monetary policy measures. The latter implied direct purchases of state and corporate bonds /first only

on the secondary and later on the primary markets/. These were complemented by various measures of quantitative easing, the most important being the asset purchase programs and refinancing operations. Besides, the Next Generation Program of July 2020, mobilizing an additional 750bn euros over the multiannual framework facility, and funded by the joint bond issue of the EC, all *moved the Community toward an unprecedented degree of supranationalism*. While non-EMU members do qualify for NextGen, their programs need to be approved in detail by the Commission.

In the postcommunist countries, in their bulk, the reaction to the crises was one of nationally owned and specified programs, where the freedom to act, to decide over who should do what, when and how, has obtained a value of its own. These countries *tended to gravitate to a minimum of international cooperation*, when unavoidable, and opt for their special ways, whenever possible. This holds on a list of endless areas, from banking to vaccine purchases, from taxation to military buildup. The reaction to the Covid pandemic only underscored this new brand of economic nationalism, which was extended to basically each sector of the economy and related policy-making/Mátyás, ed., 2022/.

It is important to note the diminishing soft power of the EU, an issue documented in detail in several of the monographs we cited above. While the lure of being like those in the core of Europe was axiomatic thirty years ago, by now political normalcy implies that 'Brussels' has become an easy scapegoat for any of the ills that plague eastern nations. This include high energy prices, migration or the need to adjust traditional priorities of energy supply to the Green Deal, the pet project of the von der Leyen Commission for the period running up to 2026.

Interpretation of *what we see on the ground is certainly a subject of a broad and revolving scholarly debate*. Classically, János Kornai/2016/ defined the emerging economic system as a hybrid regime, *as a third ideal type between the conventional command/planning and market economy models of comparative economic systems'* research. Szelényi and Mihályi/2020/ highlight the relevance of monopoly positions, both in polity and the economy, in a conceptualization following the reading of Piketty on modern capitalism. In this interpretation the real dividing line is not according to the degree of liberalism, but *the type of monopolism*, and possibilities of overcoming it/on China this view being quite optimistic/.

The third and perhaps most stern interpretation of the processes is that of *mafia capitalism*, a term coined in the impressive analytical overview by Magyar and Madlovics/2020/. In this view personal enrichment and *informality, family-type relationships* shape the *modus operandi* of the economic processes. The pre-eminence of political structures and style is therefore unquestionable, considerations of efficiency do not play a major role. The feedback coming both from the /global and local/ markets and from the electorate are subordinate, or even negligible. Ideology, playing a

formative role in the theories of illiberalism, is just a poor cover-up. No political science model can well describe the functioning of a model where interpersonal relationships and dependencies¹⁵ – often mutual in nature – shape the outcomes. In this view the whole postcommunist bloc is – again – a single quality, with amorphous contours and local characteristics which were observable also during the Communist rule.

It goes without saying that in the last two of the three major interpretations the European Union has a marginal role if at all in explaining the outcomes. In my personal reading of the events, while these models are coherent on their own right, *they underestimate the asymmetric relationship – yes, dependency – of the new member states from the core EU* and its arrangements. It is not so much the transfers, which matter- though in some years these accounted for 4 to 5pc of the GDP of the new member-states. But the political embeddedness and the institutional anchoring, which follows from the increasingly supra-national and largely informal nature of the Union, the style and substance of decision-making, which put severe limits on how far the special ways can go.

Conclusions: Uses and Misuses of the EU Anchor

Our fragmentary account could not aspire, under the given limits of space and time, for other than offering a bird's eye view on how EU membership, first its perspective, later its experience and difficulties, have shaped systemic change in postcommunist countries. We have overwhelming statistical evidence/ Landesmann and Székely, eds, 2021/ about *the EU having been a growth machine for all the three decades*. By the same token, various claims about 'life outside the Community' can not be taken seriously in academic sense.

But even if we take the narrow angle, as we have in this chapter, the favorable impact of tried and tested arrangements, of controlling implementation on the ground, and not least *the sticks and carrots attached to the emulation of good practices* have all been serving the interests of the majority in new member-states, not only those of 'foreign multinationals'. It is a different, though related issue, what the seminal volume of Berend/2021, chapter 8/raises. Is taking upon board members which have proven to be either immature or unwilling to play by the rules, a bad idea to be rejected? If one considers the story of Greece in the past or of Ukraine of the future, this is not a trivial question to be answered.¹⁶

¹⁵ They introduce the category of 'political family' in order to delineate it from the south Italian and American brands of micro-sociological approaches. The political family is a macro category, where personal, vertical loyalties play a major role in how economic decisions are being made.

¹⁶ In my reading Eastward enlargement was the only game in town in the 1990s given the chaos that followed the collapse of the Soviet Empire and Yugoslavia. Inferring from this the inevitability of continuous further enlargement is still a *non sequitur*.

This is not to re-capitulate the interface between national and EU level reform endeavours/Csaba,2018/. In short, a forward-looking strategy would call for a more co-operative, more pro-active, more forward looking set of policies than the ones represented by most new member-states during most of the time of their EU membership. *By advocating of and contributing to deepening the new members would help free themselves from their postcommunist legacy, from the second class membership, what non-membership in the monetary union implies.* Furthermore, they could benefit from the thick web of crisis-preemptive measures the EU has developed in its answers to the challenges of both 2008-09 and 2020 crises. This includes the European Stability Mechanism, the Single Resolution Mechanism, the Single Supervisory Mechanism, the emerging deposit insurance scheme, and not least the unlimited supply of euro liquidity by the ECB at times of a sudden stop.

For a country outside the EU, like Ukraine or Serbia, but even Turkey the unilateral shadowing of many EU practices, even in the lack of financial rewards, may make perfect sense. If one recalls the history of European integration, many countries, from Belgium to Austria and Finland benefitted from the unilateral pegging of their currencies, by shadowing the fiscal policies of Germany, and by many other measures. Norway and Switzerland currently do contribute to the common funds in order to benefit from the common market and Schengen.

Joining the European prosecutors' office, shadowing EU competition policy, following the climate goals until 2025, 2030 and 2050, or applying stipulations of the Social Charter would unlikely to do any damage to the population of the listed countries, even if they do not stand a chance of immediate membership. By replicating the experience of the Central Europeans they too may contribute to the well being of their citizens. Holding free and fair elections, respecting media freedoms and conditions of the rule of law is unlikely to harm any country moving towards the twins of market economy and parliamentary democracy. But how efficacious 'normative power Europe' may become is largely a function of domestic choices and balance of power, rather than the optimality of Community arrangements in any walk of life.

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