

**FOREWORD TO THE SECOND, REVISED AND EXTENDED, EDITION
To The New Political Economy of Emerging Europe. Budapest, Akadémiai
Kiadó/W.Kluwer, 2007, web: www.akkrt.hu**

It is a great honor and pleasure for me that the Publisher has agreed to bring this second, extended edition of my monograph on emerging Europe to the international audience. The first edition has aroused considerable interest, over a dozen of reviews have been printed in Hungary and abroad, including Japan, Germany, Russia, Great Britain, the Czech Republic and Bulgaria. The book has won the Award of the Publisher in 2005, granted on the base of majority voting of the Section for Law and Economics of the Hungarian Academy of Sciences. The book has been in classroom use in several universities. Besides Hungary I am aware of French and Japanese schools using it in their various curricula. Owing to the generosity of the Publisher a substantially revised and also extended and updated Hungarian edition has also been launched in 2006. The latter version has also received considerable attention, both in the electronic and printed media. Finally the present edition is an in-between: it retains much of the original text, but *complements it with two new chapters*, unsurprisingly *on the European Union*. Certainly, wherever needed, especially in globalization and EU-related issues, updating of the bits and pieces, reflection on some of the new developments in the literature and „in the world out there” complement the original version. I tried improve some of the shortcomings pinpointed by the dozen reviews published so far. But I consciously refrained from re-writing the entire empirical-statistical source material, or from introducing brand new theoretical models. Both requirements may make perfect sense, perhaps in a different project, not however in a revised edition.

Why bother with an *extended and revised new edition* instead of the usual reprint? First and foremost: the basic structure and the line of argument of the previous edition, that was sold out, is still valid. None of the numerous reviewers to date have questioned the fundamental logic of my reasoning, or the major conclusions, which is a truly good news for such a contested area as new political economy. Meanwhile, since the previous edition went to press, *the European Union has undergone a major crisis*. The Constitutional Treaty has been rejected in two founding nations, while several others, including Britain and Poland decided to adjourn the referenda over its ratification. In 2004 the European Court of Justice repelled the Ecofin decision on suspending the Stability and Growth Pact, while the Council in March 2005 agreed to re-interpret those rules that guide the coordinated fiscal framework for the single currency.

These two changes required specific reflection. Chapter Nine therefore analyzes the controversies over the *new fiscal framework* in the light of economic theory, as exemplified by the Nobel prize laureates of 2004, Kydland and Prescott, who were awarded for their pioneering work over time inconsistency/Kydland and Prescott, 1977/, the issue behind the conflict between short and long term incentives for policy makers. Under this angle the chapter analyzes if, and through what mechanisms, the more flexible reading of the Pact can, and indeed will, be conducive to *higher and more sustainable economic growth in Europe*. The re-launch of the Lisbon Strategy in 2005 required the inclusion of such analysis from a long run perspective, while the

changes in the rule prompted us to take a stance on the merits of the modified fiscal framework.

Chapter Ten, yet another new inclusion, brings us to those broader debates that have been triggered by the original texts, as well as by a series of conferences I had the chance to attend. In October 2005, just a few months after the first edition came out of print, *accession negotiations have been launched with Turkey and Croatia*. This implies an interesting paradox. For one, rejection of the Constitutional Treaty has resulted not so much from the actual contents of the text, or the lack of its meaning, but from the *percieved* threats in terms of economic insecurity and social stress, from *potential future enlargements*. The median European citizen wishes that the EU first consolidates, at least for a decade, and only later engages in future enlargements. Meanwhile the logic of Europeanization does require immediate and continuous action, since the *convergence of economic and political systems* in those areas which used to be called the European periphery, do not emerge spontaneously, *without an anchor*. The anchor - often by default - has been the European Union, and in operational terms the European Neighborhood Policies of 2005, offering a number of new forms of cooperation for all the countries around the EU, i.e from Morocco through the Palestinian Authority, Moldova, Georgia and from Kyrgyzstan to Belarus. In the new Chapter Ten an attempt is being made to assess the *potential of these new policies in a strategic perspective*. We analyze if, and to what degree, *institutional innovation* may contribute to overcoming the current dead alley. Certainly the bits and pieces of further enlargement require further elaboration, however it falls outside the scope of the current volume/Csaba, 2007/.

Otherwise the main line of argument, as well as the *overall pattern of the project remains unchanged*. The chapter on the Comparative overview of empirical evidence provides the basics needed for meaningful theorizing. In letting the statistics to run as they used to be, my intention is to show that the process of differentiation among transition trajectories *has long been observable*. Commenting on the upcoming new data has, certainly, got its inherent merits, irrespective of the more abstract claims of the present project – a good quality example of the former is presented by Gligorov et al/2006/, published right at the time of concluding the present edition. Their findings point, in a number of ways, in the same direction as did the conclusions of our comparative empirical chapter, in terms of policy implications and statistical trends alike. This is good news, as it means that our findings are not time-constrained, nor unnecessarily limited by our reliance on the selected sources, *and survive even closer scrutiny and the control for the newer numbers*. Thus it might be legitimate for us to jump to the more abstract issues instead of further number gazing. Given that failures are much more frequent than successes- ever since- the *developmental issues* and reflections on *transnationalization* follow, which put the transition experience in a global context.

In this global approach the chapters on the EU and its influence on the emerging economies follow. Having arrived in what used to be percieved as safe haven the frontrunners among the emerging economies are confronted with a series of crises, in the institutional and policy domains alike. *How to avoid the marginalization of European structures*, especially, though not exclusively in finances, is the unifying theme of these chapters.

Having adopted a normative approach to explaining the ways and means to success, intellectual honesty requires us to address what seems to be *the two counter-examples of success* in the 2000s: the institution-less development of authoritarian regimes registering high growth. Interestingly, none of the reviewers so far has questioned the legitimacy of including China, the developmental paradox of the past decades, moreover in several of the classes and conferences, unrelated to China, such as on the role of money, banking and rule of law, or property rights, the Empire of the Middle comes up as an example. Also, a reflected inter alia, on the pages of *American Economic Review*, *Journal of Political Economy* and the *Journal of Economic Perspectives* the focus of interest of mainstream analysts has also been gradually re-focused, at least in part, on China. And the two mainstream-adjusted outposts of comparative economic research, *Economics of Transition* and even more its US counterpart, *The Journal of Comparative Economics* abound with contributions analyzing and interpreting the Chinese paradox. But attempts to decipher Russian successes under both Putin Presidencies are also in no short supply in similarly prestigious fora of academic analyses/besides the traditional area studies and IR journals/. This is a more conventional option. However our purpose is to show, *how different the Russian trajectory has been* from the central European mainstream. For this reason Russia is no longer an emerging economy in the same sense as the new EU members are.

Finally, a neo-institutionalist approach can not but reflect in some detail, i.e in the two concluding chapters on the role of *regulation and regulatory agencies* in democracies, as well as on the *role of institutions*. Which institutions matter and how do they matter? This is the big unknown, for which a temporary and partial answer is being provided. Suggestions for reforming available national and European institutions in order to foster competitiveness conclude, together with more theoretical reflections on institutions and economic development. In the latter vein changes in the natural sciences, allowing for the better understanding of the workings of the brain, perceptions and of reasoning, do call for changes in social sciences in general and economics in particular, in terms of overcoming the mental constraints imposed by the predominant analytical frame bequeathed by Newtonian physics and its mathematical arsenal/North, 2005/. This has developed into an entire research paradigm over the past years in the leading academic journals in the UK and the USA, with empirical studies documenting the prevalence of incoherent behavior and the ensuing inability of ordering of preferences in vast numbers of economic decisions/Cohen, 2005/. Individual irrationality may, but does not have to, bring about sizable changes in *aggregate* outcomes, rendering mechanistic extrapolation/and linear modelling/ largely irrelevant/Fehr and Tyran, 2005/. Measurable items of income relate only loosely to happiness, rendering conventional hedonistic economic hypotheses, such as mobility and more consumption being axiomatically good, as questionable, *especially for public policy applications*/Layard, 2006/. Components previously abstracted away, such as trust, good governance, lack of corruption and workplace security/job satisfaction all may, and often do, matter more than an additional unit of monetary income/Helliwell, 2006/. And yet another Nobel winner is in the forefront in the attempt to measure well-being, rather than material output as the end-result of economic activity/Kahneman and Krueger, 2006/- an issue we recurrently discuss in various chapters on development, governance, success indicators and the role of institutions in the democratic development alternative. In sum, *the broader approaches*, including new political economy, *no longer count as*

esoteric outgrowth of a serious, technocratic and socially blind analytical discipline, some of the mainstream departments let economics to be learnt.

All in all, as the above sketch of the structure may have illustrated, this book is *not* a collection of previously published papers, but an *old-fashioned monograph, following a single line of argumentation*. Though most chapters have been presented to several conferences and also to several readers, the integrity of the overall line of the argument has hopefully remained intact. The inclusion of the two new chapters is justified by the nature and weight of changes that have taken place in the past two years, that require reflection on specific issues. But the *normative insights remain unchanged*. It is perhaps the field of development economics where these new normatives have become most pronounced, as recent analyses of the field/Szakolczai, 2006, Szentes, 2006/ have illustrated.

This is certainly *not a mainstream book*, as one of the reviewers of the first edition aptly noted. But, as Professor Alexandre Lámfalussy writes in his recommendation to the Hungarian edition, this has to do with the conscious attempt of the author to avoid *clichés* and intellectual quick fixes. In so doing it is my hope to have contributed to *a number of open-ended debates that run in parallel but on different levels of abstraction*. One is the level of economic theory and methodology, an attempt to come up with propositions of how to conduct economic research in a socially responsible and relevant fashion. A second level is that of area studies, by shedding light on what transition has meant on a global scale, and how to interpret local developments in a global perspective. Third, the overdue reform of the European Union may be more effective, if policy debates make use of the insights from more academic analyses. Fourth, understanding big countries, outside the scope of self-contained area or country studies, is an important task for comparative approaches, which may shed light on some of the less trivial aspects of these specific paths of development. Finally, as fifth, the role of institutions and regulatory agencies is perhaps one of the most relevant, still the least elaborated area of modern social science research *way beyond the boundaries of economics*.

Therefore, it is at least my sincere hope, that not only various strands of the economics profession, but perhaps also people working on improving public administration, on setting up and reforming international agencies, civil groups interested in defending human rights and privacy in the era of internet revolution, legal scientists, political scientists and specialists of IR may, perhaps to a different degree, might profit from confronting our insights with theirs. In so doing a *cross-fertilization* of approaches may emerge, which, for the present author, would translate into *a more relevant* brand of economic research than the one currently dominating many of the mainstream departments.

Last, but not at all least, it is my duty to express my gratitude to those who facilitated my work on this second edition. The International Relations and European Studies Department of the Central European University under then Chair Julius Horvath and its doctoral program, the CEU facilities, library and staff have all been of great assistance. The doctoral school at the Faculty of Economics and Business at the University of Debrecen with colleagues and students have also provided intellectual stimulus. It is a great pleasure to see so many of them, from both doctoral schools, developing in mature and independent researchers and civil servants, already

publishing their ideas, and not only in Hungary, but also abroad. Zoltán Ádám, István Benczes, Pál Czeglédi, Matthias Gruber, Dóra Györffy, László Jankovics, Zdenek Kudrna, Balázs Pálosi-Németh are perhaps the most promising, though this list is fortunately far from complete. MA students from the Budapest Corvinus University, taking my class on Emerging Markets have contributed, through comments and criticism, to improving the preliminary texts. And needless to say, the endurance and supportive love of my family, my wife Csia/Gabi, our grown-up, university student children, Zoltán and Orsi/Hedgehog, has been a source of endless inspiration and provided the purpose of the entire exercise.

Budapest, 31 July 2006.

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