

Book Review

László CSABA: *The New Political Economy of Emerging Europe.*

(2nd, rev. and extended ed. Budapest: Akadémiai Kiadó, 2007.)

Communism (both in its political and economic sense) in Europe collapsed in 1990-91, but it has been a commonplace to say that its legacy is bound to haunt its victims still for a long time. While the political transformation indeed took place in a matter of months, in a few years the economies of the formerly communist dominated countries also fully transformed, without becoming the complete replicas of the successful and prosperous western states. Seventeen years after *annus mirabilis*, the epochal change of 1989/90, it is no longer right to lump the post-Communist countries together, “divergence is the name of the game,” shows the author, a brilliant and witty member of the newer generation of world-class Hungarian economists.

The first (2005) edition of this work and its updated Hungarian version (2006) was a great success, but the rejection of the Constitutional Treaty of the EU, the adoption of the Stability and Growth Pact, new fiscal framework for the *euro*, the 2005 Lisbon Strategy, and talks about further accessions to the EU all warranted the new edition.

Professor Csaba’s “new political economy” is a highly original interdisciplinary approach: economic theory combined with regional (occasionally country) analysis of economic performance, with elements of political science, sociology and current politics added. The subject of the analysis is the performance and the mainly (but not exclusively) economic and developmental problems of the former Soviet Empire, questions and answers about the transition from the command economy to the market economy, with special reference to the challenges presented by the issue of EU membership. For students and experts of economic theory and practise, this is an exciting and very enjoyable book, thanks to the wealth of factual information and the original and provocative insights, despite the often too theoretical language. For students and experts of foreign policy and international affairs its value is the historical perspective offered on the last two decades of the former Communist world.

Although there are two pertinent and convincing chapters on Russia and China respectively, the central theme of the book is the former European satellites of the Soviet Union. The author dispels the widely held myth that the unprecedented recession which hit this world was due to the transition to the market economy. By 1989 it was well on its way in the Soviet Union – and we may add that it was one of the causes of

the unexpected collapse of the system in the satellites. Due to radical therapy from 1994 onwards the core Central European countries were recovering with the resumption of growth. In terms of GDP Hungary, Poland, Slovenia, Albania and the former East Germany did best at the outset, but catching up has come to a halt in the latter, since transfers themselves “could not replace lacking endogenous sources of growth.” (p. 36.) With the Czechs, later Bulgaria and Romania, too, making substantial progress, the former members of the Warsaw Pact (excluding the CIS) became increasingly similar to those European and Asian countries, which have recorded impressive growth more recently. They are the emerging markets, the new eastern members of the EU, that is *the emerging Europe*, where the rate of growth is above the average of the OECD, thus holding out the hope to close the gap between them and Western Europe. The Balkans, Ukraine, Moldova, Russia, Central Asia obviously do not belong to this group, while the Baltic States eventually overcame the Soviet legacy. In general, says Csaba, “with time passing the relevance of the Communist legacy diminishes. [...] geography, culture, and yes, policies also shape the outcomes for the longer run more than does the heritage of Communism.” (p. 68.) Progress is not pre-ordained, “success is indeed directly related to joining the global process, whereas failure is intimately related to staying out.” (p. 69.) The key to success is the proper answer to the challenge of “globalization.” (Instead of this loaded and much loathed term for what practically is the state of the modern world economy, the author prefers transnationalization.) The prerequisite of sustainable growth is SLIP – stabilization, liberalization, institution-building and privatization. The opposite is soft economic policy, but that is bound to lead to failure, to remain underdeveloped. The role of the state, or rather the policies of the political elite, decide whether a country can make the best of the transnational process, which in our area is represented mainly by the European Union.

The comparative overview of the erstwhile Soviet empire, the thirty post-Communist states, is supported by 11 tables, which show real GDP, real total consumption expenditure, real gross capital formation, consumer price indices, registered unemployment, merchandise exports and imports, trade by direction, current account balances and inflows of foreign direct investment in the eastern half of Europe and in the CIS, mostly covering the period 1988 to 2002. The tables and their preceding analysis show that “economic growth is the answer to many problems, including social ones.” (p. 53.) This is the strongest refutation of the thesis, increasingly popular in the Hungarian media thanks to László Bogár and to even less competent authors, that “globalization” means exploitation and leads to pauperization, and just because the political elites betrayed their task and became the servile agents of the greedy West, of international capital. Csaba also takes issue with the Club of Rome calling for less growth. One might add that much of the fashionable “green” and “anti-globalist” ideology also runs counter to the arguments and evidence presented by the author.

Much of the book deals with the role of the EU, “Europeanization” in the transition in the eastern half of Europe. “Joining the EU does not solve major issues of development, although it creates more favourable side conditions than staying out would.” (p. 88.) For the emerging economies the EU requires continuous adjustment, but it is not sensible and rewarding to follow it blindly and too eagerly. Much could be added to Csaba’s criticism of the attitudes shown by the old 15 strong Community (unnecessary delays and selfishness shown towards the applicant countries, wasteful bureaucracy, unnecessary standardization, double standards, failure to observe its own decisions and commitments, notably in the CFSP - very visible in the Balkans) by those from the new members who were more closely involved in the political or economic aspects of the accession talks. The patronizing attitude (characterizing also the Annual (pre-accession) Reports) over such purely domestic issues like gender equity, media financing, waste management (I would add the totally uninformed guidelines over the issue of the Gypsies, or Roma, if preferred) made the EU increasingly unpopular with the public, although Csaba is ready to consider the merits of voluntarily overdoing the EU demands, advocated among others by A. Ágh. It is especially relevant for Hungarians that the author finds the determined line shown by Poland to have been far more rewarding than the accommodating Hungarian one. One can again express only agreement that in view of the egotist and pedestrian policies of the EU it is futile for the emerging Europe to pin all hopes upon the inflow of structural and cohesion funds, and to accept whatever Brussels concocts. We have to rely on ourselves in putting our house financially and socially into order: to control overspending, to accept cuts in government provided services, to invest into long-term savings, to integrate local municipalities in the system of government finances including the reform of territorial administration. But it would be wrong to believe that Professor Csaba is an advocate of sterile and dogmatic laissez faire economic and social policies. He is fully aware of the importance of maintaining and strengthening social cohesion, including educating the new generations to respect traditional values and integrating factors like religion, the family, and national consciousness. He is rightly critical of the Bologna Process in higher education, which is likely to lead to further deterioration in standards, and to alienation from the labor market. The responsibility of the media is also stressed, at least its cultivation of socially disruptive tendencies. “If robbers and other outcasts are the role models for the youth, [...] it does not bode well for the type of society we visualize.” (p. 156.)

It is impossible and even improper in a book review to try to give a summary of the contents, especially if it is so rich in advice, remedies, as well as criticism, as Csaba’s. What one must, nevertheless, point out, is that the analysis and advice is very far from the conventional, middle-of-the-road, “politically correct” mantra of so many books on current affairs. The remarks have relevance well beyond Europe. Just a few examples. “Attempts to construct democracy, market economy and multiculturalism from abroad are bound

to fail." (p. 157.) Broader based growth requires, among others "sincere public discourse instead of the infantile manipulation of the public opinion," (p. 158.) and in many issues policies should "run counter to the practice of media-led policy-making." (p. 159.)

Probably the most important and timely stand taken by the author is the very strong endorsement he gives to the Stability and Growth Pact, the arrangement for introducing and maintaining the common currency. Since lately many started to question its value and called it a straightjacket which restrains growth, a whole chapter is devoted to refute such views. Csaba also shows the advantages of an early switch to the *euro*, and the dangers of delaying it. He reiterates the classical position on the need to have sound public finances, and argues that there is no "good" deficit. This chapter should be taken to heart by those Central European countries, and particularly the author's own, which allowed their financial policy to soften up and thus delayed joining the EMU. The following chapter directs the author's criticism to some recent regressions from the SGP, committed by older and larger members. The lessons for the new EU members to be drawn are that they must put their finances into order, reducing the debt to 40-45 per cent of the GDP. As it is increasingly well-known, Hungary, once a front-runner, is very much above that figure. Four useful tables following Chapter 9 give additional weight to the author's arguments.

Professor Csaba's expertise and critical eye is not restricted to "emerging Europe," he has much to say also on the recent crises of the EU. "The EU has fallen victim to its own success," (p. 245), having realized the 1957 project of the founding fathers and having reunited much of the continent. Most of the new visions (like catching up with the U.S., creating a rapid reaction force, adopting a Constitution) have failed, just as the earlier "informalism and collegiality have been eroding," which is inevitable in a Council with a hundred participants. (p. 246.) Instead of ending the chapter on "the State of the [European] Union" with the blind optimism of "despite all that," the author simply states where the bottlenecks are to be found and what the *desiderata* are. Before drawing the final conclusions he also raises the seemingly awkward question, if Russia and China, having registered "high and sustaining rates of economic growth," and offering authoritarian solutions, present an alternative to economic development.

The chapter on Russia probably would not come as a surprise for experts, but for students and newcomers it is an irrefutable proof of the blind alley the former superpower has walked into. Quite apart from the undemocratic features which have come to characterize the presidency of Putin, Russia has become a market economy, but without efficiency, without a self-propelling home base, without a middle class. The Communist nomenklatura "turned into the new asset owner class," and created slow-growing state capitalism. Csaba calls it a new form of state failure in the Wild East, very different from the economies of Central Europe. Twelve tables provide evidence to those conclusions. As to the economic consequences of the windfall Russia has received with the soaring

of oil prices the author warns (in chapter 14) of the "resource curse": the abundant supply of carbohydrates at a high price helps sustaining authoritarian politics, relieves governments from the burden of painful adjustment, all leading to slow growth and low savings. But all that is not inevitable, there is a choice between policies.

As to China, it is beyond doubt that "one of the most successful emerging economies of the contemporary global economy seems to defy all theories of comparative economics." (p. 298.) But Csaba maintains that notwithstanding the impressive growth rate China is just another version of the one-time attempts at creating market socialism. "Marketization without modernization might be a shorthand form of the Chinese paradox." (p. 337.) Having described the many faces of that Chinese paradox the author speaks of two possibilities: either growth will eventually come to an end (like it happened to the Soviet Union), or the socialist features will be abandoned – either peacefully or via a bloody revolution.

Although Csaba makes many interesting and often novel observations on general economic theory and practice, he gives much very sensible advice for the Central and East European reader, and especially for the policy-maker. It is most encouraging to read that the past, the heritage of Communism is increasingly less important. "The level of transnationalization, the broadness and deepness of capital market, sound banking, incentives to save and to invest, context-specific methods of corporate governance and the like" are decisive, just as in the case of "other countries at similar level of development." (p. 391.) On the other hand neglecting innovation, R+D, and quality education is unforgivable and has a negative impact on rates of growth.

This book is undoubtedly a major contribution to current economic theory and practice. Its references show the remarkable mastery of both the latest and the older economic literature. It is readable even for the non-economist, but a shorter, popularized version would be most useful for the general public, and especially for members of the political elites of emerging Europe. I would have liked to read more about the role of corruption, the scourge of modern capitalism, though the position of the author is clear: corruption lowers productivity, but "only broad liberalization, not a focused vigorous anti-corruption drive may help." (p. 392.) It is admittedly not a customary subject of economic analysis, but from a Hungarian I would have expected at least a few paragraphs on the role of national and ethnic divisions as sources of tensions, and thus having an adverse impact on development. Related to that is the need to eliminate borders as obstacles to trade and movement, and to hear how the Schengen system and transborder cooperation can contribute to growth.

It is good to know that Professor Csaba teaches at three universities in Hungary, and that his writings are required reading at many courses. Native speakers of English will be surprised to see that the linguistic level of this book is also very high. But it is its contents that really matters.

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