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Comments on Laslo Csaba
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It is only natural that with time the gap between the profound changes in the ex-socialist countries and the theoretical explanations of these changes diminishes¹. The book written by the Hungarian economist Laslo Csaba is an illustration of this tendency. The book contributes to building a thorough explanation of the changes in East Europe by carrying a lot of information, lots of new theoretical ideas, and formulating a number of problems and challenges faced by New Europe.

Obviously, “The New Political Economy of Emerging Europe” is a book written by an erudite of social sciences. The author has a good knowledge of both mainstream economic theory and the latest achievements of institutional economics, as well as many other schools still regarded as secondary to the economic science. We have to admit that this is uncommon. Normally, mainstream economists content themselves with single phrases about the role of institutions, while institutional economists are very often abstract and incomprehensible. To my mind, the interdisciplinary character of Csaba’s book could be explained with the academic environment in which the author works: the Central European University in Budapest is an excellent place for exchange of knowledge and ideas among researchers of different disciplines.

Here are, in my opinion, the essential theoretical achievements of the book:

First, the author offers a number of new and interesting explanations of the past; namely, what happened during the post-socialist period. The nature of “transition” (if we use this notion, despite its neoclassical burden as a “jump” to something known in advance) is seen as a solution to two interrelated questions (analyzed in Chapter 3). The first question refers to the way of adopting market mechanism (a concrete question) and the second one is about setting in motion the mechanism of economic development (a general question). According to Csaba, from development viewpoint Eastern Europe, Russia and China had and have similar problems with those of the emerging economies (developing countries)². These problems, as the author believes, could not be solved simply by means of EU integration. Time has come, as Csaba thinks, to have the diversity of post-socialist trajectories, the different successes and failures of the former socialist countries explained not by their common socialist past, but rather by their specific institutional and cultural characteristics³. From this then logically follows that in the future differences among the countries will grow.

Second, the present and the future of former socialist countries depend on the successful and harmonious matching of two tendencies - Europeization and globalization (Chapter 5). These two challenges are treated by Csaba as a

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manifestation of a common basic process – the process of trans-nationalization of markets, decline of national states, and undermining the grounds of the "territorial state" (examined in details in Chapter 4). Europeization represents "a window of opportunity" not only for the new members, but also for the old members (the latter will be constrained to restructuring as a result of the competitive pressure of the new EU members). The main dangers come from quickly copying by the new members of the bad practices of the old members (mostly the redistributive, anti-competitive and bureaucratic practices). All these practices that are being copied now are manifestations of economic management that retarded the development during socialist times, which is exactly what these countries are trying to escape. Therefore, the author warns against the existence of limits of growth, which EU membership can generate (chapter 6). Although put in a "gentle" form as this, the warning of Csaba is particularly relevant to the countries who are not yet members of EU (Bulgaria, Romania, and other Balkans countries), countries that "mentally" fall behind these of the first wave. In the "second-wave countries" it is commonly believed (uncritically) that an EU membership brings automatically, and for a long period, economic growth and raises the standard of living of the population. Still more important is the author's statement that the EU membership thwarts the possibility of copying and transplanting of institutions, and each country will create and innovate in all social domains⁴. It is not by chance that Csaba raises a doubt about the possibility of eurofunds to serve as a main source of convergence and growth (the practice shows that these funds do not moderate the regional and national disparities in EU). In this case, I will be even more skeptical than Csaba about the effects of the eurofunds and the role of any injection of money, in general. I think, such injection opens a door to a deep redistributive process among the different groups of interests belonging to the New and Old Europe and inevitably raises social tensions. Csaba's message is clear – it is imperative to look for own (individual) proper policy and own (individual) proper solutions⁵.

Third, Csaba shows that no economic growth is possible without financial and monetary stability. In this train of thoughts, he perfectly defends The Growth and Stability Pact, considering it, for the moment, as the most suitable tool for achieving financial stability in Emerging Europe (Chapter 7). The author states that there is no contradiction between nominal and real convergence "despite the claim to the contrary: attaining nominal convergence may well be the safest way to real convergence" (p.210). Csaba thinks that the balance of public finances is a fundamental principle and that it is not possible to stimulate the economy by manipulating aggregate demand (the Hungarian experience (2001-2004) shows that sooner or later such policy leads to twin deficits⁶). Close to this logic is the author's position about the early introduction of the euro: he believes that this will bring more benefits than costs. The early introduction of the euro not only reduces the risks and transaction costs, but also strengthens the discipline and the confidence in the economy.

Fourth, the detailed picture of the economic problems in Russia (Chapter 8) and China (Chapter 9) also contributes to better understanding of the post-socialist period in general, and better realizing our European problems. The chapter on Russia, in addition to representing the fundamental problems of a petrol-dependent economy, offers detailed statistical information about Russia's development. Such an empirical

approach in comparative perspective is included in the entire Chapter 1. Chinese development, as well as the limits of this development, could be explained according to Csaba by the theoretical model of “market socialism” (practiced in different forms during the New Economic Policy in Russia (1921-1924), later as a *hozraschet* model, and in Hungary and Yugoslavia as well). Thereby, Csaba thinks, there is no Chinese puzzle to resolve, but rather a good opportunity to think about the limits of the Chinese model. Because of the increasing complexity of the economy, this model will, sooner or later, run into its natural informational and knowledge constraints.

Five, in the last two chapters Csaba offers two interesting summary essays, one about the privatization and markets regulation (Chapter 10) and one on the relationship between institutions and growth (Chapter 11). Csaba motivates his propositions that regulation is something different from intervention (intervention in most cases leads to market distortions), and that modern economy needs private and public regulation. In the last chapter of his book the Hungarian economist goes into different aspects of the possible choice (arbitrage) between flexibility on the one hand, and credibility and calculability on the other. The author is interested to what extent the institutions can replace the discretionary policy and to what extent endowments and culture shape economic growth.

I am absolutely positive that the new book of Laslo Csaba is a decisive attempt at outgrowing the neo-classical theorizing on transition. The author himself claims this at the beginning of his book. According to him the new political economy, defined as “... an approach, wishing to merge the analytical insights of mainstream with the major role played by institutions and policies...” (p.13), gives the basic methodological tools and concepts to challenge the transition and the problems of Emerging Europe. But, is it enough?

I think it is not. I think, Csaba and many other economists such as Gerard Roland, Peter Murell, Jill Saint Paul, Janosh Kornai, etc., have made only the initial steps (even though it is true that these are decisive steps). Nevertheless, I suppose that the development of an integral methodology, linking into a whole economical, political and ideological process, is still in the making. The economic sciences should produce a tool-box to study the formation and behavior of diverse economic and non-economic groups, the diversity of their interests (economical, political, ideological, power-associated, etc.), the variety of conflicts configuration, the way these conflicts lead to different institutional arrangements (formal and informal), the mechanisms of income and wealth redistribution, etc. It is true, that in addition to the international political economy, which Laslo Csaba knows very well, there are many other attempts at integrating the political and power processes by employing to various degrees the neo-classical methodology of “cost-benefit” analysis (Gordon Tullock, Mancur Olson, Gary Baker, Jach Knight, Gene Grossman, Elhanan Helpman, Alberto Alesina among others), or the institutional approach (Douglas North, Vadim Padaev and Anton Oleinik, and Yaroslav Kuzminov and al.), or the Austrian school (Svetozar Pejovic, Enrico Colombatto)⁷. But still the political and power processes stay outside the economic sciences and remain the preferred topics of law, sociology, political sciences and social psychology⁸.

The book of Laslo Csaba is a great achievement. It could serve as a starting point for a new analysis of Emerging Europe and for a new theoretical and methodological discussion as well.

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¹ For some insights see Dallago (2004).

² See also Csaba (2003, 2004).

³ Some ideas are proposed in Zweynert and Goldschmidt (2005).

⁴ The EU anchor has its limits as an engine for change. See also Csaba (2004).

⁵ See also Csaba (2004).

⁶ See also the paper written by another Hungarian fellow Laisoh Bokrosh (2004).

⁷ See for example Olson (2000), Grossman and Helpman (2001), Pejovic (2001, 2004), Colombatto (2001), Knight (2004, [1992]), Oleinik (2004), Радаев (2005).

⁸ See for example Bourdieu (1994).