

László Csaba:
The New Political Economy of Emerging Europe

Budapest: Akadémiai Kiadó, 2005, 359 pages, ISBN: 963 05 8196 5.

The fundamental transformation effecting a complete change of economic order in twenty-seven countries, with more than 400 million inhabitants, happening over roughly the past fifteen years and even in some cases continuing today, has its counterpart in the theoretical reflection on economic processes. The low relevance and poor applicability of various classic textbooks have been shown in frequent dependencies on a range of silent assumptions, counting on a more-or-less smooth functioning of an economy's necessary institutional network. This situation introduced new impulses for the so-called *institutional economics*, a discipline bridging economic theory and social science and concerning itself with the economic evolution of all relevant institutions (in the broadest sense of the word), and their influence on an economy's functioning.

The above-mentioned processes gave rise to the so-called *new political economics*, which attempts to analyse the interactions between the economic and political spheres and their ramifications for economic development and the development of society, using the analytical framework of institutional economics. However, the new political economics does not incorporate the radical criticism to the existing economic systems that is close to some schools of institutional economics. On the contrary, it struggles for a synthesis of the "...liberal approach of economic systems... with historically informed institutional analysis".¹ László Csaba as the author of the reviewed book associates himself with this school of economics, also called *neoclassical political economy*, understanding the book as his contribution to the subject and its methods of analysis. The aim of the analysis is "to highlight developmental, regional and post-Communist specific features of economic processes",² although the main goal of the analysis could be considered the effort at "endogenizing the state and collective action, as well as introducing these in the standard analysis in order to produce policy relevant and interesting new outcomes".³

The first chapter, following quite an extensive, methodologically focused, introduction, is entitled *A Comparative Overview of Empirical Evidence*. It aims to organise the large and sometimes labyrinthine empirical material on the development of transforming countries (Csaba most widely uses the term *emerging economies*). A basic comparison of the individual countries and entire regions undergoing transformation is offered, using *Gross Domestic Product*, *Inflation*, *Unemployment*, and *External Balance* as the main indicators characterising the overall state and development of an economy. At the end of the chapter, the author proposes a few preliminary conclusions, expanding and discussing them further in the following chapters. Amongst other things, he forms certain criteria of success and failure of the transformations of individual countries, and suggests a division of them into the groups of *frontrunners*

and *laggards*. He fully acknowledges the opinion in texts on transformations that fulfilling the basic set of reforms referred to as SLIP (stabilisation, liberalisation, institution building and privatisation)⁴ is the necessary prerequisite for a successful economic transformation. He also states that “...with the time passing the relevance of the Communist legacy diminishes”,⁵ as individual countries gradually become members of the respective parts of the global economy, depending on their socio-economic characteristics. The chapter is ended with a complex series of tables illustrating the development of all basic macro-economic quantities in all the transforming countries, as well as some others.

The next chapter deals with the so-called development dimension of the post-communist transformation, or – more simply – its ability to launch the growth and development necessary for boosting transforming countries’ economies and living standards. The author offers quite a scathing criticism of various ideologically motivated, dogmatic and inflexible approaches to the basic transformation tasks: “*Uncritical reliance on standard, pre-cooked solutions, coupled with ideological postulates stressing speed over quality, and instrumentalizing the concept of spontaneous institution emergence for trivial political ends, often swept away any attempt at analyzing local conditions on their own right. This led to a neglect of those contextual circumstances which decide about the success or failure of the application of a proven theoretical insight to policy-making.*”⁶

Csaba supports a market-based approach to development based on connections into global economic processes. At the same time, he realizes the great importance of the role of the state and the public sphere for a successful modern economy: “*It is worth emphasizing that a market-based approach to development is by no means equivalent to the revival of the “night watchman state” ideal. Instead of preaching the minimal state, a strong state is required: one constrained by constitutional, legal, procedural and other democratic checks and balances.*”⁷

The following chapter gives the author’s opinion on the widely perceived and debated contradiction regarding the transforming countries; that of the functioning transnational markets on one side and the strictly localised framework of the existing political sphere on the other. He is quite sceptical about the term globalisation, which he considers “...overused, non-specified and emotionally loaded” and “...has become a much too widespread label” and proposes to use the term *transnationalization* instead, “...in line with the vocabulary of international relations”.⁸ Although he considers the process uncontested and inevitable, Csaba believes that the actual ways of functioning of individual economies and societies, as well as people’s quality of life, are decided mainly on the level of individual states: “...transnational processes themselves are not decisive. It is the way local politics interacts with these that shapes the outcomes in the longer run”.⁹

Nevertheless, in the following chapter, “*Globalization*” and “*Europeanization*”: *A Double challenge for Emerging Europe*, Csaba accepts that there are global issues, challenges that demand a unified response by western states and their allies. These include international terrorism and the spread of HIV.¹⁰ However, Csaba also includes in this list the so-called *localization* of

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some aspects of life and people's thinking. This localisation sparks some negative outcomes in culture and the media: "...in the political and information flows there is a tendency to focus on the funny at the cost of the important. Infotainment is dominant over analyses, and the survival of public broadcasting stations, as well as of major quality papers has been questioned."¹¹ The author seemingly has much less confidence in market forces here (the development of the media is decisively influenced by market forces) than in the major portion of the book. At the same time, however, he does not offer any solutions to remedy or reverse this problem.

Another chapter looks at relations between transforming countries and the EU. The author examines the degree to which the process of preparing for EU accession helped solve basic transformation tasks. On one hand, he accepts the important role the EU played as *an institutional anchor* for candidate countries, keeping them on the necessary course for further development. On the other hand, however, he criticises the EU's contemporary regulation framework.¹² Some EU policies are singled out for criticism, especially the common agricultural policy and regional policies: "*recent empirical studies could not establish any positive correlation between the amounts drawn from EU funds and the relative position of the recipient regions*".¹³ At the same time, Csaba comes out in favour of a "*...re-orientation of common agricultural policy to environment-friendly and rural development projects*".¹⁴ In this chapter Csaba commits a minor inexactitude regarding the motives for the Czech Republic's territorial reorganisation in 1997.¹⁵ This was not an effort to create entities complying with the NUTS 2 regional division, as in Poland, but rather a compromise resulting from the momentary balance of power among urban political representatives, justified by a very tenuous link to the traditional historic regions.¹⁶

The next chapter examines European integration from a very different angle. It is a debate of the *Stability and Growth Pact* (SGP), about which there has been much recent criticism and equivocation. The chapter discusses the Pact's importance for the new EU member states, concluding that although the SGP is imperfect (he summarises his mild criticisms in six points),¹⁷ some form of such a pact is inevitable in the future to guarantee the stability of the common currency: "*...the idea of creating at least some soft form of a 'strait-jacket', that is institutional anchoring and procedural rules for the EU, especially if stability of the single currency is a supreme joint objective, may hardly be questioned on academic grounds*".¹⁸ For the new member states, the SGP could also represent a new *institutional anchor* to replace the now obsolete one, the achievement of full EU membership. This new anchor could have a similar disciplinary influence on the states' fiscal and monetary policies. The author considers accepting the common currency an absolute priority in the new member states, and one in perfect compliance with the Maastricht criteria. There are at least three key reasons: Accepting the currency union rules institutionalises low inflation and healthy public finances, which by itself is a value and a prerequisite for a successful economic development; this will contribute to creating a favourable climate for investment; and also has a political meaning, since staying outside the Eurozone necessarily introduces a second-rate membership into the Union.¹⁹ Here the public fiscal deficit in

the Czech Republic and two other Central European countries is also studied.²⁰ The 2004 state budget deficit, at 12.9 percent of GDP, appears ominous at first but can be interpreted neither outside the context of the difficult methodology of the indicator's counting, nor without the data on previous deficits, or the following ones (which, of course, the author had no access to). With hindsight, the year in question witnessed a concurrence of several negative circumstances (e.g. the consequences of generously provided government liabilities to commercial banks) that did not recur in following years.²¹

Two chapters offer territorial perspectives. The first gives a broad and up-to-date analysis of the economic and social transformation in Russia. Both pros and cons are juxtaposed in a very correct and objective manner, alongside the country's successes and failures over the course of its transformation. Despite all the specifics and paradoxes here, the country does not present an inexplicable problem on the basis of the standard theoretical approaches. The chapter is complemented with a quite extensive table illustrating the country's economic development from various viewpoints since the mid-1990s.

The second territorial chapter, bearing the somewhat provocative title of *Market Socialism: The Viable Impossible?* draws attention to another important phenomenon of world economy – China. Overall, it can be said that the success – in terms of growth dynamics – of the economic reforms continuing for more than two decades in China can be ascribed mainly to the country's unique factors, such as its long tradition of decentralisation, the Chinese trade spirit, and the contribution of the vast Chinese diaspora, etc.

The last two chapters present a conclusion of the book. Entitled *Privatization, Regulation and Regulated Markets* and *Institutions and Growth: What is the Nexus?* they allow the author to summarise and elaborate upon his ideas and conclusions. The author states that the main goal of the book was to put the analysis of transforming countries into the context of general economic theory, especially the theory of growth: “*The study of emerging economies has perhaps contributed, though to a limited degree, to clarifying and understanding these more general considerations of economic theory.*”²² The author also indicates the future direction of his further research.

László Csaba has done a great deal of precise scientific work, creating a very consistent text summarising the up-to-date theoretic reflections on the transformation process (the amount of sources is impressive) and putting them into the analytic framework of institutional economics. At some points he departs from analysis in favour of forming more concrete suggestions. The gist of his economic-political suggestions lies in – put as briefly as possible – bringing individual countries at the broadest possible level into global economic processes capable of shattering all relations based on patronage, “crony” relations, etc.: “*...success is indeed directly related to joining the global processes.*”²³ Another characteristic of the book is Csaba's firm agreement with institutionalism (“*A civilized market is one constitutionally constrained and protected*”),²⁴ yet he vacillates between criticising the political leaders of transforming countries for neglecting some tasks when creating necessary institutions and regulatory mechanisms, and querying whether it was actually possible to manage them all under the chaotic conditions of transformation.²⁵

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Despite the overall sound analytical approach, the reviewer cannot help feeling that in some cases, the author has been influenced by an ideological worldview. Probably the most striking example of such an approach may be the author's "dealing" with the issues of employees' co-decision in Germany and other European countries. The author claims that "*co-decision rights and other corporatist practices... are to blame for much of Western European unemployment*,"²⁶ which he backs up by asserting that the European Commission makes steps purportedly against this institution. His assertion is supported by referring to *Handelsblatt*, November 11, 2004.²⁷ We should add that in the mentioned issue of the German newspaper, there is no article corroborating any resistance of the Commission to the German system of co-decision. The newspaper only contains reports on the negotiations of the German government with its European partners on how to apply this right in the case of amalgamations of German companies with those from different EU member states.²⁸

The reviewed book is not aimed – due to its high readability – only at theoreticians in the field. It can also educate and inspire a wider group of interested parties like officials, politicians, journalists, as well as anyone who is simply willing to better understand social development.

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ENDNOTES

¹ Csaba, László (2005), *The New Political Economy of Emerging Europe*. Budapest: Akadémiai Kiadó, p. 17.

² Ibid., p. 18.

³ Ibid., p. 17.

⁴ See *ibid.*, p. 62.

⁵ Ibid., p. 62.

⁶ Ibid., p. 83.

⁷ Ibid., p. 94.

⁸ Ibid., p. 102.

⁹ Ibid., p. 102.

¹⁰ See *ibid.*, pp. 137–140.

¹¹ Ibid., p. 141.

¹² Ibid., p. 166.

¹³ Ibid., p. 62. The author, however, never mentions the likely situation of some of the most afflicted and disadvantaged regions if the EU's structural policy did not exist from the perspective of their absolute level, which is, in the end, the decisive for people living there.

¹⁴ Csaba, László (2005), *cit. op.*, p. 168.

¹⁵ See, *ibid.*, pp. 168–169.

¹⁶ The accepted form of self-governing regions was also criticised by various sources because they will probably be too small for the purposes of NUTS 2 regions. These fears proved correct, and for such purposes eight artificial units were created: in one case, the unit consists of three districts, in four cases of two, while three districts are identical with the NUTS 2 regions. For more on territorial reforms in the Czech Republic, see e.g. Hřích, J.; Larischová, K.: "Die Tschechische Republik – Der langwierige Weg zur Reform der öffentlichen Verwaltung". In: *Jahrbuch des Föderalismus 2000*. Baden-Baden: Nomos Verlagsgesellschaft, 2000, pp. 358–369.

¹⁷ See Csaba, László (2005), *cit. op.*, pp. 188–190.

¹⁸ Ibid., p. 187.

¹⁹ See *ibid.*, p. 199.

- ²⁰ See *ibid.*, p. 191.
- ²¹ In 2005, a “miraculous” decrease of state budget deficit to 3 percent of GDP occurred (see Czech Statistical Office: www2.czso.cz/csu/redakce.nsf/i/cr:_makroekonomicke_udaje), while in 2006 the level of the deficit should have been only slightly higher. Overall, it can be said that the 2004 “excess” shows how fragile and vulnerable the Czech public finances are.
- ²² See Csaba, László (2005), *cit. op.*, p. 348.
- ²³ *Ibid.*, p. 62, see also e.g. p. 105.
- ²⁴ *Ibid.*, p. 94.
- ²⁵ See *ibid.*, pp. 103, 108.
- ²⁶ *Ibid.*, p. 48.
- ²⁷ See *ibid.*, note 27 on p. 48.
- ²⁸ The European Commission has recently supported the issuing of an extensive manual on the implementation of co-decision rights (by no means only a German “speciality”) following the implementation of the guidelines of the *European joint-stock company* (see Norbert Kluge; Michael Stollt /eds./: *The European Company – Prospects for Workers Board-Level Participation in the Enlarged EU*. Brussels: ETUI-REHS, 2006).