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BOOK REVIEWS

László Csaba – József Fogarasi – Gábor Hunya (eds)
European Integration: First Experience and Future Challenges
Oradea: Partium Press, 2011
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The book summarizes the proceedings of the 1st International Conference in Emerging Economies held in Oradea, Romania, in October 22–24. The aim of the conference was to discuss the economic, political and social aspects of the European integration of new member states (NMS), concentrating on Central and East European countries.

In the first chapter Gábor Hunya analyses the performance of the NMS amid the crisis, focusing on Romania. He uses some interesting measures, like growth reversal and current account deficit to classify countries. However, the description of the situation in case of most countries is maybe a little short to reveal the reasons of failure and success. In the second and third chapters Laszló Csaba and Daniel Dăianu both discuss a wide array of problems. They argue, however, in the opposite direction regarding the need for more regulation after the crisis. Csaba claims that the subprime crisis was a state failure rather than a fault of the market, while Dăianu clearly calls for more regulation not only in the financial sector but also in foreign trade. Csaba evaluates the current crisis as a cyclical slowdown, which will bring about changes, but the nature of those is not predictable and blames the lack of efficient institutions and populist policy options for the extreme vulnerability of some NMS. We can agree with Csaba when he says that EU accession is a major success story for the NMS, and also in that the EU should reform its cohesion spending to enhance the competitiveness of the NMS, so that the quality of growth should be emphasized rather than its quantity. The exact solution for this problem, however, is yet to be presented from the side of the EU and perhaps also from the side of academics.

Imre Fertő analyses the very interesting topic of the NMS agro-food sector's integration into the EU. He points to the most important developments in trade theory and summarizes the corresponding empirical evidence regarding the agro-food trade of the NMS and the EU-15. The author claims that more research is needed and is made possible with the emergence of new trade theories (new-new trade theory) along with the increasing availability of firm level data. It is also clear that there is great diversity in trade specialization and competitiveness among countries and product groups. There are, however, some interesting phenomena uncovered by the studies covering the topic so far. For example earlier research shows that "the positive effect of privatization, transformation and restructuring process on agro-food export and its variety growth is confirmed, whereas price and trade liberalizations reduce agro-food export". In conclusion the integration of the NMS agro-food sector is slow and below expectations, in case of most countries and product groups there is still a competitive gap between the EU-15 and the NMS. The differences between the NMS countries and product groups are determined by factor endowments and different initial conditions of the countries.

Maria Vincze writes about the dilemmas of the development of Romanian rural areas and rural employment for which research and common European policies give only very partial answers. Gusztáv Molnár discusses the EU from a geopolitical point of view. He describes the European integration as a new phenomenon: an emerging very big state with global importance, while European nation states continue to exist. This could mean the emergence of a new paradigm beyond the now eroding (European) nation states. István Loránd Szakáli looks at the state and nature of cross-border relationships in different parts of the European Union (core, central and eastern border regions). As it can be expected, significant differences can be found in the different regions of Europe. Cross-border relationships are generally functioning better and better as we move closer to the core, so there is room for improvement.

Árpád Szabó describes the region of Székely Land in Romania and in our globalizing world. He shows what locals think about the current situation and the future using interviews. József Fogarasi presents a gravity trade model using panel data to analyze the effect of exchange rate volatility on the agro-food export of Romania. The data covers fifty-four export destinations and the period between 1999 and 2008. It is confirmed that exchange rate volatility has a significant negative effect on the agro-food export. This is in line with the literature, which shows that agro-food export is more sensitive to exchange rate volatility than that of manufactured goods.

Zoltán Zakota discusses the problems deriving from and the ways to narrow down the digital divide between information-rich and information-poor countries. Sándor Elek and József Fogarasi describe the evolution of the Romanian agricultural sector during the two years following the country's EU accession. The trends started before the accession are mostly continuing, except for the strange phenomenon that after the EU accession the proportion of small farms increased while the that of the biggest ones declined.

Hajnalka Fekete presents a path-model based on 256 questionnaires returned from Hungarian companies. The model aims to discover the effect of organizational features on the performance of enterprises. It seems that the examined features (organizational culture, communication of strategy and the division of labor) affect financial performance through the learning and growth performance of the organizations; other performance factors like customer orientation and internal business procedures are not affected by the examined organizational characteristics. Hajnalka Kánya and Dan Cândea analyse the opportunities and the more intense competition created by the Internet for Romanian touristic organizations. Hajnalka Kánya and Jolán Andrea Gáspár discuss the role of graphology in assessing the emotional skills of managers in order to improve the performance of Romanian businesses.

László Fekete highlights the shortcomings of the Lisbon agenda which ultimately led to its failure in enhancing Europe's competitiveness. He discusses the literature underpinning the need for a countercyclical research and development policy, while admits that only a few companies and nations have pursued such strategies. It is predicted by the author that because of the procyclical policies undertaken by most NMSs during the current crisis – due to overspending during the previous upturn – the technological gap between them and the leading European nations will widen during the forthcoming upturn. Erzsébet Szász discusses the doubts about the accounting profession and auditors. She highlights the social, economic and political changes which led to the deprofessionalization of accounting. The reasons listed in the literature are numerous, however an effective solution seems to be missing. András Györgybíró and Tünde Kinter analyse the reasons behind growing unemployment among higher education graduates in Romania and the problem of emigration of fresh graduates, and list some of the possible reform proposals.

The book highlights the state of the research and the integration of the NMS into the EU, both of which are ongoing processes. A great deal of the book concentrates on Romania, but there are some interesting contributions relating to all

NMS as well. Several chapters can be useful specially for those researching the integration process, international trade and the agro-food sectors of the NMS.

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Tamás Szentes
Fejlődés-gazdaságtan
(Development economics)
Budapest: Akadémiai Kiadó, 2011, 531 pp.
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Social science – and within it economics – has been dealing with the driving forces of development since the formation of the first nation-states, although over the long period of the past centuries development was interpreted in various ways according to those disciplines or historical eras within which it was defined. The experience of history suggests that the general direction of development leads toward the capitalist market economy and accordingly to a global economic system. Nevertheless, within the context of the accelerated globalization of the last decades along with its negative outcomes, the question arises whether we can talk about development at all. The internationally respected expert of development economics, Professor Tamás Szentes answers the question in his extremely ambitious book, covering all aspects, including the theoretical evolution of the development economics discipline, opposing its results against the reality by routing us toward an acquirement of a much wider, holistic approach regarding the issue.

Although development economics distanced itself from mainstream economics and had become a separate discipline after the Second World War, in order to understand the theoretical considerations regarding development, even more to learn the main lessons of the past centuries, Szentes starts studying the dilemmas from the onset. Accordingly, *in the first part* the author introduces us to the development-related results of economics. There is a widely held view that classical economic thinking was limited to the determinants of economic growth, however this approach was more political-economic than purely economic. Later, the main representatives of the neoclassical approach further developed classical thinking by shifting their focus from the macroeconomic problems to the microeconomic aspects of the market mechanism, assuming that in line with growth the spontaneity of the market mechanism is able to ensure economic equilibrium. In their view the development of any individual country was a linear and universal process along economic dimensions, and sooner or later every economy had to pass through the same stages. They focused on the determinants of the growth in the developed market economies, explained it by exogenous and later by endogenous factors. The main shortcomings of these concepts is that in the reality there is no convergence between growth rates, living standards and the level of technological innovations between the countries, as exogenous growth theory stated. Endogenous development theory on the other hand ignored the complex interactions between these factors and also the facts of reality. Thus, the directions of heterodox economics emphasized the need for a more complex perception of the question, including non-economic factors, such as the institutional environment, history, geography as well as the importance of non-rational behavior and made a significant impact to the nascent development economics discipline.

In the second part the author introduces the theoretical evolution of development economics, which has become an independent discipline at the same time as the decolonization process was unfolding, and is geographically focused on the "Third World", thematically to the factors of backwardness and to the opportunities of overcoming them. In the neoclassical view, poor countries were interpreted, as those that are on the lower level of the development stage comparing to the advanced ones, thus in order to develop they need technological and financial support. By contrast, in the heterodox and even more in the radical views the cause of backwardness was the one-side dependency on the capitalist world, thus development could only be viable trough isolation either by the adoption of the soviet system or by a "third way". In the early stages of the development economics the orthodox view remained prevalent, and its approach, models and methodology were identified, which are applicable solely to the special case of the developing countries. From the mid-1960s theories gradually shifted toward the unfavorable external factors. The events of the 1970s/80s – especially the two oil crises and their effects – highlighted that the advanced countries' institutional and structural system was far from ideal and the sustainability of their development path became questionable. The issue of development became a global problem, concerning both rich and poor nations. The collapse of the Soviet Union proved the unsustainability of the planned economy as well as the impossibility of isolation from the global economy – as the radical views had suggested.

Comparing the mainstream and the development economics theories with reality, the main conclusion is that the explanation of backwardness with internal or external factors is a serious mistake. The main lessons are that there is no universal theoretical model or solution, which is able to explain the multiple backwardness problems or which is applicable for all individual countries, but all of them offer some useful conclusions. Szentes outlines the deep interdependences between external and internal factors in the final subchapter of part two. The world economy is a multidimensional, complex and increasingly globalized organic system with its own rules and forms of motions, and as a consequence the countries of the globe have become much more interdependent. However these interdependences are far from symmetrical: some countries emerged and have become dominant, while others were left behind, thus the international development gap deepens. The appropriate response to these challenges is not isolation. The solution is the pursuit for smoothing the asymmetries and external vulnerabilities which on the long-run assumes structural changes in the economy, its institutions as well as international cooperation.

In the third part the author underpins the conclusions with historical experience. Within the global development process, the success of the leaders or the success of catching up was determined by different milestones which led to divergent development paths within the countries over the long history of the world economy. The phenomenon of divergence refutes the theory of the unilinear development, since the evolution of a countries' economy involves turnarounds, detours and inevitable turning-points. These milestones were and are the outcome of the complex interactions of the internal as well as external factors, and although the direction of development is more or less identical, the leaders have always influenced the conditions for the success of the others, thus development paths cannot be universal.

Divergence does not exclude that general veracities can be deducted: there is no universal, but there is a general direction of development. In the world economy's evolution the milestones have always been "technological revolutions" and the modification of the related economic interests, institutional changes, power aspirations and the responses to them, as well as the rearrangements of power relations in the global economy. Detours do not mean definitive backwardness, as the former stray countries may be able to reconnect to the general direction. However the success of reconnection depends on the ability to conform to the changed world conditions and on the state themselves, which should be able to manage the adjustment process.

The fourth part explains the criteria which are needed for such a successful adjustment. As the driving forces of accelerated globalization process are scientific and technological progress, the conditions for the successful catch-up of developing countries lie in the context of these factors. Consequently, the economic policy of the developing countries should focus on the improvement of the human capital, on education, R&D, on information and communication infrastructure, as well as the establishment of the favorable conditions in order to attract the investments of transnational companies. These favorable conditions do not necessarily depend on the classical competitive advantages of a country, rather more on the capability to create them: the commitment of the government to invest, to develop effective institutions and last but not least to establish a stable, integrated society by giving space to democratic civil organizations. For the efficient implementation all of these the "developmental state" and "good governance" have to receive more and more emphasis: albeit globalization itself restricts the effectiveness of direct or indirect state interventions on the national level, its challenges paradoxically reinforce the importance of the state as well.

The author also points out that the issue of development is essentially related to national competitiveness, as countries in the process of globalization are inevitably competing with each other, however their competition should not be confused with global competitiveness, namely the international competition of the goods, services and companies. Their rivalry refers to the pursued development, the sustainability of the achieved development level, the pursuit for a better position within the asymmetrically interdependent system, and finally the rivalry regarding the attraction or enlargement of the transnational companies. The strategy of the sustainable development – which is much more than an ecological issue – is increasingly associated with the established competitive advantage of a country or a region.

In the fifth part Szentes emphasizes that there is a postulate for the renewal of economic thinking, including the application of appropriate criteria for evaluating socio-economic systems as well as adequate methodologies in economic analysis, which should not be based solely on statistical indexes or simplified econometric models by disregarding cultural, historical or other non-economic factors. According to these requirements, based on the recent efforts toward the synthesis in the development economics, the author specified three country-groups – namely the advanced, the post-socialist and the developing countries – by three comparative criteria: the form of international integration, the internal economic and social conditions and political and cultural factors. This criteria-system proved much more appropriate to get a realistic picture about the causes of the diverse ways of development, than the outdated "subtraction approach" of development economics or the "contrasting approach" of the comparative economics, which could be able to compare the performance of individual countries, nevertheless in the exploration of the causes of divergent development paths their results are fallacious and unscientific.

The experience of the past centuries as well as the critical review of the theoretical conceptions provides us a number of lessons. Szentes summarized these in 30 points *in the final chapter*. Maybe the most important one of these is that as a consequence of the ever changing world, development is a persistent pressure for any individual country and can never be completed. However, development is a multidimensional process, which should include not just the economy but every sphere of the society. We should bear in mind the interest of future generations in the sense of ecological sustainability and the requirements to create equal opportunities for all of the members of the society. Divergent development paths led to the lesson on the interaction between the internal and external factors, the failure of isolation policies as well as the fallacy of neoclassical and neoliberal theories about the beneficial effects of market spontaneity, which rather leads to higher inequalities on the national and global level. There is no single development path: by the subsidization of the appropriate economic sector, any government is able to implement new competitive advantages for a country, thus by the adoption of a long-term development strategy including a favorable institutional environment, a country is able to escape from backwardness.

The main questions of the 21st century, whether it will bring the effective allocation of income and resources on the international level, or the imbalances of the world economy will continue to deepen; whether global governance will be strengthened; or whether it will be the century of the end of the arms race, the end of religious fanaticism and the new age of tolerance. The author admits that these questions may seem naive, nevertheless we must recognize, that only a more democratic and equitable world order is able to ensure the survival of humanity, which will be achievable only by moral renewal and a new wave of Enlightenment.

The book of Professor Tamás Szentes was actually meant to be a textbook, but it is much more than that. It covers all the theoretical aspects of development matched by reality, thus provides an accurate picture about the consequences of the past centuries, about the possible directions of development both for the advanced, developing and backward countries, as well as the general process of globalization including its dangers by highlighting the urgent task of the shift in its direction. The author seeks answers to all the emerging questions in a very exciting – but also detailed and understandable – way, so it exceeds the prerogatives of an average textbook. In more than five hundred pages the book encourages us to adapt a broader, holistic perspective, thus this edifying nature could be one of its greatest values.

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Lane Kenworthy
Progress for the Poor
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In *Progress for the Poor,* Lane Kenworthy provides a much needed and to-the-point account of how to create progress for the poor in our own backyard – a widespread understanding of which is seemingly lacking, as is a credible commitment to do so in certain countries, namely the United States. Kenworthy's argument is that in developed countries all governments *can* and *should* effectively improve the position of the least well-off – and continue to do so over time with a floor that rises in conjunction with economic growth. The logic is based on the idea that an equal distribution is fairest and that a rise in inequality is acceptable if and only if it is to the greatest benefit of the least well-off. In this sense, the book's ethical foundation mirrors that put forth by John Rawls in *A Theory of Justice* (1971), attaching substantial weight to the absolute improvement of the poor, and with an outright belief that policy makers in particular ought to be concerned with enhancing the living standards of the least well-off.

Kenworthy provides a systematic cross-country comparative analysis of the effects of economic growth on the absolute incomes of the poor – efined as the bottom income decile – in twenty affluent democracies since the 1970s. In doing so, he contributes to a body of research that has been dominated by individual country studies, for which the application of a comparative approach is a welcome contribution in offering profound new insight. Kenworthy's position is in lock-step with Dani Rodrik's widely shared conclusion expressed in *One Economics, Many Recipes* (page 2), that "[e]conomic growth is the most powerful instrument for reducing poverty". However, he points out an important caveat: "the notion that economic growth is the key to improving incomes among the least well-off […] refer[s] to developing nations". Although Kenworthy's empirical analysis of the effects of growth in affluent countries points towards a similar conclusion, the fact of the matter is that in developed democracies, despite the overall trend of economic growth trickling down to the bottom decile, there is significant variation in the extent to which economic growth increases the incomes of the poor. His findings indicate that net government transfers are the primary source of income growth for the poor compared to both earnings and other non-earnings market income. However, governments that have effectively increased the income of the poor have *not* done so through policies which increase the level of redistributive government transfers as a share of GDP, but rather net government transfers have simply increased in conjunction with economic growth while remaining fixed in relation to per cent of GDP.

The book devotes considerable attention to the peculiarities of the American experience and the failure of trickle-down economics. Yet the moral of the story has less to do with the shortcomings of economic theory and much more with the particular policy failures of American democracy. The analysis employed considers the *direct* mechanisms by which economic growth is presumed to increase the income of the poor, namely through an increase in employment hours and/or hourly wages. Moreover, it takes an interesting and rather thought provoking approach in that it divides the post Bretton Woods era into four distinct time periods corresponding to business cycles so as to calculate the net effect of growth on wages and working hours *across* these cycles. The findings indicate that an increase in employment hours has a significant impact on income while the impact of an increase in wages is rather modest, and that the income improvements of economic growth in each business cycle were undermined in their entirety during each of the following recessions. Interestingly, the exception here is the business cycle of the 2000s which peaked in 2007. The economic growth that was created in this most recent cycle did not improve the income of the poor because it did not increase employment levels. As Kenworthy points out, the economic experience of the 2000-2007 period was one of "jobless growth [and] is the key to why low-end market incomes were stagnant in the mid-to-late 2000s". What is perhaps most striking is the fact that this occurred after the 1996 welfare reform which effectively achieved its explicit goal of increasing employment and income levels among poor single mothers. Nevertheless, despite the success of this welfare reform, the subsequent economic growth failed to improve the *overall* incomes of the poor.

Thus, the conclusion drawn herein is that in affluent states, economic growth alone will not necessarily improve the position of the poor in the absence of mutually reinforcing social policies and the corresponding government transfers due to the shortcomings of the trickle-down effect caused by harsh cyclical recessionary contractions in the income levels of the least well-off. Moreover, "citizens and policy makers should worry far less about low wages […because] policy can help to ensure that low wages do not result in low incomes". As the book repeatedly emphasizes, higher wages are by far the least relevant direct mechanism for increasing the income of the poor in comparison to the more beneficial effects of increasing working hours and the highly significant effects of government transfers.

In addressing the debate between the political salience and social desirability of the provision of government transfers that are targeted versus those which are universal, the book identifies four recent developments with significant implications for both the feasibility and capacity of governments to provide generous redistributive transfers: aging populations; slower productivity growth; capital mobility as a constraint on taxation; and the 2007–2008 financial crisis and the subsequent economic recession which has exacerbated government budget deficits and no doubt contributed to the European sovereign debt crisis. The debate over the political viability, social optimality, and economic efficiency of universal versus targeted government transfers is long-standing and largely unresolved within the academic literature, as a multitude of tradeoffs between these two approaches do indeed exist. Kenworthy's policy prescription is in favor of the targeted provision of government transfers, not only from a fiscal point of view but also in light of the emerging uncertainties surrounding the political necessity of the *universal* provision of government transfers. However, the book emphasizes the positive effects of the provision of universal public *services* which disproportionately benefit the poor by boosting living standards and increasing incomes through human capital formation in general, and education and training for employment in particular.

The book provides a straightforward explanation to the often misconceived differences between the American system of redistributive government transfers and the Scandinavian or social democratic welfare state model, represented in the analysis by Denmark and Sweden. Of particular relevance to the perceived differences in generosity of transfers is the "hidden welfare state" created by the system of tax expenditures in the United States and the extensive tax "clawbacks" on the universal social benefits in Sweden and Denmark which effectively reduce net transfers, albeit in a progressive manner. Kenworthy's calculations illustrate that in the mid-2000s, the net social expenditures—both public and private—per person in the U.S. were thirty-five percent higher than in Denmark and nearly eleven per cent higher than in Sweden. This finding underscores one of the fundamental arguments of the book: *that the aim is not spending per se*. When the net levels of government transfers are broken down by income decile, those at the bottom in the U.S. receive less than thirty per cent of the per capita figure and roughly half of the amount received by the average individual in the bottom income decile in both Denmark and Sweden. The explanation put forth by the book is that this is caused by the heavy reliance on the private provision of mainly occupational pension and health insurance benefits in the U.S. which account for about forty per cent of total social spending, hardly any of which is to the benefit of the poor.

Kenworthy points out the paradox of the receptiveness of a majority of the American public to more generous social programs aimed at improving the income position of the poor on the one hand, but the lack of a significant popular demand for the government to act accordingly on the other. The book highlights the ambivalent character of the dominant attitude of Americans who "recognize that income inequality has increased, but […] do not indicate a consequent rise in support for redistributive efforts". In other words, the overall fear of redistribution in the U.S. is not only impeding progress for the poor, but it is also effectively undermining the position of the working-middle class.

Although the book's focus is on improving the income of the poor, its findings speak quite accurately to the overall rising income inequalities within the U.S. The benefits of nearly a decade of economic growth were concentrated at the very top, while the poor continued to suffer and the working-middle class reaped the modest benefits of jobless growth. Even if the 2007–2008 financial crisis had been avoided, the standard recessionary period following the height of the business cycle would likely have wiped out the benefits and progress of the preceding period of economic growth for all but those at the very top. If periods of significant economic growth fail to create jobs and thus fail to improve income levels, then the effects of a recession are all the more pronounced and increasingly detrimental. In short, while the explicit conclusion speaks primarily to the situation of the poor, the book's implicit conclusion has much to say about the rising within-country income inequalities in the United States in particular.

Progress for the Poor is both short and sweet. It gets straight to the points, each of which is backed up by easily comprehendible descriptive statistics and quantitative analysis. The empirical evidence that Kenworthy provides is compelling to say the least. The book is certain to be well received by academics and policymakers alike, as the conclusions arrived at have indispensable implications for future policy development.

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