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Book Review: Laszlo Csaba, *The New Political Economy of Emerging Europe*, Budapest: Akadémiai Kiadó, 2005

It is customary for the gap between the profound changes in former socialist countries and the theoretical explanations supplementing these changes, to diminish with the passage of time.[1] The New Political Economy of Emerging Europe—a book written by the Hungarian economist Laszlo Csaba—is an illustration of this tendency. This book attempts to construct a detailed explanation of the changes witnessed in Eastern Europe by providing considerable information, numerous modern theoretical ideas and formulating a number of problems and challenges faced by New Europe.

Clearly, 'The New Political Economy of Emerging Europe' is a book written by a scholar of social sciences. The author has considerable knowledge of both mainstream economic theory and the latest advancements in the field of institutional economics. He also has a thorough understanding of several other schools of thought that are still regarded as being secondary to economic science. Undoubtedly, such rounded economic views are rarely observed. Generally, mainstream economists content themselves with single phrases about the role of institutions in an economy, while the ideology followed by institutional economists is often abstract and incomprehensible. According to me, the interdisciplinary character of Csaba's book could be attributed to the academic environment, which the author is accustomed to. The Central European University in Budapest is an ideal place for the exchange of knowledge and the sharing of ideas among researchers from different disciplines.

In my opinion, the following are the essential theoretical achievements of this book.

First, the author proposes several new and fascinating explanations of the developments that took place during the post-socialist period. The essence of 'transition' (if we use this notion, despite its neoclassical interpretation, as a 'leap' to something known in advance) is observed as a solution to two interrelated questions (analyzed in Chapter 3). The first question refers to the methodology applied while adopting a market mechanism (a concrete question) and the second one pertains to setting in motion the mechanism of economic development (a general question). According to Csaba, from the viewpoint of development, Eastern Europe, Russia and China have in the past faced problems similar to those experienced by the emerging economies (developing countries), and continue to face these problems even today.[2] These problems, as the author opines, could not be resolved simply by the integration of the European Union (EU). The time has come, as Csaba suggests, to analyze the diversity of the economic trajectories and the successes and failures of former socialist countries not by their common socialist past but by their specific institutional and cultural endowments.[3] From this, it then logically follows that in the future, the differences among these countries will expand.

Second, the present and future economic state of former socialist countries depends on the successful and harmonious coexistence of two opposing ideologies—Europeization and globalization (Chapter 5). According to Csaba, these two challenges are a manifestation of a common basic process—the transnationalization of markets, decline of nation states and the undermining of the credibility of a 'territorial state' (details in Chapter 4). Europeization symbolizes 'a window of opportunity' not only for the new members of the EU but also for the existing ones. (The transformation of the latter members will be restricted to restructuring as a result of the competitive pressure exerted by the new EU members.) The main threat to the economic growth of the EU is posed by the new entrants to the EU who adopt/implement the same detrimental practices (mainly re-distributional, anti-competitive and bureaucratic malpractices) followed by the existing member countries. All these malpractices that are now being imitated are the manifestations of an economic management, which retarded development during the socialist period; it is precisely from these harmful economic policies that these countries are seeking to escape. Therefore, the author cautions against the existence of limits to growth which EU membership might induce (chapter 6). Although a subtle warning, Csaba's concerns are particularly relevant to countries that have yet to attain EU membership (Bulgaria, Romania and other Balkan countries), i.e. countries that 'mentally' fall behind these of the first wave. The popular notion prevailing in 'second-wave countries' is that membership to the EU automatically ushers in economic growth and raises the standard of living of the population for a long period of time. Of even more importance is the author's statement that membership to the EU thwarts the possibility of imitating and inculcating the ideologies. According to him, this fact will induce each country to create and innovate in all the social domains.[4] It is not a mere coincidence that Csaba is apprehensive regarding the credibility of eurofunds to serve as the primary source of convergence and growth for developing countries; the evidence clearly demonstrates that these funds do not moderate the regional and national disparities in countries not belonging to the EU. I am even more sceptical than Csaba about the beneficial effects of these eurofunds and the need to inject money in these economies. I believe that such an injection of funds augments an intensive re-distributional process among the different beneficiaries, belonging to the New and Old Europe and inevitably promotes social tensions among them. Csaba's message is clear—it is imperative for countries to formulate policies that are best suited to them and seek solutions to their own problems.[5]

Third, Csaba demonstrates that no economic growth is possible without financial and monetary stability of a country. He successfully defends the Growth and Stability Pact, considering it to be, for the moment, the tool best suited for achieving financial stability in the emerging economies of 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 achieve real convergence' (p.210). Csaba believes that the balance of public finances is a fundamental principle of all economies and that it is impossible to stimulate the economy by merely manipulating the aggregate demand (the Hungarian experience between 2001 and 2004 indicates that such a policy inevitably leads to twin deficits).[6] Similar to this reasoning, is the author's standpoint with regard to the early introduction of the euro. He believes that such a policy will induce more benefits than costs. The early introduction of the euro not only reduces the risks and transaction costs but also enhances the discipline and confidence in the economy.

Fourth, the detailed description of the economic problems in Russia (Chapter 8) and China (Chapter 9) enhances our understanding of the post-socialist period in general and also increases our awareness of the problems facing Europe. The chapter on Russia not only presents the fundamental problems faced by a petrol-dependent economy but also offers detailed statistical information regarding Russia's development. Chapter 1 discusses the comparative perspective of such an empirical approach. According to Csaba, the extent of Chinese economic development and the developmental process itself could be explained by the theoretical model of 'market socialism'. (This form of socialism was practiced in different forms during the New Economic Policy period in Russia between 1921 and 1924 and was later called the *hozraschet* model and implemented in Hungary and Yugoslavia as well.) Therefore, Csaba believes that the Chinese economy should not be regarded as a puzzle to be solved; instead, it can be considered as a great opportunity to analyze the growth potential of the Chinese economy. As a result of the increasing complexity in the economy, this Chinese model will inevitably be faced with natural informational and knowledge constraints.

Fifth, in the last two chapters, Csaba presents two fascinating summary essays; one essay is about the privatization and market regulation (Chapter 10) and the second deals with the relationship between institutions and growth (Chapter 11). Csaba reasserts his proposition that regulation is different from intervention (intervention essentially leads to market distortions), and that a modern economy needs private as well as public regulation. In the last chapter of his book, the Hungarian economist analyzes different aspects of the possible choice (arbitrage) made between flexibility on the one hand and credibility and accountability on the other. The author is interested in determining the extent to which institutions can replace discretionary policies and the influence of endowments and culture in shaping the economic growth of a country.

I am absolutely convinced that Laszlo Csaba's new book is a decisive attempt at outgrowing the neoclassical theory of transition. The author himself makes this claim 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), provides the basic methodological tools and concepts that are needed to challenge the transition and to alleviate the problems faced by the emerging economies of Europe. But, is it enough?

I believe that it is not. I believe that Csaba and many other economists, such as Gerard Roland, Peter Murell, Jill Saint Paul and Janosh Kornai, have only taken the initial steps (even though it is evident that these steps are decisive in nature).[7] Nevertheless, I assume that the development of an integral methodology, linking the whole economic, political and ideological process, is still in the making. The economic sciences should design a tool-box to study the formation and behaviour of diverse economic and non-economic groups, the diversity of their interests (economic, political, ideological, power associated, etc.), the variety in the configuration of conflicts, the process that guides these conflicts towards different institutional arrangements (formal and informal), the mechanisms of income and wealth redistribution, etc. It is true, that in addition to international political economy, which Laszlo Csaba is well versed in, there have been many other attempts at integrating the political and power processes within an economy. These include employing to various degrees the neoclassical methodology of 'cost-benefit' analysis (Gordon Tullok, Mancur Olson, Gary Baker, Jach Knight, Gene Grossman, Elhanan Helpman and Alberto Alesina among others) or the institutional approach (Douglas North, Vadim Padaev, Anton Oleinik, Yaroslav Kuzminov, etc.) or the Austrian school of thought (Svetozar Pejovic and Enrico Colombatto).[8] However, understanding the political and power processes in an economy continues to remain outside the purview of economic sciences and is the preferred topic of law, sociology, political science and social psychology.[9]

Laszlo Csaba's book is a remarkable achievement. It could serve as a stepping stone for an advanced analysis of the emerging European economies as well as for an advanced theoretical and methodological discussion.

Notes

[1] For some insights see Dalllago (2004).
[2] See Csaba (2003; 2004).
[3] Some ideas are proposed in Zweynert and Goldschmidt (2005).
[4] The EU anchor has its limitations as an engine of change. See Csaba (2004).
[5] See Csaba (2004).
[6] See the paper written by another Hungarian economist Bokros (2004).
[7] See Murrell (1995) and Roland (2002).
[8] See Olson (2000), Grossman and Helpman (2001), Pejovic (2001, 2004), Colombatto (2001), Knight (2004, [1992]), Oleinik (2004) , Radaev (2005) and Kuzminov *et al.*
[9] See Bourdieu (1994).

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