LAGGING CONVERGENCE

László Csaba: Crisis, Economy, World.
An addendum to three decades of economic history in Central Europe (1988–2018)

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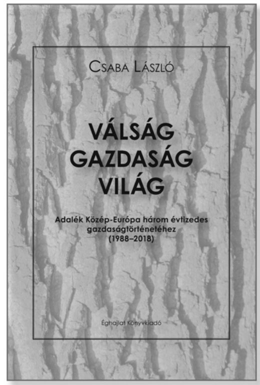

"I see here someone like nobody else;
Such miracles doth my memory weave [...]
And in our gaze, ah! that's not the pain,
Of the Eden that was lost and never won."
János Vajda: 30 years on

It is not over the top to begin a review of an academic monograph with a quote from a love poem, if we bear in mind that the author has devoted the 13th monograph of his life[1] to the economic development of Central and Eastern Europe. This is, after all, his true love.

What we are treated to, therefore, is a monograph written in Hungarian. László Csaba maintains his position that, alongside the detailed issues, there is also a place for more overarching discussions, which are most effectively explored in book form.

The choice of title deserves some explanation. Both the main title and the first words of the subtitle ("an addendum") might suggest what we have here is a "mashup" of several, loosely related topics; but we need to categorically refute this. The three decades of regime change, European integration and crisis management are all discussed in a coherent structure. The tome breaks down the social and economic processes of Central and Eastern Europe, their generalisable outcomes and system-specific components with considerable attention to detail, and places them into a clearly interpretable verbal framework. With respect to every single decade under examination, the theoretical claims are underpinned by a series of mini case studies describing the trajectory of four countries (Hungary, Poland, Russia and (East) Germany).

1 Including his co-written works

Why thirty years (1988–2018) exactly? The starting point is the period of global acclaim for the triumph of regime change, liberal attitudes, the market economy and democracy. But the end point is the backlash: a time in which the fundamental principles of liberal capitalism were emphatically called into question, when the state and the authoritarian shift became a factor informing practices the world over. While the literature provides an easily précised interpretation of the transition process that formed the backbone of the first decade, the same cannot be said of the trends in the global economy in the most recent one. It is the third part of the book, therefore, which offers the most for future researches to summarise and interpret.

The first ten years were given over to the change of political system. The analysis focuses on the necessity of the SLIP (Stabilisation, Liberalisation, Institution-building, Privatisation) package of measures to boost welfare and competitiveness, the order of its components, and the consequences of its implementation (or lack thereof). The analysis of these processes is a recurring train of thought for the author. Here, the logic of his arguments differs from that of his previous books (Csaba 2009, 2014). In those, he argued that stabilisation was the key to recovering from the transformation recession in every case, even if it represented a necessary evil for the incumbent administration. Here – through the examples of Poland, Hungary and East Germany – the author points out that the implementation of SLIP, no matter different the trajectories, was nevertheless headed for the same endpoint in all cases. Both the starting conditions and the different responses to challenges that were, in many respects shared, channelled each of the studied countries onto a different path. Nonetheless all of them, embarking on a growth trajectory, reached the end point of a market economy. But this performance, although considerable by historical economic standards, was firstly not accompanied by convergence with the west, and secondly it fell far short of the rate of upturn that followed the Second World War. This – according to the author – was a decisive factor contributing to the fact that social acceptance of the process remained decidedly limited.

The processes of the second decade were determined by the reality of joining the European Union. The prospect of EU accession gave new momentum to the reforms of candidate member states, regardless of party affiliation. The external considerations, the need for EU compliance, carried more weight than the internal disputes and the experimentation to find the solutions that were believed to be optimal, or were the best fit for national characteristics. In states where there was no foreseeable prospect of EU accession, the reform fever died away in the absence of the EU's anchoring role. Russia and Ukraine never left the path of self-controlled development.

The second decade was also the decade of the "great moderation" which, however, already bore the hallmarks of the post-crisis period. The countries in the region responded in very different ways to the European Union's common rules, and to the favourable global economic financing and market opportunities of the "halcyon times of peace". The author presents plenty of evidence that, by this time, the processes had already got under way that would determine which countries would emerge from the crisis as the losers and laggards (Croatia, Slovenia, Hungary and Bulgaria), and which ones had succeeded in making use of the exceptional opportunities presented by that the period (Slovakia and Romania).

In the third decade, following the crisis, the epochal change did not manifest itself in the real economy or in the global economic balance of power; but rather, similarly to the nineteen-thirties, it brought about new developments in the way of thinking about the processes. As a counterpoint to the "stand and deliver" politics, the author repeatedly argues in favour of reinforcing a rules-based economic policy and transparency, with the emphasis on the self-limitation of the regulating state, without preventing the natural cleaning of the market.

A separate chapter of the book is devoted to the – fundamental – transformation of the European Union. The crisis forced the completion, augmentation and deepening of the plan for European financial union[2]. He also reminds us, however, that to this day the EU operates within the framework established by the six founding members. Attached to this are various appendages to the north, south and east, but these do not determine the main direction. The EU has no overarching strategy that gives priority to the convergence of the less developed states, even if this aspect is reflected in the cohesion funds and the joint agricultural policy. There is no redistribution of funds on the scale seen within the United States, Brazil, Germany or other federal member states. This is not the main strategy, so we should not be surprised that the period under study also failed to be characterised by convergence between the regions of the union, with the weaker ones catching up. Because of this, however, EU membership did not come with the economic dividend and the effect on politics and institutions, as well as on civilisation in general, that it would have taken to impress the region's voters. This in turn provided fertile ground for the "blame game", in which government communication framed Brussels as one of the main sources of the problems, if not the only source.

After the second decade, which was defined by the exertions necessary to secure accession, in the third decade the aspirations of the new member states were dominated by a minimalist stance: "we'll do what is strictly necessary for the money,

2 Especially, but not limited to: Fiscal and Banking Union, the fiscal pact signed in March 2012, the European Stability Mechanism, the cross-border bank recovery and resolution mechanism, the change in the function of the European Central Bank, whereby is has become a central bank in the same sense as the Federal Reserve in America. All this helped to ensure that the most important questions were clearly referred to a tier of authority above the member states.

but not a stroke more". This is also clearly reflected in the delay in adopting the euro. Even more important than the transfers, which are limited in their extent, the main attraction of the EU is currency union, points out the author. Joining the Monetary Union bestows not only price stability, but credibility on the member states, which by pushing down the cost of funds, makes it possible to finance a slew of developments. On the other hand, anyone who is unable or unwilling to meet the rule-based budgetary and monetary policy requirements, but nevertheless joins the EMU, stands to pay a heavy price. The southern member states, as well as Belgium and France, made no attempt to bring their economic model into line with the rules, which appears to contradict contemporary views of the endogenous – or self-fulfilling – nature of currency union.

In its examination of the relationship between the EU and the new members, the book also points out that decision-making powers in the EU multiplied between 2009 and 2012, and thus by 2012 two-speed integration had become a reality. The group of those remaining outside the eurozone have condemned themselves to the role of helpless bystander. They do not share in the security funds that would protect their monetary systems and public finances in the event of another financial crisis. What is more, they have no say in the decisions made by the members of the Fiscal and Banking Union. Consequently, the sovereign conduct displayed by the Central European member states is becoming less and less advantageous. The funding, and importance, of the areas traditionally targeted by them is falling away sharply. There is simply nothing that can compensate for their being left out of the new areas that are key from an economic and decision-making perspective. In both quantitative and qualitative terms, living on the periphery of the union is coming to represent an increasingly unfavourable cost-to-benefit ratio.

In its discussion of the third decade, the book explores such issues as social integration, or the impact of the fourth industrial revolution on the countries in our region. Although social integration has become a major challenge throughout the western world, the flow of labour is not uncontrolled, and in many respects it follows the classic principle of comparative advantages. This all highlights the central importance of the liberal constituents of democracy, underlines the author. It is only with, and through, the dominance of these values that people from different backgrounds are capable of coexisting in a peaceful and tolerant manner. There is not a single state that is, or has the ability to be ethnically and culturally homogeneous.[3]

As a consequence of the fourth industrial revolution, the speed of innovation has also disrupted markets or clear market leaders that had previously been regarded as unassailable. The more an economic strategy is tied to "industrial antiq-

3 For a more comprehensive overview of this topic, see the anthology edited by the author (Csaba, 2019).

uity", the more disadvantages it accumulates. Adaptability is largely an acquired, learned quality for nations too, points out the author. A learning society does not have to go hand-in-hand with an unprecedented level of government activity; but a state that spends progressively less of its GDP on education will also find itself at a growing disadvantage from the perspective of social and economic potential.

The last chapter again examines the thirty years in its entirety, and seeks the answer to why the new economic miracle failed to materialise. Why didn't European integration, which was gaining new momentum at the time of the regime change, give the individually small Central and Eastern European countries the boost they needed to get over the difficulties? The book lists numerous fundamental reasons. On the one hand, an increase in the investment rate can only accelerate growth temporarily. Over the long-term an increase in productivity is needed, and as we have seen – with the exception of Estonia – the transition countries did not excel at establishing a framework that could provide the necessary fertile ground for innovation. Indeed, research and development spending, as a proportion of GDP, fell by an astonishing two thirds over the third decade. The second cause is institutional rigidity: the transformation of the European institutions was unable to keep pace with that of its Asian and American competitors. Although there is barely any disparity in terms of the hourly production rate; every indicator is weaker when it comes to the use of new technology, the market entry of new companies, and the flexibility of the capital and labour markets. The third factor is the penetration and effectiveness of financial intermediation, which is unable to compensate for the lower appetite for investment. The fourth cause is that official working hours have been falling continuously since the 1960's, in contrast to America and Asia. Perhaps the most important restraining force is that society does not give credit for performance, but attributes outstanding achievement to systematic cronyism, favouritism, monopolism or other impropriety. The unpredictability of the bureaucratic obstacles and the regulatory environment came in for as much discussion as the fact that the countries being studied were integrating with a slowly growing region of the global economy.

What could a reviewer add to all of this by way of a critique? Before reading the book I had assumed that, as someone who lives in Western Europe and read its local media, without being immersed in the minutiae of Hungarian political sparring, I would have the opportunity to view the book from a different perspective to that of its author. One of greatest surprises, if not the greatest, was how concordant the author's views are with the approach that is generally accepted in the European core countries. For this reason – and being far less well-read on this topic than the author – I would hardly be able to raise any relevant critical observations succinct enough to be aired in the concise genre of a review. I will, however, take the opportunity to highlight a series of questions from the book that are worthy of attention: Is the authoritarian shift inevitable? Does the lock-in effect of the transition countries determine the reversal and annulment of the democratic outcomes of the first two decades? The book leads us to conclude that the answer is negative, as it does not share the standpoint of either economic, sociological or historical determinism. The lock-in effect is only one, and not even the most decisive, of the many variables. The regime change, and certainly the past quarter-century of the developing world, suggests that path creation; that is, leaving the earlier cul-de-sac for a new, more favourable development path, is possible. This conclusion chimes with the last two lines of the poem quoted at the beginning of this review. The author himself also puts his trust in this: "The driver of development over the long term is not a material factor, but values, convictions and the public discourse based on this, which shape the decisions" (op. cit. p. 254), and he emphasises the "the responsibility of the decision-makers and literati cannot be ignored." (Op. cit. p. 153). This also adds weight to his choice of language, the decision to publish the book in Hungarian.

The book does not make for light reading. It occupies the overlapping border areas between economic philosophy, economic history and politology, and is characterised by statements made with the high degree of abstraction for which the author is known. To make what he has to say easier to grasp, however, he often uses incisive analogies from football, the army or other areas. In places the tone is wholly personable, which makes the text approachable, and at the same time raising the deeply engrossed reader back up to the surface before he or she "goes under" once again. At the same time, some of the chapters are surprisingly easy going. Particularly notable among these are the mini case studies of chapter 10, where the author's vast knowledge of the literature gels into a particularly multifaceted, interesting text. Another especially interesting part is the chapter on the nature of crises, which although only tangential from the perspective of the earlier and later sections of the book, gives a well-structured summary of what the author has gathered and synthesised regarding the nature of crises, their emergence and regeneration, and in particular regarding the mitigation of their impacts.

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