

Economics of Transition: Quo Vadis?

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In September 1990, just after – in Russia well during – the collapse of the ancient regime a giant conference, sponsored by the European Science Foundation in Davos, Switzerland, attempted to address the fundamental issues raised by the foreseeable, still unexpected desintegration of the Soviet empire, its economic, political, social and power structures and ideologies. More than anybody else, representatives of the economic disciplines felt embarrassed. Not only did they fail to forecast size and speed of the collapse, but also – at least many of us got the impression – the underlying idea seemed to have got lost. Knowledge accumulated on general rules and specific, national features of the functioning of command economy, its counterposition to the free market order, and the analyses of reform steps, always highlighting the inherent constraints of such endeavours, have simply become irrelevant, it seemed. Market and prosperity were seen within easy reach, and promises of quick and linear ways of recovery abounded, not only in policymaking circles, but also in the academic ones. It seemed that all we needed was to master „proper economics“ in the western sense, above all implying introductory textbooks on macroeconomics and finance, maybe industrial management, too. The right tools will produce the right outcome – this was deeply felt and hoped of most. And indeed: shock therapy was making headways in the early Balcerowicz period. The Polish society was showing a remarkable degree of patience and co-operation, refuting the fashionable social science theories and depicting democracies as hotbeds of economic animals, acting always under short term welfare maximizing assumptions.

Michael Kaser's shocking prophecy

In this euphoric-doomsday mood – depending on the person and his convictions that were around – one of the doyens of East European Studies, Michael Kaser, shocked the scientific community with the following incredible prophecy. The decay of established institutions of the area will continue, perhaps even intensify, since those deciding on money will no longer see the Soviet threat, thus austerity – already practised over a decade in Britain at the time – is going to intensify, rendering elementary research functions impossible, culminating in the closing down of prestigious institutes and research centres, or – as second best – merging them with general history/economics/law/sociology/language/ international relations departments. Journals may or may not survive, publishing of books may or may not go on, depending on how enterprising the individual scholar is in fund-raising.

Meanwhile, at policymaking and business levels the need, and indeed, effective demand for marketable and competent country- and system-specific advice will grow. This new market niche will be filled by people having no prior

knowledge of the subject, but – by the same token – being more arrogant and less constrained in advancing „unconventional“, i.e. radical policy advice. Revolutionary mood in the region will foster these, and the harm to be done might be equal to the harm caused by the crisis itself.

Not many of us gave credence to Kaser's prophetic words. I myself belonged to those who felt he might have extrapolated the truly depressing British academic conditions to the rest of the world, where social market economy was either already in place – Germany, Scandinavia, Holland – or was to be created in a couple of years – primarily in Central Europe, but perhaps also Russia has had her chance, it seemed. Thus it is still hard to believe how aptly Kaser put the bottom line of the 1990s.

With the benefit of hindsight, however, there is more to it. It is not only the disruptive elements which have been dominating the scene. In short, a double new challenge emerged, which later led to a rather ruthless selection in the established profession. First, more often in the former „East“, the suction of politics and business world proved irresistible, while in the West demand for policy advice has been redirected to the newcomers, selected by their geographical proximity to large donors and policymaking centres, rather than their proven academic excellence (be that through citation indices, by the number of their books written on the subject, or the length of their familiarity with the target zone countries). The second challenge was posed by the inevitable merger with the output, sometimes with the organisation, of mainstream departments in the respective areas. This proved to be particularly demanding in the economic field, where mainstream economic theory, being void of institutions and institutional analyses, has had precious little to offer directly to a process where re-molding political and economic institutions is the crux of the matter.

Past experience gave little guidance

On the other hand, area specialists used to possess knowledge peculiar to the undergone régime, thus past experience gave little guidance to coping with new issues. The renowned conservatism of academic circles, particularly in Russia, is a case in point.

Thus, as in any crisis, the economist looks for the benefit of it. This was a continuous strain, pressing newcomers to familiarise themselves with region-specific and institutional issues. And conversely, area specialists and the middle and elder generation in the region had to re-learn the basics of their discipline, by and large in line with the mainstream. The interchange could be quite fruitful and not only in terms of designing by well functioning institutions and policies in several countries in Central Europe. Failures to introduce the market „overnight“ triggered widespread reflection in academic economics. Though not mostly in theoretical departments, but in the

leading academic journals, like „American Economic Review“, „The Economic Journal“ or „The Journal of Economic Perspectives“, the number of theoretical and policy papers reflecting directly or indirectly upon problems experienced in transforming countries has gradually, but constantly, been on the increase, all across the 1990s. European mainstream journals, from „Kyklos“ to „Weltwirtschaftliches Archiv“ and „European Economic Review“ devote a constantly large share of their output to problems of countries, representing about one per cent of world trade and about 3 per cent of total EU-trade. This is significantly above the indices of the golden years, which is, after all, a promising sign. New journals, primarily „Post-Communist Economies“ and „Economics of Transition“ have gained reputation in terms of submissions and quotation alike. In terms of quotations, „Post-Soviet Affairs“ ranks among the first 20 most quoted journals (according to the statistics of „Economic Journal“, Feb 1999).

Many ideas have been overtaken by the events

Under this angle both the interest in and the performance of „economics of transition“ have been improving. With the time passing the excesses and misunderstandings of the early period seem to have been overcome. Many ideas depicting transitory phenomena in Central and Eastern Europe, like high inflation, non-payment of bills, lack of bankruptcies or the inability to privatise „properly“ have simply been overtaken by the events. Meanwhile, better understanding has emerged as to what kind of economic textbooks and literature in general should be consulted, if practically relevant issues are to be addressed. Studies of industrial organisation, particularly of corporate governance, of financial economics, including items on the regulation of banking and capital markets, proper accounting for governmental revenues, outlays and implicit debts, sound less revolutionary than the emotional debate over shock versus gradualism, or over the proper way to privatise. Still, these more standard approaches and questions determine the efficacy of the new market order. A certain rehabilitation of the idea of the spontaneous order, due to the repeated governmental failures in redesigning societies according to a master plan, seems also to have emerged. In this indirect way, even fallacies could prove to become an asset.

As it seems now, the once monolithic body of transition economics is to differentiate into three chunks, having precious little in common. Among the „frontrunner“ reforming countries subjects similar to those in OECD economies are likely to dominate the scene, like problems of pension reform, health care reform, looking for financeable solutions for an ageing society, the problem of environmentally tolerable growth and the like. A special feature of this group or line will be the highly comprehensive issue of eastward enlargement of the EU, which entails a large number of peculiar institutional and regulatory tasks, that can not be derived from the general economic textbooks. Economics of transition and economics of enlargement are likely to overlap to a great extent.

In the second group of countries – transformation laggards in the parlance of the EBRD – the subject of analyses will be likely to focus on the obstacles and structures impeding speedier transformation towards a fully-fledged market order, in line with – or in conflict to – their path-dependent development. Here the job of applied, policy-related studies is likely to remain lastingly important, while the chance of discovering theoretical novelties will remain slim.

„Exotic cases“: The Balkans

Last but not least, the study of transformation failures and non-transforming countries, from Belarus to Kazakhstan, remains a subject on its own right. The size and geographical place and the resultant security challenge posed by these countries for the EU will be likely to enforce continued, maybe even significantly improved financing conditions for those studying these „exotic“ cases. Also, following the Kosovo war, funding for and interest in classic Balkan studies are likely to grow. Here it is not novel economic theories, but traditional description of various, sometimes pathological, processes that is likely to remain in the focus of attention. But in the majority of these cases the security aspect is likely to dominate economics, even if security is always a costly value. It always has an economic component which is growing with the complexity of societies and the structure of the post-cold-war international order.

What kind of lesson can be drawn from this new division in transformation studies? One of the most important – but frequently overlooked – item is the need for interdisciplinarity. The closer we move to policy-relevant studies and consultancy, the more dangerous is the already discernible tendency towards institutional-organisational compartmentalisation. On the one hand, both financial constraints and the nature of disciplinary development call for even more specialisation in order to enable in-depth new knowledge. On the other hand, one of the founding principles of the classical European university, from the 13th century and before, has been the insight into the uses of interaction among seemingly unrelated areas. Synergy is particularly important in the study of cases, where the borderline between the various respective academic disciplines is arbitrary, or rests on conventions rather than anything else. And although paradigmatic differences make interdisciplinary discourses difficult, this should not be used as a pretext for avoiding these. Hopefully, those deciding over the fate of research organisation are able to think in broader terms than in short-term electoral and financial considerations. Wherever they do, from Princeton through the European University Institute to the United Nations University, the outcome proved to be convincing, in terms of academic output, financial soundness and policy relevance alike.

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