

Olivier Blanchard

The economics of post-communist transition

NATIONAL TEXTBOOK PUBLISHING HOUSE
(NEMZETI TANKÖNYVKIADÓ), 2006



All monographic overviews of the transition of our region may command interest, as this is a rarely used genre. Perhaps the scarcity of works in this genre can be explained by this overnight transition of whirlwind speed and twists, and not in the least by the unexpected outcome in many respects, which shocked both the observers and the participants. If you have or had something to say on this subject, you can now mostly do so on the pages of daily and weekly papers, and of course in the electronic media, which is somehow both a constraint and a requirement. At least this must have been so in the first decade, as the need to act often preceded the willingness and speed to analyze. Haste is even more dangerous here than in our everyday life, due to the century-old academic requirements, the need to keep a distance and have an overview on the subject that we discuss. The situation described in the Russian proverb, which was

once often quoted in its negative sense, “measure seven times before you cut off once” is obviously unavoidable in this genre. However, there were hardly any analysts who could have and wished to have withstood to attempt to use a chance that you have only once is history: that is, to test the theories and to form reality. Being a “*technopol*”, which word was coined by *John Williamson* (1994) by merging the words “technocrat” and “politician”, became a lifestyle. And as a result, both some of the acknowledged researchers of our region, from *Béla Kádár* to *Leszek Balcerowicz*, and the well-known cultivators of the mainstream theories like the late *Rüdiger Dornbusch* or the Nobel prize holder *Joseph Stiglitz* have felt inclined to analyze and influence the transition.

This genre and lifestyle, in the experience of the participating observer, has always involved typical advantages and disadvan-

tages. On the one hand, exciting questions, which were earlier not thought about, emerge in practice – this was the case with the issues of the rate of unemployment, the dramatic decrease in participation in the labor market, or the transformation of the prematurely born welfare state. On the other hand, however, the various and contradictory assumptions of theory passed the test of practice, from disinflation through exchange rate policies to the issues of the sustainable balance of public finances. As a result, both the subject and the approach of analyses tend to change fast. Becoming obsolete, which is part of the essence of science, the regular questioning and testing of earlier theses have made it necessary to replace subjects, approaches and results faster than usual, and even faster than the speed well-established in social sciences, let alone the applications¹.

Exactly because of this, it is by far not a coincidence that the literature of transition in all the disciplines has come to consist of the passing genres mentioned earlier on the one hand, and the articles published in journals and lectures presented at conferences on the other hand (the latter were often published by major publishing houses in the form of collections). By now, the time of transitology or education on economic policy, which are the ironically ambiguous names for this genre, has gone, as a result of the high number of conferences, the amount of research funds, or the supply of leading book publishers and journals. Still, we can hardly claim that social sciences in general, and economics in particular, have provided more or less mature answers, which can be regarded as final, to certain questions that public opinion is still very much interested in up to this day. This is true for privatization, as well as the functioning of democracy, or the mutual relationship between the independent regulatory and supervisory authorities such as the State Audit

Office, the Office of Economic Competition, or the courts, and democracy.

Thus, there is a lot to analyze, and all such ventures are welcome which are aimed at the publication of articles analyzing these chaotic issues still to be explored in the form of a monographic volume and with scientific purposes. However, the publisher undertakes a rather high risk, as the material tends to become obsolete faster than is customary even in science with regard to the subject, the facts, and the conclusions as well. It also makes a great difference at what point in time a certain author wishes to talk. For example, the opinions represented by the international financial organizations with regard to development and combating poverty were totally different in the 1970's and 1980's than now (Ricz, 2005). This deep-going change is valid for the evaluation and interpretation of transition as well, first of all with regard to the stand taken by the once leading economist of the World Bank Joseph Stiglitz and the ensuing noisy disputes (described in detail by Szakolczai, 2006). To put it shortly, what may have sounded critical or even revolutionary a decade ago can be called public knowledge these days, even in Washington.

The author of the book under our review is *Olivier Blanchard*, one of the most influential advisors on, and analysts of economic policy, whose articles are published in leading journals from the *Quarterly Journal of Economics* to *Economic Policy*. The author is primarily known for his analyses of macroeconomics, labor markets, and the European economy and European integration. In his work, providing advice to countries in transition has been regarded as a borderline area, just like for the earlier quoted Dornbusch, Stiglitz, or *Jeffrey Sachs*, who has become known as a development expert, more precisely, the researcher of Latin America and Sub-Saharan Africa. This is relatively easy to understand.

In the case of Blanchard, the textbook, which already had its third edition in 2003, has 583 pages, its predecessor, also published several times, and co-authored by *Stanley Fischer*, counts 650 pages. However, two books on the subject of transition are only co-authored by him, and the currently discussed book only has 166 pages, and what is more, the mini-pages used in the current edition would make up a two-part journal article, by well-established measures.

The question may arise: why was the volume published right now? The statistics presented in the book regularly end in 1994 (sic!), which was quite a while ago. And quite many things happened since then. Thus, at the moment the most exciting question of economics is presumably not how the private sector and mainly the service sector will absorb the employers falling out of the socialist dinosaur companies and not trained for the market economy, any longer, which is the subject discussed by our author. The question now is what halted the transition process after Hungary's joining the EU, contrary to the naive expectation of most of us: the acceleration of the transition process. Both are definitely serious questions, as the pure statistical review of the period between 1994 and 2006 is a nice task by itself (E. Németh, 2006; ECE, 2006), which requires the compilation of an entire volume. And the second question is none the less exciting, and is by the way considered a mystery or a puzzle in researchers' slang. However, you cannot expect the author to answer this question, since in 1996 he prepared an absolutely fair summary review of what we knew about some of these issues at that time, by using the tools of mainstream analysis in an exemplary manner.

The thing is, as has been confirmed by the experience of the coming decade, that at that time we were presumably happy with the answers, while we were not yet aware of all the

questions. For example, how the sustainability of economic policy, including public finances and economic constitutionality, can be ensured in Continental Europe in its broad sense, how populist turnabouts can be prevented, how the series of changes responsible for financing the welfare state can be organized with permanent effect, even in an ageing society, along with the reform coalition that supports these in a sharply divided Hungarian society, structured along very different interests and values.² And while we do not wish to receive a recipe for solving our own problems from an outsider analyzing the entire region, it would be hard to dispute that the “post-communist transition” (if this expression from newspaper language has retained any scientific meaning by now) now brings up entirely different questions of economics for the analysts than more than a decade ago when the work under review was prepared. Presumably, many share the opinion coming from the mid-1990's that the period of transition, i.e. the specific historical phase of eliminating the single-party system and the heritage of the Soviet Empire, came to its end by the turn of the millennium the latest. By Hungary's accession to the European Union, most probably, different types of questions related to the reform of the Continental welfare model, or those of setting the new factors of growth into motion, will come to the focus of economic analysis and management (Csaba, 2006).

The brief summary of Professor Blanchard consists of four main parts, in which the author gives a fair overview of the issues of stabilization, liberalization, privatization and corporate adaptation, which used to be characteristic features of the first phase of transition. From among the tasks which are now commonly abbreviated as SLIP in international literature, “I”, that is, the building of Institutions, is conspicuously missing, which is probably not a mere coincidence in the case of a mainstream

author. In the first chapter, the decreasing production and employment, and the subsequent recovery in Central Eastern European countries are described. The author examines why the transformation brought about an unavoidable regression, or as he calls it, the U-shaped evolution of macro indicators. In the second chapter, the author describes in a model form what mechanisms served as vehicles for transformation, primarily on the micro-economic level, i.e. how the companies were transformed and how capital was redistributed among the individual sectors, one of the means to accomplish which was disorganization. Here (page 69) he draws the conclusion that the upturn was initially related to increased productivity, which was not (yet) followed by any increase in employment at that time.

In the third section, the author sets out to examine how the companies adapted to the initial shocks, he emphasizes the relationship between corporate transformation and privatization, and finally, he analyzes the characteristic features of the labor market. The author was one of the first to point out (page 72) that the unemployment rate, which even exceeded that of Western Europe at that time, can be classified as one of the most serious permanent challenges facing the transforming economies of the region, as this unemployment was dominantly structural (i.e. it cannot be remedied by lax budgetary policy). He specifically highlighted the permanently high proportion of people who cannot exit the status of permanent unemployment (pages 108–109).

In the fourth chapter, the issues analyzed earlier are merged into a standard model. It is explained here that the private sector can only absorb mass unemployment with a delay and if certain conditions exist, but then it is this sector of privately owned companies that means the source of growth in itself. However, in his view the level of unemployment arising from the transformation of com-

panies and the capital flow between the individual sectors may considerably decrease when the transition process is over.³ From among the very clearly defined conclusions that act as the closing of the book, a certain opinion, which is still a minority view, should be highlighted (page 146). The essence of this view is that the right solution is to provide certain benefits to the insiders and to centrally manage the ownership reform, while the approach that misuses the idea of Hayek on spontaneous order and expects economic advantages from the mass distribution of assets is (was) not right. Similarly lasting is the conclusion according to which the growth of the private sector should not be prevented by tools of tax policy from the very beginning, since the growth of the entire national economy will turn out to be very slow in that case. Finally, the author talks about the voluntarily undertaken limits of his analysis, i.e. the limited nature of comparative and forward-looking, forecasting elements. Blanchard, however, was justified in cautioning against the spreading culture of unemployment (page 147), which could have resulted, and actually resulted in the accumulation of social and economic losses, as the unemployment rate that exceeded the OECD average was in fact a grave problem in the societies of many countries in the following decade.

Thus, the overall picture may be characterized by a peculiar duality. On the one hand, we have to acknowledge that the knowledge available at the time of writing the book, as well as the standard theory were applied by the author in excellent quality and of lasting effect. The observations made by the author on the issues of unemployment and growth, as well as privatization are exemplary in their universal validity, the way of presentation is concise and applicable for classroom usage. However, I as a practicing educator, would strongly recommend against the latter, since

neither the subject of this topic nor the facts relevant for our region coincide with those of this book. Today's audience should not only master the up-to-date facts but also today's questions of analysis, in due time. In the country of *János Kornai*, we cannot claim that an insufficient number of Hungarian and foreign language analyses is available on the issues of transition. We cannot even state that in graduate training, we have not continuously included, since 1993, to the extent defined by the training staff, the Hungarian language literature of international standards, presenting the international disputes in the framework of the curriculum (namely, the textbook written by *Zoltán Bara* and *Katalin Szabó*, which already has its sixth edition; Bara –

Szabó, 2006). As far as I know, this textbook is used by the market-leader Corvinus University, as well as the Pécs and Debrecen universities and some colleges, i.e. there is no market niche in this sense. On the other hand, however, in a world where, by now, it is almost merely the articles sponsored by the author and targeting the captured audience that will appear, the enterprising spirit of the National Textbooks Publishing House should be highly appreciated. Perhaps by publishing the original analysis of a less well-known but contemporary Hungarian author, the noble aim, i.e. making world standard, teachable knowledge available, may have better been achieved.

László Csaba

NOTES

¹ This is pretty obvious in the history of sciences, if we only think of the development of brain research or nuclear physics. But, for instance, in literary sciences, finding a piece of literature thought to be lost, or in musical science, a novel presentation of earlier unknown works, or else, an archeological finding in historic science may bring about fundamental changes (even in ancient science, especially there!).

² See Tóth (2005) and the work edited by Tóth – Szívós (2006) on the latter.

³ This was partly so, for instance in Hungary and lately in Russia, but partly not so, for example in Slovakia, Poland and in the ex-Yugoslavian countries, including Slovenia. This depends on the preservation or breaking of the power of insiders, which is country-specific. This is a good example for the limited nature of conclusions that we can draw on “certain issues of the post-communist transition” in general.

LITERATURE

BARA, Z. – SZABÓ, K. (2006): *Gazdasági intézmények, országok, rendszerek* (Economic Institutions, Countries, Systems), *Aula Publishing House, Budapest, 6. edition*

BLANCHARD, O. (2003): *Macroeconomics, Upper Saddle River, New Jersey, Prentice Hall, Pearson, 3. edition*

BLANCHARD, O. – FISCHER, S. (1993): *Lectures on Macroeconomics, Cambridge/Mass – London: The MIT Press, 2. edition*

CSABA, L. (2006): *Gazdasági növekedés, foglalkoztatás és egyensúly az Európai Unióban* (Economic Growth, Employment and Balance in the European Union), *Magyar Tudomány, year 153., issue 9*

Economic Commission for Europe (2006): *Economic Survey of Europe, no. 3, Geneva – New York, published by the UN Secretariat*

NÉMETH, E. (ed.) (2006): *Mérlegen – Kelet-Közép-Európa 15 éve* (Being Weighed – 15 Years of

Central Eastern Europe), *published by the Central Statistical Office, Budapest, December*

RICZ, J. (2005): Paradigmaváltás a fejlődés-gazdaságtanban (Change of Paradigms in the Economics of Development), *Competitio, Debrecen, year 4, issue 2, pp. 109–124*

SZAKOLCZAI, G. (2006): A gazdasági fejlődés elméletének megújulása: a mindmáig megoldatlan ellentét (The Renewal of the Theory of Economic Development: a Contradiction not Resolved), *Valóság, year 49, issue 7, pp. 1–31*

TÓTH, I. GY. (2005): Income Distribution. From the systemic change to the joining of the EU. *Joint edition of the Rudolf Andorka Sociological Association and TÁRKI, Budapest*

TÓTH, GY. – SZÍVÓS, P. (2006): Fehéren-feketén (In Black and White), edited by I. TÁRKI, *Budapest, March*

WILLIAMSON, J. (1994): In search of a manual for technopols, In: *The Political Economy of Economic Policy Reform*, edited by Williamson, J., *Institute for International Economics, Washington, D.C. pp. 9–47*