

Gábor Papanek

# *Knowledge flow, legal certainty, cooperation*

*The invisible resources of the  
development of the Hungarian  
economy*

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It is quite rare that a three-word headline should tell almost all about a book that the reviewer holds in his hands. However, *Gábor Papanek's* book is of this kind, so here again we can claim that the good choice of title is half way toward success. But the author has chosen a challenging subject for his book, otherwise submitted and accepted as his doctoral dissertation: a library full of books have been written about the resources of economic growth. Research institutes, economic forecasters are trying to identify, and competitiveness analysts project the effect of economic welfare as an indicator of national economies. The issue of economic growth, and development goes back to the classic figure of economics: *Adam Smith*. Gábor Papanek attempts to prove with empirical investigations based on theoretical fundamentals that in the early 21th century some 'invisible resources' rarely discussed in traditional (thus: neoclassical) growth theories have

become the most important engines of rapid economic growth i.e. mostly immaterial factors hard to quantify and working their effect in the corporate sector indirectly rather than directly through local/environment related features.

■ In the first chapter of the book the author presents the external and internal conditions of the probable growth curves of the Hungarian economy, and the perspectives of successful EU integration. All that effort is built on the longer-term forecasts of GKI Economic Research Institute Ltd., the author's employer. Taking account of the disappointing demographic forecasts, and the inevitably very slowly improving statistics of capital supply he comes to the conclusion that the two most important factors in neoclassic growth theories, i.e. capital and work will hardly be able to boost the Hungarian economy and help it in its convergence efforts.

The treatise investigates three sets of issues

of outstanding importance from the point of view of the future of the national economy: innovation, legal certainty, and faster growth and better efficiency expected of the more intensive cooperation of small and medium sized enterprises.

■ Based on that concept, the author consecrates the second chapter to innovation regarded as the most important factor of economic progress in accordance with the school called *evolutionary economics*. The analysis, based on the methodological recommendations of the OECD attempts to prove that our progress may only be speeded up as soon as we manage to improve the dissemination of innovation-related knowledge, and accelerate the pace of *knowledge flow*. The author comes to the conclusion that the source of the problem both in Hungary and in the entire European Union is the so-called European paradox. It is in vain for the developed countries of the EU spending on R+D at rates close to the global average, and it is in vain achieving world famous results and publications if they fail to reflect sufficiently in economic innovation, and especially in the speed at which they are applied in practice. The same fault between science and practice is even more tangible in Hungary where in fact R+D expenditure is magnitudes smaller than in leading-edge Scandinavian countries. The author expects three processes to contribute to the acceleration of knowledge flow: development of a fully or at least more innovation friendly attitude in the corporate sector, the extension of the area of applied research, and government's enterprise-friendly economic policy promoting science, and innovation. It provides a set of recommendations most of which the reader will agree with. There are, however, contestable statements as well. The debate in the Academy and the press in recent months suggests – somewhat contradicting the author's view – that the transformation of the R+D institution system and the establishment of the

National Research and Technology Agency (Nemzeti és Kutatási és Technológia Hivatal) do not prove to be undoubtedly successful. The same statement holds for the effects to date of the Act on the Research and Technology Innovation Fund (Kutatási és Technológiai Innovációs Alap).

■ Gábor Papanek introduces the third chapter by a statement that takes the reviewer by surprise. In traditional half-yearly surveys by the GKI Ltd. the respondent companies have, for years, ranked unfair (unlawful) competition practices among the most significant factors hampering growth. Even though in my view that comment reflects the grievance of those lagging behind in competition for some reason, one has to agree with the following statement by the author: 'in the eastern European transition countries the rights, and the increasingly comprehensive implementation of the legislation determining the structure of the economy, especially property law and contract law are also a decisive factor of development'. (p. 84) The chapter describes the effect of red tape on the Hungarian entrepreneurial spirit based on international investigations, and empirical information, presenting a picture of limited attraction about domestic practice. The section discussing the relationship of legal certainty and economic growth has novelty value. Here the author analyses the reasons of corruption, unfair business practices, and abuse of economic regulations, then goes on to discuss ways in which business morals could be improved. The author himself is not overly optimistic in this regard when saying the following: 'we do not yet have a clear image on possible scenarios for, and the effective methods of the fight against corruption (despite the importance of the efforts described above)'. (p. 110)

■ The fourth and final part of the book bears the title 'Creating the cooperative organisational structures'. The central message of the author

relates to the operation and economic significance of small and medium sized enterprises, but discusses that issue in the context of cooperation, and the local and regional structure of the Hungarian economy, and the development of *networks*. Building on the fundamentals of technical literature, he states that ‘in modern market economies the production sector is more than just a random set of isolated companies fighting each other...especially the competitiveness of small and medium sized enterprises is increasingly dependent on cooperation among companies and company groups (p. 126) I find the section that brings statistics in support of the difference of the local position and the regional distribution of SMEs a novel feature, and I fully agree with the author saying that in Hungarian economic policy the strengthening of regional approaches would be quite practical for a variety of reasons. As the author himself says: ‘... the measures promoting regional development must be initiated in a greater proportion at the level of the regions’. (p. 139) No one can contest the author’s point who claims that neither the National Development Plan (NDP), nor the New Hungary Programme provide sufficiently specific guidelines in determining development objectives, but I must add (to no defence of the authors of those programmes), and it is purely the reviewer’s opinion that in lack of political agreement there is no chance to implement them.

After the review, the volume finishes by a section that allows insight into the workshop

of GKI Ltd. The chapter on the reliability of the half yearly surveys and the methodology of these surveys are a real delicacy for the professional readership.

■ Gábor Papanek has processed an enormous amount of technical literature, and has used it creatively, and has developed it further at some points. All that is compounded by experience of many years of economic forecasting, case studies, interviewing companies, and questionnaires. That may be the source of the fact that lessons derivable from theoretical literature, and questionnaire-based surveys sometimes intermingle, and sometimes the frequent references to later chapters are a little disturbing. That could have been eliminated in the editing process. At some points the reader may be disappointed at the deficient description of EU references, and effects. While the author consciously refuses the treatment of external impacts, the reviewer asks himself how much the impacts deriving from our EU membership may be regarded external in some year to come. However, even critical remarks cannot take anything away from the scientific merits of the book. It constitutes an important contribution to the work of other authors and the workshops of Hungarian economic policy – of course I understand the author’s workplace to be one such workshop – which economic forecasters, analysts, and students may greatly benefit from.

*Róbert Becsky*