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Editeur / Editor

ECONOMIE ET MANAGEMENT

DANS LES PAYS EN TRANSITION

ESSCA

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ESSCA

Sommaire

Introduction

chute du Mur de Berlin en novembre 1989, les anciens pays communistes des transformations prodigieuses. Bien que la transition n'ait pas été et que l'on ait pu remarquer des arrêts et des retours en arrière, peu de nes doutent aujourd'hui que la transformation ne se fasse en direction d'un me capitaliste.

ndant, une dizaine d'années plus tard, on ne peut que constater la relative ie de l'information à ce sujet comparativement au flot du début de la transition. côté, cette faiblesse de l'information pourrait laisser croire que la transformation érée est réussie, ou du moins homogène. Le public a-t-il cessé de s'intéresser à la ansition ? S'agit-il d'un objet d'analyse pour une poignée de scientifiques isolés ? un autre côté, on peut aussi remarquer une certaine simplification cognitive fondée sur des arguments idéologiques, des généralisations outrancières et l'oubli total de certains facettes du communisme et de la transition. Le résultat peut alors être une attention sur des traits grossiers de la réalité chez les non-spécialistes qui aboutit à un amalgame associant des errances politiques, des crises sociales ou des désastres économiques.

Des questions cruciales et récurrentes animent pourtant les chercheurs attentifs à cette réalité particulière. Quelles doivent êtres les mesures d'accompagnement pour faciliter la transformation des ex-pays communistes et selon quelle séquence d'introduction ? Quelle doit être la vitesse de la transition ? Comment doit-on modifier le cadre légal ? Quel est le cadre politique nécessaire pour faciliter le changement économique ? Inversement, quelles sont les conditions économiques pour faciliter le changement politique ? Quelle part faut-il laisser à des changements endogènes spontanés et quelle part doit être activement orchestrée par l'Etat ? Quels rôles jouent les entreprises dans le processus de transition économique ? Quels sont les processus de changement dans les firmes des pays en transition ? Existe-t-il des composantes culturelles et sociales prégnantes dans les entreprises des ex-pays communistes, notamment des séquelles de l'idéologie communiste ?

réponses à ces questions varient suivants les auteurs mais comme le souligne
ıai, la problématique de recherche sur la transition conserve les mêmes
stions de recherche fondamentale (1999 : 13).

ıjet de cet ouvrage est évidemment de combler modestement le déficit
formations, en traitant d'un objet commun de recherche constitué par les
nomies et les organisations des pays en transition. Il faut aussi rappeler les
ectifs poursuivis par les différents auteurs qui se sont réunis lors des différents
oques sur les pays en transition, à l'initiative de l'ESSCA et de l'Université des
ences Economiques et d'Administration Publique de Budapest, en 1998, 1999 et
)1.

ıne part, une particularité de cet ouvrage est de donner un regard éclectique à la
; d'économistes et de gestionnaires sur l'objet de recherche constitué par la
nsition des ex-pays communistes.

ıutre part, une autre originalité est de prendre en compte des postures
istémologiques différentes induisant des méthodologies d'observations variées du
əl.

; plus, dans la mesure du possible, certains auteurs recourent à des approches
mparatives entre pays ou entre organisations, ce qui enrichit le débat
ntradictoire entre les chercheurs.

ıfin, un autre fil conducteur original de cet ouvrage est d'accepter toutes les
ıproches de recherche possibles, tout en refusant l'extrémisme découlant des
ısitions idéologiques, susceptibles d'intervenir du fait de la transformation politique.

et ouvrage est donc un témoignage de la vivacité des échanges qui animent les
ıncontres scientifiques sur cette thématique de recherche, joutes intellectuelles et
·dentes. C'est une pierre supplémentaire à l'édifice du savoir permettant de mieux
omprendre la transition économique. L'unicité architecturale de l'image ne doit pas
écessairement laisser penser que l'objet est identifiable facilement. Au contraire,
ien loin d'un système unifié, une multitude de réalités recouvre les économies et les
rganisations en transition.

:n effet, le titre ce cet ouvrage est à la fois évocateur de son objet d'analyse et
·ompeur.

L'évocation est claire car notre propos est ici de présenter les réalités économiques et managériales des pays en transition.

Mais le lecteur pourrait être aussi trompé en pensant que les auteurs ont une vision holiste de l'objet d'analyse.

En effet à la lecture du titre, une hypothèse implicite serait de laisser croire que les économies en transition correspondent à une réalité parfaitement identifiable et homogène ce qui correspondrait alors à une vision réductrice du phénomène. De même, on pourrait penser que les auteurs s'inscrivent dans un modèle de convergence qui impliquerait d'une certaine manière l'émergence d'un idéal-type.

Au contraire, persuadés de l'extrême hétérogénéité de la réalité à appréhender, le propos des auteurs de ce livre est d'éclairer la perception de cette diversité en multipliant les regards.

Il est vrai que le terme même de transition est trompeur. Un esprit ethnocentrique aurait tendance de manière allusive à l'interpréter comme le passage entre deux états connus de départ et d'arrivée, une espèce de trajectoire obligatoire (Csaba, 1995). Cette vision téléologique, presque « balistique », si elle engendre la simplification, ne fait que réduire la compréhension du phénomène.

En effet cette vision déterministe, quasi mécanique, est réductrice d'une réalité multifacettes, mouvante, parfois imprécise, en un mot d'un objet organique.

La lecture de la littérature sur le sujet de la transition met en évidence les joutes sémantiques menées par les auteurs autour du terme de transition qui semblait cristalliser, à lui seul, la globalité des questions de recherche et des hypothèses afférentes, quels que soient les différents modèles théoriques mobilisés. On peut citer : le système dual de Kornai (1992), l'économie mouvante de Hanson et Teague (1992), l'économie mixte de Lavigne (1995), le processus interruptif de Nuti (1996).

Nous avons, pour notre part, décidé de conserver le vocable de transition qui, à défaut d'être totalement adapté, a le mérite d'être devenu générique et donc de renvoyer à un ensemble de considérations relativement compréhensibles.

ues unierenis iravaux presentes dans ce livre est de laisser planer un doute
f amenant les acteurs de la communauté scientifique et managériale à émettre njectures toutes popperiennes et, par suite, non définitives.

un des objectifs de ce recueil de travaux est d'analyser les variables jentes de la transition. Du latin contingentia, la contingence a une première ion de hasard. Les différentes étapes et états de la transition ne sont pourtant fruit du hasard. Le terme latin s'est en fait décliné en condition, conditionnalité :currence de certains événements. Analyser les conditions de la transition est jectif apparemment simple. Apparemment seulement car chaque chercheur adopter une posture épistémologique, des questions de recherche et des ièses très différentes. De plus, aborder le thème de la transformation peut ttre d'appréhender non seulement la transition économique des systèmes stes mais aussi celle des systèmes capitalistes, sachant pour reprendre les s de Fukuyama que l'histoire ne s'est pas arrêtée avec la décision de transition mique socialiste (1992).
multiplicité des regards doit naître, à l'image du relief s'inscrivant dans trois sions, une meilleure appréhension de la transition dont cet ouvrage est une ste illustration.

la diversité n'empêche pas des constantes généralisables. Ainsi, on s'aperçoit ı mémoire du système politique et social antérieur est restée vive car malgré ériode de dix ans, certains traits de l'héritage du passé communiste des pays nsition sont encore identifiables. Cette relative inertie ne pouvait que limiter les s des thérapies économiques ou organisationnelles qu'elles soient de choc ou essives pour faciliter la transition. Mais, c'est aussi un fantastique moteur inalité des pays en transition.

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The Euro - A new entry barrier ?

László CSABA

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... project that has been moving, despite regressions and digressions, ...ards the finalité politique, envisioned by its founding fathers in the late ...40s. This process has not been gradualist, following a jointly adopted master ...n, but evolutionary, following a series of compromises and improvisations ...erent in a basically intergovernmental mode of decision making.

...refore it is hardly surprising that this modus operandi shapes the process of ...tward enlargement of the EU ever since the collapse of communism has ...ed enabled the new democraties to adopt policies actually culminating in ...r full membership in the EU (more on this in: Smith, 2000 and Csaba, 1998). ...ever, even under the best of circumstances, new entrants have been ...fronted and will be confronted with an ever growing body of the acquis ...munautaire, i.e. of those accomplishments and regulations, where ...pliance is a challenge, and often an insurmountable challenge, to ...mbents. Recent initiatives of July, 2001 by the Commission to start legal ...ns on such prestigous member-states as Germany over non-compliance ... non-implementation of environmental, safety and other regulations, or ...ar Commission initiatives aiming to compel EU banks not to charge more ...ntra-EU transfers than for domestic money transfers all testify how ...nentary and difficult it is for incumbents to comply with such, theoretically established, items as the single market.

...his reason it seems both topical and compelling to analyse how the ...luction of the single currency, replacing 12 national currencies from 1 ...ary 2002, and the related institutional and policy framework is likely to ...nce the development options and the integrational maturity of applicant ...ries.

...tarting assumption, to be tested in the rest of the paper is twofold. *First*, ...pe of monetary integration, culminating in the single currency, is a *lasting* ...*table phenomenon*, thus it is *futile* to attempt to fight for *waivers* fom the ...ions and obligations implied by this specific - and theoretically still ...ted - model of integration. *Second*, the Maastricht-Amsterdam-Nice ..., including the Stability Pact of 1996 (which is legally not part of the

... is an integral part of the policy construction [1] narrow down the options open for economic policymaking in such a way, that candidate countries cannot meet these, relying on their own efforts only. A sensible *re-formulation/interpretation of these criteria*, without looseing up the policy priorities they stand for, is a precondition to accomodating quickly growing economies, whose catching up is a fundamental common interest of both incumbents and newcomers.

It is worth noting, that these two interrelated assumptions are *not transition specific*, not do they have to do with the differences in economic development levels. These problems derive from the higher, and note, sustainingly higher growth rates central European countries register, over and above EU average - in other words the "Celtic phenomenon", experienced also by the quickly growing Irish economy, having already questioned the one size fits all solution within the EU (McCoy and McHale, 2001).

In acknowledging this we do not follow those who think targeting headline inflation is wrong and the 2 per cent criterion, self-imposed by the ECB is too low (Tabellini, 2001), nor do we wish to justify the informal understanding of the July meeting of Ecofin, aiming at a more flexible reading of the medium term stabilisation plans 2001-2001. Beyond doubt, if cyclical situations can induce corrective fiscal stances, the credibility of the euro is seriously at stake.

[1] More on the stability pact in: (Brits and de Vos, 2000)

...aitjacket or a case of self-fulfilling expectations?

It is common knowledge that the first attempt at introducing the monetary model of integration, the Werner Plan of 1970 failed, basically for two reasons. First he external shock of the two oil price hikes proved to be an insolvable challenge to economic policies just having freed themselves from the straightjacket of Bretton Woods. Second, the contemporary, basically Keynesian, reading of economics called for accomodating policies in order to ustain high employment levels. Whatever we think retrospectively of the merits nd de-merits of this approach, in such a situation the propositions of the Verner Plan could not stand a chance.

herefore the reasons for the more successful second try in the 1980s and 990s lay in the gradual but steady conversion of a growing number of ›untries to monetary solidity and fiscal discipline[2]. This conversion has not llowed directly, or even primarily, from developments within the EC, but from anges in economic thinking and policy practice. The option of Austria, ılgium, later the Netherlands and Finland to peg unilaterally their currencies to ə Deutsche Mark were mostly based on instrumental policy considerations her than theoretical models. In case of Britain the return to traditional British ınetary orthodoxy was a backbone of the conservative revolution of Baroness atcher. Unlike the British experience, the introduction of the policy of *franc* ' under the Socialist Premier and President in 1986, was a true innovation in ench policymaking. But it also followed basically from lessons drawn from ceding policy mistakes, and lacked the ideologisig components of its British nterpart.

ides the change in economic philosophy experience of the 1970s has also ıed. First it has been learned that exchange rate flexibility can easily ɔme too such of a good : when DEM/USD ratios can fluctuate between 1.7 4.0, exhange rates and interest parity may loose their orientating function, arrass traders and cross over any forward looking calculation. The more ...ept a common economic stance and also aim at creating an economic bloc, the more hamrful such volatility may look. Thus the attempts at creating stability and calculability within the EC were gathering momentum, in the form of the snake and later in the form of the first exchange rate mechanism, working with a narrow band.

It is interesting to note, that with the relatively late liberalisation of capital accounts in many west European countries, coupled with the British tendency to overvalue the pound, the crash of the first ERM of 1992 was only to be expected. The interesting development was thus not so much of the collapse, but rather the insistance of policymakers on keeping to their original, then only a couple of months old, Maastricht project. The sole important modification was widening the exchange rate fluctuation band from plus or minus 2.25 p.c. from central parity to 15 per cent in both directions.

In an interesting, and for many, unexpected consequence of learning the lessons of the 1970s was that governments ceased to attempt to address structural imbalances and labour market rigidities through cyclical measures. Therefore the credibility of policies improved. Even in the southern EU members, mocked in the early 1990s as Club Med, governments could commit themselves to fiscal discipline. In Greece and Italy governments accepted and managed major social conflicts in overcoming resistance to the reforms of social security systems in order to fight the debt burden.

It is important to recall, that creating EMU and the single currency has been, from the very outset a deeply political project, rather than an implementation of any school of economic theory. While the conversion to monetary orthodoxy was an outcome of a series of learning by doing of individual governments, the Maastricht Treaty was a fullblooded political project. For Germany it was an exercise of making integration and also the conversion to conservative economics irreversible. For France it was an exercise of tying Germany in the western alliance and ensuring the priority of deepening over widening. The British, in a typical vein, opted out born from the single currency and Schengen, i.e. of the two major innovations of Maastricht.

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[2] an insightful and analytical narrative cf. the monograph of an insider, André SZÁSZ (1999).

ırgence) has been improving, especially in the 1998-2001 period. ›ver, although the risk of asymmetric external shocks did materialise, first form of tripling oil prices, then in the form of US and global slowdown, the ears of the *euro* proved to be a *success*. National governments have not ed to rude inflationary policies, and headline inflation has only temporarily d the ECB target of 2 per cent, with a deceleration setting on already from 2001.

xternal value of the euro should not mislead overall assessment. First the ate of the ECB does not cover its accountability for the external value of ırrency. Second, not only the new currency, but the items it has been ›sed of, i.e. the DM, the French franc and others have been weakening t the US currency, as long as economic prospects in the US were stimated and tended to be seen or portrayed as risk free for ever. Third, he case of any new product, the equilibrium price can only be estimated considerable margin of error. As in the case of many other new products, logical or other excellence may be overestimated by the proud mental s. We could observe this in cases of the Smart small passenger car, or in se of drugs capable of curing AIDS.

s usual, the interplay of market forces, via a series of trials and errors, ell, and often does correct the initial price set by the issuers/producers. the rule even in relatively simply controllable cases of stocks, as bearers C telecom stocks in the US or Deutsche Telekom papers in Germany experience. In sum, there is *nothing compelling in the initial price of any oduct*, including a new currency. The fact that the market corrected its value is only a critique of the assumptions adopted by those having set ial price, and nothing more.

ssessment is supported by the fact that the euro stopped depreciating by ber 2000. By August 2001, when hopes for immediate US recovery were ed, it started even to appreciate, despite the weakening performance of e EU economies like Italy and Germany. If interest rate differences capital inflows to Europe, these are likely to drive up the euro even

... macroeconomic indicators. Under this angle the *ECB policy of holding*, rather than immediately adjusting *euro rates* when the FED instituted cutes, seems to have been the proper response. All the more so, since the EU does not have and will never have a unitary transmission mechanism of monetary policy (Dornbusch-Giavazzi-Faverro, 1998), which puts severe limits to any attempt on using monetary expansion to cure labour market ills or to fight recessionary tendencies.

In sum, if unconfirmed market information, alleging the euro's taking already a share of 40-50 per cent in corporate bond issuance in 2001 hold, external weakness of the euro proved only a temporary correction, which has not thwarted the attempt to establish it as a major legal tender.

It is important to highlight in this context (in detail in: Braga de Macedo, 2001) that the stability of the euro is built not only and not even primarily in the wording of Maastricht, *but on a series of, mostly implicit, assumptions* on the mode of policy conduct, on rules of behaviour, on propensities and probabilities of co-operation, on the seriousness of a no-bail-out clause and many others[3]. Since the Maastricht criteria were seen as clearly inadequate, the Stability and Growth Pact has introduced procedures and additional quantitative standards to ensure fiscal solidity.

In this respect, the governments of euroland have submitted medium term fiscal adjustment plans for the period 2001-2004, committing themselves to gradual and steady improvement towards balanced budgets and even to surpluses in normal times of growth. It seems encouraging, that at the time of writing all countries were sustaining these targets, with the exception of Italy, where the Berlusconi cabinet has already notified its partners of its inability to meet the deficit target of 0.8 p.c. for 2001 and suggested a deficit of 1.6 p.c. at least (as reported in: *Frankfurter Allgemeine Zeitung*, 17 Aug, 2001).

It is probably too early to make a judgement on wether or not this infringement of the declaration of intent will indeed have serious repercussions on the

[3] Palánkai (2001, pp. 19-21) is particularly critical of the lack of explicit procedures and criteria of this pact, seeing informalism as a source of inherent ambiguity.

structural reforms and deregulation, which market participants see as investments into future improvements. *Temporary deficits*, e.g. die to pension fund privatisations, are typically diminishing implicit debts and future commitments, thus these are not seen in the same light, as e.g. increases in public sector payrolls. In any case, the dispute over the procyclical Irish budget in the spring of 2001 has already foreshadowed, that *EMU does require fiscal coherence even in the absence of formal co-ordinating and controlling procedures* or quantitative targets.

In sum, the first assumption of ours on the stability and sustainability of EMU seems to be a plausible one. It is supported by the events of the last decade, where neither asymmetric external shocks, nor the changes in the domestic balace of power in member-states have lead to a desynchronisation that could upset the construct. Not even the slowdown in 2001 has not triggered old-fashioned policy initatives that would have upset the basic rules of the game. The French, German, British and Italian left wing governments proved to be no ess efficient guardians of monetary stability than their conservative counterparts, in some cases (as in Germany and Italy) even outperforming hese. Thus changes in the political pendulum do not any longer pose a threat o EMU fundamentals, and it is hard to imagine tougher external shocks than he ones in recent years, which could de-rail the train of the euro. There are not pt-outs any longer (after Amsterdam)[4], there is no exit mechanism for icumbents, aned there are no major professional or political forces aiming at he disruption of the EMU/single currency construct.

'he Danish referendum of September, 2000, rejecting the euro will certainly pose a problem the legal structure of the EU, probably even more than the Irish referendum of June, 2001 ring rejected the Nice Treaty. One wonders, whether small countries will always be called on repeating and reverting no votes (as happened in Gothenburg in 2001), or larger members also be asked to do the same sometime.

... candidates to the EMU?

By the introduction of the euro as the sole currency in twelve member-states European integration has reached a new stage in deepening. If our rudimentary outlay of what EMU is about holds, this imposes additional criteria on the candidate countries, over and above the ones spelled out in Copenhagen in June 1993, over and above the ones contained in the White Book of 1995 (describing by and large the single market) and over and above the Amsterdam Treaty, currently serving as a basic law/constitution for the EU. It is worth noting, that incumbents had a time to adjust to the evolving new body of *acquis*, or Nordic countries could even opt out from some of the arrangements, and Southern members qualified only after their membership had been secured, easterners can neither opt out, nor rely on Community assistance in growing up to the more demanding criteria. In one way it proves that joining EU later means by definition more effort for less reward, a point obviously overlooked by those calling for a later, but more "perfect", accession agreement. In another way, it is a direct proof of the growingly *negative value of waiting*.

What are the additional criteria? If EU membership, at least implicity, following Copenhagen criteria, implies ability and willingness to participate in EMU, it means rejecting the British option of sequencing monetary convergence according to the candidate's domestic considerations, and even more rejecting the Danish option. Second, this ability and willingness needs to be demonstrable by the time of signing the accession protocol.[5] This is unusually harsh, if we compare, e.g. the usual gradualism by which currency convertibility and capital account convertibility is required by IMF and OECD, respectively, from their new members.

For the sake of clarity it is worth noting, that modern growth theory do not see any longer growth and inflation as usual bedfellows. The path of noninflationary growth is not only economically and socially superior, but it is the only *sustainable* one. Under this angle joining the club of monetary stability is a

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[5] This follows implicily from Copenhagen and Amsterdam, and has been made explicit by the EU party during the negotiations.

~~~ to decelerating interest

rates in an organic fashion. By doing so, the cost of external funding of investments, needed for sustaingly high growth rates becomes lower, and the probability of a developmental virtuous cicle improves. By joining in a tested and internationally acknowledged regulatory environment, the capital absorbing capacity of a transforming country can dramatically improve, its attractiveness as an investment spot grows considerably, and the *various risk premia*, associated with political, economic, regulatory and legal risks *may also diminish*.

The more we consider such practicalities as the variety, diversity and cost of enterprise level external finance, as well as the need to diversify and decentralise national risk, the more *compelling* we find the case for *capital account liberalisation based on solid domestic financial intermediation and institutions* (Buch - Heinrich - Piezroch, 1999). If these two policies are implemented as mutually supportive, moreover in the course of joining an economically superior community, the usual counter arguments against unilateral liberalisation do not hold. Making this option feasible is probably the most important component of EU assistance to *self-sustaining* economic recovery in transforming countries. These measures, unlike financial aid, do not create dependency, thus they serve the best interest of all participants.

Desirability of a policy option, however, does not equal to its *feasibility*, especially if time constraints are very severe. If the accession deadline of 2004, implied in the Nice declaration of December 2000, and made explicit in the Gothenburg Council conclusions of June 2001 hold, the time is pressing for all those, who qualify in the first round. Thus our problem is not only of abstract theoretical relevance.

As we have seen, evolution of the EMU followed policy improvisations rather than any particular school of integration theory. The favourable experiences of Austria, Belgium, the Netherlands and later (implicitly) by France of unilateral pegging to the DM served as a point of reference. If fixed exchange rates prevail for longish periods, like a decade, or, as in case of the Austrian schilling, ~~~ *nominal*. Financial theory advances good arguments for taking over the established currency rather than introducing a new one. However this option was ruled out by the high level of national symbolism and sensitivity in Europe.[6] It is a worth noting that the above listed core EU/EMU countries had though the problem of co-ordination and cyclical synchronisation, *not however the developmental dimension*, i.e. the problem of catching up. In sum, the monetary arrangement was a product of rule of the thumb arrangements, and lacked just that dimension, which is vital for the eastward enlargement.

In the more developmentally-minded literature the role of exchange rates is seen as a focal policymaking instrument, where flexibility plays an important role in overcoming rigidities and transmitting information of various sorts over uncertainties and expectations, in both product and capital markets (Obstfeld, 1998; Summers, 2000). Thus the usual arguments for "tying one's hands" and exchange rate fixing may be *irrelevant or deceptive*. Following the Czech, Russian and Asian currency crises both general and development specific arguments for fixed exhanged rates seem to have given way to eclectic (case to case) or purist solutions: floating or joining currency blocks (Corsetti - Roubini - Pesenti, 1999). The crux of the argument is that stability can not be imported from abroad by fixing the exchange rate, if capital flows are liberalised, which is, after all, the mirror view of the classical *impossibility trinity* of Mundell-Fleming.

All this creates a problem, for transforming countries need not only monetary stability, as incumbent EU members, but also catching up. Therefore it is unlikely, especially if they are positive about capital market liberalisation, for developmental goals, and also because of their OECD obligations taken up on membership, as it is the case with Poland, Hungary and the Czech Republic, and also Slovakia, *that they could simply copy an Austrian hard currency policy of the period of prevasive capital controls*.

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[6] When the predecessor of the euro, the european currency unit was introduced, it produced an uproar in both Germany and Britain that the shorthand version, *écu* equalled to the name of a French currency of the Middle Ages. It was seen as a sign of French "cheating", by imposing one nation's own symbol over others...
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countries form exchange rate fixing (Broda, 2001), membership in the EMS-2 would positively require them to do so. If these countries experience very high gains in productivity, as e.g. Hungary did due to the large foreign direct investments, this produces either higher domestic inflation (due to wage catchup), or exchange rate appreciation, which is the classical Balassa-Samuelson effect.

While this effect would exert an upward pressure on the respective rates of exchange, capital market liberalisation may produce different effects. Currencies of small countries are inherently vulnerable to speculation (Keren, 2000), and it takes a very sophisticated and well communicating monetary authority that it could counteract external shocks (Edwards, 2001). As we have seen with the euro, *new players* in the international money markets *may take time and twists to find their equilibrium point that may sizeably differ from what policy-makers find optimal.* Thus fixing the exchange rate in a premature fashion may only invite speculation and trigger currency crises modelled on the East Asian events. Flexibility is thus the commandment of the hour and of the situation, quite contrary to what EMS-2 in its narrow interpretation would call for. Indeed, the sustainingly high Irish inflation is an illuminating case supporting our point.

To sum up the argument, the crux of the problem is follows. If the sustainigly high rate of growth of accession countries is a joint and common priority, and open capital markets plus lessons from the East Asian crisis call for exchange rate flexibility, there is a reason for trying to think of *bridging solutions, without* however, *compromising* the philosophy of Maastricht and the *commitment to fiscal and monetary prudence* in the long run.

Quadrangling the circle?

It is a difficult to find an intermediary option when public perception of the single currency is much worse than its actual performance would warrant. Also if we disregard the fact that central European accession countries, unlike most of postcommunist transition economies, have been growing twice as quickly as

them upon board" may simply further compromise the euro in the eye investors. This credibility gap has been repeatedly stressed e.g Bundesbank President Welteke and some other financial gurus. Also ir preparatory period representatives of both the Commission and the Euro Central Bank highlighted their propensity to interpret conditions for euro-en a restrictive fashion. If no in-between solution is found, then it is in va conclude negotiations over the 31 chapters of the *acquis,* say by late 200 a country which is nowhere close to euro-maturity can not maintain with degree of credibility of having met the second and the thirf Copenhagen cri

For this reason several bridging solutions have been proposed. As early as 1999 the Estonian government announced, that its currency board arrange is already fulfilling the criteria of ERM-2, thus when abolished, the condition switching over from *kroon* to euro will have been given. This argumentati formally correct. However, representatives of the ECB and the Commis advised Estonia against this choice. They noted that joining the euro is n matter of formality. It should be, just like in current members, a result a concluding step of a process of maturing. In so doing monetary and fi authorities must acquire credibility and skills of managing capital mar Domestic institutions should be tested by international capital markets. Or they stand this test, can they qualify. And it is no secret, that Estonian ba had to be rescued (bailed out) by the Swedish owners when the tide of Rus crises went high.

Another proposition originates with Polish authors (Bratkowski and Rostow 2000) and calls for unilateral euroisation by the frontrunner countries. Tl argument is basically the same of that influential trend of international finan literature (including R. Dornbusch, G. Calvo, K. Schuler and others) who call the abolition of small and vulnerable currencies. In order to attain mone stability the easiest way is dollarisation and/or euroisation. This option had b implemented by several Latin American countries, and a narrow interpreta of the currency board, as in the case of Bulgaria or Bosnia-Herzegovina a equals to this.

… across central and eastern Europe as a parallel currency over the past decades), the ECB was no slow in calling the proposal as a free riding idea. The authors reject the argumentation or ECB, that called the shortcut solution an attempt to avoid fiscal discipline. And indeed, domestic opponents of the option rightly stress, that unilateral adoption of a hard currency actually disciplines, in their view too much, fiscal policy, robbing it of its ability to counteract external shocks or smooth cyclical fluctuations (Nuti, 2000).

If we buy this argument, what remains is a diplomatic objection, i.e. whatever we think of the rules of a club, we are well advised to keep our criticism for the better times, when, as incumbents, will have been in a position to have the ears of others, not however beforehand.

A third proposition takes exchange rate stability as the major constituent of the monetary order represented by the single currency, thus is against ideas that would go in the direction of exchange rate flexibility. Instead it highlights the lisadvantages of focusing too much on headline inflation, and joining an mportant trend in financial economics calls for the re-interpretation of the nflation criterion of Maastricht (Szapáry, 2000). In this view, it was superfluous verzeal to set the criterion as the average of the best performers, as there are ieither established economic, nor convincing bureaucratic arguments in upport of this arbitrary policy choice. Once we do believe that the deficit pending policies of the 60s and 70s are over (and actually for 2001, 5 out of ie 12 euroland countries register a surplus in their budget), there is no need to iake incentives for overperformance. Thus an arithmetic average, which cludes countries also fighting with "problems" of too high productivity gains, as eland or Spain, could replace the three best performers. This number could ave been around 3.5 per cent at the time of writing, and this could already ccomodate most of that inflation which is due to productivity differences alone.

pponents to this idea underscure, that bringing inflation below two per cent r annum in a secular fashion has been a major achievement in all EU untries. Moreover, as the experience of 1999-2001 has illustrated, the fight

… shocks and domestic rigidities can equaly lead to its resurgence, and a tolerant approach can quickly be punished by the international capital markets. Inflation rates of around five per cent, as currently in the Netherlands or Ireland are not compatible with the fundamentals of the economics behind the single currency. This holds *a fortiori* for accession countries, where political parties preaching (not always practising though) populist policy platforms are often in government. The educationary role thus should not be given up.

In this line of thought proposal has been advanced, according to which price stability should be priorised for reasons commonly know in economics, and also in order to check the credibility of governmental policies. In this case the only solution to the Balassa-Samuelson problem is exchange rate flexibility. Arguing in this vain Kopits (1999) mentions the precedents, such as of Greece, where the national currency was allowed to appreciate. In this interpretation Maastricht prohibits though beggar-thy-neighbour-policies, i.e. competitive devaluations, not however unilateral appreciations.

While I find the argument convincing, it is hard to overlook that the heart of ERM-2 is the *irrevocability* of fixing exchange rates. As we have seen above, this follows from the policy experiences of countries having set up the single currency. Thus they might be hard to convert to a different creed, even if we find the latter overwhelming.

Prospects

What has been said may well suffice to *prove* the thesis we advanced at the very outset. Namely that the entry to the euro under the present rules and understandings of the ECB is *impossible* for quickly growing countries with open capital markets. Since the Europe Agreements compel all applicants to liberalise their capital account fully by the time of accession at latest, *the problem remains as long the Balassa-Samuelson paradox is valid*, i.e. in a longer period of catching up, that may take *decades* rather than *quarters*.

The solution to this paradox comes from the experience of policy-making in the EU (Wallace and Wallace, eds, 2000). This is indicative of a considerable degree of flexibility and willingness to find in-between solutions even in such seemingly irreconcilable areas as British and continental legal systems in the area of environmental legislation. Also in agricultural policy and regional spending new deals were struck when new policy priorities required so.

Potential future solutions require to make some of our assumptions explicit. One is that the euro can, and indeed will, establish itself as a *global legal tender*, overcoming the mistrust that used to surround it in 1999-2001. Second, central Europeans will manage to continue to *disinflate* in the years they approach EU membership. Third, applicant countries will be able to make *further* advances in terms ot their *fiscal adjustment* in the framework of multiyear fiscal adjustment programmes. This third assumption looks daring. However experiences of the 1990s (cf. tables 1 and 2) prove that there has been a room for tougher fiscal adjustment in the accession countries than in the case in the incumbents. This is not an assumption, strictly speaking, this is an extrapolation of a surprising, but proven experience in policies.

Should these three assumptions hold, the size of the problem will be defined by the differential speed i.e. *growth differential.* Studying economic theory and the experience of the transition economies there is *no compelling evidence* that would doom these countries to grow by East Asian rates for eternity. The slowdown seems to be built into the most fundamental Solow and Roemer-types of growth models, especially if investment rates are relatively low and investment into research and development have been notoriously neglected. These conditions will likely to diminish the growth potential of accession countries *below* the rates derived from conventional catch-up/*convergence modelling*. In so doing *the size of the pressure for appreciation may well become easy to accomodate, thus the systemic problem solved*[7].

Under this angle the euro should *not* be seen as an *entry barrier* to the accession countries. Rather the prospect of qualification may provide the necessary political incentive for governments to make those efforts, which otherwise would occur as superfluous, or just unnecessary monetarist zeal, especially at times of elections. But solid policies are needed not for the EU, but out of their own virtue, i.e. for the self-interest of citizens of accession countries.

[7] It is an other problem how happily citizens at a lower level of development may react to this prospect in political or psychological terms.

APPENDIX

Table 1.

Maastricht relevant macroeconomic indicators (1998)

	Interest Rates	*Consumer Price Inflation*		*Gen. Gov. Balance*	*Public Debt (Per cent of GDP)*
	Lomg-term	1998	1999	*(Per cent GDP)*	
Czech Republic	14.2	10.7	2.7	-2.4	40
Estonia	11.7	10.5	4.0	-0.2	5
Hungary	17.8	14.3	9.3	-7.1	52
Poland	19.1	11.8	6.1	-2.1	26
Slovenia	10.3	7.9	4.9	-0.8	23
Bulgaria	5.4	22.3	n.a.	1.3	95
Latvia	5.3	4.7	2.1	0.1	6
Lithuania	10.7	5.1	1.2	-3.4	13
Romania	64.0	59.1	39.5	n.a.	18
Slovak Republic	17.1	6.7	6.9	-4.8	54
1991/3 data					
Portugal	18.3	12.2		-6.0	66
Spain	12.4	6.4		-4.5	44
Italy	13.0	7.0		-10.0	100
Greece		14.2		-13.8	110
Averages					
Luxembourg group	14.6	11.0	5.4	-3.2	29
Helsinki group	20.5	19.6	12.4	-2.3	37
Club Med	15.0	10.2		-8.6	80

Source: Gros (2000), p. 1369

Debt dynamics compared

	Stock-flow Adjustment	*Increase in the Ratio of Debt/GDP*
Cumulative 1992-1997		
Germany	13.7	17.4
Greece	28.1	10.7
Italy	10.7	12.9
Portugal	-4	1.4
Spain	11.3	20.9
Cumulative 1994-1998		
Czech Republic	9.8	10
Estonia	1.5	4.6
Hungary	20.1	-24.9
Latvia	2.1	-2.6
Lithuania	0.8	6.6
Poland	-4.5	-26
Slovakia	11.0	-29.6
Slovenia	15.8	5.4

Source: Gros (2000), p. 1376

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