OPTIMAL TRANSITION TRAJECTORIES?

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ABSTRACT: The paper addresses the issue, if costs and benefits/outcomes of post-Communist transition can be evaluated by the most commonly used economic concept, i.e optimality. In comparing theories and outcomes it asks how the quality of polity and institutions determine the outcome of importing institutions from the west. It also asks if, and to what degree, the Lisbon Agenda of the EU is a call for rethinking all existing continetal European models that evolved in the first two decades of tansition from communism.

The nature of analytical social science is such that the search for the right measure is one of its core elements. For this reason the two decades of transition from Communist to market order has been revolving around the big question if it could have been done better. Once we reject the widespread and self-condoning post hoc ergo propter hoc type of argumentation, the question if, and to what degree, things could have been better done, if costs were excessive, or results less than justified, must figure eminently on the agenda. In the present piece we try to address some of these normative issues. Both descriptive and interpretative evaluations of this historic process abound, and a "final word" is as much unlikely to be spoken as over the French Revolution, for that matter.²

At the onset of systemic change two trends of the literature attempted to raise these concerns. One was the debate over shock therapy versus gradualism, and the second was related to the social costs of transformation. The first strand of literature was rather emotional and loaded with immediate political misgivings about the nature of any comprehensive change may trigger in any established and urbanized society, such as those in central and eastern Europe. While the fact that the collapse of the Soviet empire has not been foreseen by most observers, nor the depth and multidimensionality of its crisis properly understood by most contemporaries hold, still the question remains, "how far and how fast" socio-economic changes were bound to go. Interestingly, as observed by contemporaries/Murrell, 1992/ politically conservatives were more in favor of social engineering, which is about the opposite of what we observe in the west. And by contrast, social democrats, the successors of enlightenment with its belief of the inherently good features of human nature, were in favor of more cautious steps.

Whatever we think about the merits and de-merits of the discussion of the early years, it has become quite clear, that certain measures take longer than other. For institutional reforms can not be introduced by fiat, and nobody familiar with the nature of structural reforms has advocated such, even if coming from the radical

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² For own own reading of events cf/Csaba,2007/.

camp. Furthermore it has become clear that the nature of changes is such, that these must go much deeper than usual adjustment programs of the IMF, including the more ambitious- though less successful/Krueger,1998/ – structural adjustment programs. Changing *informal institutions*, such as rule-abiding or rule-averting behavior, creating trust in the place of general distrust, gaining credibility for a previously non-existent system of financial intermediation, or bringing about conditions of the rule of law where lawlessness used to be the name of the game, are obviously challenges that can not be mastered over a few months, or even in a few years. And even if we abstract away from the fallacy, that dominated the western literature of the first four-five years, when stabilization was equalled to institutional reforms, the depth and the time dimension of the required changes have only very gradually been understood. Not only by policy-makers, but also by the guild of analysts.

The Broader Framework and its Applications

By the 1999-2001 period a stage of overall reassessment has emerged. On the one hand, internatinational agencies have also understood the imminent need to revise their conventional wisdom, for shorthand the Washington Consensus. Capitalizing on the failures and shortcomings of policy-reforms across the globe, but not least in the post-Communist world, the so-called Post-Washington Consensus emerged/Kolodko,2000, pp119-140/, where institutional features, social safety net, environmental and gender issues as well as overall sustainability considerations have come to the fore. Although the interpretation of the precise meaning of the new consensus has remained open to debate, e.g on the relative importance of traditional components of solid policies vis-a-vis institution building, or about the complementarities versus concurring nature of both areas of change/Havrylyshin and van Roden, 2003/, there seem to have been a relatively broad *common understanding* over what needs to be done and how. This convergence of views has been strengthened by the fact, that frontrunners in transition were successfully applying for membership in the European Union. Being a specific model of the market economy itself, the acquis of the EU has been playing a formative role for the acceeding countries in a large number of policy areas, from monetary policy to environmental protection. Furthermore, since accession has been granted, to a large degree, on the base of promises/further committments, this role is unlikely to evaporate any time soon, notwithstanding the more recent erosion of the implementing capacity of the Union against its core member states.³

One of the underlying reasons for the appreciation of the role of institution building has been the insights stressing the importance of *sustainability* in all major policy areas, not only in fiscal and monetary policy. The more we care about the time dimension, the higher relevance we attribute to the precise and transparent formation of the rules of the repeated games, as well as to the *implementation capacity* of those/an aspect highlighted particularly by the last book of D.North/2005//. So if early debates tended to focus on macropolicies and stabilization, later discussions focus on the quality and nature of new institutions, the quality and outcomes of privatization, the efficiency enhancing features of the regulatory frame and

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³ Not only the Stability and Growth Pact is recurringly flouted, but so are a number of other regulations, such as those envisaging the single market, or environmental protection. The Commission produces regular monitoring reports, naming and shaming trespassers, which include not only and not primarily the new member states.

components ensuring the favorable outcomes. Judging by the convegrence of previously polar positions, such as e.g the Economic Commission for Europe on the one hand and IMF and EBRD on the other, at least at the level of the theory of economic policy, a substantial amount of agreement has emerged over the basic question, what needs to be done. For instance appreciating the role of competition, of independent regulatory agencies, standard reporting and transparency requirements and the like counted among the common insights. Likewise the renewed emphasis on the social side, in terms of employment and social safety net alike, education and R+D accounted for the rapproachment.

This consensus has been strengthened by the nature of *Europeanization*. For one, the regular and organized interactions with incumbent EU polity, from the level of cabinet members to more frequent encounters among scholars on a large number of occasions, has obviously contributed to the evolution of a common languague of analysis, common agendas and a degree of commonality of perceptions. On a more practical level, both the stage of acquis screening and the process of accession has included a fair amount of direct imitation and adaptation of pre-existing arrangements, even monitoring and checking the sincerety and success of implementation ,,on the ground". This circumstance may be evaluated both as a plus and a minus. It has been a plus insofar as to the substantive features of regulation could be implemented, and not only on the books. Thus a higher quality institutional setup emerged than in comparable cases, be that the New Independent States, southeast Europe or the Mediterranean. On the other hand, the "domestic ownership of reforms", to use the parlance of the Wolfensohn Presidency of the World Bank, has not always been ensured. For this reason the identification of domestic actors as a side condition for sustainability has not been secured. Dodging e.g of environmental regulations, or even watering down the new features of common agricultural policy favoring rural development against traditional production subsidies, has been anything but unusual.4

The Derailment to Populism

It is all the more puzzling against this background to find that *policies* that could have followed from the common insights *have not materialized*. Most conspicuoulsy a quick adoption of the single currency seem to have been one of the fundamental consensus points of the economic policy debates. For if there is consensus in terms of the desirability an feasibility of lastingly low inflation policies in catching up economies, the arguments in favor of joining in become overwhelming. The more we accept the bipolar view that has become dominant in the financial literature, namely that only the corner solutions in exchange régimes are sustainable for the long run, the more we would see as an imperative for any small open economy to bring about conditions for joining monetary integration. If for no other reasons, the substantially decreased likelihood of a speculative attack on the local currency, the abolition of the exchange rate constraint, the probability – and in the longer run

⁴ For instance, in the case of Hungary in 2004 and 2005 funds, originally earmarked for regional development projects, have been re-channelled by the Ministry of Agriculture for production subsidies, in one case e.g to support the notoriously crisis-ridden poultry sector.

⁵ It is a different issue that shortcut solutions, such as unilateral euroization or the currency board option may be counterproductive/Nuti,2002/.

inevitability - of interest rate convergence, and not least the elimination of the balance of payments constraint on economic growth together add up as weighty package of arguments in theory and policy practice alike. It seemed, at least at the time of striking the accession deal at the Copenhagen Council of December 2002, that this is part and pacel of the common understanding. For this reason each applicant agreed to join the entire EU acquis including monetary union, though with a timely derogation. In other words, unlike Britain or Sweden, the new members accepted the implicit obligation to meet the criteria for EMU entry as part of EU entry "within forseeable period of time". ⁶

But *reality has become quite different*. The committment to sustainable public finances, of fiscal consolidations, and to accepting these as preconditions for lasting growth has become increasingly feeble in the period immediately upon establishment of the EMU. This is not a theoretical, nor a generally valid statement, but a politically weighty one, as it does relate to the three *core economies of the EU*, France, Germany and Italy. It is interesting to observe that it were the core EU economies, where domestic developments have led to ebbing out of reforms, although EMU could, in theory, have called for their intensification. By contrast, Scandinavians outside EMU framework have tended to adopt policies of reform and consolidation, even tougher than EMU membership would have required/Aiginger and Gugger,2006/.

It would require a separatel analysis/de Haan et al, 2003, Buti and Franco,2005/ to elaborate how the change in the domestic balance of forces in the core EU states has led to the previously unthinkable practice, that the very major players find various pretenses and sideways to dodge the self-imposed fiscal discilpine of the Stability and Growth Pact. Whatever we may think about the substance of the SGP, the fact of the matter remains, that regular breaches have developed immediately before, during and following eastward enlargement. The reference to reform fatigue is though customary, however less than fully convincing in view of the rather marginal changes that ocurred in the major trespassing countries/as against the new members and Scandinavians alike/.

What really maters from our perspective is the *negative synergy* that emerged in the two interelated, though quite different practices. At the immediate level, it hs become crystal clear, especially following the November 2003 Council decision not to start excessive deficit procedure against France and Germany /later though overruled by the European Court of Justice/ that it is, indeed, *possible to get away with non-compliance*. It is not that imposing the sanctions of last resort, such as the actual fining of the two with a penalty equalling to 0.5 per cent of the GDP, as envisaged originally in the Treaty of Amsterdam would have been required. However the circumstance that governments obviously and openly flouting the letter and the spirit of the coordinated fiscal rules of the game could get away even without a formal reprimand has made the impression, that the fiscal framework, meant to support the EMU is a dead letter which is not invoked if anybody of importance is involved.

Second of all, new members, themselves struggling with the disequilibria, owing to reforms and policies alike, have faced the *demonstration effect* of the major countries. Quite irrespective of the need to join the euro quickly or not so quickly, they could

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⁶ In this line of reasoning meting EMU criteria does not imply any additional burden, as it is a synthesis of stability and growth promoting tasks that are needed to be implemented anyway/Csaba,2001/.

observe the locomotives of the EU to dodge reforms, basically for reasons of short term political considerations. Under a competitive political system and facing the gradual disintegration of governing parties on the left and right alike, it seemed trivial for them to replicate the experience of the "frontrunners". The cost, in terms of power, of joining the single currency later, and not meeting the criteria now, that were seen as by and large arbitrary and irrelevant anyway, has not seemed to be prohibitive anyway. For this reason the oft-invoked "straightjacket" nature of Maastricht and the SGP has not been at work at all, since participation in the coordinated fiscal framework has not and could not exert any disciplinary influence over the new members.

This is not to put the entire blame for the populist derailment of frontrunner transition economies on any of the external factors, that included, inter alia, the historic low of *international interest rates*. The fact, that in the last Greenspan years the FED prime was the lowest in 46 years was basically an outcome of an attempt to avoid a recession in the USA. But for the new members states this created an opportunity for, and a lure of, bridging domestic disequilibria from *cheap external sources*, irrespective of the sobering Polish and Hungarian expeiences of the 70s and 80s.

Analyzing the Hungarian experience Györffy/2007/ points to the low institutionalization of the budgeting procedure, the lack of professional and political understanding, the perhaps too quick adoption of creative accounting of advanced economies and the relatively low professionalism of public debate over public finances among the causes. While these factors may and perhaps also do vary by the Visegrád countries, the overall feeling of economic issues becoming less pressing must have played a role.

Last but not at all least it is worth noting, that in the 1990s successful transition countries have, to some degree, transformed their *economic* problems into *social* ones. When wages grow slower than productivity, capital income and wealth emerges, and so does mass unemployment and open poverty, joined with conspicuous consumption at the other end of the social spectrum, macrodata seem often irrelevant for the man in the street. While in terms of macroeconomic indicators it would be hard to dispute the primacy of Poland/in terms of increments over the 1989 levels in GDP/capita, consumption etc/8, it was precisely that country where strains have become manifest already years before the rightist-populist turn of 2005.

On the base of established economic insights it is anything but surprising to see the deceleration of growth, the sustainingly low activity levels, the ensuing phenomena of *jobless growth*. Since the growth of the Visegrád countries in the 2000s has increasingly been export- and FDI led, while the latter evolved around a capital intensive pattern, this implies limitations in the demand side. On the supply side of labor one could observe the extension of higher education in terms of quantity, irrespective of labor market demands/ replication of the experience of the 70s and 80s in core EU/. Meanwhile traditionally competitive secondary schooling and vocational training tended to be neglected. Cultivation of skills particularly important for

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⁷ According to an opinion poll of spring 2006 only 18 p.c. of the voters of the governing Socialists believed that fiscal deficits constitute a problem/while the actual magnitude of the latter is above 10 per cent by the end of the year/.

⁸ More on that in the book edited by Kolodko/2005/.

employability, such as foreign languagues, computer literacy, the ability and willingnes to cooperate, even under unusual circumstances, and with persons from different cultures, have tended to be neglected. Thus the relatively favorable numbers of formal education, such as the next to general spread of secondary education, or the quantitative expansion of tertiary education, tell little about the actual outcomes in terms of economic potential. The production of degrees has become a rather poor reflection of the state of human capital/Polónyi and Tímár,2001/. The above sketched circumstances may account, at least in part, for the emergence of jobless growth by the 2000s in cental Europe.

The Quality of Institutions and Policies Matters

One of the possible answers that may be given as a partial solution to our puzzle may lay in the quality of policies and institutions. In short, the process of accelerated structural change in central Europe has, at least, been externally imposed on the respective societies. This means a number of factors, starting up with the collapse of the Soviet Empire, which has been extraneous to those societies. ⁹ By the largely unforeseen changes of 1989-91 occurred, even analysts, inside and outside the region, tended to be rather unprepared for the challenges. Local economists did have a lot of tacit knowledge of the system and experience with manipulating reforms, that included a fair amount of policy skills for timing and sequencing. External experts tended to have two types of knowledge, that remained largely disconnected in most of the cases. Sovietological knowledge was though extensive in anthropological and culural terms, though tended to be backward in analytical economic backing. By contrast, mainstream and also developmental economists, active in extending policy advise and at the international financial organizations, tended to have very limited if any region—specific experience. Knowledge of the Soviet type economy was limited and schematic, and this contributed to a tendency of underestimating the time dimension as well as the complexity of post-Communist change. Therefore their advice often lacked *contextuality* thus has been misleading on the ground.

True, with the passage of time the *interaction* of the above listed different brands of knowledge tended to improve, inter alia by way of learning by doing, or *trial and error*. Several ideas have been tested on the transforming societies/for good or bad/, and this experience has finally contributed to the improvement of global economic knowledge. The learning process has ben accelerated by the spread of standard knowledge and business expertise in the region/ Bourgignon- Elkana-Pleskovic, eds,2007/ at the formal level, and via the interaction with IMF, World Bank and not least the European Union and multinational corporations at a more practical level. From the point of view of *social learning* the latter, more *pedestrian variant* has been equally, or even *more*, *important* than formal knowledge transfer. The above listed institutions have contributed, via assistance programs, involvement, conditionality, and simple on the spot learning/which was mutual/ to the evolution of relevant *professional knowledge*, both in the region and golbally.

⁹ Earlier attempts to modify the boundaries set by Moscow, such as the 1956 Polish and Hungarian uprisings, the 1968 Prague Spring, or the 1980-81 Solidarity movement all foundered on the constraints set by the geopolitical situation. Changing of the latter was though not entirely independent of what happened in central Europe, however it would be an exaggeration to attribute the erosion of the system

to factors within the satellite states.

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With all due respect for those involved on both sides, it remains to be observed that change in the region has remained to a large degree *externally determined*. Also learning at the expert levels has been much quicker than at *the social levels*. And while one may be moan the relatively slow and shallow acquisition of cutting edge knowledge, even this speed tended to be *breathtakingly quick* for the formerly closed and stagnant ex-Communist societies.

Learning has been anchored to a large extent in the process of Europeanization, i.e the interaction of EU and candidate country structures and policies. Ever since the signing of the trade and cooperation agreements in 1988 the EC/EU has been involved openly and deeply in the formation and restructuring of domestic institutions in central Europe/Balázs,1996,Part V./. Since the accession to EU has been one of the very few consensual points among the divided local elites, the EU has gained an *unusually strong bargaining position* in the period leading up to accession. By the same token technicalities stemming from the autochtonous development of the acquis communautaire and extraneous to domestic concerns and the dynamics of transition have played a major role. Perhaps the first and most conspicuous warning example of the mismatch was the White Book of the Commission of 1995, when it first listed the major tasks for candidates. The latter included, in the same order, such issues as the need to treat national minorities properly, to ensure the independence of the monetary authority and the qualities tea boilers have to meet. Whereas the latter was clearly a reflection of the nature of any bureaucracy, the outcome has remained the same.

These and other examples may explain, why the adoption of wesern, i.e mostly EU norms has been *rather formal*. In making the choices the stick and the carrott of the EU, as represented by the Commission and a few major members, played a decisive role. Therefore considerations of an appropriate fit to the acquis rather than coherence with national norms, even the Constitution remained subordinate/on the latter cf Sajó,2004/. On the other hand, the limited administrative capacity of the Commission DG for Enlargement, and also the relatively marginal significance of enlargement issues in the overall agenda of the EU until 2002-2004, together allowed for the acceptance of lastingly formal adaptation. Even if the EU expert/Commission had their doubts, political and *strategic considerations* tended to sweep these under the carpet.

The best example of this approach has been the option for big bang rather than small group/incremental enlargement in 1999 in the Helsinki Council. By de facto giving up the principle of differentiated treatment the EU has sacrificed one of its most important bargaining chips. By contrast, local politicians tended to adopt a *minimalist approach*. Rather than echoing the concerns of the founding fathers, they considered necessary to deliver whatever was required, but not a penny/inch more. This approach, often dubbed in the more academic EU literture as the return to intergovernmentlism, has not caused though the lapses, however it has undoubtedly contributed to them.

Let me list just the *major policy areas* where improvements have proven to be *formal* and *fragmentary!* The obvious starting point is *public finance*, where, as discussed above, the incentive to joint the area of single currency/a technocratic argument/ has become subordinate to redistributory concerns/ a socio-poliical argument/. While new member states have long been involved in the rituals of the EU aimed at ensuring

compliance with the letter and spirit of EMU, such as the elaboration of Broad Economic Policy Guidelines, the Fiscal Convergence Programs, since 2004 some of them even the Excessive Deficit Procedures, moreover their representative are present during the deliberations of Ecofin, in elaborating the Financial Perspective and also in the co-decisions of the European Parliament, still all these exercises have obviously have fallen short of preventing the new members from the derailments, already immediately upon their accession.

Membership in the EU has not contributed, as many of us would have expected, to a qualitative *improvement of the system of financial intermediation*. The story starts with the monetary authority, whose independence in real terms has proven less than the ECB would have liked it. It follows with the limited role of the State Audit Offices in correcting fiscal malpractices. Competition agencies are though active, however their role is rather supplemntary than formative in shaping decisions of macro-structural nature/Bara,2006, Kravtsenniouk,2002/. The slow if any progress in terms of EU-widefinancial services sector liberalization has contributed to keep a large segment of the economy closed. This is only in part counteracted by the fact that the banking sector in the region is one of the *most transnationalized* by global standards/Gém,2004/. This had to do with the need to import professional knowledge and strategic investors, whose capital is sufficient to ensure the solidity of the local banking system.

But the shortcomings of similar sorts could be listed in a number of the *non-economic areas*, such as rule of law. Here the discontinuity with the interwar period has been particularly manifest, though differring by the country. While many aspects of legal culture have survived the Communist period, or have been revived in the early years of transition, the substantive components of applications remain fragmentary. Business surveys of various sorts continue to name red tape, corruption and clumsy, inefficient legal arrangements among major components limiting competitiveness of the new member states, over and above the respective levels of unit labor costs or statutory tax rates.

Microeconomic reforms have also slowed down in the years during and after EU accession. To list a few: tax reforms though allowed to avoid the collapse of state revenues, that could be observed in the New Independent States prior to the emergence of the oil windfall and centralization of power structures, but this was a limited success. With the exception of Slovakia, the system of public dues has remained rather intransparent, serving a multitude of ad-hoc purposes. For this reasons most business surveys contain repeated complaints against the tax system and even more over the arbitraryness of administration, despite the well established fact that the consolidated level of public dues of Visegrad countries is among the lower ones in the OECD areas. In the administration of investment related tax holidays, also a strange development could be observed. Following the competition policy guidelines of the EU the Commission pressed the new members to abolish the lavish tax holidays granted to big investors. While these ceased to grant new benefits since the end of 2002, a competition for FDI has intensified. At least in some of the industries, notably in automobiles the – often prestige-driven - race for new big investment did trigger a series of concessions granted to the big investors, contrary to the declared principles and contrary to commonsensical and elementary economics/as documented in: Kolesár, 2006/. The workings of courts has remained slow, inefficient

and often insensitive to the needs – and time considerations- of buisiness. Support for SMEs has though been vocal, but neither the money allocated nor the institutions specifically tailored to their needs were able to overcome the numerous obstacles to bottom-up enterpreneurship and its growth/Dallago and McIntyre, eds,2003/.

Also in the broader socio-political sphere *the stagnation of reforms* has become observable, once the formal requirements of the EU were, by and large, met. For instance, in Hungary, the agency supervising the media worked for four years without involvement of the opposition, although the stipulations require their presence. In Poland and Hungary the monetary policy board has been widened so as to enhance governmental influence. Corruoption cases abound, most prominently in the Czech Republic, when prime ministers and other high officials had to resign due to involvement. In Slovakia several of the reforms of the Dzurinda government could be easily reverted, such as the symbolic flat tax, showing the *weak institutionalization* of policies. The politicization of civil service has become manifest in all the four countries, with changes in the top triggering wholesale restructuring, reaching even the lowest levels. Most affected were the ministries of culture and foreign affairs, but these are by no means singular/exceptional cases.

The spread of populism in overall political approaches has paved the way to what was once termed in the USA during the Reagan period as woodoo economics. Calls for tax cuts and parallel expenditure increase abounded, in left and right wing parties/governments alike. The balooning of deficits, most manifestly in Hungary, has been a clear indication of how dire the consequences of such policies can be. For if the government regularly overspends and crowds out private investment, the deceleration of growth rates is anything but surprising, especially in the medium run.

Lack of consensus, low credibility and insufficient committment have made the joining the eurozone illusiory in each of the countries by the time of writing. While this step was seen around 2002 as a given, the nature of policies has evolved so that the floating of the entry date is the adequate option, since nobody can make quantifyable and thus checkable committments on macroeconomic targets, especially the ones enshrined in the Mastricht and the following Nice Treaty on the EU. This should not be a major problem per se, if only we had not have to consider two circumstances. For one, the avbove listed shortcomings reflect the weakness of new democracies. Furthermore it also reflect a missed opportunity in the period of relatively high growth. Instead of implementing the painful, but necessary third generation reforms, or at least paving the way for the latter, the policy-makers of the region opted for short-sighted policies, despite the formal committments made – explicitely and implicitely – during the accession process. On the other hand, at times of increased capital mobility those small open economies, who also have opened their capital markets by the early 2000s, as the Visegrad Four, are increasingly subject to the volatility of international capital markets. Under these circumstances sustaining a national currency becomes an expensive and dangerous luxury, as the potential number of targets for speculative attacks has been on the decrease. Furthermore in such small open economies the sovereignty of monetary policy has become by and large an illusion anyway, since the room for conducting policies other than accomodating the ups and downs of international markets has become narrow, or even next to nil. This can be tested any time they wish to follow a different line, e.g.

reflecting domestic balance of power considerations, such as trying to keep the prime rate low in order to help financing the deficit of the government.¹⁰

What Is the Terminus?

The mere listing of the above sketched issues may already justify our doubts about the uses of the term "transition". The semantics of the word would imply, that we know by and large not only *the starting point*, which is the case with the benefit of hindsight, but also *the end point of the process*. Under this assumption the real question is only that of the trajectory, in two planes. At *one level* we may ask if societies have indeed come closer to their production frontier, if they have rejoined the mainstream of human progress, or if they have entered the path of sustainable development, i.e allow for applying the concept of the World Bank and others that is broader than sheer quantitative growth/and includes environmental, social and financial equilibrium considerations/. *At the other level* we may compare, at least ex post, actual policies with those that could, in theory, have ben implemented. This second exercise is of course to a large degree speculative. However it allows for identifying alternatives against which the self-congratulating tone of the official accounts can be replaced with analytically better elaborated insights.

The above list is by no means meant to be exhaustive, and could be extended perhaps at will, with further issues such as the problem of social exclusion, the major dilemmas of developing physical infrastructure, the need to turn education a component of competitiveness and many others. However the mere enumeration of issues reflects a new reality. Namely that countries of central Europe face by and large the same type of challenges as the incumbent EU-15. In other words, transition, as a specific set of tasks, leading to EU maturity is basically over. However the EU itself has come to a certain stagnation in both policy and institutional planes. At the policy level major items of common or coordinated policies have been subject to doubts and disagreements, from common foreign and security policy/over Iraq/ via the above described flouting of the fiscal framework, to the open questioning of the rationale of common agricultural policy, in terms of size and funding alike, by the net contributors. Meanwhile, at the institutional level, the rejection of the Constitutional Treaty by the Dutch and Frech electorate and the ensuing freezing of ratification in such major members as Britain and Poland have sent a clear signal to policy-makers that the seclusive, elitist, non-responsive style of European governance has reached its clear limits.

In short, what seemed to be a safe haven for the new members only a few years ago, has become a sea of rather troubled waters by the time they have arrived. The stagnation of the Union as an institution follows, by and large, from *the stagnation of domestic reforms* in some – though by no means all – core member states, such as France, Italy and Germany. The challenges, as reforming the welfare state model, broadly concieved, and introduce fiscal sustainability, while regaining global competitiveness bear considerable similarities between old and new members.

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¹⁰ This experience has perhaps been the most palpable in the 1980s when the Maruoy Government in France and the Papandreou Government in Greece attempted to revitalize the economy following old-fashioned Keynesian recepies. The openness of the economies as well as the size and depth of international capital markets has only increased and capital controls abolished.

For this reason it is legitimate to ask, if and to what degree, the *Lisbon Strategy*, as relaunched in March 2005 is an adequate answer to these challenges. 11 The new agenda can be read at least in two ways. In a more narrow, technocratic level it is a collection of measures, that are relatively loosely dovetailed. The two basic innovations at this level are the so-called open method of coordination, i.e the rejection of previously predominant centralized methods, stemming from the French and German traditions in public administration. For this reason annual programs are decentralized to the national level, and this is where funding for most initiatives is bening secured. This also is an important novelty, reminding the new members of the fact that the EU is decreasingly about redistribution. What used to be a British peculiarity/ever since the infamous exclamation of Baroness Thatcher: "I want my money back!"/ is by now general practice. Maximizing transfers from EU funds does not qualify as a meaningful, even a feasible integration strategy, as the coffers are basically empty. The Financial Guidelines for 2007-2013 allow for a redistribution of a mere 1.045 p.c. of GNI despite the joining of two poor countres, Bulgaria and Romania in 2007.

But seen in a *broader perspective*, the Lisbon Agenda is a call for rejuvenating Europe, for it contains a refocusing of priorities to the high tech industries, to education and competitiveness in general. The Lisbon Agenda does not contain big investment projects in physical infrastructure, but it calls to attention to a number of major issues. It adopts a *back to basics* approach by calling for more growth, and for more growth deregulation of factor and product markets. It also stipulates the use – rather than the production – of information techology across the board, also in traditional industries and households. It conceives education as a strategic sector, one whose major job is not to keep entire cohorts of young people out of the labor market, but prepare them for more and better jobs, for non-traditional forms of employment, for life-long learning and for working with different corporate cultures. It sustains the previous concerns about gender equality and social protection, however the previous bureaucratic approach of plan indicators has been softened and even given up.

If we accept that this rather general agenda is, just owing to its high level of abstraction, is perhaps best suited to address the *diverse concerns* of the memberstates, further that is reformist quest and focus on global competitiveness reflect the basic coordinates of strategy, this translates into a call for *further reforms within the member-states*, *old and new*. The tasks of attaining fiscal sustainability as a side condition for a viable welfare state is a big challenge, but a manageable one, as the experience of the Scandinavian countries has convincingly demonstraded. The concept of "flex-security", i.e the combination of flexibility with retraining and decent living conditions, the latter coupled to the expressed willingness to work, originating from Denmark, is perhaps a sign of what needs to be done.

One of the remarkable features of *international competitiveness studies*, such as those by the World Economic Forum of Geneva and of Institute for Management Development in Lausanne is the clear evidence, at global scale, of the viability of distinctly different roads to success. For instance the leading players, such as

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¹¹ A recent special issue of the monthly of the Hungarian Academy of Sciences has been devoted to elaborating various aspects of this set of issues from a number of disciplinary perspectives by articles written by leading authorities on the subject in: *Magyar Tudomány*, vol.167.no.9/2006/.

Singapore, the USA and Finland/Denmark and Switzerland have markedly different arrangements at the macro- and micro levels alike. Similarly, if we stay with labor market data, even within the EU liberal arrangements, such as those in Ireland and Hungary may be equally effective as more regulated arrangements, as in Denmark or Austria. In sum the lasting diversity of the routes to success seems to be sustaining feature.

If this is the case, we can not and *should not speak*, even at the more abstract level, about a well-defined terminus in the singular. Perhaps it makes sense to talk about termini, in plural, within the established traditions of Pryor, Montias and Bornstein, i.e the defining figutres in traditional and well developed *comparative economics*. This non-mainstream approach has now in part been revived in comparative political science by the "varieties of capitalism" approach / Iversen,2005, Bohle and Greskovits,2007/. The message of all these – in part competing, in part complementary – approaches is that there is nothing wrong or surprising to see the end point of "transition" being inherently different by the country and *even openended in historical perspective*.

If this is the case, the question mark in the title of this essay is to stay legitimately. For the past, we may still want, and perhaps are obliged, to ask if costs could be lower and gains higher. As in standard economic analysis, the answer is often 12 in the affirmative. For the future, however, we have lost the standard, the rod of measure. Most probably we can run the standard analyses, find the usual suspects in bringing about less than ideal outcomes. However the lack of a clearly defined end-point, as well as allowing for path dependeny, and even more for public choices that may differ by the country and the generation, will render the concept of optimality less than operational. Perhaps the difference between micro- and macroeconomic concepts and levels of interpetation is likely to remain a lasting feature in understanding real world developments, such as the historic change from Communism to the European Union. Once we give up the implicit assumption that Georgia should equally end up in being a version of Sweden as Slovenia, there is nothing surprising about the divergent paths and even less about the different endstations. To judge the difference may remain, to a large degree, a matter of value judgement, not liable to quantitative checking.

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