

Tomasz Mickiewicz, Professor of Comparative Economics  
SSEES, University College London  
16 Taviton Street, London WC1H 0BW, United Kingdom  
[t.mickiewicz@ucl.ac.uk](mailto:t.mickiewicz@ucl.ac.uk)

Review of László Csaba, *Crisis in Economics? Studies in European Political Economy*,  
Budapest: Akadémiai Kiadó, 2009, pp. 223.

It is difficult not to agree with the endorsements of the book reproduced on its cover. As stated by György Szápary: 'Professor László Csaba has performed a most valuable task: he wrote a book that is accessible and useful to a wide range of audiences – economists, sociologists, historians, politicians, or any other reader interested in economic challenges facing Europe, old and new.' Indeed, the book offers a collection of essays on both the new EU members, and more generally on the state of the union, aiming to offer policy advice based on insights drawn from economics, politics, sociology and history. The aim of the book, which it achieves, is clearly practical: to help the wider audience to understand what Europe is, where it is going, and to recommend economic policies and institutional reforms that could help it to achieve sustainable growth.

While the above describes most of the book, the first two chapters are different. If they deal with Europe, it is on a higher plane. This opening part of the book compares the European and American theoretical ideas in economics, providing an introduction to the rest of the book. This overview of the state of economics is a good one, emphasising the limitation of the rational choice model. While the latter remains at the core of the discipline, the paradigm is widening with institutional economics making strong inroads into the mainstream. Yet, as stressed by the author, these new approaches should be seen as complementary not as alternatives to the modern theory of maximising behaviour that the economics became (p.15). Institutional approaches see the world as more complex and therefore call for modesty, questioning the attitude shared by both mathematically-oriented market economists and by remaining supporters of centralised planning that the future is an easy subject for human shaping (p.27). The dangers associated with too much emphasis being placed on formal theoretical modelling is that in (understandable) quest for patterns it is 'de-emphasising the empirically observable in favour of technical elegance' (p.40).

In the next chapters the author reflects on the process of institutional change in Central and Eastern Europe. Chapter 3 offers a detailed discussion of divergent development paths that those economies followed, reflecting on the role of both initial conditions and policy choices (and reversals) in shaping economic outcomes. One of the interesting conclusions of this chapter is that 'more free market solutions entailed not more but less inequality', that – amongst other - may be attributed to 'enhanced mobility and opening up diverse career

paths that are independent of the state' (p. 76). Based on this wide comparative perspective, we next move to the analysis of a more current phenomenon of the (limited) policy reversals with populist overtones that the new member states experienced in the aftermath of their accession. The re-emergence of economic populism was a most severe phenomenon in Hungary, enhancing tendencies towards fiscal recklessness (p. 109); the author's diagnosis is confirmed by the events of 2010 – by the unravelling fiscal crisis in this country.

The author next moves to the key economic and political challenges facing the European Union as a whole. One of the paradoxes identified by the author is that the very success of the union creates a false sense of security and results in moral hazard problem at the level of member countries (p.120). Similarly, the incentives to reform were weakened by a short-term sense of stability prevalent in good economic times (p. 123). Chapter 6 offers a balanced view of the issue of accountability within the EU structures and calls for a more nuanced and realistic account of within-European country-level institutional heterogeneity and lessons for the union that can be drawn from the evolutions that are occurring both at the country and the regional level. In particular, the current emergence of the 'new Nordic model is a far cry from its conventional caricature' (p. 150) that would see it as a flagship example of welfare state. The latter does not fit current trends in Sweden and some neighbouring countries. This reductionism in analysis does not account for transparency, accountability, stiff fiscal responsibility frameworks, labour market flexibility and more generally readiness to adjust and accept change that were important factors that enabled Scandinavia to prosper and weather the global turbulences relatively well.

Chapter 7 deals with the issues of the legal reform of the union, including the aftermath of the Lisbon treaty. This part of the book closes with a chapter stressing the significance of constitutionalism or – another words – of constitutional political economy as defined by scholars such as Hayek and Buchanan, who accentuated 'the relevance of checks and balances in much broader way that is customary in political science' (p.179); it is here where the author creates links with the opening sections of the book, exemplifying how broader perspectives in economics may help us in both policy- and institutional design aimed to promote value creating activities. Taking Hungary as an example, the author demonstrates how ambiguities in the country constitution resulting from an inclusion of an extensive list of 'economic rights' led to the series of the constitutional court decisions in the second half of the 1990s that blocked necessary fiscal reforms, contributing to the deepening fiscal crisis in the country (pp. 183-184).

Finally, the last chapter closes with a list of reform and policy recommendations. They include careful handling of natural resource rents, decentralisation, conditions conducive to growth and expansion of the new private sector firms and education, which should also aim to support a common set of shared values that enable political and economic discussion and make consensus possible.

As a fellow economist who shares similar theoretical perspective I may be partial declaring that I read the book with interest.