

## BOOK REVIEWS

**Györgyi Barta**

*A magyar ipar területi folyamatai 1945–2000*

*(Regional Processes of Hungarian Industry 1945–2000)*

*Dialóg Campus Kiadó, Budapest–Pécs, 2002, Studia Regiorum, 272 pp.*

In the summer of 2003 the Hungarian government seems to be considering a “competitiveness enhancing” economic policy, which is a more presentable term for industrial policy. The acceleration of the Hungarian economic development after the introduction of the so-called Bokros-package in 1995 contributed largely to the widespread illusion that significant net inflow of FDI and increasing export competitiveness may be maintained over a long period of time by an adequate mix of monetary and fiscal policy measures. If this is so, some thought, sectoral policies may be discarded, especially industrial policy, officially unaccepted in the EU anyway.

Over the last four years, however, the EU has begun to retreat gradually, and from 2002 on industrial-policy-type measures are being considered more and more overtly. This is happening at a time when the realisation of the Lisbon programme, or decreasing the lag behind overseas competitors is at stake. Concerning Hungarian economic policy, either the compilation of the fiscal-monetary mix (and preparing each component) was less and less successful, or the government rejected alternative means of supply-oriented economic policy too early. Whichever the cause, Hungary presently faces a situation where the country’s competitive advantage is decreasing and part of incoming FDI has been turning away from the country. It is time to rethink how conditions of competitiveness of the Hungarian industry could be improved with EU-conform measures. Measures approved by the European Union for enhancing industrial competitiveness belong to – besides R&D, small- and medium-size-enterprise policies – the field of regional policy.

Regional policy measures are a handy choice where industry’s location seems to be inadequate. Barta’s book gives the reader clues as to revealing whether there are, in the regional dimensions of Hungarian industrial development and structure, options for competitiveness improvement, by the utilisation of which this sector of key importance could be directed back to the path of long-term, fast

growth. The monograph, however, has a much broader aim than this. The objective of the book is to analyse, in line with what the title suggests, Hungarian regional industrial development of more than 50 years.

The fact that the author has not succeeded completely in meeting the promise made in the title is probably due to the ambitious wording. The mass of statistical information originates from several different sources and the richness of the material from before 1970, including numerous highly valuable original data and scientific analyses is impressive. Longitudinally, however, the analysis is incomplete: none of the time series cover the whole period from 1945 to 2000. There is almost no data from the end of the 1940s, while several analyses end in 1998 or earlier. Lack of availability of some up-to-date data is certainly not a fault of the author, but giving a title not in absolute harmony with the concept of the research is still worth a remark.

The monograph does not include the discussion of the first phase of post-war Hungarian economic history, the short phase of reconstruction with a number of market-economy-oriented elements. The book appears to consist of four parts, but the first and last chapters (Introduction, Concluding Thoughts) are in reality not more in volume than whatever is absolutely necessary to open and close a discussion. The essence is hidden in the second and third chapters that deal with the socialist era and the years of the transition. The analysis starting from the end of the 40s – especially regarding certain company cases – often goes back to pre-war times. Generally though, the whole of Hungarian industry is presented to the reader in the early 50s, when it was already state-owned. This is where the adventurous story of regional industrial development processes, frequent decentralisation attempts set off, just to be concluded in the 1990s, and proceed under new conditions, in a considerably less visible manner and in different directions.

The scientific profile of the book is linked to economic geography by the author. This may have been influenced by the fact that economic scholars has so far failed to agree on the boundaries of *regional science* Barta has been pursuing so excellently for years. This study in economic geography is a thorough, pioneering work, and at times the reader wishes he could read more of it. However, probably as a result of the above-mentioned unclear boundaries, the author seems to have been unsure of what professional audience the book reaches. This is why Hungarian economic reform attempts, economic literature of the transformation (several of János Kornai's works in particular), are analysed in relatively great detail in respective chapters.

These overviews reflect a compromise: for the economist the contents hardly mean more than a survey of literature, for the readership of different professional backgrounds, however, the discussion is incomplete, covering only segments of reform economics. Excluding the overview or putting it in an appendix could have

proved fortunate, because this way genuinely novel parts of the monograph became shorter than desirable. Besides, some results of crucial significance are missing from the overview – e.g. Attila K. Soós's or Tamás Bauer's work complementing Kornai's analysis that are of great comprehensive importance to the modified or reformed planned economy are not included. Reform economy was definitely richer and more colourful than could be inferred from the book by a reader lacking profound economic knowledge.

Regional processes of the socialist economy and the transformation period seem to be easy to contrast at a first glance. One is inclined to think that before 1990 the regional structure of industry was predominantly shaped by governmental decisions, while company strategies gained ground in the transformation years. This statement reminds one to some economic historians' claim that before the change of the regime the government, after the change the micro-sphere took the lead in shaping Hungarian economic processes. Rich data sources and case studies from the book show, however, that first the government, then the private sphere proved too weak, or lacked sufficient independence from the other in order to take a sole predominant role in shaping the regional structure of industry.

The analysis becomes really interesting when discussing compelling situations. For example, it shows that labour force was starting to become an immobile factor of industrial development already in the 50s. To tackle the problem of regional inequalities in labour force, industrial resettlement campaigns were only a partial success, and commuting (to relatively nearby locations only) offered a solution of high social cost, making the life of hundreds of thousands of families close to unbearable. We learn from the book that the economy of Budapest, the capital, has been relying on commuting workforce to an extent continuously increasing between 1960 and 1990 (p. 44), despite the fact that over this period more hundred thousand dwellings – the overwhelming majority being block flats – were constructed in the capital, and development level of the capital's economy also showed a significant increase. Meanwhile, the role of rural industry in generating employment has also increased by varying degrees in different regions, much more in the relatively more developed ones, with regional differences growing steadily.

The book draws attention to several issues of key importance from the aspect of the future of Hungarian economy and society. As a matter of fact, thinking thoroughly over the example above might illustrate how her consistent analytical skills, sticking strictly to thematical boundaries has led to a monograph, rather than to a polemic work considering alternatives of development addressing a broader audience.

Decentralised industrial development was quasi frozen by backwardness and unfortunate locational patterns, and the bad spatial structure of transportation in-

frastructure. Development of industry at the village – and, we may add, at the countryside in general – concentrated in easy-to-reach areas with relatively good infrastructure, i.e. an initial higher level of development. As a consequence the spatial structure of Hungarian industry tilted even more, inequalities grew bigger between the regions, some regions having hardly any chance for a serious industrial development by the year 2000. Not only because they are hard to reach, or the low quality of labour force they dispose of, but also because they can hardly offer any local advantages to industrial investors.

These local advantages entail more than easy reach and low wages – living conditions need to be satisfactory for the highly qualified managers, white collar workers as well. Have any of the Hungarian governments succeeded in establishing a serious industrial site, or attracting significant foreign industrial investment to little villages around River Tisza in Szatmár, or the beautiful areas of Bodrogeköz or Ormánság? In case we ask the same question regarding the future, we can probably ponder on it waiting for an answer in vain for a long time – despite of the fact that it clearly constitutes a real challenging issue of strategic importance that should be taken into serious consideration when thinking about regional industrial development patterns.

Imports of FDI had a significant role in the Hungarian industrial development of the 1990s, and the inflow of foreign capital had a serious impact on the spatial structure of Hungarian industry. Above mentioned local advantages did orientate this inflow to a certain extent, but interestingly enough, foreign owned industrial companies did have an effect on local advantages. The transformation of traditional industrial structure as a result of FDI inflow is just one among several effects referred to here. It was a great disillusionment of the 1990s that traditional heavy industrial centres attracted little investment only, but the local advantages of centres of engineering and electronic industries that date back to several decades (e.g. Győr, Székesfehérvár) were highly appreciated by numerous multinational investors. Primary signs of a transformation of local structures became apparent in strengthening networks rather than in the creation of new industrial centres.

An analysis of supplier networks is an important and illuminate part of the book, where the author skilfully manages to blend the methods of economic and regional analysis. Conclusions are important not only for their own sake, but also for yielding clues to understand industrial development processes that have become increasingly pronounced since the publication of this volume. Signs of capital flight from Hungarian industry have become frequent from 2002. Although this has not been a massive process, public attention was spurred by the dramatic effect it had on certain sub-regions. One of the reasons behind this – based on findings of the book – is the fact that at a large fraction of industrial companies of for-

eign ownership the ratio of Hungarian suppliers is 20%. At multinationals this ratio is under 10% – which is to say that the import of FDI exerted only a small influence on the development of network-creation.

The book here supplies a useful piece of information from a theoretical point of view as well. Literature has for long discussed that so called “footloose” industries make decisions to move their capacities from one country to another based primarily on shorter-run and cost-centred site benefits. This is the case of the transitory appearance of manufacturing capacities: certain shoe manufacturers have been moving from Germany first to Italy, then to Spain, Portugal, Hungary, Romania, and finally to China – just to cite an example.

Until this point, analyses finding a strong relationship between the phenomenon of the transitory appearance of manufacturing capacities and changes of sectoral industrial structure were general. These found that settlement of “footloose” industry helps the countries in the catching-up process to utilise their competitive advantage arising from low wage costs and thus accumulate the capital necessary to further changes in the structure of industry. Following this approach, the move of labour-intensive capacities to another country is not perceived as a tragedy at all, since excess labour force is needed in newly developing technology-intensive industries.

This model certainly applies to former industrialisation periods of several successful Far Eastern economies, based successively on light industry, mass metal product manufacturing, and the low value-added assembly of engineering products. Barta’s examples and case studies, however, serve as a valid evidence for the model’s applicability in a wider sense and call for the expansion of the model. New – and, by the way, capital-intensive and technology-intensive – capacities of engineering industry in multinational ownership acquired a “footloose” character in Hungary rather because of a strong precaution towards Hungarian suppliers than because of cost structure.

Therefore, we would make a mistake by narrowing down the phenomenon of the transitory appearance of manufacturing capacities to industries traditionally considered labour-intensive. Neither can we state that this phenomenon necessarily and unconditionally holds great advantages when it comes to economic restructuring and accumulation of capital in modern industries. The book refers to several cases, especially from electronics, where after the exit of foreign investors it became close to impossible to find new, “more developed” industrial targets for the mobile factors of production that could only be used inside the country.

The analysis on regional differences in technological development of the Hungarian industry holds some other, very interesting food for thought. Regional differences, according to the author, are associated with the three factors of foreign ownership, benefits of large company size, and belonging to innovative industries

(p. 219). Similarly to the case of underdeveloped company networks, the inflowing foreign resources, up-to-date production factors only stay in the Hungarian economy temporarily, failing to significantly enhance the development of other sectors. Factors of outstanding competitive advantage as to branch or regional structure of industry are very often just “visitors”, their influence exerted on the Hungarian economy lagging behind expectations.

The book is easy to read and exceptionally rich in data and figures. There is no reference section at the end of the book, citations are made at the end of each chapter instead. This somewhat complicates the identification of literature background for the reader of profound interest. Besides, it may create the false illusion that certain works are related exclusively to the given topic. This latter is simply not the case, especially regarding comprehensive studies.

It is worthwhile to raise attention to a couple of minor inaccuracies only because the less informed reader may be surprised by the somewhat unusual way some terms and concepts are interpreted in the book. One of these concepts is *spontaneous privatisation*, which is presented primarily as a means of corporate crisis management by the author (p. 156). However, in order to grasp the concept completely, we need to mention the fact that spontaneous privatisation entailed a way of acquiring ownership where, due to loopholes in legal regulation, managers commissioned by the state to operate state-owned companies could get hold of owners' rights in the most profitable parts of the very same company. The concept of “technological parks” is used in a perhaps too wide approach, because in the author's interpretation it includes all spontaneous organisations that generate the concentration of modern, up-to-date technologies within a given geographic area.

These minor problems, however, do not in the least decrease the significance of the book. Barta has created a genuine interdisciplinary work in the spirit of “New Economic Geography” that could – translated into English, and with updated statistics – certainly deserve the attention of an international professional readership.

*Ádám Török*

**Johan Lembke**

***Competition for Technological Leadership. EU Policy for High Technology***  
Aldershot: Edward Elgar Publishing Limited, 2002, 311 pp.

The attempt to transform the economy of the European Union into the most competitive and dynamic knowledge-based economy in the world was set out by the member states in Lisbon in 2000. For this, it is important to analyse in what way the European Union supports projects that might contribute to the realisation of



this goal. Technology is a core element of the regional economic development, therefore the examination of whether and how the EU intervenes in technology-intensive projects is of critical importance. Although there are numerous publications on EU high-technology policy, most of them concentrate on the intervention of the European Union in a given project, and evaluate this project on the basis of its contribution to the welfare of the EU.

A new approach to analysing European Union high-tech policy is proposed by Johan Lembke in his book published recently. Pointing to the insufficiencies of the already existing and applied methodological frameworks, the author intends to provide an analytical model in which he identifies all variables that might have an impact on the form and intensity of the EU high-tech policy in their logical interrelationship. Lembke argues for an extended model by pointing to the fact that the European Union's high-tech policy has till now been evaluated exclusively on the basis of the contribution of high-tech projects elaborated by organisations of the industry to the economic development of the EU. However, today, projects with seemingly similar potential contribution face significantly different reaction from the European Union. This would therefore mean, according to the author, that other considerations can also explain how the EU responds to different projects. In his new model Lembke uses the already known incentive–demand–supply framework as a basis and completes it with critical intervening variables at two levels: the industry characteristics and the political entrepreneurship. Regarding the first level, organisability of interests of the economic actors as well as the position of the economic actors in the structure of international competition influence the donation of high-tech policy. As to the second level, the agreement of the relevant parties in the bureaucracy on high-tech policy provision and the expected political opposition of the Member States of the European Union were identified as variables effecting the form of the high-tech policy. Integrating the above four variables into the proposed new analytical framework and pinpointing the interrelationships among the different elements of the model the author provides a comprehensive framework to the reader on the basis of which the EU's high-tech policy can be accurately evaluated, and variations of the policy, in the case of different technology-intensive projects, may be understood and explained.

The book not only provides a revised and improved analytical framework that explains the current economic conditions better than the ones currently used, but also demonstrates a comparative analysis of the EU high-tech policy. Instead of following the generally accepted form of evaluating policies, such as examining the high-tech policy of the EU with respect to a given technology-intensive project, the author compares the reaction of the European Union and in particular that of the European Commission to three proposed projects sharing similar characteristics. The selected cases are all related to communication, electronics and ad-

vanced technology representing significant potentials for the economic development of the EU. Nevertheless all the three projects need substantial investment and long development cycles, and face similar market constraints. Furthermore, all projects evolved within a similar time frame of 1995–2001 with some minor variation between the cases.

The first project proposed the development of the European Galileo programme, which would terminate Europe's dependence on the United States in satellite navigation and could create the basis for a European contribution to the development of a world and multi-modal system of navigation by satellites. The importance of the project lies in the fact that for so many years the US military satellite network GPS dominated the industry, and Europe had virtually no presence in the field. It meant that although the network was available for Europe for civil use as well, the agreement was voluntary, thus being subject to modifications. In addition to this, European experts were worried about the region's dependence on information arriving from the United States, and pointed to the uni-modality of the application of the GPS. In the current course of developing a world and multi-mode system of satellite navigation, Europe recognised the opportunity to contribute to its elaboration by the development of the European Galileo programme, therefore to have a European – civil and not military – control over the provided information and the critical infrastructure, and to offer navigation by satellite to several transportation systems. In order to initiate the development of the project, a need for political support and high-tech policy was expressed by the European industry.

In the second project the participants of the European telecommunication industry called for an EU policy in order to support the development of wireless communication and wireless Internet. In a market where European industry has already had a strong presence due to its successful pan-European digital based system, GSM, the actors' intention to maintain their position with the creation of the Universal Mobile Telecommunication System (UMTS) resulted in the elaboration of a project which claimed for an appropriate regulatory framework as well as for an internationally oriented approach from the EU. The latter demand of the industry stemmed from the fear of being excluded from the global standardisation work due to the strong competition from the Japanese and the American industry, and led to the offensive concept of co-operating with Asian actors.

The third project included in the comparative research was elaborated by the European broadcasting industry. Major actors in this field stressed the importance of developing digital audio broadcasting (DAB), and asked for EU regulatory intervention and strong political support. The reason behind the proposal of the project lies in Europe's technological leadership, in the potential of the established DAB to become the world standard as well as in the fear of having a European



market under the domination of a non-European standard if the development does not take place. Furthermore, as it was explained by the participants of the industry, radio was a democratic medium that enjoyed trust by the population and whose transformation from its actual form into a digital radio could significantly contribute to the economic development of the EU. Although the European equipment producers performed poorly in the international competition, by assuring regulatory and market certainty, and also by the provision of an EU high-tech policy, the DAB project may constitute an important pillar in the attempt to increase the competitiveness of the European region.

In the book all three projects are analysed along the dimensions of the analytical framework prepared by the author. On the basis of his findings Lembke explains the mechanisms by which the high-tech policy is prepared and implemented by the European Union. The results of a deep investigation are demonstrated in order to understand why the EU supported only two of the above projects, namely the satellite navigation and the wireless Internet, and why the form of support differed project by project. At the end of the comparative study the author indicates how his research might be continued or expanded.

Discussing an extremely interesting and up-to-date topic in a very logical and clear structure and an excellent style, this work can be recommended not only to academic and field experts as well as to students, but also to anybody interested in the policymaking of the European Union.

*Zsuzsa Deli*

**Roger Grawe – András Inotai (eds)**

***Trade, Integration and Transition.***

***International Conference in Memoriam Bela Balassa***

*Budapest: Institute for World Economics, Hungarian Academy of Sciences,  
2002, 214 pp.*

This volume is a compilation of lectures held at a conference organised in Memoriam Bela Balassa in Budapest, October 2001 by the Institute for World Economics of the Hungarian Academy of Sciences, the World Bank Institute, Washington D.C. and the World Bank's Regional Office. The international conference *Trade, Integration and Transition* was dedicated to address *three key topics of Balassa's professional career: international trade, regional integration and the economics of transformation*. The conference brought together scholars from the USA, Hungary, Switzerland, Austria, Romania, the Czech Republic, Belgium, Slovenia, Israel, friends and colleagues, and also students of Bela Balassa.

*Acta Oeconomica 54 (2004)*

Balassa was born in Budapest in 1928. By the age of 23 he had earned degrees in Budapest in both Economics and Law. In 1956 he took part in the Hungarian revolution. When the revolution ended, he left the country and arrived in the United States in 1957. Two years later he earned a Ph.D. in Economics from Yale University. His dissertation on Hungarian economic planning received the Porter Prize at Yale and was published by Yale University Press.

Balassa's research output was impressive. He published two dozens of books and some 200 articles. Many of them were path-breaking and highly influential with academic economists, with the World Bank, and with the many governments he advised. Balassa carried out much of his research at the World Bank advising developing countries and the Bank itself. He understood the limits of central planning. He opposed artificial measures to encourage the production of import substitutes, whether by tariffs or by other forms of protection. He maintained a deep interest in the reform of socialist economies, from Hungary and Yugoslavia to the Soviet Union and China.

The contributions focus on issues where Balassa's work was the most active: in the complex and difficult areas of development studies, in the theory of trade relations, in the theoretical and practical aspects of global and regional integration, and in the reform process of the former socialist countries. The first session dealt with international trade and competitiveness, the second one with the experience of regional integration, and the third with the record of transformation mainly in Central and Eastern Europe.

Dominick Salvatore (Fordham University, USA) examines the relative international competitiveness of the United States, Europe, Japan and the rest of Asia in high-technology products of all manufactured goods, and how this has changed over the past two decades. One way to measure international competitiveness is by implicit or revealed comparative advantage, a concept introduced by Bela Balassa. Another method is by calculating an index of international competitiveness directly as done by the Institute for International Management (IMD) in Switzerland, and the third is by the multifactor productivity. These methods are not directly comparable and provide somewhat different results. Based on the method of revealed comparative advantage the United States may be said to have had a comparative advantage in high-technology products with respect to Europe in 1980 and in 1990 but the US international position *vis-à-vis* Europe worsened between 1990 and 2000 becoming a comparative disadvantage. The United States, already with a large comparative disadvantage in high-technology products in 1980 with respect to Japan, continued to lose competitiveness until 1990. Nevertheless, the US competitiveness position (comparative disadvantage) *vis-à-vis* Japan in 2000 was somewhat lower than in 1980. With respect to other Asian countries, the United States went from a comparative advantage index of 6.33 in 1980

to the index of comparative disadvantage  $-8.63$  in high-tech products in 2000. The author also examines the changes in the international competitiveness in manufactured goods of the United States. The data showed that the United States had a comparative advantage in manufactured goods with respect to Europe in 1980. This became a comparative disadvantage in 2000. The United States had very strong comparative disadvantage with respect to Japan across the whole analysed period. With respect to other Asian countries, the United States started with a small comparative disadvantage in 1980 but this increased fastly as a result of their rapid industrialisation during the past two decades, and it represented the largest comparative disadvantage ( $-25.36$ ) of the United States in manufactured goods in 2000.

The purpose of Dariusz K. Rosati's (National Bank of Poland) paper is to estimate the scope for the Balassa–Samuelson effect in five advanced EU candidate countries from Central and East Europe, and to discuss possible implications of this effect for the nominal convergence process as prescribed by the Maastricht Treaty. In his seminal paper written in 1964, Balassa showed that while international competition tends to equalise prices of tradables in developing economies with prices in developed countries, prices of non-tradables remain well below that level, reflecting generally lower levels of productivity in developing economies. One interesting implication of this regularity is that when a developing economy grows faster than a developed economy, due to faster productivity increases in the production of tradables, real wages across the economy would also grow faster, leading to higher inflation of non-tradable prices. This phenomenon, identified and examined independently also by Paul Samuelson (1964) and known since then as the Balassa–Samuelson effect (B-S), has recently gained new importance in the context of discussions on the speed of necessary nominal and real convergence of the economies of EU candidate countries from Central and Eastern Europe to developed EU economies. One important dimension of this convergence process is that after the EU accession the new member countries will also have to join the Economic and Monetary Union. It has been demonstrated by Rosati that large productivity differentials between tradable and non-tradable sectors that have been observed in most CE-5, imply a significant potential for the B-S effect. To the extent that the higher inflation in the EU candidate countries is produced by the B-S effect, it does not stem from excessive expenditures and is not a result of imprudential fiscal policies. In that case it can be considered as a structural phenomenon reflecting underlying productivity changes, rather than a policy-induced, monetary effect. In addition, being limited to non-tradable prices, such „differential” inflation could not be „exported” to other EU countries. These arguments may speak in favour of establishing a somewhat higher target inflation limit for the new EU members.

Sapir (Free University of Brussels), a former doctoral student of Balassa, reviews the topics of European economic integration to which Bela Balassa contributed the most, and which also form part of his 1961 volume, the *Theory of Economic Integration*. In his book, Balassa offers a surprisingly modern treatment of economic integration. He proposes to evaluate the effects of integration primarily according to the criterion of dynamic efficiency, which encompasses both changes in the efficiency of resource allocation in the static sense and the effects of integration on growth. Balassa was the first to establish that the process of European integration has produced mainly trade creation for the manufacturing sector, but mostly trade diversion for the agricultural sector. In the manufacturing sector, the process of European integration went hand-in-hand with a process of external liberalisation through successive GATT rounds. Such dual process of internal and external liberalisation did not occur in agriculture. Balassa made another key contribution to the economic integration, when he introduced the concept of intra-industry trade. He was the first to observe that the process of EC integration entails mostly intra-industry trade rather than inter-industry trade, and this meant a relatively easy process of structural adjustment. The *Theory of Economic Integration* puts a great deal of emphasis on the potential effect of integration on growth. The two channels between integration and growth emphasised by Balassa are the exploitation of scale economies and increased competition leading to higher productivity in sectors with imperfect competition.

András Inotai (Institute for World Economics, Hungary) draws attention to some important issues related to trade, regional cooperation or regional integration and competitiveness in the framework of EU accession and (sub)regional cooperation of the Central and Eastern European countries. Inotai recalls the theory of “training ground” defined by Balassa when he compared the experience of Latin American regional integration with the much more successful export-driven strategies of several Far Eastern economies. This comparison made clear that a successful entry into the global market creates better conditions for regional cooperation, while enhanced regional cooperation, as shown for several decades in Latin America, does not necessarily lead to higher global competitiveness. The author makes an observation, namely that Hungarian, Czech or Slovenian exports to the EU are structurally more “developed” than in intra-CEFTA trade, which is characterised by the dominant share of agricultural goods, semi-manufactured products, raw materials, and chemicals, in contrast to the low share of machinery and final manufactured products. International trade in general and foreign trade of some transforming countries in particular does not fit into the traditional framework of trade relations between nation-states, as Balassa regarded it, too. Trade is increasingly carried out by transnational companies. In the case of Hungary, these companies import a growing share of their production in Hungary from Asia, and,

after processing these inputs, the final products are exported to EU markets. For the transforming countries Inotai's message is "to keep your economy competitive as much as possible, and remain a favourite location for transnational companies".

The last bundle of works focus around *The Preliminary Record of Transformation*. As Pradeep Mitra (The World Bank, USA) states, economic growth reflects the interplay between old enterprises in need of state support – which reduce growth by absorbing more resources than they produce –, restructuring and new enterprises, which increase growth. The fall in growth is initially dominated by the drag of old enterprises, which leads to a period of decline. With time, if the business environment favours production and innovation rather than rent seeking, restructured and new enterprises gain the critical mass to overcome the negative effects of old enterprises, leading to recovery and economy-wide growth. Encouragement entails policies to create an attractive and competitive investment climate in which restructured and new enterprises have incentives to absorb labour and assets rendered inexpensive by downsizing, and to invest in expansion. These policies include reducing excessively high marginal tax rates, simplifying regulatory procedures, establishing secure property rights, and providing basic infrastructure while maintaining a playing field among old, restructured, and new enterprises. At the same time the policy environment must provide incentives for wealth creation rather than rent seeking. This mode of adjustment broadly corresponds to the experience of the advanced reformers in Central Europe and the Baltics.

András Nagy (Research Institute of Economics, Hungary) claims that after ten years of transition in East–Central European economies, when much of the necessary reforms have already been implemented, the major obstacles for faster growth or catching up can be found in the weakness of the rule of law. What is essential from this point of view is the influence of clientilism of political parties. The three major institutional factors hindering the full use of the growth potential of the transition countries include: the large share of the shadow economy, the high level of corruption and the development of political partiality. These characteristics are all linked to the heritage of the Communist past on the one hand, and to the peculiar conditions of transformation on the other.

The conference was organised in order to keep not only the memory of Bela Balassa alive, but also to assess the influence of his research work on economic policy thinking around the millennium. The collection of the conference papers has shown that this influence is certainly intellectually deep and large in scope.

*Szabolcs Sebrek*

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