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An Inquiry On The Role Of Policy In The Light Of The Stress Caused By Globalization – An extended Review Of Kolodko's (Ed.) Globalization And Social Stress (NOVA Science Publishers, New York 2005, 268 pages)

An international conference was held with the same title in Warsaw, Poland by the Yale Center for International and Area Studies (YCIAS) and Transformation, Integration, and Globalization Economic Research (TIGER) with the Leon Kozminski Academy of Entrepreneurship and Management (WSPiZ). Recent book cherry picked eleven studies from the most important lectures of the conference. This volume is the second in the TIGER series, which examines global projects. While the previous one – "Emerging Market Economies: Globalization and Development" also edited by Professor Kolodko – introduced the influence of globalization on economic growth, this edition focuses on the risks and social effects accompanying it.

Taking a first look into a collective volume with the title "Globalization and Social Stress", one might have the feeling that it is another mix of papers on a wide assortment of topics, with the usual weaknesses in coherence and with its fair share of gobbledygook too. Being realistic, indeed it is, with eleven articles in four sections. Even so, value can be found in bringing the articles together. All the chapters add something important to an understanding of the various aspects of what is the ideologically most loaded term of our time: "globalization". This spurred me to review the authors' contributions one by one.

Regardless of their heterogeneity I will strive to demonstrate each chapter according to its message on one main question: Does – local or/and global – policy matter in the enhancement of development? This question is far from obvious, if we take into consideration the debate in the leading economic journals. There is no consensus among researchers of growth-theory on whether policy has an impact on economic growth in general, or only through institutional factors. As the empirical studies of Olson et al. (2000) and Havrylyshyn-van Rooden (2003) argue, the development of an institutional framework has indeed a significant positive impact on growth, but progress in achieving macroeconomic stabilisation and implementing broad-based economic reforms remain the key determinants of growth in transition economies. On the contrary Levine and Easterly (2003), as well as Easterly (2005), doubt the claim for strong effects of national policies, presenting both empirical and theoretical evidence. Here I have no space to present either the circumstances of the debate (the differences in taxonomy and in methodology), nor to evaluate the results. Instead, I focus on how the authors of the book argue implicitly or directly for one view or on the other.

The general aim of the first part is to highlight the chances and risks of globalization. Chapter 1 is an insight into the editor, Professor Kolodko's, views on the transformation process of CEE countries. He precisely details the facts, which nowadays are already in the textbooks, when he raises the question: why does the transformation of these economies happen the way it does and at the time it does? In the region two main processes can be observed. Firstly the endogenous mechanism, which was built into the system: discontented people as consumers, as producers and as citizens. The concept of the customer problem is little more than the economics of shortage and its inherent phenomena, the gray and black market, the forced substitution, the corrupt retail system and of course the distorted allocative efficiency. The people of the region were also tired as producers, because of the overcentralization in economic administration, which led to inefficient production, stock surpluses and wasteful management. Last but not least people became dissatisfied as citizens since democratic

mechanisms did not operate. Secondly exogenous factors – the gradually more intensive globalization process – must also be taken into account.
The author then points out the most important policy implications which contributed to the success of a few post-communist states, while others moved closer to the Third World. Some of these essential steps have been the following: the unique phenomena of comprehensive privatization, making the domestic currency convertible, liberalizing the movement of human and physical capital, abolishing protectionist barriers to free trade, and reaching a political consensus to deregulate the economy.
On one hand enormous external pressure influenced this process, but on the other hand the transformation of these economies also contributed to the homogenization of the global economy. Their impact is inevitable in its evolution, however their economic weight is rather limited. Accordingly the rules of the game are given; the transformation and globalization processes reinforce each other. As he emphasizes: "There would be no transformation save from globalization." (p.9)
Nevertheless he also draws attention to the local differences in policy-making. The advice of the G-7 failed, the Washington Consensus (privatize as much and as quickly as possible, liberalize trade and prices at the earliest opportunity, and be tough in financial policy) was hardly the best answer. Something more is required: the role of institution building is fundamental in the implementation of a market economy.
At the end of the chapter, four periods of the Polish transformation and the author's own role in fostering economic growth are briefly discussed. Concerning our inquiry, according to Professor Kolodko, macroeconomic policy played a determining role in Poland in the last 15 years.
Chapter 2 opens with the puzzle of why post-Soviet governments made different choices in institution building in general, and in trade liberalization in particular. Unlike traditional explanations, which suggested that the primary aims of post-Soviet states are maximizing their power and security, Keith A. Daren presents an alternative approach, which underlines the role of economic ideas in the formulation of states' interests and determines the type of international institution chosen for managing international trade relations. Based on domestic policy indicators, interviews and internal government documents, he found evidence that ideologies of post-soviet elites differ and these differences shaped decision-making in economic policy regarding memberships in international organizations. The way in which advantages and disadvantages were conceived and the conclusions drawn from those calculations differed significantly; however the method of decision-making was by no means irrational.
Beside the achievement of its own aims this study has a deeper and more important significance. It argues that policymaking, which is unambiguously influenced by economic convictions, alters the essential institutional structure of states in the very first phase of economic development. Moreover it provides empirical evidence that both policy and institutions mattered, at least, in the evolution of post-soviet economies.
This problem is further analyzed in the third chapter in more detail. Which are the factors that draw countries closer together, enhancing the evolution of the integrated globalized economies? Addisin and Rahman raise this question, inventing a simple model which examines the importance of geographical, institutional and political and policy variables through the dimension of trade. They present evidence that geographical characteristics are dominated by both institutions and policy; however, micro policy decisions influencing the efficiency of the economy are more important than macro-economic policies in explaining the developing country's prospects for globalization[1]. This might lead to an optimistic – albeit not very surprising – conclusion that the "design of humanity" rather than the "design of nature"

[1] However the outcome of the established model is contingent, only a few variables were statistically significant (legal origin, political imbalances, M2 as a % of GDP).

determines the future of developing countries. In short, reforms of institutions might lead to a greater capacity to globalize regardless of the geography of the country. In spite of this, the poor performance of developing countries and seclusion from global trends are still frequent among developing countries. This entails a pessimistic conclusion too, namely that institutional transformation and policy change are difficult and might lead to a deterioration of economic processes, precisely as argued by Professor Darden in the case of the post-soviet states. The authors also emphasize that “the devil is in the details” (p.53); the recent international system pushes developing countries into rapid, and often ill-designed reforms.

The second part of the book collects papers on poverty, equity issues and the welfare state. In Chapter 4 Gustav Ranis and Tavneet Suri from Yale University examine the link between growth, poverty and human development. They distinguish a two-way interaction between economic growth and human development. The term ‘Channel A’ is used in connection with the following process: a more equal distribution of income and a falling poverty rate means that families are likely to spend more of their disposable income on items that contribute directly to improvement in human development, such as food, education, health, etc. The reverse flow, from human development to economic growth, is represented by Channel B. Higher levels of human capital enhance the productivity of workers, entrepreneur capabilities, the creativity of managers and, thus total factor productivity, which affects economic growth.

While economic growth provides the resources to permit improvements in human development, human development is not only the ultimate objective but also doubles as one of the inputs leading to additional increments of economic growth. Therefore the main question is how developing countries can foster both Channel A and B in order to move their interactions to a virtuous cycle. The authors examine the linkages in countries which strived to achieve virtuous circle status in East, South-East and South Asia. They separated them according to whether they remained in the vicious category or managed to emerge out of it. Although the two-way channels are clearly simultaneously determined, it is strongly anticipated that successful countries could move to a virtuous cycle from human development lopsidedness, as in the cases of Sri Lanka and Malaysia, rather than from economic growth lopsidedness, like India. This view strengthens the view that economic growth is a necessary but not sufficient condition for success in human development.

The authors also point out that, depending on the different policy mix, there is not just one way to achieve the virtuous cycle. The best policy combination depends on what links in the two channels are weak and therefore require appropriate arrangements to stabilize them. It also implies that initial success in human development and economic growth dimensions demands adjustment in the policy mix in order to sustain further development.

Finally three important combinations of elements for success in human development performance are featured: “One is good growth, if accompanied by reasonably good distribution and social expenditure ratios; the second is moderate growth, if combined with good distribution and supportive social sector performance; and the third is a strong emphasis on social expenditures (well prioritized) that can even be combined with poor economic growth, if accompanied by relatively good distribution.” (p.89)

The next chapter tries and manages to give a full interpretation of what the welfare state means in the globalizing world. Professor Gur Ofer opens with statistical evidence and an overview. Than he deliberates over two questions: firstly, at what level can the market contribute to the fairness of distribution of the benefits created by globalization, and secondly, where are the limits of governments in redistribution, particularly in the case of welfare states. The problems of welfare states are distinguished according to the problems of the three groups of countries (developed, transition or developing) together with the different internal and external challenges. Here two types of global “related” pressures are mentioned. Firstly, the declining ability of tax to finance public goods, and secondly the pressure on developing and transition economies to reduce welfare benefits in order to increase their global competitiveness.

Then the two main objectives of welfare states – education and health – are analyzed in depth. Developing countries spend only 3-4 percent of their GDP on average on education compared to 5% in developed economies. This represents a huge gap in financing education both in relative terms and – considering the difference in GDP levels – an even more significant gap in absolute terms. By the same token, in developing countries higher proportions of funds are spent on primary school education due to the large number of pupils, which leads to lower quality as well. Transition countries reach the level of developed economies in literacy, primary school enrollment and in equality of gender at all levels of education. However this educational heritage is not sustainable at the given level of income.

In spite of the significant advance in health status generally around the globe, statistical data cannot provide evidence for the convergence of general health conditions between developing and developed countries. The number of physicians (regardless of their knowledge and equipment) and the public expenditures on health in percentages of GDP significantly explain the differences between the two groups of countries in terms of infant/under-five/mothers' mortality. Interestingly, the relative number of practicing physicians and hospital beds are the highest in transition countries, which also raises questions concerning sustainable financing, especially in the light of the fact that these countries spend only 3-4% of GDP on public health, while this level in developed countries is 5% on the average. Moreover the contribution of private spending is less in transition countries than in the majority of developing economies.

From one aspect the general success of welfare states in developed economies can be tracked according to the presented data, in terms of major advances in education and health. One of the key characteristics of this system is universality. Although it is rather expensive, it provides a relatively high quality of service avoiding the "poor service to poor people" trap. On the other hand the system has generated three main problems over time. Firstly, the fiscal requirements of public services endangered macroeconomic stability, caused, among other things, by the increasing cost of an ageing population. Secondly, the universality and high standards of free services eroded the incentives to work and resulted in an overuse beyond the social optimum. Finally, people became choosey, so that services provided by the state did not satisfy them any more. Accordingly, despite its advantages, universality had to be replaced by better work-motivated programs and cost-sharing in the provision of services involving the third-sector and for-profit organizations.

In developing countries the limited ability to collect tax with the low level of governance and efficiency hindered the emergence of a universal system similar to that in the developed countries. Unfortunately it led to an unequal distribution of public services. Regardless of the greater needs of the poorer part of the population, funds are diverted away from essential needs. To sum up, severe under-provision of public services is a main growth obstacle in developing economies. Although the provision of public service is extensive in transition countries and reaches the level of developed countries, both education and health sectors employ an abnormally high proportion of the labor force. Cutting the size of the budget is an essential part of transition, low GDP and a high level of social and public services is the unsustainable characteristic of the "premature welfare state", as János Kornai labeled the phenomena, which creates the dilemma of how not to lose the achievements of the past, while keeping the fiscal conditions in balance and government at a reasonable size.

In his recommendation to developing and transition economics, Prof Ofer draws our attention to two inevitable steps. Firstly, in order to avoid funds being diverted by the state, NGOs and other intermediaries must be involved, who may improve efficiency by co-financing. In this way, using sources from financial markets, additional discipline can be provided. Secondly, a basket of the most important public services should be created depending on the income level of the country. All services that are not included in this basket should be outsourced to NGOs and to the private sector. This latter solution is more relevant in transition countries, where the for-profit or non-profit organizations should have greater roles, especially in education and health services. Surprisingly for developed countries the escape from the internal and external pressure on welfare state is the same. They must offer a certain part of the public services to the private sector in order to ensure their sustainability.

At the end of the chapter one more important aspect is highlighted. Besides comparisons among countries, the example of Israel and Germany after the reunion in 1990 provides a special chance to analyze the evolution of welfare state within a country with a substantially heterogeneous demographic structure, social capital and governance infrastructure.

In Chapter 6 George Vojta investigates the link between globalization and equity. Arguments on both the equity and inequity impacts of globalization are mustered. The example of some closed economy and hostilities present the case of countries where the positive effect of globalization cannot be observed. Inequitable outcomes have many reasons – from self induced national disintegration arising from armed conflicts, domestic insurrection and terrorism, general corruption, inappropriate reversals of policy direction, a deficit of capacity relative to need, to the perpetuation of structural impediments, enterprise misconduct and the greater relative progress in technology and human capital development in mature economies. The author sheds light on why sustainable economic growth is so important in enhancing equalities too: “Without general growth benefit equalization is not possible.” (p.120)

Both chapter 5 and 6 articulate normative consequences; the authors strive to answer the question “what can be done”. Interestingly, the answer in both cases, regardless of the type of global problem, is the private-sector-led economy. The only difference is in the identity of the initiator. While the *cornerstone of the* solution in the case of welfare state problems is the will of the states (and the interest groups) to reduce the extent of the public sector, other aspects of global problems – as George Vojta underlines – must be enforced by the private sector. Governments are not able to determine comprehensive global processes, this is the role of the market. A new type of behavior of the private sector is needed in order to reform the existing financial system and submit other programs and initiatives. Of course it requires much more collaboration and transparency, without the dilution of the competitive spirit.

The suggested programs and arrangements essential to sustainable economic growth along with the “private sector advocacy coalition”, are detailed at the end of the chapter. These are the common commitment to standards and values, consensus on appropriate principles, policies and practices, the importance of extensive risk management, regulation of corporate and fiscal enterprises as well as training and technical assistance in order to develop human capital. Being realistic the link between the above-mentioned factors and the real benefits of such a structural change at micro and macro level is not clearly demonstrated in this paper.

The most critical comments are addressed to the international financial institutions. Concerning the financial system two sets of reforms are proposed with a stern criticism of the international financial system in this chapter. On the first level – regarding the unsatisfactory efficiency of global financial organizations in crisis prevention and management – the World Bank and IMF processes should be reconsidered. The activities of these institutions are often much wider than their original goals, and even unsatisfactory in the light of their initial mission. They finance only a small part of the required global development and in an inefficient and opaque way. Policy consultations are cursory or only selectively disclosed in developing countries. The author encourages the private sector to enforce the rendition of the World Bank and IMF regarding financial crisis avoidance and management. The second set of financial reforms ought to involve the creation of fully diversified financial intermediation, with suitable regulatory structures and appropriate supervisory standards. The increasing interaction of different domestic lending regulators is also desirable in order to achieve a global supervision over multinational companies.

The whole chapter is fairly confusing in this reviewer's viewpoint. While it argues mainly that there is inefficient performance of local governance when the rules are set globally, and that global institutions are often guilty of the false and misleading activities of governments, in the summary the author underlines the importance of public policy priorities alongside institution building in order to be able to make a realistic evaluation of the negative aspects of globalization, and to clarify the necessary structural adjustments.
Chapter 7 is by Professor Lipumba from Tanzania. He sheds light on the social stress caused by globalization in his own country. Not surprisingly, among the authors of the book, he stands most radically for the role of local government and policy in economic development. In the introduction he presents arguments on why the capacity of Tanzania to participate in the global economy is weak. Both politically-related internal and external factors, such as unequal, exploitative terms of integration can account for Tanzania's marginalized role in the world markets. The actual share of Tanzania's world merchandise exports has dropped to one tenth of its level 40 years ago. Although over 70 percent of the labour force is engaged in agriculture, implying comparative advantages in primary production, Tanzania's agricultural exports dwindled significantly from the 1960s. The long-run growth performance is also disappointing; the country has the second lowest per capita income (measured in PPP dollars) in the world. Even though Tanzania is endowed with natural resources, a good geographic position, a peaceful and politically stable environment and a common language, its economic growth is rather modest and volatile. Despite gradual trade liberalization – both non-tariff bands and maximum tariff rates have been reduced substantially –, growth never reached a desirable level which could help mitigate the three main problems of poverty, ignorance and disease. Although the foreign direct investment to Tanzania is on an upward path, its concentration is fairly high - the mining sector attracts two-thirds of all FDI.
Prof. Lipumba provides another implicit argument for the role of economic policy in economic development, when he points out the lack of a "domestic growth strategy" as the main reason for the general economic slump. The example of the Dar es Salaam Stock Exchange clearly underlines his statement. Millions of dollars were spent to establish a stock exchange in a country where the institutional background is not at a level at which the functional efficiency of stock markets could evolve with a genuine effect on the real economy. Whilst a stock market exists in Tanzania, (with only 5 traded stocks and a capitalization of 665 million USD in 2003), an adequate bank system, defence of property rights, accounting, auditing and supervisory standards do not. Although the impacts of economic reform, in line with the Washington Consensus, can be tracked in the drop of the proportion of the population who are extremely poor - who consume less than 1 dollar per day - Tanzania must still face into the problem of mass poverty. More than 95% of the population live under the 2 (PPP) USD poverty line. Furthermore, the decline in other measures (the food poverty line and the basic needs poverty line) over time was not statistically significant. Unemployment is extremely high in urban areas, mostly in the biggest city in Dar es Salaam; however here the unemployment rate dropped from 64% to 43% in the 90s.
According to the statistics and tendencies described above the recommendations of the Washington consensus in encouraging foreign investments, liberalizing and waiting for economic growth has failed in Tanzania. The necessary institutions are not self-creating. The chapter highlights two main points of domestic policy besides improving the entrepreneurial spirit - the agricultural development strategy and financial sector reforms.
Part three, including *Chapter 8,* is a contribution by two researchers - Arun Agrawal from the University of Michigan and Suranjan Weeraratne from McGill University, Montreal - to one of the economically least examined aspect of globalization, international ethnic migration. They mostly concentrate on the socio-political impacts of migration and strive to explain some of the results associated with intensive migration.

One of the most important claims they conclude after the literature review is that although migration often causes hostility in the host country, economic growth favours acceptance of other ethnic groups.

The chapter provides an insight into the migration of Indian and Chinese communities in South and Southeast Asian countries, in Burma, Malaysia, Pakistan, Fiji, Indonesia, the Philippines and Thailand, in the form of eight small case studies (four Indian and four Chinese). All of them feature the history, causes, numerical strength and distribution of migration as well as the economic, political and cultural standing, state policy and outcomes. It seems clear from the presented case studies that cross-border ethnic migration has heterogeneous consequences. It might lead to ethnic tensions between migrants and the host population (Indians in Malaysia and Burma), a high level of violence (Indians in Fiji, Mohajirs in Pakistan, Chinese in Malaysia and Indonesia) while sometimes it stays at a level of limited tension (Chinese in Thailand and the Philippines). By the same token, migrants drastically alter the economic and political landscape in the host countries, but in most cases their impact positively influences the host economy. Empirical studies proved that migrant entrepreneurs are more productive and less dependent on economic trends. Furthermore they are more desirable to potential employers because of their educational level, and mostly because of their willingness to work hard and accept less attractive employment opportunities. Many of the cases indicated that the main source of ethnic tensions is the disparity in economic status between newcomers and host groups in a region where economic wellbeing improved due to the contribution of the migrant population. What is more when migrants attempt to consolidate their economic gains by attaining political power, they are more likely to face systematic violence and safeguard policy regarding domestic interests.

Although state policies in each case are substantially influenced by the given circumstances, the government often strive to protect the interests of their inhabitants against newcomers. Governments hindered the economic assimilation of immigrants by limiting citizenship, instituting quotas, constraining political participation and mobilizing violence.

In line with the previous study, chapter 9 is an inquiry into the restricted immigration policy of the European Union by Andrzej Bolesta. Migration has always been considered as a threat. Western Europe in particular fears the wave of immigrants and refugees who might arrive in their countries in search of higher living standards. The intensity of this perception, however, has changed over time. A comprehensive insight into the history of European migration and asylum policies is presented from the 15th century. The end of the 19th century witnessed a huge-scale migration in the world in general and within Europe in particular, which resulted in a constant supply of labour at the time of economic booms. In the 20th century the standpoints of European states were mixed depending on their historical particularities, but during the last decades, when EU member states have unified their immigration policies, walls have been erected against migrants and 'Fortress Europe' has become a household term. Particularly after September 11, 2001 immigrants from developing countries are considered as a potential source of terrorist activism. Nonetheless the permanent solution of the high migration problem is only feasible through eliminating the causes of migration by stopping armed conflicts, preventing natural disasters, and ensuring sustainable economic growth in developing countries. Projects, which have been lunched in line with these goals, are briefly outlined, such as the European Initiative for Democratic and Human Rights (EIDHR), the MEDA Democracy programme, CARDS Assistance Program to the West Balkans and TACIS targeting the former Soviet republics, etc.

The term "new immigration policy" denotes three parallel processes: a greater sophistication of administrative measures; the expansion of the bureaucratic apparatus promoting the standardization of procedures; a containment policy aiming at preventing refugees from arriving in the territory of the target country, and has also called into question the institution of asylum itself.

According to the UN High Commissioner for Refugees the determining elements of the new immigration policy have also been introduced. In the first place, effective deterrence, such as visas and fines for carriers or penalties might provide a workable way to keep out asylum seekers. Secondly, the "safe country" concept declares that the citizens of such countries have no grounds whatsoever to apply for asylum. Thirdly, substantive status can provide a temporary protection. The EU adopted this concept when waves of refugees from the Balkans arrived in Western Europe in 1992. It was seen as an intermediate stage; however the EU authorities underestimated the duration of the conflicts. Finally safety zones are construed today as a designed area enjoying a special status and protection, where persons who flee from armed conflicts may take shelter. The real concept of the formation of such zones is to prevent potential refugees from moving to the EU and applying for political asylum.

After all "Fortress Europe" cannot solve the problem of refugee waves and at the same time satisfy the demand of western societies. Without a long-term policy of economic development and support for democracy and human rights in order to solve the problem at its roots, one can hardly expect that the flow of migrants will dry up.

The crown jewels of the volume are the final part containing two brilliant chapters on the relationship of globalization and EU integration. The last two chapters reflect most on the relationship between the role of economic policy and institutional development. What is more, although the authors formulated their opinions on the challenges of the European Union before its biggest enlargement in 2004, both chapters remain relevant and contain important thoughts and various alternative solutions.

In Chapter 10 Professor László Csaba summarises all the occurring challenges, threats and dangers in association with emerging economies in the contemporary world. It is highlighted even in the very beginning that after EU accession the policy-makers of new member states have to face an even more difficult situation compared with the preparation phase. This is for three main reasons. First, "globalization" has a gradually increasing effect on emerging economies. Secondly, the anchor role of the European Union, the accession-led development no longer motivates policy makers to fulfil the required further reforms. Finally, the stipulations of the various treaties, as well as the specific stresses in association with the speed alterations of the acquis communautaire, create additional difficulties.

Under the subchapter "Global Challenges" the author endeavours to review the seven most important international issues, which might be associated with emerging and developing economies. The role of different WTO summits and their consequences, the persistence of global poverty, the worldwide threat of terrorism and the transnationalization of organizational standards are concisely described together with financial vulnerability, the crisis of the welfare state and the problem of localization.

Then, besides the global challenges, the difficulties of "Europeanization" - the process of the EU-wide system which new EU member states must face particularly after enlargement - are investigated. The first challenge is the effectiveness of decision-making on a supra-national level. Although it is a bi-directional process, where small member states are over-represented, the number of MEPs (732) is too high for effective decision making, but rather low in terms of the extended number of EU citizens, consequently the legitimacy power is rather weak. The paper raised several questions regarding problems of central redistribution in financing common agricultural and regional development, which are still relevant, regardless of the time elapsed since they emerged. The future of the Stability and Growth Pact, the slow pace of the Lisbon Strategy and the Barcelona Process are only touched on here. However, these problems are investigated in much greater depth in several other works by the author (e.g. Csaba 2005, 2006).

In the next subchapter the important policy roles and the partly fulfilled tasks in the different phases of transition are underlined by Prof. Csaba. In several new member states, after the first phase of transformation (characterised by stabilization, liberalization, institutional reform and privatisation (SLIP)), the second-generation reforms (pension reform, re-tailoring the welfare system, administrative reforms, etc.) slowed down. Therefore a new – third – wave of reforms is inevitable, including the reform of public finance, the re-tailoring of public and territorial administration, restructuring welfare provisions as well as rural reform with environmental protection, and finally the improving social intangibles.

In the case of the new member states, before obtaining member status, "Europeanization" meant mainly a mimic procedure in the adoption of European standards and institutions. In the future, however, it should become "the window of opportunities", enhancing innovation, new ideas and solutions. Diversity is not only the interest of the newcomers but also of the old EU member states in order to improve competitiveness to be able to cope with all the challenges detailed in the chapter. Accordingly, policy has to boost research projects and small-medium enterprises by deepening and widening financial intermediation as a main priority.

The final chapter of the book is written by Anna Grzymala-Busse from Yale University, investigating the EU and state reforms in the candidate countries. Although the converging expectations and formal demands of the EU have had significant and unequivocal impacts on institutional change in the 10 post-communist economies (Slovenia, Hungary, Estonia, Poland, Czech Republic, Bulgaria, Latvia, Lithuania, Romania and Slovakia), the motivation for formal state reform is embodied in informal solutions. From the Luxemburg meeting in 1997, the European Union explicitly determined the required state reform and the implementation of the *acquis* as a membership criterion. The main reason for setting up the PHARE program in 1989 was to provide support for Hungary and Poland to help achieve market economies. From 1997 together with PHARE, "accession instruments" explicitly addressed the consolidation of administrative and judicial capacity. Other sub-programs, such as SIGMA (Support for Improvement in Governance and Management in Central and Eastern Europe) were also lunched with fairly similar goals. With the support of these instruments state reforms were incepted in three different fields: firstly, on the level of local government, with greater decentralization, local budget discretion and greater accountability. Secondly, shifting the activity of civil services from political appointments to merit-based ones and establishing definite pay grades. Finally, enhancing greater transparency in areas such as public procurement, financing political parties, and conflict of interest laws.

However, how successfully these laws have been implemented, in spite of the efforts made by both the EU and domestic parties, is unclear. As the examples of Hungary and Slovenia show, formal legislation is not necessary for efficient state performance. In the majority of the post-communist countries, however, the lower institutional - and accordingly administrative - capacity lies behind the difficulties in the accomplishment of the EU expectations regarding state reform. These "hollowed-out" states are not able to establish and enforce the huge body of regulation despite the oppressing heavy pressure exerted by the European Union. As a result of this state structures developed in ad-hoc and incoherent ways, which also reflects the struggle between political actors. Their effect on state reform is twofold: on the one hand they undermine it by exploiting and subverting formal laws, on the other hand their competition reinforces it by providing information, monitoring and boosting the scope of formal regulation. The first effect is more significant in countries, where government turnover is higher (in Poland and in Hungary). This assertion is examined and proved in all of the three above-mentioned areas: local government; civil service and public administration; and the transparency of public and party finances.

The messages of the chapters, taken either separately or together add something new to our understanding of globalization in its various dimensions. Without doubt, this book contains studies from authors who argued for the significance of policy on economic development. The review of their judgement leads me to the conclusion that policy has a stronger effect on growth in the group of transition countries than in general.

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