

Report on the 2nd meeting of the PTEPF Expert Group

The second meeting of the PTEPF Expert Group took place in Bratislava on June 28th, 2004. The participants (listed at the end of the report) discussed four papers prepared by members of the Expert Group and a presentation on the current political situation in Serbia and Montenegro. In the final part of the meeting, members of the Expert Group and the UNECE participants discussed the activities of the Forum over the next year in a closed session.

The morning session, chaired by Abdur Chowdhury, started with opening remarks by the Executive Secretary of the UNECE, Ms Brigita Schmögnerová. She emphasized the diversity of outcomes of the transition process in 27 post-communist countries that are members of the UNECE. The principal objective of the Post-Transition Economic Policy Forum is to provide coherent policy recommendations to post-communist countries at different stages of development, ranging from the post-transition phase reached by new EU members to early transition in some CIS countries. The composition of the PTEPF group is conducive to the underlying consistency of such recommendations.

The opening remarks were followed by a presentation by Daniel Daianu, entitled “Capital account liberalisation: Some thoughts.” He considered the opening of capital account in transition economies with the aid of three paradigms (neoclassical, post-Keynesian and developmental) in clusters of transition economies (new EU members, EU candidates, EU aspirants, CIS, China and Vietnam). The author concluded that the liberalization of capital account makes economic sense providing that a transition economy reaches an internal and external macroeconomic equilibrium, achieves significant progress in structural reforms and has an effective competition policy. The discussion of Dainu’s paper included the following points.

- Rapid liberalization of the capital account is not suitable for the relatively backward transition economies that would be better off by keeping capital controls just like China, India or Vietnam.
- China and Vietnam are probably not relevant models for smaller transition economies in south-eastern Europe and CIS.
- The capital account liberalization should be analyzed in the context of the globalization process.

Michael Dauderstädt presented the second paper in the morning session, entitled “Exporting stability to the wider Europe.” Starting from the premise that the enlarged EU is interested in the political stability of its neighbours, the author identified the causes of instability and potential threats posed by failing states in the wider Europe. He described lack of success of EU policies to enhance stability through trade liberalization, FDI, aid, and creation of protectorates. Dauderstädt concluded that aside from full integration of neighbouring countries into the EU, the Union has no effective policies to enhance stability outside its borders. A number of points were made in the subsequent discussion.

- Conclusions should be more country specific; e.g. ruling elites do not always manage to neutralise the changes resulting from trade liberalization, FDI inflows, etc.

- Democracy alone is not sufficient for economic growth and stability; in addition one needs an effective state bureaucracy.
- Aid can work, providing that it is not tied to exports from the donor countries but governed by more efficient rules.
- The paper should develop recommendations on how to make aid and FDI more effective.

The luncheon speech was given by Aleksandra Joksimovic, former Assistant Foreign Minister of Serbia and Montenegro, who is international secretary of the Democratic Party. She explained why Serbia and Montenegro started transition later than other countries in the region and how the previous Serb government led by Zoran Djindjic from 2001 until last year achieved rapidly some impressive economic results (disinflation, privatization, rising incomes). The Djindjic administration also managed to reach a constitutional arrangement with Montenegro and made significant progress in improving relations with the EU and the US. The last year's assassination of Mr Djindjic was the work of well organized criminal groups aiming to stop market reforms and the democratization process. Subsequent developments, including the recent victory of Boris Tadic, a pro-reform Democratic Party candidate, in presidential elections indicate that the majority of population favour the path of reforms, democracy and future EU membership. It is important to prevent a permanent isolation of less advanced transition economies in western Balkans from their neighbours and to better co-ordinate the relevant policies of the EU and the US. The subsequent discussion revealed that despite the slowly improving regional co-operation major problems (including the final status of Kosovo) would likely remain unresolved in the foreseeable future.

The afternoon session, chaired by Rumen Dobrinsky, opened with a presentation by Branko Milanovic, entitled "Investing in influence and political alternation: Evidence from transition economies." The author applied a profit-maximizing model to analyze investment decisions of businesses that purchase influence from politicians. The model predicts that the return on this type of investment declines with the increasing alternation of governing politicians. This prediction was confirmed by tests for the group of post-communist transition economies. The discussants made the following points.

- The model could be extended to the regional level, using the available data for Russia.
- Policy implications of the presented research results are unclear.
- The model fails to predict outcomes in the Visegrad group of central European countries where Hungary is least corrupt despite the lowest number of political alternations.
- The principal components analysis could improve our understanding of the results reported by the author.

The final presentation was by Judith Shapiro who presented a few segments of her paper entitled "Squaring the Lisbon circle: Investment in human capital." According to her, the employment rate is a key variable in the catching-up process. Transition economies lag more advanced economies especially in the employment rate of older workers. There are also large differentials in the health-adjusted life expectancy. Lower employment rates in the transition economies partly reflect the relatively poor

state of health of older workers in comparison to western Europe. Therefore, it is important to consider the impact of health outcomes on income and wealth in the process of policy formation. The points made during the discussion of Shapiro's presentation are as follows.

- There is an urgent need to improve the efficiency of the healthcare sector in transition economies and to improve the allocation of investment to higher education; the paper should show how policymakers could achieve this.
- The paper should show which policies could enhance employability of women and older workers while considering the relevant social costs and benefits.
- The Lisbon agenda aims at increasing trend growth; this can be hardly achieved by increasing spending to improve health of older cohorts.
- New EU members spend more than old members on health when comparisons are made on the basis of true resource costs; such comparisons should be considered in further investigation of the matter at hand.

The final part of the meeting was reserved for PTEPF experts and UNECE participants. It was opened by Abdur Chowdhury who outlined the progress of the fund-raising drive to date. All members of the PTEPF Expert Group were encouraged to look into possible sources of funding of the project activities. This was followed by a number of suggestions concerning potential contributors. Brigita Schmögnerová emphasized that the Expert Group ought to develop policy recommendations that differ from those of the IMF and the World Bank in order to enhance the menu of choices available to policymakers. The ambition of the project is to produce a high-quality policy oriented volume. Jaromir Cekota presented the tentative book outline and responses received from PTEPF experts. Daniel Daianu suggested that convergence could provide a unifying theme for the book. It was decided that:

- Specific fund-raising suggestions should be forwarded to Jaromir Cekota who co-ordinates the PTEPF project at the UNECE.
- The 3rd meeting of the PTEPF will take place in Geneva in January 2005, possibly on January 14th or 21st. All members of the Expert Group are encouraged to check their time schedules and communicate to UNECE whether this timing is suitable for them and their preferences regarding the date.
- Michael Ellman and Michael Landesmann agreed to present papers at this meeting. All other members of the PTEPF Expert Group are encouraged to consider the possibility of presenting their papers as well.
- It was proposed that the first PTEPF Open Policy Debate be held in Geneva in May-June 2005 with the participation of invited policymakers and government experts from transition and post-transition economies. Alternatively, the Debate could take place in Vienna, and be jointly organized with the Vienna Institute for Economic Research (WIIW), if Michael Landesmann succeeds in raising additional funds to support the organization of this meeting.
- Jaromir Cekota will prepare a report on the Bratislava meeting and distribute it to PTEPF experts.

List of participants:

Members of the Expert Group:

Daniel Daianu (Bucharest)
Michael Dauderstädt (Bonn)
Michael Ellman (Amsterdam)
Michael Landesmann (Vienna)
Branko Milanovic (Washington DC)
Judith Shapiro (Moscow)

Invited Slovak experts:

František Hajnovic (Bratislava)
Eugen Jurzyca (Bratislava)
Pavol Kárász (Bratislava)
Erika Kvapilová (Bratislava)

Invited speaker:

Aleksandra Joksimovic (Belgrade)

UNECE

Brigita Schmögnerová, Executive Secretary
Abdur Chowdhury
Rumen Dobrinsky
Jaromir Cekota