

BOOK REVIEWS

Pál Czeglédi – Judit Kapás
Economic Freedom and Development
Akadémiai Kiadó, Budapest 2009, 230 pp.
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Those who are familiar with the work of Judit Kapás and Pál Czeglédi, both professors at the University of Debrecen's Faculty of Economics and Business Administration, recognize that writings under their authorship not only contain a great amount of accumulated knowledge, but are also interesting reads. The authors have proved to be able to entertain their readers from a wider professional circle with various international and domestic articles and monographs, in which economic issues are put in new perspective. In their work, professional literature is analyzed critically and improved in an elegant and accommodating way. I would like to point out that Judit Kapás and Pál Czeglédi, who are well-known members of the new institutional economic school of Prof. László Csaba, member of Hungarian Academy of Sciences (HAS), are exceptionally good at creating simple and convincing theoretical models of economic concepts which aid the understanding and further development of these issues.

Their new book entitled *Economic Freedom and Development* nonetheless astonishes even those economists who are familiar with the previous works of the two authors. As a result of their heroic effort in the last few years, the writers have provided an overview of the concept of economic freedom and development and have suggested a new method for measuring economic freedom in practice. Although part of their research has been studied by others (for example Prof. Tamás Szentés, member of HAS and professor at Corvinus University of Budapest, who comprehensively analyzed several aspects of the economics of development), the authors' work is exceptional since they have opened a new movement in Hungarian economic thinking. Equally important nowadays is that their unique approach

brings the Hungarian and international science of economics closer to one another.

The writers have sought answers to the question of how economic institutions enhance economic development. This issue has been raised by many well-known theoretical economists, and answers are proposed from various schools of economics. Thus a justifiable question arises: what makes the book, *Economic Freedom and Development* unique? Essentially, the author's approach to answering this question. They have dual objectives. Firstly, they have sought to establish a scientifically valid theoretical framework for the relationship between economic freedom and development. Secondly, they suggested employing a new index number – the Economic Freedom Measure – in order to objectify their results utilising the tools of econometric and statistical methods. The two objectives are not given equal weighting. Establishing the theoretical background is granted absolute priority by the authors, since they are convinced that the science of economics lacks sufficient theoretical background to unravel the relationship between economic freedom and development. The endeavour of the writers to fill this theoretical gap is, in my opinion, admirable. The multifaceted approach used by the authors raises new and challenging questions and highlights surprising economic associations. One good example is the linkage of the new institutional economics and entrepreneurship by the Austrian School, which provides a step forward in the understanding of the fundamentals of economic development.

The structure of the book reflects the authors' attitude towards scientific research and their opinion on the role of science. The work consists of building blocks of theories competing with one another, reflecting the Kuhnian philosophy of science, and an approach that facilitates the recognition and understanding of logical coherences. In one sense, the authors also clearly follow the philosophy of Popper in that they believe that empirical verification can only follow the foundation of a strong theoretical background of scientific theories. It does not, however, work the other way around, as many examples from the practice of international organizations have proved.

In the first chapter of the book economic development is introduced briefly by reviewing the stances of the neoclassical and the new institutional schools. Later the authors review the advantages of the theoretical framework they establish, and this is followed by a summary of the economic and philosophical traditions relating to economic freedom. Their review mixes Adam Smith's market philosophy with the Kirznerian and Hayekian outlook of the Austrian School, and the new institutional school's approach which emphasizes the social environment. This is the theoretical background that supports the content of the second chapter, which introduces the two most common measures of economic freedom: the Economic Freedom of the World (developed by The Fraser Institute) and the Index of Eco-

conomic Freedom (published by The Heritage Foundation and *The Wall Street Journal*). The discussion of these indices is not simplistic; rather they are subjected to critical analysis, pointing out the various theoretical imperfections and dilemmas. The authors aim to create a coherent theoretical framework in order to clarify whether the extent of economic freedom (a static parameter) or the change of economic freedom (a dynamic parameter) is decisive.

Economic institutions are characterized through the Hayekian concept of economic freedom, which is a logical consequence of their proposed theoretical framework. The concept of economic freedom is elucidated in detail, starting from its philosophical roots, through its relation to political freedom, to the role of the state. The association between economic and political freedom is described in the fifth chapter. At this point the authors demonstrate that there is no contradiction in the theories of Hayek and Friedmann and the theory of Lipset. The first theory advocates that economic and political freedom exist hand in hand, while the second states that economic freedom leads to political freedom. The authors point out that economic freedom facilitates economic development, which according to Lipset leads to the fulfillment of political and civil freedom. The expansion of economic rights presumes the existence of political freedom.

While explaining the role of the state, the authors describe the basic, most important concepts of economic liberty. The evolutionary process by which the state monopolized the means of coercing someone to do something is analyzed historically. This step decreased the possibility of individual members of society to exert violence towards each other and hence decreased the risk to life in a society. The same process, however, increased the possibility that the state abused its monopoly. Evolution of the state was accompanied by the establishment of institutions whose purpose was to diminish the risk of state monopoly, protect property rights, and develop the rule of law. Historic analysis is one of the special virtues of the book, since the authors' stance requires a multidisciplinary approach. This multifaceted approach makes it easy to understand the complex economic relationships and makes the book really enjoyable. The authors not only elucidate the dangers of the state, but also evaluate the tasks and actions of the state. This draws attention to the fact that the state not only carries out coercive actions which oppose economic freedom, but it could also solidify the rule of law, thereby improving economic freedom or the state may implement such actions which are indifferent to economic freedom. The conclusion is that there is no correlation between the size of the state and the level of economic freedom, rather it is the nature of state interventions that influences the state's impact on economic freedom. The authors emphasize that those actions of the state which are long term and affect the institutional framework of the system are worth analyzing in connection to economic

freedom. A government's economic policies do not belong closely to these actions.

From this point a question to be asked is how the improvement of economic freedom promotes economic development. The brilliant response can be found in the third chapter of the book. The authors incorporate the Austrian (Kirznerian) theory of Entrepreneurship into their own theoretical model, using it as a link between economic freedom and economic development. The activities of entrepreneurs, which manifest themselves in innovation and imitation, are the key element of economic development, and at the same time the driving engine of the authors' theoretical model. An entrepreneur conducts his activities, however, in the institutional playing field created for the most part by the state. His actions are strongly influenced by the institutional framework. The various institutions' effects on the entrepreneurs' attitude may be different, one stimulating innovation, while the other driving the entrepreneur towards imitation. Imitation is the way by which innovation can spread among the all participants in the economy. The difference between these two concepts is demonstrated on the production possibility frontier (PPF) in the book. Innovation shifts the PPF out, whereas imitation shifts the economy towards the PPF. In agreement with the economists of the Austrian School, Judit Kapás and Pál Czeglédi also suggests that the economy can never reach an equilibrium state: it cannot shift entirely to the PPF. That is because while entrepreneurs pursue the goal of equilibrium (the maximization of profit), new imbalances (potential profit) are created. The level of economic freedom measures the ratio of coercive and non-coercive actions of the state and thus can demonstrate those governmental actions which improve economic freedom and stimulates productive entrepreneurial activity.

This theoretical model is demonstrated by the authors in the figure below:

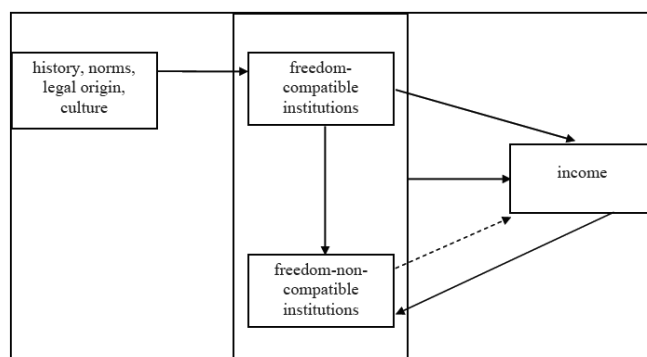


Figure 1. The effects between economic freedom and long-run income

Source: Kapás – Czeglédi: *Economic Freedom and the Process of Economic Growth: An Empirical Analysis Based on a New Measure*. Manuscript. Accessed at http://extranet.isnie.org/uploads/isnie2009/kapas_czegledi.pdf

These days it is rare to find a professional textbook that has been written in an understandable language accessible not only for experts in the field but also for the inquisitive academic community. *Economic Freedom and Development* is a good example of a linguistically and stylistically reader-friendly, well-edited academic book. Moreover, the authors help the readers to understand the rather extensive and difficult-to-digest literature by using thematic lists of the cited essays about economic freedom and development and economic and political freedom. It is an unusual treat for the reader that the list of the literature not only contains reference data, but also the list the central questions and the methods in the cited research, as well as a short summary of the referenced article.

After establishing the theoretical background, Judit Kapás and Pál Czeglédi have carried out an important empirical analysis of their theory with which they convincingly prove that their reasoning is correct. Moreover, they have suggested introducing a new index to measure the level of economic freedom that would eliminate the shortcomings of the two internationally used index numbers (as discussed in the second chapter of the book). In creating this new index, the authors paid attention to exclude those short-term factors, like economic policies, which might lead to false conclusions, and separated the factors compatible and incompatible with economic freedom. Based on this, the freedom-compatible factors of Economic Freedom Measure measure the deviance from the ideal rule of law, while the freedom-incompatible factors measure the extent of the coercive actions of the state. An interesting result of the statistical analysis is that, in their model, while the freedom-compatible factors are determined exogenously, the freedom-incompatible factors are determined endogenously. The authors explain this interesting result using the Theory of Intervention of the Austrian School, which argues that while wealthier states provide more transfer and support to the actors of their economy, there are fewer quantitative limitations that narrow the field of action of the economic players. Finally, I would like to praise the second, empirical part of the book, where the authors were able to handle emerging questions within the framework of their theoretical model.

In summary, I am convinced that the book contributes greatly to the understanding of the institutional background of economic growth. Moreover, it provokes further thought on long-term, challenging steps which allow a country to step on the road of sustainable development.

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Csaba Csáki – Csaba Forgács (Editors)
Agricultural Economics and Transition: What was expected,
what we observed, the lessons learned
Halle (Germany): IAMO Press, 2008.

Corvinus University of Budapest was the centre of the world for agricultural economists on September 6–8, 2007 where the joint conference of International Association of Agricultural Economists (IAAE) and European Association of Agricultural Economists (EAAE) took place. In the conference 118 participants from 26 countries got together in order to discuss and draw conclusions on agricultural transition starting at the early '90s. The official topic of the conference is stated in the title of the book, which was published a year after the meeting by a leading institution of the topic, IAMO. The two-volume book is in fact a proceedings of contributed papers and abstract of posters presented by the authors during the 3 days. The conference consisted of 8 sessions (plus plenary sessions and poster sessions) organized around 8 different topics inside agricultural economics: this review will see through all of them in order. Though plenary sessions were on different days, this review will follow the book's logic in demonstrating background papers of plenary speeches (namely that of Ulrich Koester, Johan F. M. Swinnen – Anneleen Vandeplas, Jerzy Wilkin, Zvi Lerman, Eugenia Serova, József Popp – Gábor Udovecz, David Colman and Csaba Csáki) inside the eight predefined topics as well.

The first session published in the book was overall transition development consisting of eight papers. As the first presenter, *Ulrich Koester* was talking about how the profession of agricultural economists has changed during the transition and concluded that older generations and their international working experience have a crucial role in better understanding past processes. He also stressed that growth is not to be considered as the main policy objective any more; rather distribution of income and wealth have become more important. *William M. Liefert* presented his empirical work regarding success of the Russian transition process and found that Russia is still in the transition process and has a lot more to do to establish a well-operating and market-driven agro-food system. *Banse et al.* used a CGE modeling approach in order to assess foreign direct investment in transition countries. After model building and scenario running, the authors set it forth that economic growth, positive trade balance and high employment are crucial in attracting FDI into a region. According to their results, EU membership has a positive impact on production and income of agri-food sectors in the new member states (NMS) but they have to improve the attraction of FDI. *Hanho Kim – Donghwan An* analyzed policy reforms and agricultural productivity in 28 transition countries and demonstrated a better overall performance of CEE in compari-

son with the CIS countries. *Gábor Szabó* wrote his contributed paper about changes in the structure of Hungarian agriculture in 2004–2006 and concludes a declining performance with stressing the need for a comprehensive national agricultural and rural development strategy in the future. *Věra Bečvářová* drew the attention to the role of long-term competitive advantages in running agri-food businesses, while *Inna Levkovich – Heinrich Hockmann* analyzed the transition process of the Ukrainian agri-food sector using trade indicators. As the last presenter in this section, *Gábor König* made research on the development of Hungary's agricultural trade after EU accession.

The second section of the book is about country transition experiences. The first paper here is that of *Eugenia Serova*, who analyzed transition experiences in NIS countries. She concluded that NIS countries deepened their relations with other parts of the world and agri-food markets developed during the transition. *Zvyagintsev et al.* focused in their paper on Russia's rural income and made an empirical work to identify special characteristics of the field. Their main conclusion is that agriculture is not the main income source in rural areas of Russia anymore. *Heinrich Hockmann – Agata Pieniadz* applied a farm efficiency model to Polish agriculture and stressed the importance of managerial ability as a production factor, while *Péter Halmai – Viktória Vásáry* proved that Hungarian agriculture is in "transformational recession". *Mária Vincze – Andrea Kölcsey* dealt with the main bottlenecks of rural knowledge transfer in Romania and revealed several problems of the public sector limiting the supply of necessary services. *Raushan Bokusheva et al.* focused on Russian investment patterns and set forth that governmental efforts aimed at improving farmers' access to credit should be supplemented, while *Crina Turtoi et al.* dealt with farm structure changes in Romania and concluded that small farms need special economic and social measures to improve their performance. The last paper of this section is – as the second one was – dealing with Russia, in which *Maria Antonova – Manfred Zeller* analyzed Russian beef stock dynamic supply and identified three main factors as the reason for decline.

The third part of the book is organized around the question of land reform, a question quite popular but controversial among agricultural economists. The first paper here of *Zvi Lerman* argues that there are huge differences in land reform implementations among individual governments of the CIS countries. The paper presents well-structured and difficult to access data to prove its results. *Klaus Deininger et al.* analyzed land market and agricultural productivity of Albania and found that bad land policies obstruct farmers' productivity growth. *Laure Latruffe et al.* wrote their paper on the future of corporate farms in the Common Agricultural Policy (CAP). Their main policy conclusion is that single area payments will induce farmers to review their situation within the corporate farms and

try to capture the capitalization of the single area payments through higher rents. *Katalin Takács-György et al.* made their contribution by analyzing land markets of selected CEE countries. They set forth that land use transition caused high concentration of agricultural land in CEE countries, mainly because land prices are still 20–30 times less in the region than that of EU15. *Lucian Luka*, as the last contributor to the topic made research on Romania's semi-subsistence farms and drew attention to the need of modernization of agricultural production.

The last part of Volume I is named farming efficiency and farming organizations. In this topic, *Adriana Cristoiu et al.* analyzed the possibilities of conversion to sustainable agriculture in New Member States and identified several farm level determinants affecting conversion intent. *Pavel Ciaian et al.* presented characteristics of farming organizations in CEE and CIS countries, while *Anna Burger – Katalin Szép* presented research on the structure of Hungarian individual farms. It turned out from their survey that a firm tendency of concentration has started among Hungarian individual farmers. *S. Gomez y Paloma et al.* dealt with strategies and investment behaviors of Polish farmers and concluded that Polish farmers show a multifaceted picture on their future prospects.

In Volume II there are four further parts. First is about production and value chains, consisting of ten contributors. *Johan F. M. Swinnen – Anneleen Vandeplass* wrote the first paper in the second volume about governance of agri-food supply chains and concluded that most important changes in this field were (1) the increase of private governance at the expense of public governance and (2) the transition to globally rather than locally integrated systems. *Heinrich Hockmann – Éva Vőneki* made an assessment of the Hungarian milk supply chain and showed that factor allocation and income distribution on the milk market might not be biased by market power. *Axel Tonini – Roel Jongeneel* modeled dairy farm size distribution in Poland and found a decreasing tendency in case of smaller farms' performance, while *Lajos Zoltán Bakucs – Imre Fertő* calculated spatial integration indices in their paper investigating the Hungarian milk market. *Petr Novák* also dealt with the structure of the milk market and provided price transmission analyses on processor and trade levels of the Czech Republic's milk market. *Cristina Brasili et al.* made their contribution in providing a regional comparison of meat sectors between Hungary and Emilia-Romagna (Italy) and identified several organizational and structural differences. The paper of *Xavier Gellynck et al.* dealt with the possibility of introducing quality assurance schemes in the agri-food sector, while *Lajos Zoltán Bakucs et al.* analyzed the impact of trust on cooperative membership performance and satisfaction in the Hungarian horticulture. *Gábor G. Szabó* also analyzed the integration of small and medium size farmers by a Hungarian cooperative and stressed the importance of long-term cooperation and safety. Last contributors to this chapter were *Taras Gagalyuk – Jon Hanf* who dis-

cussed vertical collaboration in Ukraine concluding the growing importance of supply chain management methods.

The second section of Volume II includes papers about the topic of *institutions*. The first paper here is that of *Nancy J. Cochrane* dealing with the promotion of sustainable market institutions by identifying several factors determining differences among national promotion actions. *Natalija Kazlauskiene – William H. Meyers* made their survey on the role of research in Lithuania and concluded that researchers had a key role in Lithuania's transition. *Maria Fekete-Farkas et al.* stressed the importance of national land policies in their paper written on the role of state administration in updating land-estate and farm-size conditions, while *Wojciech J. Florkowski* analyzed the role of professional agricultural economics associations in shaping national agricultural policy through a case study. *Diana Traikova et al.* made some conceptual work on the impact of social networks on non-farm rural employment stressing the importance of such networks. *Milada Kasarjyan et al.* analyzed Armenia's repayment performance under joint liability borrowing, drawing one's attention on the necessity of both social and economic factors in better assessing the topic.

The eighth chapter of the book contains papers around the popular topic of impact of EU enlargement. As the plenary speaker *Jerzy Wilkin* made it clear in his paper dealing with agriculture in the NMS, EU accession played important and highly positive role in the acceleration of economic development and modernization in NMS. The paper of plenary speakers *József Popp* and *Gábor Udovecz* provided several interesting and deep analysis on the evaluation of Hungarian accession and set it forth that impacts are not unambiguously positive. *Myrna van Leeuwen et al.* stressed in their paper modeling EU markets, however, that mainly prices and technology determine market situation. *Carmen Hubbard et al.* also dealt with structural changes in Hungary after EU accession and by using FADN database they proved that there was a marked structural shift from animal and mixed farms to arable farms, mainly because of subsidies. *László Rieger* and *Gyula Szőke* provided an interesting analysis of the Hungarian cereal intervention system and made it clear that such an intervention system "tailored to farmers' needs" does not exist in Hungary. *Adriana Cristoiu et al.* wrote their paper on sustainability dimensions and income prospects in the NMS and stressed the importance of appropriate method selection. *Dusan Drabik – Lubica Bartova* revealed agri-food trade specialization aspects of accession and identified several factors influencing comparative advantages, composition and dynamics of CEE agri-food trade. *Maria Sassi* added in her paper about agricultural export-growth nexus in the EU27 that there exist a positive nexus between the agricultural productivity level and the weighted sector openness. *Judit Katona-Kovács* contributed to the book by analyzing the effect of the CAP payments on territorial cohe-

sion and stressing the need for a detailed geographical breakdown in rural development analysis. *István Takács et al.* compared factors of efficiency change of assets between Hungarian and EU15 farms and revealed that high levels of technical equipment are a necessary but not satisfactory condition of improving efficiency. As the last paper in the chapter, *Irene Monasterolo* analyzed the regional policy of the EU in Hungary and identified winning and losing areas inside the country and laid down regional divergence inside the EU. The book ends with the description of abstracts of posters presented at the conference.

As Csaba Csáki put it in his final plenary presentation – and in the first chapter of the published book – the seminar provided an excellent opportunity to discuss the process and the status of transition in agriculture as well as to review the status of agricultural profession. The book gives an excellent summary on the state of art of agricultural economics and is obligatory to all those working and/or interested in this special field of economics.

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Róbert Iván Gál – Ichiro Iwasaki – Zsuzsa Széman (Editors)

Assessing Intergenerational Equity

Akadémiai Kiadó, Budapest 2008, 215 pp.

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In an aging society the sustainability of pension systems is a crucial question. By the advance of aging it is becoming more and more urgent. Japan and Hungary are two good examples for countries which are exposed to the major changes to be done under the pressure of the accelerated transformation of the age structure of the society. To show the magnitude of the question we note that pension related expenses tend to be around 10 percent of the Hungarian GDP. The implicit debt (that is the difference between the present value of pension liabilities and expected contributions) of the Hungarian pension system is about 300 percent of the GDP (some of it is a natural phenomenon in a so called pay-as-you-go system where the tax of active workers covers the pensions of inactives).

The proportion of elderly people in the society changes fast in Hungary and in one of the fastest ways in Japan. In the mid-1990s the proportion of old people was 15% in both countries. By 2050 this is going to increase to above 70 percent

in Japan and almost 40 percent in Hungary. Hence assuring the necessary incomes of the old creates new type of difficulties.

The book titled *Assessing Intergenerational Equity* (edited by Róbert Iván Gál, Ichiro Iwasaki, Zsuzsa Széman) presents the outcome of a research program on intergenerational equity in transition economies (at this case it is Hungary) conducted at the Institute of Economic Research, Hitotsubashi University, Japan in a five year academic project on Intergenerational Equity started in 2000. The book consists of nine chapters written by different researchers who participated in the program. The authors present a concise summary of former papers and research on the Hungarian pension reform of our age and questions related to the aging society regarding work force, employment and perception as a core of employment of seniors.

The chapters provide a comprehensive study of intergenerational equity. The book is divided into three parts, the first part analyzes the aging of the population, the second part describes the Hungarian pension reform dating back to 1998, and the third part deals with the impact of the pension reform on intergenerational redistribution in Hungary.

For the interested reader all the chapters give a thorough analysis of their subject sometimes unfolding revelational consequences. The brief presentations tempt the reader to get to know more details even about the subjects which are further away from their field of interest.

Now we will go through the chapters and topics of the book in a linear order.

Chapter 1 (written by László Hablicsek) deals with the expected future demographic development of Hungary and its place among the aging European societies. Life expectancy, birth and fertility tendencies are exhibited and besides the well-known facts two surprising results are uncovered. One is that though fertility is low in the entire “old” European region, the changes in mortality and migration could probably maintain the size of the population till 2020. The other is that the aging process will accelerate astonishingly in all of the scenarios considered by the studies of the papers summarized in the chapter. By 2050 the author expects every third citizen to be above the age of 60, both in the EU15 and Hungary.

Chapter 2 (by Zsuzsa Széman and Csaba Kucsera) considers the perception of aging. After the systemic change in Hungary, for economic reasons early retirement and disability pensions became generally available and a big part of the older workforce chose them to avoid unemployment. The authors describe a study on the perception of aging in the family, in the society and in the labor market over the last 25 years. There seems to be a shift toward tolerance of older people, though there is a big distinction between working capabilities and social, family roles. Older people’s experience, discretion and help are welcome but at the work-place even their presence seems to be rather refused. The empirical studies

were conducted in 1982, 1989, and 2004 showing the picture in the state of socialism, at the beginning of a rapid change in political, economical, and social transformation, and at a functioning market economy, respectively.

Chapter 3 (by Zsuzsa Széman and László Harsányi) investigates social aging. The effects of the above-mentioned earlier termination of working are investigated and empirical surveys are presented on age discrimination against older employees. An additional comment could be that the rapid changes in information technology could be followed by the older if they were guided by *proper* (self-)management. The authors notice the remarkable employment of pensioners over people before the pensionable age which indicates the potential of pushing the perceptual old age in the labor market (45–50) toward the perceptual old age in the public (60–70).

The second part of the book gives a thorough and broad history of the Hungarian pension reform. A three-pillar pension system was introduced in 1998. The core element was a split of the mandatory system into two schemes, a public unfunded system (the former unique scheme) and a mandatory private funded system for the younger generations. The third pillar was the voluntary pension funds which had existed for four years then.

András Simonovits writes about the history of the pension reform and its following deviations over changing governmental forces. Simonovits' main subject is the so-called first pillar of the Hungarian pension system: the unfunded public pension. He calls it a *continuous reform* that has been happening since 1996 or even since before and points out some consequences of the changing rules, especially on their deep impact on the sustainability of the whole system.

Ichiro Iwasaki and Kazuko Sato write about the second pillar, the mandatory pension funds in Hungary in Chapter 5. They interviewed several Hungarian experts on the subject and were able to give a picture of an outsider which contains the altering governmental conceptions and the heroic fight between the notion of sustainable pension system and politics and electors. The authors analyze the private pension funds' portfolio composition and their yields. Since the book was written before the recent financial crisis it does not deal with its implications. We remark that the big losses of the members of private pension funds will have unforeseeable impacts on the whole mechanism of self-provision and its institutions all over the whole world. The new pensioners whose accounts have suffered big decreases will have financial difficulties in the future but the whole system will have to prepare or at least to react for the forthcoming crises.

In this chapter the authors also give a summary of the development of the private pension funds in Hungary. They analyze the decrease in the number of funds and the institutional background. One of their main conclusions is that the performance of the funds, that is the real rate of return is lower than the international

standards, however the members do not consider this when choosing or occasionally changing funds. The authors also form their opinion on what changes could result in a successful private pension fund system.

Ágnes Matits focuses on the third pillar, the voluntary pension funds in Chapter 6. She starts with a useful overview of the basic definitions regarding pensions, then the history of voluntary pension funds in a comparison with the mandatory pension funds is presented. Voluntary pension funds were introduced in Hungary in 1993 while the notion of mandatory funds was introduced in 1998. Though the volume of voluntary funds is much less than that of mandatory funds, the author emphasizes their importance and recommends as an appropriate tool for supplementary self-provision. She also investigates the investment returns of pension funds and suggests a new notion (*internal efficiency rate*) as an appropriate tool to measure the performance of the funds.

Both chapters on private pension funds mention that market competition is limited among the funds causing performance issues and that this question will be crucial for the future of this segment.

The title of the third part of the book is Intergenerational Equity. Its first chapter, Chapter 7 was written by Róbert Iván Gál and Géza Tarcali. The authors investigate the 1998 pension reform and intergenerational redistribution in Hungary. They apply generational pension accounting and conclude that the future generations should have had to pay 13,600 USD to the system without getting any service in exchange, that is, the difference between the present value of their contributions and the present value of their future pension incomes was 13,600 USD, while for a zero year old this amount was only 1200 USD before the reform. This shows that the system was not sustainable in the long-term and urgent adjustments were needed. The authors found that the pension reform in 1998 resulted in a 650 USD account for the future generations and was intended to finance the deficit by the present generations. As an effect of the later changes in the system, this adjustment lost some of its gains which overshadow the steps towards the sustainability of the Hungarian pension system made in 1998. A pension system is considered to be fair if it pays back the contributions of the contributors after their active period. If the contributors do not get back their payments then the system tends to erode and various techniques are chosen to avoid payments which accelerate erodibility. Naturally, the starting pensioners of the Hungarian post World War II pension system are absolute winners of the system, the authors' calculations show that the heaviest burden of the pension reform was put on cohorts born between 1948 and 1962.

Chapter 8 (by Mária Augusztinovics and János Köllő) investigates fragmented labor market careers. The authors introduce the notion of alpha, beta and gamma (allusion to Huxley's *Brave new world*) as full time contributors, half time contri-

butors and no contributions, respectively. They analyze the rates of contribution periods with respect to age, education and sex. Among several interesting findings, they report the following: pensions granted in year 2005 were 30 percent higher than the average pension (for all the ages) showing that the indexation of pensions is used to devalue the starting pension. The authors' estimations are that the intended changes after 2013 will result in lower entry pensions and a lot of people will be excluded from eligibility.

Chapter 9 (by András Gábos, Róbert Iván Gál and Gábor Kézdi) is about fertility effects. Using regression techniques the authors investigate the fertility effects of family benefits and pensions. Strong and robust effects were found in a complex model which could be made even more complex as it is planned for the future in the concluding section. Here we only point out the interesting increases of fertility around 1953, 1965, 1973, 1984 and 1990 though altogether the rate decreased from 2.8 to 1.4 in the last 50 years. Possible explanations are the following, respectively: stricter abortion policies in 1953, extended childcare allowance (GYES), tightening abortion practices again, the introduction of a wage-related new type of child care benefit (GYED), another substantial increase of family benefits. Since then the fertility rate has been decreasing.

The three editors of the volume conclude the book with a chapter on conclusions and agenda for further research.

This book shows the need for further investigations of the Hungarian pension system and all of the results suggest the importance an urgent and clear regulation which would result in a sustainable system. Though several problems of the reform in 1997 were listed by various chapters, the more dangerous impacts of the later modifications are also emphasized.

As a philosophical implication of the book we can see another exciting collection of hard and important questions which will have dramatic conclusions on the future generations. It is a nice area to work on to make our world a better place to live in.

As an important note we remark that some of the authors hold a position at CUB: Mária Augusztinovics is an honorary professor, Róbert Iván Gál is an affiliated professor, and Ágnes Matits is an honorary associate professor.

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László Csaba

Crisis in Economics?

Akadémiai Kiadó, Budapest 2009, 223 pp.

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In a well-known joke, the physicist, the chemist, and the economist are shipwrecked and end up on a desert island. Close to starvation, they spot a tin can on the shore. The only problem is that they have no can-opener. The three scientists start brainstorming, and, after a while, a solution pops out of the physicist's head: "Let's find a rock with a sharp edge so that we can compress the top of the can to the edge and move it at a speed of 25 m/sec till it opens." The chemist's idea is similarly true to his own profession: "Let's heat the can to 100 degrees Celsius on the Sun, so that due to the increasing internal pressure it bursts open." The economist interrupts the discussion in a patronizing manner: "Gentlemen, gentlemen. I know a much more elegant way. Let's suppose we have a can-opener."

The analogy can refer to our discipline in several ways. The latest events of the world economy, the waves of the global crisis, have drifted tin cans to shore that are quite likely to prove unbreakable for economists, as it is demonstrated expressively in *Crisis in Economics*, the latest volume of László Csaba, written in English and published by Akadémiai Kiadó. Even if according to the author a shipwreck is an exaggeration for symbolizing the current situation of our field, we definitely do not have the can-opener. In our "methodological tool kit", using László Csaba's terminology, we do not have the ingenious equipment that would help us solve quickly and easily the exciting economic riddles enumerated in the book, may they be the internal enigmas of theory or the issues of Central Eastern European transition, which are still left unclear.

It is another question whether theorists make any effort at all to try and open the "tin cans" brought to surface by the waves of practice. Does the guild of economists take Gregory Mankiw's advice into consideration, quoted in the book as a motto: "God put macroeconomists on earth not to propose and test elegant theories, but to solve practical problems" (page 19). As László Csaba claims, it is reasonable to expect the latter from our field, for which he himself sets the example with his present volume (similarly to almost each of his recent writings, including his academic inaugural piece) by connecting the more abstract questions of economic philosophy and methodology nature (for example, what is the role of the institutions in economic analyses? pages 36–40) with the aching practical problems of the economy (such as did people win or lose with Hungary's inclusion into the EU?, page 173).

The author's sensitivity to practical issues, however, is far from being common in the circle of economic theorists (which justifies the message of the joke in the

introduction). In silent times, the sterility of this profession is not so much obvious, but when the seemingly unsolvable problems get hopelessly entangled, like nowadays, the urge toward economists, comes up in a more pronounced way: “Tell us what to do, but not always in generalizations”, as written by István Széchenyi, the renowned 19th century Hungarian reformer.* The crisis, or let us be more cautious, just like the author, the inner methodological problems of economics are revealed especially by the current economic crisis.

László Csaba points to these inner methodological problems in the first part of the book, fascinating the reader not only with the numerosity of the authors, books, and articles quoted, but mainly with their significance. In the era of over-specialization, the firm guidance with which Csaba leads the reader to the wide ocean of the economic literature is truly exceptional. Firstly, as he selects the methodologically relevant works and authors with a sure hand, and, secondly, as he seeks the answers to questions which are, though not less significant, hardly examined nowadays. To mention an example: do European economists (and especially those of the former Soviet Bloc) stand a chance in contributing significantly to the “great theory” in the era of an Americanized economics? “[Can we] draw any more *general theoretical lessons* from the diverse regional experiences in Central and Eastern Europe [...] for broader global economic analysis?” (page 14, italics in original). In this strongly theoretical-methodological section, Csaba presents how economics ended up in its current, heavily technical and strongly mathematical state and reveals why it is probable that, despite its obvious shortcomings, quantitative analysis will remain the dominant methodological trend within economics.

Though the reviewer agrees completely with most of the affirmations of this part, two remarks must be made here. László Csaba, while acknowledging extensively the values of the technical mainstream of economics, criticizes passionately the “technicist orthodoxy” (see pages 30–36), implying that excessive mathematicization leads to empty and irrelevant models. On the long run, he considers this approach to be unsupportable. The only problem here is that while he makes nearly all of his statements tangible by quoting dozens of works and scientists, when dealing with the “technicist orthodoxy” he does not provide any names or examples of the works which, in his view, represent this methodological extreme within economics. Without this, it might seem, he is fighting phantoms, even though every unbiased reader feels that the phenomenon (self-contained technical exercises and sterile modeling) does exist in economics.

The other observation regards the relation of quantitative and qualitative analysis, that is, of formalization and content. The author describes the enrichment of

* Széchenyi, István (1984 [1832]): *Stadium*. Budapest: Közgazdasági és Jogi Könyvkiadó.

mainstream economics with the intellectual content arriving from the periphery (pages 36–40). A more balanced illustration, however, would have required a mention of how the mainstream has influenced such traditionally non-mainstream approaches as new institutional economics, new political economy or verbal economic history. All these sub-disciplines have been greatly enriched in the recent years by quantitative analysis. Since the beginning of the 90s, the writer of this review has participated several times in the summer conference of the Ronald Coase Institute in St. Louis. The pronounced goal of this workshop was to deepen the most recent methodological trends of new institutional economics in the (mostly young) colleagues from Central Eastern Europe. The application of quantitative analysis and even econometric methods has appeared all the more often in the institutional articles from Central Eastern Europe examined in the workshops. Recently, I have been sending my own students to this useful camp. The last participant arrived home with the striking observation that almost all papers discussed were formalized, that is, in 2009 almost all of the young researchers from Central Eastern Europe submitted workshop papers relying mostly on highly technical quantitative analysis and modeling. With this, I do not wish to question the book's justifiable remarks of criticism toward the excesses of quantitative analysis. Occasionally, mathematical formalization does overshadow the considerations of content when analyzing an economic issue, and this hinders the progress of economics. It is just my observation that there is no field of economics which could neglect the application of mathematic modeling and econometrics. In fact, this is especially true in the case of new institutional economics, which is the focus of Csaba's book.

In the second part of the book, Csaba places the theories regarding the post-transitional changes into scrutiny, focusing on the extensive and the diverse tools of state involvement, which, according to the author, explain the significant differences within the region. On pages 81–83, we find a clear and well-structured summary of the possible generalizations drawn from the diverse post-socialist development of the CEE countries. He refers to the conflict of political and economic rationality within the region, the rather wide gap between the normative requirements and the actual developments of the transition to market economy, and the influence of Olsonian interest groups, which, according to Csaba, explain the processes of the region much more than any other long-term community goals (page 82). There are few contemporary Hungarian economists who are so familiar with the complicated relations of Central Eastern Europe like László Csaba. It is indeed exceptional to be so up-to-date regarding the events and their theoretical resonances, while having such a serious encyclopedic knowledge about the region as the author of *Crisis in Economics*. Let us be honest and say that most of us know much more about the theoretical debates taking place on the other shore of

the Atlantic than, for example, whether anything interesting happens in the academic circles just a couple of miles away from the Hungarian border, in Bratislava for example. It is of course natural and typical to a certain extent that the theorists of the periphery turn their heads toward the events of the center. At the same time, what is also typical is that the radically new knowledge is usually born, not in the center, but in the periphery. It is enough to recall Kuhn's theories of scientific revolutions, pointing to the fact that the periphery, both scientifically and geographically, can be significant. Even if it is not probable that the role of the revolutionary periphery can be played by our region, the scientific mission to which László Csaba dedicates himself to with this volume (similarly to many of his previous works) cannot be overestimated. He pours the issues of the new EU members into the bowl of the common knowledge of economics.

The third part of the book examines the theories of Europeanization, analyzing it from the perspectives of both the EU and the new members. The author takes side in such intriguing issues like the question of "premature" enlargement, the evaluation of the Lisbon Treaty (alibi or possibility?), or the balance of accession from the perspective of the Hungarian economy. He fights the general EU-skepticism, the negative attitudes triggered by the (fairly understandable) delusions and common misconceptions. On pages 167–173 he gives a clear and well-structured overview of all this, emphasizing the indispensable role of the EU in the stability of market institutions. The depressing global crisis and the numerous unsolved problems of Hungary (from the health reform to demographic matters and the shortfalls in competitiveness) distort the lenses of experts as well when calculating the chances of the country and evaluating the results EU membership. It is vital to point out, therefore, that "[i]t is hardly doubtful, in historical perspective, that on 1 May 2004 the indeterminate and in-between situation of Hungary that has characterized the country ever since it regained independence in 1918 has come to an end with the *reintegration into the Western political, economic and defense community*" (page 168, italics in original).

László Csaba does not belong to the "let-us-suppose-we-have-a-can-opener"-type of economists, but he represents a species of theorists that are quite rare, nearly extinct. His book gives extensive proof of his persistent conviction of having to make his works useful. This effort is especially strong in the fourth part of the book (Towards a theory of sustainable economic growth and prosperity). This section contains several pieces of advice that can directly help to solve the dilemmas of economic policy, such as Csaba's reform schedule (pages 206–211), which is worth taking to heart. He stresses, for example, that the low savings rate, characteristic of the country and a source of several other problems, can be cured by increasing the financial sector's accountability and transparency, achievable through stricter regulation. His explicit objection to the populist initiatives of vari-

ous groups is also for the common good, as he questions the attempts to create a minimal government, emphasizing that state activism and dirigisme are two different things.

The length of the present review does not make it possible to scrutinize each and every one of his suggestions (or only those on pages 212–215). With some of these, the reviewer completely agrees, while in the case of others he would have used different words or a different approach and focus. We could argue, for example, with the statement that “the real issues [concerning healthcare] will be how to *re-channel additional funds* to this area, and how to ensure the *conscientious and targeted spending of those*, i.e. on improved services rather than saving costs” (page 214, italics in original). What we consider more important, instead of pumping more money into a leaky bucket, are those institutional reforms, which’s relevance and necessity Csaba does not question, but rather only stresses their long-term effects. Our agreement or disagreement, however, is secondary. The point is that each of his suggestions are important and thought-provoking, exemplifying the responsibility and effort to ameliorate our country, which is missing from so many scholars of the great theory. László Csaba does not suppose he has a can-opener; instead, he keeps searching until he finds a nail to pry out the theoretical content from the (black) box of the can, which remains locked forever to many. In the introduction of his volume, he declares this goal with the modesty of a scientist: “We hope to contribute, even is modestly, to the ongoing *change in emphasis in the global economics profession*” (pages 14–15, italics in original). The readers who will hold this book in their hands (and they will be quite many, given how widely-read Csaba’s works are) will most probably reach the same conclusion as the reviewer: László Csaba contributes with this book to forming the guild of economist’s way of thinking, and not only in a modest way.

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