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Good governance in Central and Eastern Europe: the European Union as an anchor for reform[1]

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Abstract: In this article, it is argued that the economic and political transformation in Central and Eastern European countries towards the end of the twentieth century towards a market economy were irreversible and path dependent. The author discusses the importance of this issue for the success of transformation policies, as well as the significance of the role of the European Union for supporting good governance as a condition for successful transformation.

Keywords: *good governance, Central and Eastern Europe, European Union, economic transformation, path dependen*

1. Introduction

The system-switch in Central and Eastern Europe from a politically authoritarian system with mandatory economic planning to a democratic order based on market co-ordination has presented one of the major challenges in contemporary history. In order to fulfil these tasks, there were no historical precedents to rely upon, nor were there clear-cut conceptual frameworks to underpin these "*dual transformations*".[2] Concerning Central and Eastern Europe, scholars seem to have been embarrassed time and time again. In retrospect, of course, they have tended to present the facts so as to prove their own correctness, but two aspects should not be overlooked.

[1] This article was published in Economic and Environmental Studies 2002/2: 11-27.
[2] The phrase "dual transformations" underlines the fact that, since the collapse of communism, both a political and an economic transformation were set in motion. The term is borrowed from Bartlett (1997).

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Firstly, there is no well-attested evidence of any forecast regarding the collapse of the communist system. On the contrary, discussions of the existence and feasibility of a socialist economic order were closed several decades ago (see: Lavigne, 1999; Wagener, 1979). No matter precisely how and in what form, economic co-ordination by means of central planning simply existed. It was referred to as "*real existing socialism*". The system had its advantages and disadvantages and the prevailing view was that it needed to be "*reformed*" rather than "*transformed*". After all, communism and its concomitant organisation of central planning had an outstanding reputation in terms of stability.

Secondly, once the curtain fell in December 1989, nobody really knew how to cope with the transformation. As van Brabant (1993: 80-1) put it, "*they* [economists] *know next to nothing about undoing the planning environment and coming to grips with the wide-ranging legacies of the earlier communist dominance in societal affairs*". Mainstream concepts failed, since within these concepts institutions are perceived as constant. It is acknowledged that institutional data do have an impact on economic performance, but they are in no way subject to change. In other words, institutions are not explicitly taken into account. That also holds for the most important institution, the market itself, which is assumed to function relatively well. Consequently, on the basis of these analyses it is difficult to theoretically underpin the creation of markets. Transformation, however, impinges on the change of institutions, not so much on the effect of a given order on performance.

This article scrutinises the transformation processes in Central and Eastern Europe and builds on the arguments put forward in the tradition of political economy. Its basic assumptions are that designing a market economy is not to be mistaken for destroying the institutional legacy of communism – a market order is not the negation of central planning – and that mutual dependency between democratisation and market reform has a definite impact on the path of transformation. In other words, economic systems are understood as irreversible and path-dependent. One cannot simply dismantle the former regime and each step in the reform process influences the set of alternatives for the reforms that still need to be implemented. The legacy of the past is decisive. This is not to deny that the success or failure of transformation largely depends on the policies applied, but that the extent, to which these appropriate policies are feasible, is pivotal.

In the remainder of this article, the validity and the consequences of these assumptions are further addressed. The following section is theoretical in nature. It centres on the (political) motives for and the impediments to market reforms. The leading thread is the political likelihood of transformation based upon assumptions of economic behaviour. Subsequently, the arguments turn to the issues of institutional change and "*good governance*" and the extent to which it can be furthered by external conditionality. The focus will be on the role of the *European Union* (EU).

2. Democratisation and market reform

The absence of historical precedents and theoretical tools led to a broad pallet of transformation policies applied in Central and Eastern Europe from the beginning of the 1990s. Besides, despite great similarities in communist dictatorship, the political and economic legacy varied enormously among the countries facing the tasks of transformation. As a result, different strategies emerged and, where policies were similar, performances diverged. Apparently, what was suitable for one country proved inappropriate for another. There was, however, one common denominator in the transformation experience. All Central and Eastern European faced a large contraction in economic activity at the beginning of the transformation. What came to be known as the "*transformation crisis*" was much deeper and lasted much longer than expected. The idea that under central planning there was a large amount of output that only existed on paper did not really alter this view. The extent to which "*output that was not*" induced a nominal overestimation of economic decline appeared to be a minor short-term problem. A fundamental problem of the former regime was the "*output that was, but should not*".[3] A lot of what was produced under central planning appeared to be obsolete in a market environment. Therefore, production had to be restructured.

It goes without saying that some countries have proven to be more successful in regaining economic growth than others. But ten years after the collapse of communism, only Poland and Slovenia have surpassed the 1989 level of *Gross Domestic Product* (GDP). The Czech Republic, which was initially tagged as the "*brightest pupil in class*", appeared to suffer a crisis and did not

[3] The necessity of the crisis is well documented (see, for example, Lavigne, 1999: 150-161; Bruno, 1992; Schmieding, 1993).

reach the magic mark. At the celebration of the second quinquennium, Hungary, which during the communist era became known as the "*brightest shed in the camp*", was also performing at a level of economic activity below that of 1989 (Winiecki, 1993)[4]. The further East one observed the situation, the more dismal the picture. For example, in many countries of the *Commonwealth of Independent States* (CIS), the level of economic activity was less than half of that in 1989. Russia, being the largest country of the CIS, fitted into this gloomy pattern. On top of that, the rouble crisis which emerged in the summer of 1998 had a dramatic effect upon the economic performance of 1999, which again showed a decline of approximately 5 per cent of Russian GDP. Ten years after the collapse of communism, there appeared to be light at the end of the tunnel for most of the Central and Eastern European countries. But for quite a number of countries, it was the light of an oncoming train.

Now the question is: "*why was the transformation so cumbersome?*" Many authors stressed the fact that the transformation to a democratic order based upon market co-ordination was too all encompassing. A huge number of painful reforms had indeed to be carried out, such as macroeconomic stabilisation, liberalisation of prices, production and trade, microeconomic restructuring and, last but not least, institutional reforms to underpin the rules of the market game. The authors adducing this argument focus upon the speed and sequencing of reforms (Winiecki; see also, for example, Slay, 1994; Murrell, 1992). But even in the (hypothetical) case, in which one is able to minimise the costs of transformation by calculating the speed and sequencing of reforms, the question remains: "*is one politically able to implement the reforms at the desired time and at desired speed?*"

This observation triggered an approach in the tradition of political economy. Most of the authors who follow this line of thought address the problematic relation between democratisation on one hand, market reform on the other. The argument goes that democracy might impede implementation of the economic reforms enumerated above, since these will necessarily have distributional welfare effects. Therefore, there should be a minimal level of economic development in order that democratisation and market economic reform successfully coincide (see, for example, Offe, 1991; Przeworski, 1991). Others have emphasised the argument of political credit during the period immediately following the revolution. This view implies that for

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[4] For GDP levels, see *European Bank for Reconstruction and Development*, Transition Report (London various years). See Herman W. Hoen (1998) on the misleading qualification of transformation strategies in the Czech Republic and Hungary.

a limited period of time, policy makers do have the possibility of applying some kind of "*scorched-earth policy*", since the former regime can be held responsible for the negative welfare consequences of transformation (see Balcerowicz, 1995; Roland, 1994). Finally, it has been argued that democratisation facilitated rather than impeded market reforms in Central and Eastern Europe. According to the proponents of this line of thought, there was ongoing political intermediation during communism, which settled distributional conflicts. The revolution of 1989, therefore, not only entailed the end of communism itself, but also the end of political influence in the field of economic regulation (Barlett, 1997).

3. Transformation as a "public good"

This section addresses the process of transformation from a centrally planned to a market economy within the framework of political economy. As stated above, mainstream economics – neo-classical economics – does not really suffice to theoretically underpin the transformation, because it considers institutions as data. What matters is not so much the fact that institutions affect economic performance, but that institutions are subject to change. Now the question is: "*what is the probability that they will change and converge to market institutions?*" This question goes well beyond pure economics. Leaving aside the problem that the desired order is far from clear to those responsible for reform, a political economic theory has to focus upon the problem of how to accomplish a new economic order from a given situation. This is not a completely untrodden field for economists, though the purpose has always been to conceive policy targets within a given economic order, rather than contriving transformation targets and instruments, that is, the conversion of one economic order to the other.

We will not refute the basic assumptions of neo-classical economics, of which those presuming the rational behaviour of utility maximising agents are the pivotal ones, but gratefully make use of the politico-economic theories that gained momentum in the 1960s and 1970s. These complemented neo-classical thinking and have put forward that government policy is to be explained in terms of mutual exchange between the targets and the behaviour of civilians, civil servants and politicians (for an excellent overview see Frey, 1978). All these actors will try to maximise utility, which may result in a sub-optimal outcome at the macro-level. Now, which instruments are at the disposal of reformers for the implementation of institutional change?

Regarding economic reforms in the 1970s and 1980s, it was legitimate to ask why, for example, in Hungary, during the stage of a one-party system in which relations between the party and the other institutions were so unambiguously set, the final results of economic reform deviated to such a large extent from the targets set by the communist party. Considering economic transformation in the 1990s, the search for policy instruments, and the (economic) interests they might serve, is simply indispensable.

There are good arguments for regarding market reform as a public good. Non-exclusiveness and non-rivalry are the two characteristics of these commodities. The first implies that no one can be excluded from using it, whereas the latter points to the fact that individual use of the commodity does not diminish total stocks available. If this is the case, nobody is willing to pay a positive market price. Though there are not as many public goods as one is initially inclined to believe, transformation seems to fulfil the conditions for such a good. A market economy provides freedom of contract, guarantees competition and facilitates legal opportunities to enforce obedience to the rules. It is available to all (non-exclusive) and the use being made of the market rules does not limit the possibility of other users (non-rivalry). Textbook economics tells us that in order to have a public good one needs a special body to provide it, though not necessarily a government agency.[5] The fact that transformation can be seen as a public good makes it unlikely to emerge.

What is at stake here is the argument of external effects. As in the case of growth theory and technological change, it can be stated that what is beneficial to one is beneficial to all. From the assumption that transformation is a public good it follows that the problem of free riding has to be faced. If all individuals want to have a free ride, transformation may never be achieved. In other words, it needs to be organised, that is, "governed".

The behaviour of individuals in groups is crucial. In this respect, an illuminating point of view can be found in interest-group theory (see Eggertsson, 1990). One of the implicit assumptions in this theory is that some groups are perfectly able to look after their interests, while other groups are not. It implies that eventually an unbalanced power structure will emerge. Mancur Olson played a pioneering role in the debate on organisation of collective interests. He concluded that the size of a group is decisive in the extent to which an organisation is successful. In small groups, individual effort is perceived as necessary for achieving the common interest.

[5] This idea is borrowed from Bönker (1999).

The contribution of an individual is not felt in large groups and, therefore, free riding endangers the common interest (Olson, 1965).

A classic example of undesired interest structures is the case of tariffs. For a society as a whole, the erection of trade restrictions is detrimental to welfare. Producers in a particular industry, however, may benefit substantially. In other words, the costs are spread over a large number of people and evoke only minor protests, while the benefits flow to a small well-identified number.[6] The individual's decision to join a group or not is supposed to be rational and in accordance with his or her own interest.

According to Olson's subsequent publications on interest-group behaviour as an explanation for economic growth and stagnation, an important constraint in generating economic growth is deployed by so-called distributional coalitions (Olson, 1982). These are interest groups, which try to change the income distribution to their members' benefit (Olson: 43-7). Instead of contributing to an increase in total income, distributional coalitions attempt to have a larger share of a given quantity of welfare, a phenomenon of which is the classic example of rent seeking. Besides distributional coalitions, encompassing organisations are identified (Olson: 47-53). When looking after their interests, encompassing interest groups do take notice of the impact of their activities on national welfare. Not only the division but also growth of income is considered important to these groups.

Theories of interest-group behaviour have been applied predominantly to market economies. Since regulation perceived as undesirable assumes market intervention, it is obvious that attention has been restricted to this economic order (see Hoen, 1998). Application of interest-group theories to centrally planned economies appeared only after the collapse of communism and all the studies focused upon the Soviet Union and on classic mandatory planning rather than on parametric planning, as was applied in Hungary from 1968 and in Poland from 1982 (Murell and Olson, 1991; Olson, 1992). The successful period of vast economic growth in the Soviet Union (1950–1965) is explained in terms of leadership. One could even speak of a pure property rights approach, that is, by assuming Stalin as the owner of the Soviet Union. During this period, Soviet society was within the competence of very few. Their political fate was largely dependent upon the well-being of the community. This line of thought follows a cost-benefit analysis. There was a small group, which had encompassing interests. The decline of the Soviet Union begins

[6] The example is taken from Krueger (1974).

with the Brezhnev era. Gradually an unbalanced interest structure emerged. Ministries and enterprises became indispensable agents in supplying information to the planning authorities. They behaved as distributional coalitions and "*institutional sclerosis*" crept in.

This theory has only been marginally applied to the transformation processes in Central and Eastern Europe. This is predominantly due to its theoretical flaws. There are many objections to the theory, ranging from mono-causality to the point that the theory is hard to formalise mathematically. In the context of this article, two flaws will have to be mentioned. First of all, certain aspects of the behaviour of groups can hardly be explained in terms of rational economic calculation. Many organisations hold broader interests and are not purely economically motivated. Classic examples are solidarity movements, where members do not have a direct interest in the achievement of the organisation's goal. But there are other examples as well. For instance, why would one consider walking to a polling station and vote for a new president or parliament? The probability that your vote is decisive is negligible. None the less, many take the effort and do vote. Considering the revolution of 1989 in Central and Eastern Europe, the case is even clearer. The decision to join demonstrations against the communist rulers, for example in Dresden, was a risky adventure and could coincide with high costs. At the same time, the expected marginal effect of the individual demonstrator was practically zero. The individual costs were clear, whereas the individual benefits were difficult to identify. So, why not have a *free lunch*?[7] It can be concluded from this critical notion on rationality, that the theory is not able to explain the emergence of *Solidarity* (Poland) and *Civic Forum* (Czechoslovakia). The criticism on the assumption of rationality essentially lays bare the fact that the theory of interest groups is much better equipped to clarify a status quo than the dynamics of system switches. It underlines the improbability of market reform, whereas in Central and Eastern Europe the opposite could be observed.

The second flaw in Olson's interest-group theory is that it does not acknowledge the role of leadership in the provision of public goods (Frohlich et. al, 1971). This point is not an attack on the assumption of rationality, but focuses on the fact that some individuals perform the role of a kind "*Schumpeterian*" entrepreneur. Individuals may have different time perspectives. Certain individuals may perceive it an investment to step forward and take the initiative in organising and defending the interest of a group. It implies that – taking group interests into account – they

[7] There are numerous other examples (for extensive list see Barry and Hardin, 1982).

accept that the individual commitment may be very large, but individual benefits may emerge later. These exceed the gains for the group as a whole and, therefore, are worth the effort. In the context of Central and Eastern Europe one might take political leadership of former opposition figures like Vacláv Havel as an example. Once the group interests are realised, these "*entrepreneurs*" become likely candidates for high political positions, such as presidency. It has to be added that the individual benefit is not only to be calculated in terms of income, but also prestige.

Despite these theoretical drawbacks, there are still good reasons to study the transformation in Central and Eastern Europe from the perspective of interest-group theory. As noted, the second theoretical flaw can easily be perceived as a complement to, rather than as a refutation, of the pivotal idea. Moreover, the fact that, according to the theory, what happened in Central and Eastern Europe was unlikely to happen – the coincidence of democratisation and market reform – makes it extremely interesting to scrutinise what conditions should be fulfilled to avoid free riding and to examine the extent to which these have been fulfilled in the region. Despite the fact that there were many failures during the transformation processes, it has to be stressed again that there has been a return of communists, but no return of communism. It is a search for "*good governance*": a policy which defends the interests of the society at large and not necessarily the particular interests of small groups.

Several types of control can prevent free-riding behaviour. This is the problem of governance. Firstly, one can apply "*selective incentives*". Those who are not willing to pay, will not benefit. For the idea of achieving transformation as a public good, selective incentives are somewhat problematic, since by definition, a public good is non-exclusive. The obvious example is the membership of labour unions. But there are numerous other examples. An alternative can be found in the solution of what is known as "*voluntary coercion*". There are many instances of this option. The best known is the forced membership of labour unions in order to benefit from their achievements. This seems a valid argument for transformation as well. Those who share a common interest are willing to accept forced membership of a group, since they acknowledge the danger of free riding.

The concept of "*voluntary coercion*" highlights the role of international organisations as key actors. In the most broad perspective, one can perceive a mutual dependency between integration with the West and transformation from a centrally planned to a market economy in

Central and Eastern Europe. On the one hand, continuing reforms will expedite the process of integration. On the other hand, integration with the West can be seen as a stick, which can be used to implement necessary but painful economic reforms. Once the perspective on integration with the West is perceived as real, there will be political willingness to co-operate and reform. More specifically, this argument focuses upon the role of international organisations and the extent to which they are able to enforce "*good governance*".

"*Voluntary coercion*" as an option to combat free-rider behaviour will be examined. It focuses on what might be referred to as the "*G-words*" in transformation: good governance. For the sake of clarity, it is stressed once more that good governance was not the self-evident policy in the region. However, it is assumed that those countries which applied a transformation policy that served the interests of the society at large, rather than those of distributional coalitions, had a better performance.

4. The European Union and good governance

The section addresses the extent to which the EU is able to serve as a catalyst for reform in Central and Eastern Europe. In doing so, it focuses on the perspective of accession as a means of "*voluntary coercion*". While the Bretton Woods institutions have cautiously ventured into the governance arena, regional organisations have made no pretence of their active engagement in the domestic political affairs of current and prospective members. The *Council of Europe's* human rights provisions have induced a number of East European states (e.g. Slovakia, Romania) to enact legislation aimed at protecting freedom of religion and improving minority rights. The EU has exerted a much broader impact on the region. Since the early 1990s, the European Commission has used several financial facilities, such as *Poland and Hungary: Aid for the Reconstruction of Economies* (PHARE) and *Technical Assistance for the Commonwealth of Independent States* (TACIS)) to promote education reform and other sector-specific projects in the transitional countries. More recently, the EU's regional development arm, the *European Investment Bank* (EIB), whose operations were previously limited to current members, obtained the Commission's authorisation to initiate funding activities to prospective members. To this end, the EIB has established a special "*Pre-Accession Support Fund*" dedicated to the five former

communist states – Czech Republic, Estonia, Hungary, Poland, and Slovenia – included in the first wave of the EU's eastward enlargement.[8]

However, the EU's greatest impact on Eastern Europe has *not* come through direct financial assistance or IMF-style conditionality. Rather, the pull of entry into the Community locked the former communist states into a trajectory of convergence toward the EU's political, institutional, and regulatory norms. This process of "*anticipatory adaptation*" began in the early 1990s, when the EU signed *association agreements* with ten Central and Eastern European countries.[9] The immediate effect of those agreements was to lower trade restrictions on most industrial goods and initiate a phased liberalisation of steel and textile products. Their broader import was to compel associate member governments to enact a wide range of legislative reforms aimed at preparing for eventual full admission to the EU – despite the fact that the association agreements conveyed to the East European states no automatic right to accession and offered them no timetable for doing so. For sceptics of regional integration, the vague language on accession suggested that Eastern Europe might reside in the semi-permanent limbo of the EU's halfway house, `*a la* Turkey.

The political dynamic of regional integration changed dramatically at the December 1997 summit in Luxembourg, when the EU heads of state – following the Commission's call for eastward enlargement in its "*Agenda 2000*" – invited the "*East European Five*" to begin negotiations for full admission. Since the formal accession process began, the fast track countries have enacted a wide range of measures to comply with the EU's *acquis communitaire*: financial regulation, accounting standards, intellectual property rights, anti-trust law, health and safety standards, environmental protection, judicial reform, public procurement practices, and administrative capacity. Meanwhile, the launching of the *European Monetary Union* (EMU) in January 1999 has spurred the Eastern European accession candidates to begin preparatory reforms of their foreign exchange systems, despite the fact that few expect those countries formally to enter the EMU until the middle or end of the first decade of the new millennium.

Of course, EU enlargement has exerted a major impact on governance arrangements in other regions. For instance, in the early 1990s the *European Free Trade Association* (EFTA)

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[8] At the Luxembourg summit in December 1997 it was decided to make a distinction between countries ready for negotiation and those not ready for negotiation. The five mentioned were negotiable. Later the distinction was abolished.
[9] This term was coined by Haggard et. al (1993).

countries that had pending applications for EU membership also modified their domestic institutions in preparation for accession. But Sweden, Austria, and Finland were already developed market economies and constitutional democracies, which meant that local authorities needed only to reform existing structures to meet EU standards. By contrast, the new Eastern European democracies had to build much of their legal and regulatory systems from scratch. To this end, the governments of the Visegrád countries set up special procedures to ensure that all new legislation conformed to EU law (Nicolaidis, 1993).

The institutional *tabula rasa* of the former communist countries has thus enabled the EU to mould East European governance structures to a degree far surpassing the Washington agencies, whose conditional lending programmes often do little more than reinforce the predisposition of pro-market policymakers in member governments. While the EU has supplied technical and financial assistance to support governance-related reforms in Central and Eastern Europe, its impact derives primarily from the mere lure of full membership, which induces regional authorities unilaterally and voluntarily to configure their domestic institutions along Western lines. Among other things, this underscores the profound asymmetry of power and interests between the Eastern European candidate countries and the EU – what is driving the integration process is the former group's eagerness to get in, rather than the latter's importuning of them to join.

Further demonstrating the potency of regional integration as a reform mechanism in the former communist states is the fact that the East European governments are adopting EU-type governance structures despite continued uncertainty over when (and even if) accession will actually occur. The EU has repeatedly moved the target for eastward enlargement, but this has not deterred post-communist governments from proceeding as if the target were within grasp. The pull of EU integration has even affected governance structures in those East European countries left out of the first wave of enlargement – Bulgaria, Latvia, Lithuania, Romania, Slovakia– as well as some countries of the Balkan peninsula and the CIS that have no serious prospects of ever being admitted as full-fledged members. For these countries, the fear of being left behind the fast-track states serves to nudge regional governments toward the EU's governance norms, despite their understanding that formal accession may never happen.[10]

[10] It is interesting to note, though, that economic performance of the countries that are definitely not in a position to join the EU is much worse than those that are (see Roland, 1997).

5. The enlargement process: why so difficult?

The enlargement of the EU dominates the political agenda the of European Commission. At his official inauguration as chairman of the European Commission, Romano Prodi underlined this by stating that "*enlargement is in the genes of Europe*" (O'Donell, 1999). By proclaiming this, his political fate became closely tied to the success of enlargement. It was also Prodi who made a strong argument for ceasing the differentiation between aspirant Central and Eastern European countries of the first – Estonia, Hungary, Poland, Slovenia and the Czech Republic – and the second category – Bulgaria, Latvia, Lithuania, Romania, and Slovakia, which distinction was installed in December 1997 at the EU summit in Luxembourg. At the Helsinki summit in December 1999, the decision was made to perceive all requests for entry into the EU as negotiable and not only those of the countries in the first tranche.

The agricultural sector was the last chapter in the screening process. It was this part of the screening which contributed to a gloomy picture on the feasibility of EU enlargement. The enlargement process seems to very problematic and cumbersome. There were quite a few diplomatic conflicts between, for example, Poland and the EU on the question of direct income support for Polish farmers after accession, progress reports on the convergence of national legislation of the candidate countries with EU legislation are far from positive, and last but not least, the EU is unable or unwilling to draft a clear time schedule for enlargement. These facts illustrate incompatible interests within the Commission and a loss of momentum in the enlargement process (European Commission, 2000). I will not scrutinise a possible lack of dedication, but focus upon the erroneous thought that the EU will not benefit from a quick enlargement.

The discussion on the feasibility of enlargement eventually narrows down to the costs of enlargement. Without any doubt, these will be substantial, but, for political reasons, they are often overestimated. What are the costs of enlargement for the current EU members? Two types of costs can be distinguished. Firstly, there are costs related to necessary adjustments in the production and market structures in the current member states. This is not only an agricultural issue. Industry is expected to be forced to adjust as well through changing the relative competitiveness of industries. Furthermore, labour market relations may be disrupted through an expected increase in migration flows. Secondly, there are costs due to budgetary consequences of enlargement. An increase in claims on the structural and the cohesion funds of the EU are

foreseen, as well as negative budgetary consequences due to financial transfers in the Common Agricultural Policy are at stake.

Trade liberalisation with the aspirant countries proceeded rapidly after the first Association Agreements were ratified and implemented. Besides, trade relations between the EU and the EU candidates shifted from inter to intra-industry trade. That implies that the budgetary costs are expected to be of more importance.[11] But a firmer statement is possible: there are only positive welfare effects of enlargement to be expected through division of labour and specialisation. Studies of the *Centre for European Policy Studies* reveal that this also holds true for the Mediterranean countries of the EU (Baldwin et. al, 1997). Immigration does alter the picture. The more likely problem of the candidate nations seems to be the immobility within the respective countries from regions with high unemployment to regions in which there is strong demand for labour (Bauer and Zimmermann, 1997). Therefore, a huge influx of labour migrations is unlikely once the candidates are able to join.

The budgetary consequences are to be taken very seriously. Many drew the conclusion that the EU can simply not afford the enlargement, which is now under negotiation. The welfare level of the accession countries is much below the EU average. Therefore, massive claims on the structural funds are self-evident. Besides, a number of countries are more agricultural, which threatens the price and income supporting system of the *Common Agricultural Policy* (CAP), which is currently expensive anyway. When discussing the consequences for the CAP, the Polish candidacy is particularly at stake. Entry of Poland alone implies an increase in the number of farmers from 7 to 11 million and it has to be added that Polish agriculture is not the most efficient branch (O'Donell, 2000).

The average prices of agricultural products in Central and Eastern Europe are below the EU average. The dilemma is that facilitating subsidies implies bankruptcy of the CAP, while refusing support will lead to a situation of subordinated agriculture in the new member states. A new revision of the CAP in line with the *MacSharry* reform of 1992 – a shift from indirect price support to direct income support – is not just advisable but simply necessary. Diminishing price distortions among agricultural products within the EU has the advantage that – due to lower prices in the candidate countries – there will be no extra financial claims on "*Brussels*", provided

[11] For an extensive overview of the Association Agreements see Mayhew (1998). On the recent trade liberalisation between the EU and the candidate nations see Fritz and Hoen (2000).

income support is temporary. Enlargement is a perfect incentive to revise the CAP. The suggestion of not allowing income support for Central and Eastern European farmers, since they need not be compensated for price support that was granted in the past, has to be refuted. This implies that a country may become a member, but its farmers not.

Besides the fact that enlargement will press the EU towards a more efficient organisation, there is another argument to proceed with quick accession. As previously said, the dual transformation has been painful and is not completed yet. The high costs of transformation may terminate the necessary political credit to complete the implementation of a well-functioning market economy embedded in a democratic order. The perspective of becoming a member in time, preferably visualised in the form a time schedule, will facilitate the political authorities in the respective countries to implement these necessary reforms. For reasons of stability in Europe as a whole, these reforms are pivotal to the EU as well. In other words, transformation and integration are mutually dependent. Ongoing liberalisation and other market reform will facilitate entry, but accession itself may serve as a catalyst for reform.

Enlargement requires adjustments in both the EU and the candidate countries. It is important to realise that the political and economic transformations were cumbersome and a far from self-evident process. The condition of the acceptation of the "*acquis communautaire*" in full, could endanger the feasibility of the anchor for reform, trigger free riding behaviour and hamper the emergence of transformation as a public good. Besides these conditions put the burden of mutual adjustment too much on the shoulder of the candidate nations, which is not in the interests of either of the negotiating partners. Instead of insisting on a completed transformation, transition periods seem to be more suitable for the new members. After all, the Mediterranean countries were so facilitated, even in the field of trade issues. That results in a plea for a "*Europe à la Carte*".[12]

6. Conclusion

The "*dual transformations*" in Central and Eastern Europe have proven to be cumbersome. The economic, crisis which the countries were confronted with in the 1990s, lasted

[12] The phrase is from Ralf Dahrendorf. In the *Jean Monnet lecture* of 1979, he elaborated the arrangement in which each member should hold the possibility to decide what extent common policy is to be accepted (Nevin, 1990: 343)

longer and was much more severe than initially expected. This put a heavy burden on the available political credit necessary to complete the transformation to a market economy embedded in a democratic political order. The classic arguments borrowed from political economy also pinpoint the unlikeliness of such dual transformations, since the system switch can be seen as a public good and the emergence of these suffer from the problem of free-riding.

Voluntary coercion is an option to prevent free riding. This touches upon the issue of good governance, which is mostly studied form the perspective of conditionality imposed by International financial institutions, such as the International Monetary fund and the World Bank. In this paper a different perspective was chosen. It elaborated the role of the EU as a regional organisation and the extent to which it could serve as an anchor for reform, i.e. preventing political restrictions to becoming effective.

The conclusion is that the EU indeed fulfils an important anchor function. Having said this, it is dissatisfying to observe that the EU is unable to give the enlargement process crucial momentum. The current members remain focused upon the costs of enlargement, whereas they neglect the crucial benefits, among which streamlining the structure of the EU is the most important. Part of the recent outcome of the Nice summit was welcomed by the candidate countries. Especially, Poland was satisfied with the division of voting power according to the number of inhabitants. But the pivotal question remains: “*what will the time schedule look like?*”

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Good governance in Central and Eastern Europa: Unia Europejska jako kotwica reform

Streszczenie

W niniejszym artykule stwierdzono, że ekonomiczna i polityczna transformacja w krajach Europy Środkowo-Wschodniej pod koniec dwudziestego wieku w kierunku gospodarki rynkowej była nieodwracalna i wynikała ze ścieżki zależności. Autor omawia znaczenie tych kwestii dla sukcesu polityki transformacji, a także znaczenie roli Unii Europejskiej dla wspierania dobrego współrządzenia (ang.: good governance) jako warunku skutecznej transformacji.

Słowa kluczowe: dobre współrządzenie, Europa Środkowo-Wschodnia, Unia Europejska, transfor ekonomiczna, ścieżka zależności