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BOOK REVIEW

Grzegorz Gorzelak, Chor-Ching Goh (Eds), ***Financial Crisis in Central and Eastern Europe: From Similarity to Diversity,*** EUROREG, Centre for European Regional and Local Studies, University of Warsaw, World Bank, 2010

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"The 2008 crisis shows that the dominant economies were not as dominant as they thought" says Dominique Strauss-Kahn, the French former head of the IMF (The Economist, vol. 401, no 8759, 2011). By extension, we can say that Central and Eastern Europe countries were not as weak as we could think. Such a conclusion has been reached by the authors of the volume "*Financial Crisis in Central and Eastern Europe: From Similarity to Diversity",* co-edited by Grzegorz Gorzelak, Chor-Ching Goh. The book is the result of an international seminar organized in September 2009 by the Centre for European Regional and Local Studies, University of Warsaw (EUROREG) and the World Bank and gathers different contributions of outstanding experts from new and old Europe, providing a distinctive perspective on the current economic and financial crisis.

The book includes three sections covering 19 chapters. In the first section, four authors, W.Orlawski, M.Lennert, I.Gill and B.Quillin, provide a general view on the crisis, its main causes and evolutions. **Orlawski** (p.10-15) identifies 10 factors which led to the current crisis, from robust changes in the distribution of the global economic and financial power, globalization process, demographic changes, development of derivatives market, development of the whole financial market, inability to correctly assess the risk connected with investment in various financial instruments, the wave of "irrational exuberance", recklessness of financial institutions, serious financial institutions management errors and fatal errors of the economic policy, all of them located first in the USA. He concluded that "the combination of the 10 factors proved to be deadly for the global finance" and that "only a serious, coordinated effort on a global scale may secure that the crisis of 2008-2009 does not recur in the years to come". At the moment of writing this book review (November 2011), the euro zone found itself in a very difficult and complicated situation, revealing that coordinated efforts are still waiting to be carried out. **Lennert** (p.17-25) tried to find some patterns in the crisis' evolution, a crisis which he considers to be a structural one. According to

Lennert, two main factors determine the current crisis of underconsumption / overproduction, respectively the end of the keynesian-fordist system of production and regulation and the emergence of new actors, especially from Asia "with very strong increases of production but much slower increases in consumption" (p.18).

Second section and the most important part of the book includes 10 points of view from 10 different new EU member states, respectively Bulgaria, Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Romania, Slovakia and Slovenia. Each chapter provides a short analysis of national labor market, some information about particular sectors or even production plants and a concluding section including the most relevant policy measures and some evaluation of their effectiveness. This section can be considered the core of the book, as the set of national analysis is "rich, up-to-date and unique in the literature of the current crisis" (Gorzelak, Goh, p.8).

Julia Spiridonova (p.35-49) provides both a broader image of the Bulgarian economic evolutions after 1990, focusing on foreign direct investment and regional pattern of transformation, and a more focused imagine of the global crisis impact on economy and labor markets. Among other anti- crisis measures one should mention the creation of the Bulgarian Bank for Development, which is designed to promote entrepreneurship and new schemes, including support for employees.

Jiri Blazek (p.50-63) analyses the regional impact of the global financial and economic crisis on the Czech Republic. Unlike other former socialist countries, the Czech economy entered the transition period in a relatively favorable position due to its low external debt and a very attractive geographical position. The crisis "affected the Czech Republic with a certain delay – only after the crisis struck in Western Europe" (p.53). The measures taken were in line "with the governmental thesis that "the crisis has been imported to the Czech Republic and no matter what the Czech government does, it will disappear only when global recovery returns" (p.61). Regarding the impact of the crisis, Blazek shows that it is "too early to provide any definitive answer" about that "because, not only the future is full of uncertainties but also reliable statistical data on regional level is missing, outdated or unreliable" (p.62).

Garri Raagmaa (p.65-p.90) presents some information about the regional impact of the global financial and economic crisis in Estonia. This very small country, with about 1.3 million population, was seriously hit by crisis, which made the GDP decrease by 3,6 in 2008, respectively 12.3 in 2009. This abrupt decrease of the GDP was generated by an unsustainable economic growth model "based on foreign loans and domestic consumption" (p.88) and, on the other hand, by the "absolute dominance of the Nordic banking groups […] controlled from Stockholm, Copenhagen and Helsinki" (p.68). According to Raagmaa "so far, blind cutting of the budget has been almost the only reaction to the current crisis […] except for forced application of the EU structural funds". Moreover "as a result of existing regional policy schemes, the regional differences will probably continue to increase in the future" (p.89).

The Hungarian situation is presented by **Karoly Fazekas** and **Eva Ozsvald** (p.91-105). Since the 90s, Hungary proved to be "a regional champion of post-socialist transition". This description "has all become history", because after 2000, Hungary turned into one of the worst performing countries among the new EU member states. The spread of crisis revealed the extent of the country's vulnerabilities and "the danger of drying up the international financial flows was imminent" (p.93). The IMF-EU loan imposed very strict austerity measures leaving "very little room for applying classic Keynesian demand stimulation" (p.93). However, "the main conclusion from the Hungarian experience in coping with the crisis is that one size does not fit all" (p.103) and "costs and benefits should be carefully weighted against each other" (p.104).

Tatjana Muravska (p. 106-125) focuses on the Latvian economy, another Baltic state seriously hit by crisis, where recession started in the first half of 2008, the "worst severe downturn" being in "retail, real estate and construction" (p.116). Moreover, "the catalyst of the rapid economic downturn was the fact that in November 2008 the second largest bank by total assets and the only Latvian commercial bank – Parex Bank – announced insolvency" and "despite its nationalization, rapid capital outflows continued" (p.116-117). The 2009 IMF-EU loan has imposed a very strict austerity program and important fiscal cuts (20% of public salaries, 10% of all kinds of pensions, etc).

In the following chapter, **Donates Burneika** (p.126-138) focuses on the main trends of development and regional peculiarities of the Lithuanian economy. The third Baltic state is a small economy as well, and inevitably a "very vulnerable one from outside because a large proportion of its economy depends on export-import relations" (p.130). In the same time, crisis was related to inside factors as well (excessive housing boom – the price of real estate has tripled since 2002, pessimistic expectations of the population, etc), both factors "strengthening one another". Not surprisingly, the unemployment rate reached 13.6% in the second quarter of 2009. The main anti-crisis measures "are not exceptional: appraisal of tax level and cuts in spending" (p.136). Consequently, "not only the economic but also social pattern of the country can look different when the crisis is over" (p. 137).

Poland is the only new EU member state presented in this book benefiting from two analysis, one made by **Grzegorz Gorzelak (p.139-149)** and the other by **Piotr Zuber (p. 150-160)**. Moreover, Poland is the "only country which has not noted an absolute decline of its GDP", "a unique situation not only among the post-socialist European countries but also in the whole EU" (Gorzelak, 139). "Both exports and the large domestic market are the main reasons of the relative stability of Polish economy" said Gorzelak, aiding that " the influx of EU funds for financing of infrastructure investments and other regional projects, as well as investments undertaken in relation to the football championships Europe 2012" were also important stabilizing factors (p. 143). The identified risk is "that the already practiced doctrine of prompt spending of EU funds" to be petrified and "a method of evaluating the usefulness of a given project" has not been yet implemented (p.144).

The Romanian economic situation is presented by **Zizi Goschin and Daniela-Luminita Constantin** (p.161-177). The authors stress that "the fast economic growth over the 2001-2008 period was made possible by foreign direct investment and capital inflows, a lot of them facilitated by foreign banks that had set up subsidiarities in Romania"(p.162). The crisis hit Romania through various channels (trade, finance, exchange, trust), the worst affected economic activities, at the first stage, being "manufacturing and financial activities, real estate, lending and services for enterprises" (p. 164). The chapter reviews not only the general dynamics of the Romanian economy prior to the crisis, but focuses on main manifestations of the crisis at national and regional level. Goschin & Constantin identify the three most vulnerable counties (the most developed ones and thus much closer to the world economy's evolution) and the three most resistant to the crisis (predominantly agricultural counties). The financial support package from IMF and EU (2009) was accompanied by a strict adjustment program. Speaking about the policy response to the crisis, the authors consider that Romania needs "an optimal combination of budgetary, salary and monetary policies, with a similar degree of restrictiveness for each of them, which will be able to direct economic activity towards work and productivity" (p.172).

Jan Bucek (p.190-208) gives us a very interesting analysis on the Slovak situation, entitled "The financial and economic crisis in Slovakia - Its spatial aspects and policy responses". Bucek examines the factors that have generated and then amplified the crisis, stating that "the crisis in Slovakia is above all a response to the external global economic crisis" (p.193). Surprisingly, Bucek considers that "the financial sector, which was one of the most sensitive sectors on a global scale, cannot be counted among the sources of the crisis in Slovakia" since "no problems have been reported related to the financial crisis in Slovak banks caused by an excess of bad credits or mortgages" (p.195). Most part of the central state responses focuses on public investments or support of private investments (for example, the completion of a nuclear station, the National Football Stadium, Ice Hockey Arena or the start of the PPP motorways projects). It should be noticed that one of the most debated anti-crisis measures, is known as "strategic enterprises", the measure being initiated after the collapse of a leading Slovak chemical company NCHZ.

Peter Wostner (p.209- 223) focuses on the crisis in Slovenia, providing a regional and macro analysis with particular attention on the policy responses taken by the government. In 2008, Slovenia reached over 90% of the average GDP/capita in EU 27. However, as a result of crisis and due to a high degree of integration with international trade flows, Slovenia faced a significant reduction of its GDP. Consequently, policy measures taken by the government were mainly of "macroeconomic or horizontal nature, without a particular regional focus" and only in the autumn of 2009, after the collapse of a major company in the Pomurje region, the regional based interventions were introduced as well (p. 223). Wostner's analysis reveals that "further structural reforms will be necessary as, in a broader context, the crisis merely exposed the more fundamental challenges and choices that will need to be taken on global, continental and regional levels" (p.223).

The last part of the book includes general views and opinions about the current economic and financial crisis and its effects, bringing together five complementary points of view.

John Bachtler and Sara Davies examine the geography of the crisis in Western Europe, discussing regional impacts and regional responses. Their chapter investigates different types of regional impacts, mainly on regional unemployment rates and geographical characteristics of policy responses at regional and national level. They conclude saying that "the crisis has prompted debates about the relevance and viability of economic models" such us "reliance on the financial sector in the UK, the attraction of foreign investment (Ireland) or the dependence on manufactured exports (Germany)" (p.235).

Grzegorz Gorzelak discusses general patterns of the crisis, arguing that "the dispute between the Keynesian and monetarist approaches to the post-crisis economic policies is even more vivid than before" (p.236). Central and Eastern European countries have displayed a "normal" performance after the crisis has started, some of them being among the worst performers (mainly Baltic states along with Greece, Ireland or Iceland) but as well among the best ones (Poland or Cyprus). For all of them, domestic and external factors were the main causes of crisis in CEE (dependence on exports, foreign banks, decrease of FDI and structural weaknesses, a faster growth of wages compared to productivity, overvalued currencies, etc.). Three major global strategies were identified by Gorzelak in coping with crisis in CEE, respectively: stimulate domestic demand, accelerating the spending of EU funds and implementing austerity measures. No major institutional reforms were introduced even if, some countries created special anti-crisis bodies (Bulgaria, Czech Republic, Hungary, Slovakia, Slovenia). Gorzelak concluded saying that "the behavior of CEE economies during the crisis period may give rise to a hypothesis that the traditional division of Europe into two groups – the so called "old" and "new" member states may be losing its merits and explanatory potential" (p.251).

While **Jiri Blazek** shows some regional breakdowns of the crisis, with special focus on the labor market and unemployment, Krzysztof Rybinski focuses on possible shapes of the post-crisis world that should be adopted on a global scale in order to prevent another financial crisis in the future. "Less complexity and less concentration is a necessary condition to provide financial stability in the long run" said Rybinski, arguing that in his view "the financial sector is too concentrated. The focus should not be given to regulate bankers' wages, but to break up large financial institutions into smaller ones, to create more competition […] to reduce […] the size of banks which are too big to fail and therefore constitute a risk factor for the future invisible tax-payer's purse" (p.279). In concluding remarks, two authors from the World Bank, **Indermit Gill and Chor- Ching Goh** assesses not only economic aspects of the crisis, but its consequences on workers, households at global level.

The book represents not only a very interesting lecture but a valuable instrument for researchers and policy makers interested in better understanding the mechanism of current economic and financial crisis.