

The Future of Europe: Central and Eastern Europe seen through a Comparative Lens

Christopher A. Hartwell

President, CASE – Center for Social and Economic Research

Associate Professor, Kozminski University

Over the past 25 years, the European project has seen many substantial changes and reforms: the transition process in Central and Eastern Europe (CEE) resulted in the accession to the EU of ten new Member States that were formerly communist, while the physical introduction of the Euro in 2002 presented the EU with a host of new macroeconomic challenges but provided hope for continuous and deeper integration processes. Indeed, from the vantage point of 2007, the successful future of Europe appeared to be assured.

But while the EU navigated treacherous waters and was able to successfully integrate the formerly communist countries on Europe's periphery into its institutional apparatus, the global financial crisis and the ensuing Eurozone crisis called into question the whole idea of "Europe." Events post-crisis have amply displayed the reality that the transition in CEE is not yet complete, and the countries which remain outside of the EU are susceptible to their neighbors (nowhere more than in Ukraine, now in year three of a Russian invasion). The post-crisis era has shown that the transition of the EU's own internal institutions is also not yet complete; indeed, the past five years have shown that the EU continues to face some of its most daunting challenges, with questions of governance and rule of law within the EU itself and within its Member States, a festering refugee crisis tied to the European identity, uncertainty about the EU's role in the world, and the ongoing challenges associated with the Eurozone crisis and Greece.

Given these obstacles and uncertainties facing the EU, a host of questions present themselves regarding the future of the continent and its economies. Are there priorities that Europe should be focusing on in its economic policies? More importantly, given the successes of European integration, are there lessons to be learned in the EU from Central and Eastern Europe and its experience post-socialism? Where can the policy lessons learned since the fall of the Berlin Wall come into play in the new European landscape? With the first post-communist waves of accession a success, are there countries that may still be invited to join the European project? And how does the EU manage being such a large and (in some ways) unwieldy apparatus?

These questions formed the basis for the 25th anniversary conference of the Center for Social and Economic Research (CASE) in Poland in November 2016. CASE was founded in 1991 as an

independent voice in the transition process, bringing together academic rigor and policy relevance in a format unfamiliar to Central Europe. In its early years, funded by USAID and other donor sources, CASE mainly focused on policy advising through its extensive involvement in the early economic transition process in Poland, Central Europe and the post-Soviet states. Today, CASE has shifted its focus somewhat to take an active role in the debates on how best to meet the political and economic challenges facing the EU, including concluding Association Agreements, further enlargement, and issues of integration. But with daughter organizations thriving throughout the former Soviet Union, CASE continues to play a major role in bringing the lessons of Poland's own transition to countries that have not yet made the full transformation.

To celebrate our milestones and achievements over the past quarter-century, CASE invited international researchers to Warsaw to highlight lessons learned over the past quarter-century and how to bring them to bear on the future challenges of Europe. Taking a comparative perspective, the purpose of this conference was not only to survey the landscape and how dramatically it has changed over CASE's lifespan (and, in many cases, with CASE's assistance), but to derive practical, action-oriented, and tangible policy lessons for Europe. Opening with a keynote from Professor Leszek Balcerowicz, Professor at the Warsaw School of Economics but better-known as Former Deputy Prime Minister, Minister of Finance, National Bank Governor, and author of the "Balcerowicz Plan," the two-day conference gathered some of the leading lights of transformation in the region and provided a platform for scholars, policymakers, and the business community to come together. With the generous assistance of Narodowy Bank Polski (the National Bank of Poland), Uber, the International Monetary Fund (IMF), and many media patrons, lively discussions and debates pointed the way forward (a complete agenda, papers, and list of patrons can be found at <http://futureofeuropa.eu/>).

The papers assembled for this symposium issue of *Comparative Economic Studies* represent some of the finest presentations from the conference, with an eye on understanding dynamics across Europe, both East and West. Paul Hare and Richard Stoneman open the discussion with a look at the evolving architecture of Europe, commenting on the EU's current economic dysfunction and offering suggestions on how the institutional framework of the EU can be reformed. Turning to some country- and region-specific sources of instability, Rob Hayward and Jens Hölscher provide an analysis of carry trade in emerging European economies and how this trade has contributed to sudden stops of capital flows. In a similar vein, Karsten Staehr of the Bank of Estonia traces the evolution of capital flows in Central and Eastern Europe, noting that capital flows have been both a blessing and a curse for the countries of the region.

As noted, however, Europe has not been all challenges and vulnerabilities, however, and there have been notable successes throughout the CEE countries. Bas Bakker, the IMF's Resident Representative in Poland, and co-author Marta Korczak detail how the Baltic states were able to come back from the global financial crisis and prosper. In a similar vein, Lucjan Orłowski explores inflation targeting in Poland and how this policy choice helped to cushion potential

contagion effects during the years 2008 to 2010. Finally, at a more micro-level, Christian Buelens and Marcel Tirpák provide evidence for how investors in CEE have had an impact on the export structures of countries in the region, helping these countries to integrate into global value chains.

In summary, all of Europe continues to face challenges at both the macroeconomic and microeconomic levels, but there are some clearly-marked signposts on how the continent should proceed. The papers presented herein identify many of these signposts, as well as advance the general body of knowledge regarding economic dynamics in Europe. With hope, the challenges covered in this symposium issue will be resolved by the CASE's 50th anniversary in 2041, providing a new set of success stories and tales of obstacles surmounted.