



CASE-Center for Social and Economic Research 2009 INTERNATIONAL CONFERENCE

November 20-21, 2009 *Falenty Center, Warsaw*



The 6th CASE International Conference took place on the 20-21st of November 2009 at the Falenty Center in Warsaw. *The Return of History: From Consensus to Crisis* CASE International Conference hosted two days of high level debate. The event brought together more than 50 experts from all over the world to discuss the global financial and macroeconomic crisis.

Robinson, Deputy Director of the Western Hemisphere Department at the IMF, as the first key note speaker at the conference. Robinson discussed the role global imbalances played in the crisis and how they will continue to impact recovery. In his presentation, Robinson emphasized the need for the world economy to search for an alternative source of growth for the recovery to come. He explained that the United States consumer will no longer continue

to fuel global growth as it has in the past.

Jacek Rostowski, Finance Minister of Poland, and a key note speaker at the conference, commended the world's response to the global financial crisis for avoiding a major shift back to protectionist policies. He also questioned the need for the expansive stimulus packages used by United States and other nations. He explained that international recovery has already begun, even before the large part of the promised stimulus has been spent or begun to take effect on the economy.

The role of countercyclical fiscal policy, lessons for monetary policy and financial regulations, energy security, and the financial crisis in transition and developing economies, were

Robinson argues that the rise of imbalances, mounting up from 1997, involved a chain of bubbles including those in the property and financial market in Asia, IT in the USA and the recent largest house and financial market bubbles. The underlining forces behind the rising bubbles were the IT revolution, export oriented policies of developing countries and detrimental policy responses, from both deficit and surplus countries. Robinson claims that the recent crisis cannot be understood without the reference to

global imbalances due to the commonality of the factors underpinning them. Referencing Obstfeld and Rogoff, Robinson says that the securitization boom, lax interest rate policy and reserves accumulation by



Emerging Asia in the environment of weak regulation and supervision, facilitated the global financial crisis.

CASE HOLDS 2009 INTERNATIONAL CONFERENCE:
Reports, Videos and Presentations are now available online

THE LOSS OF A FRIEND:
CASE Advisory Council Member, Yegor Gaidar passed away

DETERIORATING ENERGY INFRASTRUCTURE IN THE CIS STALLS DEVELOPMENT IN THE REGION:
conference paper published

FIXED EXCHANGE RATE REGIMES CONTRIBUTED TO THE EAST EUROPEAN FINANCIAL CRISIS:
conference paper published

INNOVATION AMONGST MANUFACTURING FIRMS IN THE EU NEW MEMBER STATES:
report published

ENHANCING FINANCIAL SECTOR MONITORING IN EU CANDIDATE AND POTENTIAL CANDIDATE COUNTRIES:
CASE begins new project

ECONOMIC AND SOCIAL CONSEQUENCES OF INDUSTRIAL RESTRUCTURING IN RUSSIA AND UKRAINE:
CASE completes ESCIRRU project

BUILDING THINK TANK CAPACITY IN THE WESTERN BALKANS:
CASE organizes Think and Link seminar

IMPROVING SOCIAL ASSISTANCE MECHANISMS IN UKRAINE:
Project holds final conference

THE CRISIS AND EU'S WEAKNESS:
Marek Dabrowski interviewed by EurActiv

RECENT PUBLICATIONS

NO, THE CENTRAL BANKS DIDN'T DO IT
CASE Network E-brief No. 11/2009

FROM FISCAL STIMULUS TO FISCAL CRISIS
CASE Network E-brief No. 12/2009

CASE NETWORK STUDIES AND ANALYSES
No. 394, 395, 396, 397, 398

CASE NETWORK REPORTS No. 90

POLISH ECONOMIC OUTLOOK 3/2009



the four themes covered by the conference sessions. Each session was led by the session chairman and included speakers and several commentators to draw connections between the varied perspectives of the panel members. Panelists presented research and publication on the respective topics; their presentations addressed issues ranging from the role of China and its policy responses during the crisis, presented by Dr. Wing Thyee Woo of the University California Davis, to development obstacles in the CIS, discussed by Ben Slay, UNDP, and Liquefied Natural Gas (LNG) usage and projections for increasing energy security, analyzed by Karen Sund (Sund Energy). Each session enjoyed a lively round of questions from the audience.

Selected conference papers have already begun to be published as CASE Network Studies and Analyses, and CASE Network E-briefs series. Read more about these publications in the following pages.

Conference [papers, presentations](#) and [videos](#) are available on the conference website (www.caseconference.eu). The [conference program](#) is also available for download.

In line with the tradition of past international conferences, CASE will also release a post-conference publication in the coming months.

Rejecting the view that the recent financial crisis is a crisis of capitalism, Rostowski argues that what happened is a crisis of “the deep Keynesian project,” implying that the aim of economic policy is minimizing economic fluctuations on the down. This policy succeeded for almost 20 years and led to the current massive crisis, because, to quote the Minister:



“what drives the market is the balance between fear and greed. If you successfully remove the fear you have no right to complain when the greed takes off”.

In this context, Rostowski advocates that smaller crises should be allowed to happen to discipline the marketplace and to avoid a bigger crisis in the next 10-15 years.



The Loss of a Friend

Yegor Gaidar, father of economic reforms and market transformation in Russia and world renowned economist died on December 16, 2009 at the age of 53. He was the Deputy Prime Minister in charge of economic policy and Minister of Economy and Finance (1991-1992), acting Prime Minister of the Russian Federation (1992), advisor to the President of the RF (1993), as well as first Deputy Prime Minister and acting Minister of Economy (1993-1994). He was twice a member of State Duma (the lower house of parliament): from 1993 to 1995 and from 1999 to 2003. Yegor Gaidar was one of the founders and then Director of the Institute for the Economy in Transition (IET) in Moscow, the prestigious research institution belonging to the CASE network. He was also an active member of the CASE Advisory Council from its first formation who participated in several CASE conferences and seminars, and authored several CASE publications. He was good friend of CASE and many of us personally.

CASE President,
Marek Dabrowski





Deteriorating energy infrastructure in the CIS stalls development in the region

Following the recently held CASE International Conference, CASE has published the research of Ben Slay, a panelist from the third session of the conference (Energy Security in Europe and Other Regions). In *Energy security, Poverty and Vulnerability in Central Asia and the Wider European Neighborhood* ([CASE Network Study and Analysis No. 386](#)),

Slay argues that two decades of under-investment in Soviet-era energy, water, and communal service infrastructures threaten significant reductions in access to these services in the poorer countries of this region, particularly Tajikistan and Kyrgyzstan. These problems are manifesting themselves both in terms of growing physical restrictions on access to energy, water, and communal service networks in these countries, and in terms of rapid growth in tariffs for these services which could price some vulnerable households "out of the market". The author also suggests that these problems are apparent to various degrees in a number of other former Soviet republics, and that the impact of the global economic crisis is likely to exacerbate these problems. By calling attention to growing household vulnerability in energy and water insecurities, particularly in Central Asia, the paper seeks to bring an economic development perspective to energy policy debates in the wider European region. ([Conference Session 3 Video](#))

Innovation amongst manufacturing firms in the EU new member states

It was external knowledge that played an important role in innovation activities in companies in three EU new member states: the Czech Republic, Hungary and Poland. The ability to explore cooperation with business partners and the benefits of using external knowledge were determined by in-house innovation activities, notably research and development intensity – conclude Anna Wziątek-Kubiak, Ewa Balcerowicz and Marek Pęczkowski in a recent study which examines "Differentiation of Innovation Behavior of Manufacturing Firms in the New Member States. Cluster Analysis on Firm-Level Data" ([CASE Network Studies and Analyses No 394](#)). The authors investigate the differences in innovation behaviour, i.e. differences in innovation sources and innovation effects, among manufacturing firms. The study is based on a survey of 358 firms operating in four manufacturing industries: food and beverages, automotive, pharmaceuticals and electronics. The research takes into account: innovation inputs in enterprises, cooperation among firms in R&D activities, the benefits of cooperation with business partners and innovation effects (innovation outputs and international competitiveness of firms' products and technology). After employing cluster analysis, five types of innovation patterns (strategies) were detected. The paper characterizes and compares these innovation patterns, highlighting differences and similarities.

Enhancing Financial Sector Monitoring in EU Candidate and Potential Candidate Countries

CASE has been selected to carry out a 7 month study on "[The effects of the global crisis on the financial sector in candidate and potential candidate countries](#)" for DG ECFIN.

The main objective of the study is to increase the understanding of how the international economic and financial crisis affects the financial sectors of the EU candidate and potential candidate countries by providing a relatively simple, non-technical and user-friendly toolkit for enhanced monitoring. Apart from a region-wide comparative analysis, the project will include three country case studies—on Turkey, Macedonia and Serbia. Reviewing the structure and situation of the financial sector with a primary focus on the banking sector, the study will examine the common financial sector trends in the region; for example, financial deepening, consolidation, and foreign and

Fixed exchange rate regimes contributed to the East European financial crisis

Chairman of CASE Advisory Board, Anders Aslund participated in *The Return of History: From Consensus to Crisis* CASE International Conference as a panelist in the fourth session. His findings presented at the event have now been published as *The East European Financial Crisis* ([CASE Network Studies and Analyses Publication No. 385](#)). In the report, Aslund focuses on the global financial distress of 2008/9 in thirteen countries, the ten new EU members and the three countries of former Soviet Union. He claims that the East European countries with fixed exchange rates are the hardest-hit by the crisis. Currency boards pegged to the Euro in the Baltics, Bulgaria and Bosnia, and the dollar peg in Ukraine, led to large capital inflows, current account deficits and inflation that consequently contributed to the adverse impact of the crisis and deep economic recession. On the contrary, Poland and the Czech Republic, with floating exchange rates, and Slovenia and Slovakia, which adopted euro, were significantly less-hit in the region. For long run economic stability, Aslund advocates easing ERM II conditions and facilitating euro adoption in the region. ([Session 4 Video](#))





private ownership. It will provide a comparison of financial stability indicators with New Member States in Central and Eastern Europe, and outline the main possible channels of crisis transmission to the financial sectors of the candidate and potential candidate countries. The study will also assess policy responses by domestic authorities to address risks and vulnerabilities of the financial sector and to strengthen its resilience

The findings of the research will enable the Commission services to improve and enhance its regular monitoring of the impact of the crisis on the domestic financial sectors. The CASE team carrying out this project is led by CASE Fellow Marianne Schulze-Ghattas.

Economic and Social Consequences of Industrial Restructuring in Russia and Ukraine

CASE is currently implementing the final stages of the ESCIRRU project. The project [\(Economic and Social Consequences of Industrial Restructuring in Russia and Ukraine\)](#) was carried out under the 6th Framework Program of the European Commission. Its main focus was to examine the underlying economic processes and determinants driving the restructuring of industries in Russia and Ukraine, specifically focusing on regions where military production was converted to civilian production.

CASE completed the ESCIRRU project as part of a consortium led by the German Institute for Economic Research, with six other partners, including The Central European University Budapest Foundation and the Kyiv School of Economics at the National University of "Kyiv Mohyla Academy", among others. The study produced several reports which have been published as CASE Network Studies and Analyses 397 and 398 and CASE Network Report 90 which are available on the [CASE website](#).

Restructuring and Social Safety Nets in Russia and Ukraine - Social Security Influence on Labor Mobility: Possible Opportunities and Challenges

In [CASE Network Studies and Analyses Report No. 397](#), authors Marek Gora and Oleksandr Rohozynsky show that stronger Social Safety Nets (SSN) reduce the mobility of labor between regions of the economy, between employment and unemployment, and between different sectors of the economy. The paper concludes that although a stronger SSN is likely to protect the most vulnerable parts of the population (the elderly, the poor, and the unemployed) from the negative effects of transition, it may slow down the process of economic transformation. The authors demonstrate that stronger unemployment benefits in countries like Ukraine increase the probability of the decision to become unemployed, thereby making the market more flexible and fostering transformation.

Social Security Driven Tax Wedge and Its Effects On Employment and Shadow Employment

Additional perspectives on the topic are presented in [CASE Network Studies and Analysis Report No. 398](#). Both Russia and Ukraine simplified their payroll tax system to encourage workers to legalize their jobs and in this way to reduce the shadow economy. The paper, however, shows that these measures had a limited or partial success both in Russia and Ukraine. The theoretical predictions provided by the authors indicate that reduction of the size of tax wedge for less-skilled workers were capable of raising employment and limiting the size of shadow economy. However, this mechanism does not work for the given countries, since unregistered job in Russian and Ukraine are a way to escape unemployment, not to evade taxes; therefore, broadening employment opportunities is essential for reduction of the shadow economy. The paper concludes that there is no immediate effect of tax cuts on expanding tax base in these countries. Moreover, social benefits and services guaranteed to legal workers are too small, low-quality and largely available for nonregistered low wage level workers to be an incentive for job legalization in Russia and Ukraine. The report was authored by Marek Gora, Oleksandr Rohozynsky, Irina Sinitina and Mateusz Walewski.

Social Security, Labour Market and Restructuring: Current Situation and Expected Outcomes of Reforms

[CASE Network Report No. 90](#) by Marek Gora, Grzegorz Kula, Oleksandr Rohozynsky, Magdalena Rokicka and Anna Ruzik analyzes selected demographic, economic and social phenomena in Russia and Ukraine since the beginning of the 1990s, and their impact on social security systems and future demographic projections. The emerging picture predicts an improving situation in both countries, with better conditions in social security and labour market in Russia than in Ukraine. The authors argue that although retirement reforms are a step in the right direction, their impact will not be felt for a number of years. Therefore, other reforms with more immediate results are necessary. In summary the study advocates the need for more efficient safety nets, higher social benefits, and changes in unemployment laws and unemployment assistance. The authors claim that the whole system of social protection should be less complex and more transparent. Lastly, the reduction in the populations of both countries needs to be addressed.

Think and Link—Building Think Tank Capacity in the Western Balkans

On December 11-12th, 2009 CASE provided the Think and Link - the capacity building seminar in Skopje, Macedonia for the group of think tanks representatives originating from seven Western Balkan countries (Albania, Croatia, Bosnia and Herzegovina, Kosovo, Macedonia, Montenegro, Serbia). Confronted with the problem that Think Tanks in the region only sporadically play a role in public policy making, the training aimed to increase the knowledge and skills of the participating think tank representatives with the aim to support institutional and individual capacity building.

During 4 workshop style training blocks held over 2 days, the training concentrated mostly on practical issues facing rising think tanks in the region. The training began with an overview of think tank work by providing concrete examples and case studies of the well developed think tank organizations. It later discussed key entry points for the influence of think tanks on the policy making agenda, as well as the weaknesses of think tanks and the government in establishing productive dialogue. The focus then shifted to outlining the best methodological instruments of the research work and strengthening the existing skills of the participants in this area. The final training block used participatory exercises to arrive at an intellectual framework to work on policy papers.

Participants are expected to relay the skills acquired at the training by repeating some of the exercises at their home institutions. For example, they will replicate an exercise completed in the final session of the training in which participants dissected policy papers to determine which characteristics of a well written policy paper are in place, and which are still missing.

Contracted by the European Fund for the Balkans, CASE senior researchers, Branka Andjelkovic and Malgorzata Markiewicz-Bogov conducted the training for the [Think and Link - Regional Policy Programme](#).

Improving social assistance mechanisms in Ukraine—final conference completes project

On November 27, 2009 CASE held a the “Farmstead income assessment for the purpose of social assistance policy” seminar in Kyiv, Ukraine. The conference marked the completion of the project titled [Social reform in the country with high role of unobservable incomes: improving social assistance mechanisms in Ukraine](#), which was implemented by CASE and CASE – Ukraine, and co-financed in partnership with the 2009 Polish Aid Programme of the Ministry of Foreign Affairs of the Republic of Poland.



During the seminar, CASE and CASE Ukraine experts presented their diagnosis of the current system of homesteads' income estimation for the purpose of social assistance, reviewed of international experience from the point of view of possible implementation in Ukraine and provided recommendations for Ukraine.



The project was implemented from May to December 2009. The main aim of the project was to support the authorities of Ukraine in improving the efficiency of the social welfare system by creating an effective mechanism for estimating the income of the Ukrainian society, (including undisclosed income). The project focused on the assessment of hard-to-verify household incomes necessary in the process of

benefit targeting, with special attention paid to two types of hard-to-verify incomes—those from farming and from house ownership.

The team concluded that current system of farming income estimation in Ukraine has proven to be inconsistent and outdated. The absolute minimum reform should unify the system, assure fairly equal access to the social assistance and respond to the frequent situation of impossible land usage.





The Crisis and EU's Weakness



"The crisis demonstrated the limited capacity of EU institutions to conduct Union-wide anti-crisis policies," CASE president Marek Dąbrowski explained in an interview with EurActiv. He predicts a "near-stagnation scenario" for many EU economies. While Marek assessed that the De Larosiere report is a step in the right direction, he questions whether the degree and speed of building the EU regulatory framework will be sufficient to meet the existing challenges.

The [interview](#) from November 19, 2009 is available on the EurActiv website in English and in Slovak.



No, the central banks didn't do it

"Monetary policy was lax and eventually caused inflation, but not the financial crisis itself," states Charles Wyplosz in the [11/2009 CASE Network E-Brief](#). In *No, the Central banks didn't do it*, Wyplosz untangles the misconception that central bank policies may be fully to blame for the onset of the financial crisis. He argues that although lax monetary policy may have contributed, particularly to rising inflation, it was distorted market perceptions and inaccurate calculations of risk which set the stage for the crisis.

The path to the next crisis

Regardless of whether fiscal stimulus has been the correct policy choice or not, "the price of countercyclical fiscal policies in 2008 and 2009 has been extremely high," says CASE President, Marek Dabrowski in [CASE Network E-brief 12/2009](#), *From fiscal stimulus to fiscal crisis*. Assessing the international response to the global financial crisis, Marek Dabrowski warns that the counter-cyclical fiscal policies enacted, have pushed many developed economies in the direction of a debt trap. The negative consequences of this trend may lead to "another macroeconomic and/or financial crisis."

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RECENT PUBLICATIONS

All publications are available on the CASE website at http://www.case-research.eu/strona--ID-publikacje_recent,nlang-710.html

CASE Network Studies and Analysis

No. 394—Differentiation of Innovation Behaviour of Manufacturing Firms in the New Member States. Cluster Analysis on Firm-Level Data
Ewa Balcerowicz, Marek Pęczkowski, Anna Wziątek-Kubiak

No. 395—The East European Financial Crisis
Anders Aslund

No. 396—Energy Security, Poverty and Vulnerability in Central Asia and the Wider European Neighbourhood
Ben Slay

No. 397—Restructuring and Social Safety Nets in Russia and Ukraine - Social Security Influence on Labour Mobility: Possible Opportunities and Challenges
Marek Gora, Oleksandr Rohozynsky

No. 398— Social Security Driven Tax Wedge and Its Effects On Employment and Shadow Employment
Marek Gora, Oleksandr Rohozynsky, Irina Sinitsina, Mateusz Walewski

CASE Network Reports

No. 90—Social Security, Labour Market and Restructuring: Current Situation and Expected Outcomes of Reforms
Marek Gora, Grzegorz Kula, Oleksandr Rohozynsky, Magdalena Rokicka, Anna Ruzik

CASE Network E-briefs

11/2009—No, the central banks didn't do it
Charles Wyplosz

12/2209—From fiscal stimulus to fiscal crisis
Marek Dabrowski

Polish Economic Outlook

3/2009—Large Fiscal Deficit in Poland - curse #1.
Maciej Krzak, Mateusz Walewski, Przemyslaw Wozniak