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Preface

Transition, which is performed in the large part of Europe, is an ultimate challenge both for politicians or economists. When it begun, there was no suitable theory of transition that might be applied to the Central Europe. The mainstream economics was created by the Anglo-Saxon economy and did not consider other than free market economic system, though the specific institutional circumstances were assumed. The centrally planned economies were studied mostly by the sovietologists, who concentrated on detecting the weaknesses of this system and not on the finding an optimal path of transition. Before 1989 attempting to interpret the Western theory from the "real socialism's" point of view was a pure supposition. Right after 1989 another problem arise: *is it possible to apply the Western theory to the transition countries*? Many economists state that there is a consensus between the need for application and search for new thoughts. Obviously, the mainstream economics is constantly compared with the Central European reality to trace out the essential conclusions about the way the economic policy should be conducted.

The presented book is prepared by an international team, mostly connected to the Poznań University of Economics, but the contributors represent also Universities in Maribor, Utrecht, Warsaw, and Poznań. As mentioned above, this collection of papers is a good example of the creative use of mainstream economics the Authors re-interpret and adapt the contemporaneous economics to explain the Central European reality. An additional purpose was to interpret the problem *Money and Transition* via fiscal phenomena. Thus, a part of this book is devoted to central budget, policy mix, and coordination of the monetary and fiscal policy. Since the discussion on the desired form of monetary and fiscal policy is strictly connected to the role that government should play in the market economy, the opening paper, written by Izabela Bludnik, presents the Polish interpretation of the Keynesian economics. The Author shows the importance of adequate interpretation and application of the Western economic theory

under specific transition circumstances. This study compares the typical Polish, mainly simplified, vision of Keynesianism with the Western tradition. The Author shows that the difference between Keynesian and non-Keynesian economics in Poland concerns the possible effects of economic policy an economist who does not subscribe to the 'liberal' point of view is automatically called to be a 'Keynesian'. Moreover, little attention has been paid to the historical background of the *General Theory*. Izabela Bludnik concludes that 'referring to Keynes in contemporary political discussions is usually unjustified and implementing the so-called "Keynesian policy" calls for accurate defining that takes into account the actual economic circumstances'.

Three next papers are devoted to the Polish monetary policy. Ryszard Kokoszczyński tries to provide a bit of chronology to the newest monetary history of Poland. The Author presents four necessary conditions 'for assessing monetary policy in a way similar to that of a modern macroeconomics': microeconomic liberalisation, developed money and capital markets as well as a two-tier banking system, central bank independence, and moderate inflation. After three years of rebuilding the economy a full-fledged monetary policy started in Poland. The effectiveness of the direct inflationary target-based monetary policy in Poland is studied by Wiesława Przybylska-Kapuścińska. There is little evidence that after introducing the DIT the credibility of the Polish National Bank increased. The way that the inflationary expectations were formed did not changed after implementing the new strategy. It must be noted, however, that the DIT influenced the decline in inflationary expectations. The primary instrument of the Polish monetary policy is the short-run interest rate. Małgorzata Doman and Ryszard Doman use the Markov regime-switching models to analyse the volatility of the interbanking interest rate WIBOR 1M, 3M, and 6M. The Authors found two different regimes in the dynamics of all considered interest rates. Unlike for the stable Western economies, however, the Authors discovered that the additional variables do not help to explain the interest rate volatility in Poland.

Three next papers deal with the relationship between fiscal and monetary policy in Poland. Poland suffered from persistent inflation during the 1990s and enormous high unemployment since the second half of this decade. An uncoordinated policy mix is willingly employed to explain the sources of this dangerous mixture. Paweł Marszałek presents further arguments strengthening this hypothesis. The fiscal obstacles limited the effectiveness of the central bank instruments and affected negatively the speed of disinflation

process. On the other hand Paweł Marszałek and Jacek Wallusch reconsider the government's optimal behaviour and show that the optimal value of expenditures should be affected by the inflation rate. Using the cointegration tests the Authors found a long-run relationship between these variables, and the causality indeed went from inflation to the expenditures. Although the professionals do not question the need for central bank's independence, some radical politicians are of the different opinion. Michał Skopowski calculated a modified index of monetary and fiscal policy condition. Using it, the Author shows that the high level of the NBP independence prevented from a further increase of inflation during the year 2000.

Two next papers present the case studies from Slovenia, Czech Republic and Slovakia. Slovenia is probably the most successful country among the transition economies. Inflationary pressure, however, is still relatively high. Jani Beko and Mejra Festić conducted numerous experiments to investigate the possible disinflation paths towards the ERMII in Slovenia. The accession to the Euro-zone became the most important aim for the monetary authorities. As the Authors shown, the successful fight against inflation requires exchange rate stability and further liberalisation of the labour market. Gerhard Kling studies credibility of the monetary regimes in Czech and Slovak Republics. The Author employs the magnitude of impact between (long-term and short-term) interest rate spreads and the growth of real industrial output as a proxy for the credibility. Gerhard Kling emphasises that the spread is not stationary, what differs from the results obtained for the Western economies. Using the structural VAR, the Author find that the predictability of growth is very limited in analysed countries, and concludes that the credibility of monetary policy in these countries are highly credible.

Last part of this book is devoted to the natural rate hypothesis. Jacek Wallusch and Dominika Zenka investigate the influence of the aggregate monetary shock on the sectoral output. The Authors apply the VAR-based impulse response analysis and then use the Cochrane correction to simulate the response of real output to expected and unexpected changes in monetary aggregate M2. Wallusch and Zenka find out that in some sectors a monetary shock caused a decrease in real output. Since the fully unexpected changes in money supply produce the largest response in output the results are supportive for the natural rate hypothesis.

We do hope that the presented book is an interesting contribution to the monetary economics and macroeconomics of transition. The Post-Communist economies have been turning into the stable market economies going

their own way. Some of them chose the shock therapy, some of them did it gradually, but the process differs dramatically from the one the Western Europe experienced. The fifteen years of restitution the market economy in Central and Eastern Europe did not erase the structural discrepancies between old and new market economies. Thus, we also hope that this book helps to adopt the mainstream economics considering the specific circumstances.

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