The Crisis as a Turning Point in the European Convergence Model

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1. Introduction

The impact of the economic crisis was dramatic in certain European Union member states; as early as 2008, Hungary and Latvia received combined rescue packages from the International Monetary Fund (IMF), the World Bank and the European Union. Romania turned to the IMF in 2009 and again in 2011. In 2010, Greece, as a member of the euro-area, received loans from the EU and the IMF. In the same year, a financial aid package was approved for Ireland, followed by one for Portugal in 2011. Spain requested financial assistance for the recapitalisation of its financial institutions in 2012.

This trend begs the question of whether it was really an accident that the most vulnerable countries were all old and new, so-called cohesion countries of the EU that received support from the Cohesion Fund.[1] In the media, as well as among experts, discussing the EU member states in terms of core and peripheral countries rapidly became commonplace and generally accepted. Should the crisis end one day, will this period have consequences, and will the countries return to the promising track they followed during their 5–25 year EU memberships? These questions are fundamentally important because one of the fundamental goals of European integration is to provide an opportunity to less-developed member states for convergence and to strengthen economic and social cohesion. The significance of convergence is also expressed in a European cohesion policy. The grave problems of old cohesion countries represent a particularly unexpected shock to integration, as their adaptation is usually considered a closed and completed process. Accordingly, all EU analyses

[1] The old cohesion countries are Ireland, Greece, Portugal and Spain, the new ones are Bulgaria, Cyprus, the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Malta, Poland, Romania, Slovakia and Slovenia.

and studies examine old cohesion countries as a part of the EU-15, i.e., the old member states, and only separately consider the new member states.

In the fourth year of the crisis, it seems increasingly obvious that the cohesion countries cannot follow the same development trajectory as they did prior to the crisis. Our study will review how the crisis has affected the convergence results and how future perspectives can be appraised based on the evolution of the crisis to date. An investigation of the European convergence model reveals that it has vulnerabilities and limits that have not been revealed in the analyses of EU or World Bank experts. After studying these interpretations of convergence, we outline some necessary changes to the concept of European integration.

2. Threatened results of convergence

The convergence in terms of GDP per capita at purchasing power parity was impressive before the crisis. In 1995, the contraction resulting from the economic transition came to an end in the post-socialist countries. Choosing this year as a basis for comparison, all of the cohesion countries were catching up with the EU-27 average, although to different degrees. Ireland, the poorest Baltic states, Slovakia and Poland made the greatest progress (Figure 7-1).[2]

GDP per capita does not express the growth in a population's welfare that is central to the meaning of convergence. Another indicator, actual individual final consumption (including expenditures on the consumption of goods and services by households and non-profit institutions serving households and in-kind social transfers) is more appropriate for this purpose. The general picture is similar, but the positioning of the countries is different; in the case of Ireland, the difference between the two indicators is striking (Figure 7-2).

Summarising figures 7-1 and 7-2, we highlight that the crisis has injured the cohesion countries' convergence towards the EU-27 average (with the exception of Poland and Slovakia); however, these countries were able to preserve the bulk of their convergence results to date (Table 7-1). In most cases, the loss in the final consumption values is greater than in GDP per capita. This means that in the countries that were severely hit by the crisis, there were changes in consumption in response to the recession and austerity measures.

[2] To present the data in a clear and comprehensible manner, we omit the statistical data on the new member states Cyprus and Malta, as they are island states that do not share the common past and history of the Eastern and Central European region.

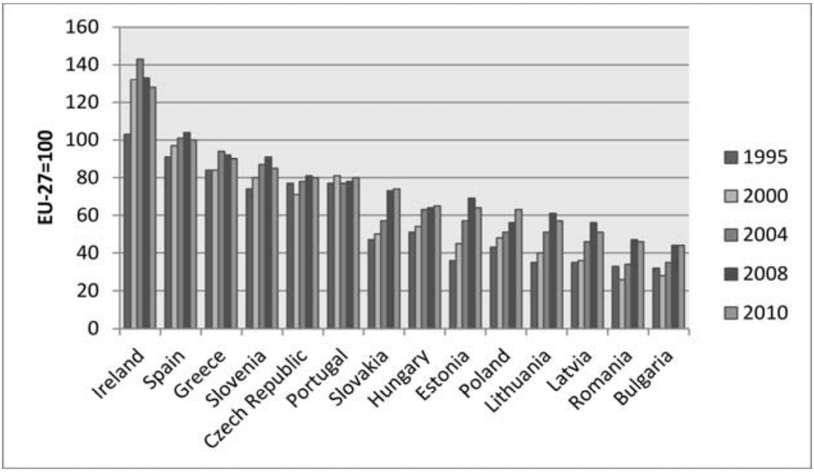

Fig. 7-1 The development of per capita GDP at purchasing power parity in the old and new cohesion countries compared to the EU-27 average
Source: Eurostat

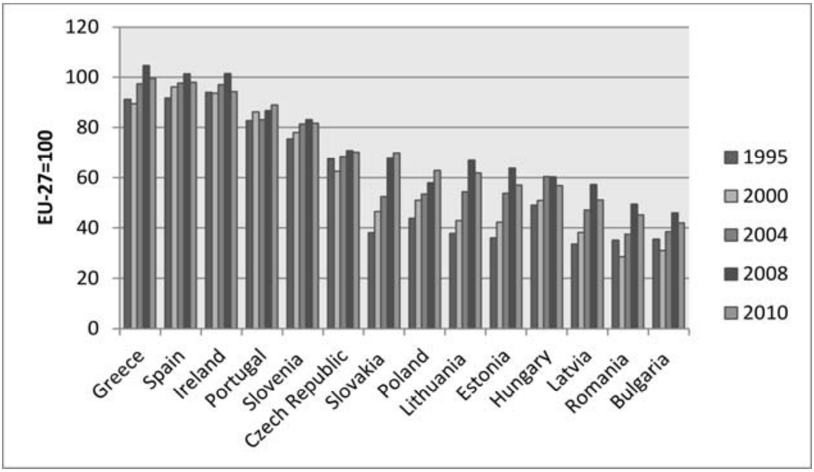

Fig. 7-2 The development of per capita actual individual final consumption at purchasing power parity in the old and new cohesion countries compared to the EU-27 average
Source: Author's calculation based on AMECO database

Table 7-1 Catching-up in the actual individual final consumption of households and in GDP per capita with the EU-27 average compared to 1995 levels in percentage points

	Actual individual final consumption		GDP per capita	
	2008	2010	2008	2010
Slovakia	30	32	26	27
Lithuania	29	24	26	22
Estonia	28	21	33	28
Poland	14	19	13	20
Latvia	24	18	21	16
Romania	14	10	14	13
Greece	14	8	8	6
Hungary	11	8	13	14
Bulgaria	11	7	12	12
Spain	10	6	13	9
Portugal	4	6	1	3
Slovenia	8	6	17	11
Czech Republic	3	3	4	3
Ireland	8	0	30	25

Source: Author's calculation based on Eurostat and AMECO database

The economic and financial crises in the cohesion countries have been thoroughly analysed (e.g., Becker et al. 2010, European Commission 2009c, European Commission 2010b, Gardó and Martin 2010, Gligorov et al. 2012). These studies came to similar conclusions with respect to the "anatomy" of the crisis. Here, we do not provide a reconstruction of the crisis; rather, we focus only on the processes that severely affected the European convergence model.

The crisis highlighted that the European Union has a unique growth model that makes it possible for relatively low-income countries to catch up rapidly with their richer neighbours. This model is based on foreign capital inflows. Europe is the only region where the different forms of private capital – both foreign direct investment (FDI) and portfolio funds –

flow downhill from richer to poorer countries and from low-growth to high-growth countries (Becker et al. 2010, Gill and Raiser 2012).

At its outset, the crisis affected the Central and Eastern European countries (CEEC) and Mediterranean countries differently. In 2009, the rate of decline exceeded the EU average – with the exception of Poland – in every new member state, with the Baltic states suffering extremely large losses. In contrast, of the old cohesion countries, only Ireland experienced an immediate, strong recession; the others faced smaller scale, but prolonged, downturns. However, it has subsequently become increasingly clear that there is a common element in their situations: the previously advantageous growth model made them particularly vulnerable during the crisis when capital inflows fell. Despite the differences between the countries, the foreign capital-based convergence combined with low saving rates is a distinctive feature of catching-up in both the old and new cohesion countries.

Scrutinising these countries, the severity of the recession unambiguously depended on the degree of pre-crisis economic imbalances. This is not surprising, but it seems to determine their development paths at least in the medium-term. The differences among the countries are instructive from the perspective of the convergence model.

Three Central European countries, the Czech Republic, Poland and Slovakia, did not accumulate notable disequilibria prior to the crisis. In the CEEC (including Hungary and Slovenia), growth was accompanied by small and improving trade imbalances, as a reflection of reindustrialisation after the economic transition that followed the fall of the socialist system. These five countries had little or no problems with respect to their competitiveness in their tradable sectors. Despite the favourable conditions in manufacturing, in Hungary, the initial levels of both private and public debt were high at the beginning of the crisis; the Slovenian economy was overheated (characterised by full capacity utilisation and inflation pressure) when the crisis broke out, and the private sector (mainly corporate) debt position increased (Farkas 2012, Tajnikar et al. 2011). Of the old cohesion countries, Ireland also coped with debt- rather than competitiveness-related problems.

In the Mediterranean cohesion countries, the three Baltic states, Bulgaria, and Romania, growth in the period preceding the crisis was driven by domestic demand, whereas the contribution of net exports to growth was negative (European Commission 2009b, 2009c). In this second group, the current account balance deteriorated sharply, and these countries were on an unsustainable development path, even before the crisis. The underlying issue is that these economies suffer from competitiveness issues in their tradable sectors, although Spain shows better results. The percentage of medium- and high-technology product exports as a percentage of total product exports demonstrates these differences (Figure 7-3).

The division between Central European countries, Ireland and the others concerning competitive tradable sectors may be surprising because the forms of capital inflows differ between the old and new cohesion countries. In the new cohesion countries, the main form of foreign capital was FDI, while the old Mediterranean cohesion countries attracted portfolio and other capital inflows (Figure 7-4). However, the Central European countries were the primary beneficiaries of rapid technology transfer, where the FDI flowed into manufacturing, which is a tradable sector. (Slovenia is a special case where FDI stock remained low.) In the Baltic states, Bulgaria and Romania, the FDI was biased in favour of banking, real estate and other non-tradable sectors. Unfortunately, the FDI thereby fuelled an unsustainable boom and contributed to the development of housing bubbles (Becker et al. 2010, European Commission 2010a).

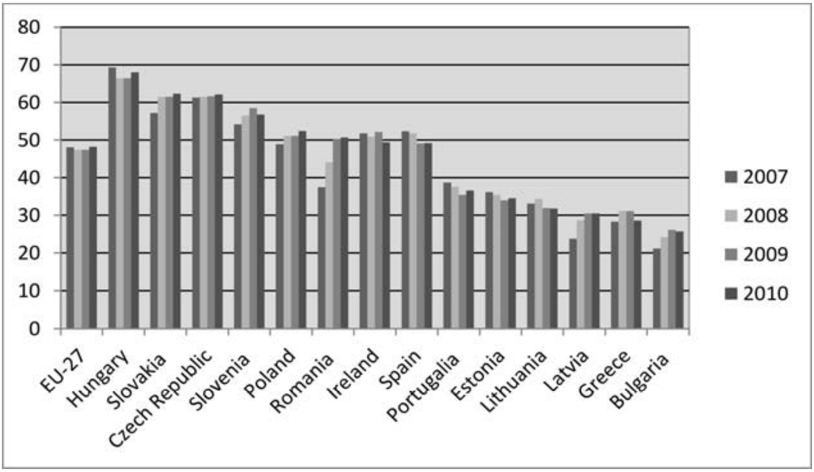

Fig. 7-3 Medium- and high-technology product exports as a percentage of total product exports in the cohesion countries, 2007–2010
Source: Author's compilation from European Commission (2011a, 2012) and UNU-MERIT (2009, 2010) data

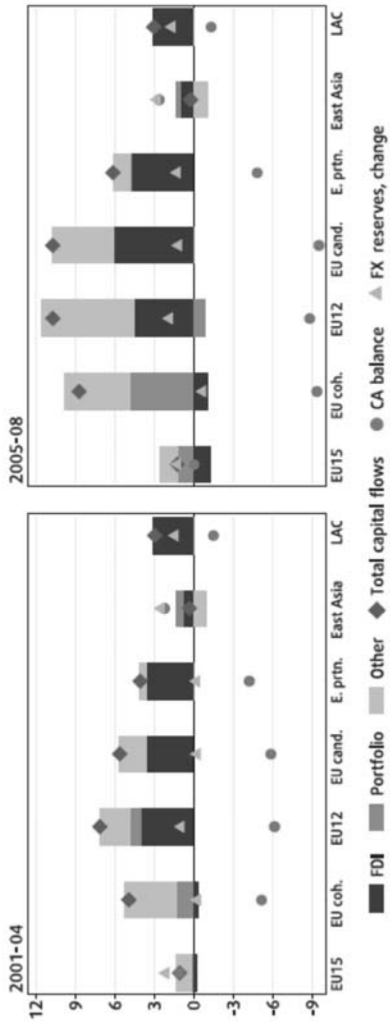

Fig. 7-4 Capital flows in emerging countries, 2001–2004; 2005–2008
Source: Gill and Raiser (2012, 134)
Note: "EU coh." refers to the EU old cohesion countries, "EU cand." refers to EU candidate countries, "E. prtn." refers to EU eastern partnership countries and "LAC" refers to the Latin America and the Caribbean region. CA stands for current account and FX is foreign exchange.

The different compositions of foreign capital can also be observed in the banking sector. In the new cohesion countries, banking instruments were 60–90% foreign-owned, whereas the same ratio for the EU-15 was between 10–50% (European Central Bank 2010). Despite this difference, due to financial integration, external vulnerability reached critical levels in both groups. In the Mediterranean countries, net foreign liabilities were approximately 80–100% of GDP at the start of the crisis (European Commission 2010b). The average for the new member states was over 60%, and in the case of Bulgaria and Hungary, exceeded 100% (Jevčák et al. 2010). Of the old cohesion countries, Ireland and Spain were engaged in disciplined fiscal policy before the crisis, but real estate bubbles developed in both countries, and the bursting of these bubbles led to a crisis in the banking system that was transformed into a public debt crisis. This was particularly tragic for Ireland because, relative to its GDP, its banking sector was the largest in Europe (Kinsella 2011, Kovács and Halmosi 2012, OECD 2009, Udvari 2012).

In Greece and Portugal, in addition to external disequilibrium, the fiscal policies followed by these countries also exhibited certain disciplinary problems after the introduction of the euro. Twin deficits developed, and Portugal stepped off the convergence path at the beginning of the 2000s. All three Mediterranean countries were characterised by stagnating productivity starting in the beginning of the 2000s. Greece, in particular, was characterised by a distinct drop in productivity (Mitsopoulos and Pelagidis 2011, Royo 2010).

Apart from Hungary, in the new cohesion countries, public debt remained under the 60% rate stipulated by the Maastricht Treaty, but with the exception of Estonia and Bulgaria, public debt rates began to increase significantly during the crisis.

In the non-euro-zone countries, the exchange-rate regimes had a clear influence on the composition of capital inflows and the accumulation of a vulnerable external debt position. The Central European countries where the FDI went to the manufacturing sector, opted for more or less flexible exchange rates (Slovakia until mid-2008). Slovenia, with its peg or crawling peg system connected to the euro, was also an exception in this field. In fixed exchange-rate regimes (in the Baltic states and Bulgaria), it was the use of capital in the form of foreign loans rather than FDI that was preferable, especially in the banking and real-estate sectors. Taking domestic inflation into account, fixed currencies meant significant negative real interest rates for domestic borrowers. Credit supplying foreign banks did not need to rely on local markets for raising funds, and nominal interest rates were attractive. The fixed exchange-rate policy was not changed during the crisis, and these countries could adjust their imbalances via internal devaluation, that is, domestic price and wage cuts (Becker et al. 2010).

Although the growth rates in the majority of the new cohesion countries were again higher than the EU-15 or EU-27 average after the first wave of the crisis, these rates are high enough to ensure the mathematical convergence, but not sufficient enough to provide convergences that are perceptible for households in these countries, with the exemption of Poland and Slovakia (Table 7-2). (In the Baltic states and Romania, the higher rates compensate for the large GDP loss in 2009.) There is a danger that this situation is not temporary but the beginning of a medium-term or even longer trend.

Table 7-2 Real GDP growth rates in the cohesion countries, 2011–2013

	2011	2012*	2013*
EU-27	1.5	0	1.3
EU-15	1.4	-0.2	1.2
Bulgaria	1.7	0.5	1.9
Czech Republic	1.7	0	1.5
Estonia	7.6	1.6	3.8
Ireland	0.7	0.5	1.9
Greece	-6.9	-4.7	0
Spain	0.7	-1.8	-0.3
Latvia	5.5	2.2	3.6
Lithuania	5.9	2.4	3.5
Hungary	1.6	-0.3	1
Poland	4.3	2.7	2.6
Portugal	-1.6	-3.3	0.3
Romania	2.5	1.4	2.9
Slovenia	-0.2	-1.4	0.7
Slovakia	3.3	1.8	2.9

Source: Eurostat
Note: * = forecast.

The external conditions have been changing unfavourably for a longer time. The contracted markets of the economies in the European Union do not promote export-led growth in the cohesion countries, and the management of European debt crisis and stricter financial regulation decrease the capital available to the cohesion countries. FDI and cross-border production networks cannot play as dynamic a role in the convergence as they did before the crisis. Financial markets' risk evaluations may remain higher, even for those cohesion countries that are not affected by more severe financial difficulties. Due to the indebtedness of households and governments in the majority of the cohesion countries, the diminishing external resources and markets cannot substitute for domestic ones.

Demographic processes are another factor that seemed to endanger convergence even before the crisis. By the mandate of the ECFIN Council, a group of experts investigates the age-related expenditures in the EU member states to 2060 regularly. This "Ageing Report 2009" had already indicated in 2009 that more rapid population declines in the new member states will slow the convergence process (European Commission 2009a). In the "Ageing Report 2012", the population loss combined with the effect of the crisis resulted in diminishing productivity presented even gloomier prospects for the majority of the cohesion countries (European Commission 2011b). The population census that was conducted in most of the European countries in 2011 and 2012 indicates that the average population decline in the ten new member states almost doubled over the past decade, according to preliminary data. Approximately half of the reduction from 2000 to 2011 is due to net migration and the other half to a natural decrease. A more striking figure is that the population aged 0 to 14 shrank by almost 25% (whereas the corresponding figure for the EU-15 is approximately 1%) (Gligorov et al. 2012).

3. Interpretation of the European convergence

The slowdown of convergence in European integration is a substantial challenge because the achievement of the European Union in this field is one of the main bases for legitimating the existence of integration, and, for the populations of the cohesion countries, it is the most convincing and attractive element of the EU membership. The Treaty on the European Union declares the EU's aims, one of which is that the EU "shall promote economic, social and territorial cohesion, and solidarity among member states" (Art. 3(3) TEU).

The crisis has highlighted the vulnerability of the European convergence model with respect to its dependence on foreign capital. However, if we study the assessments of European convergence carefully, we find other problems that are not explicitly revealed. We select two very thorough and influential analyses to show how these issues can affect the future of integration. One of the analyses is the report on the "Five years of an enlarged EU" that resulted from the collaboration of several Commission services of the EU and it only investigates the new member states (European Commission 2009b). The other work is a book by the World Bank's experts on "Golden Growth. Restoring the Lustre of the European Economic Model" (Gill and Raiser 2012), which scrutinises the entire European Union. It is remarkable that both follow the same logic in assessing the European convergence model. Gill and Raiser (2012) contrast the economic achievements of the new and old cohesion countries; they interpret the convergence of the former group of countries as a success story and the old Mediterranean cohesion countries' performances by and large as a failure.

In both analyses, the main arguments of the advantages of the European convergence model are the growth performances of the lagging countries and their capital-intensive export structures. They regard trade openness, FDI inflows and institutional improvements resulting from EU accession as the key drivers of growth. The EU report estimates that "each year during the period 2000–2008 accession gave the new member states an extra growth boost of approximately 1¾% on average… Model simulations suggest that…the new member states enjoy 50–100 basis points advantage relative to other emerging countries with comparable fundamentals" (European Commission 2009b, 17).

Both analyses agree that foreign capital inflows made it possible to overcome the lack of savings in the cohesion countries. Gill and Raiser (2012) emphasise that Europe is the only region where capital flows in the "right" direction, that is, towards poorer, high-growth countries. The EU report highlights that this catching-up model prompted current account deficits and the appreciation of real exchange rates. It supposes that, as a result of the global crisis, the slowdown of capital inflows will lead to significant contractions in economic activity, and in some of the new member states the income gap with richer EU countries will widen, at least temporarily. Gill and Raiser (2012) also call for prudence when financing is plentiful.

According to both investigations, FDI played a prominent role in the productivity growth in emerging Europe directly (investment) and indirectly (spill-over effects). The EU report provides a detailed overview on the knowledge spill-over effects of FDI in the empirical literature, which has contradictory results but the EU report regards the positive effects as decisive.

FDI is also closely connected with the other advantage of the European convergence model, the increased technological content and quality of the export basket. Both analyses underline, based on statistical data, that new member states' trade is becoming sophisticated and they have become even more specialised in capital-intensive goods.

This picture on the European convergence model would be convincing and unambiguous. However, both documents contain further elements that make their interpretation inconsistent. They also highlight the convergence model from the perspective of the non-cohesion countries. The EU report refutes the danger of the relocation of production and jobs. This occurs rather in the case of the efficiency-seeking manufacturing sector, but 70% of outward direct investment from the old to the new member states is in the services sector and of a market-seeking type, thus limiting the job losses. In some sectors where changes in competitive position lead to relocation, it helps to maintain competitiveness for corporations that maintain their more skilled-based units of production, technology development and ownership in mature economies (that is in the non-cohesion countries). Labour-intensive elements of production and routine tasks are located in the new member states.

Gill and Raiser (2012) also explain the success of convergence through reconfiguration of the value chain in Continental and Northern European based companies after the collapse of communism. They located their assembly activities in Central and Eastern Europe, and due to lower wages they could strengthen their competitiveness through their flexibility in offshoring. Central and Eastern Europe could integrate not only within the EU but also within the world economy through increased productivity. According to the authors, the reason for the difficult situation in Southern Europe is that these countries did not participate in these processes and they have few global companies. The EU can be described as a three-speed union with the Continental and Northern leaders, the Central and Eastern chasers and Southern laggards.

Gill and Raiser (2012) address innovation in a separate chapter. They define innovation as a source of long-term growth differentials. They note that "Europe's east is catching up in productivity, but remains far behind in innovation. For these countries, sustaining productivity growth is what matters, but the innovation gap so far has not been a binding constraint" (Gill and Raiser 2012, 256). Therefore, their policy recommendation is that countries in Central and Eastern Europe need not invest much more in

R&D and knowledge production. They should adopt existing technologies via FDI and trade links.

Neither assessment raises the questions that resulted from their analyses. Both accept convergence as a fundamental goal, but they do not address the issue of whether this model is appropriate to reach this goal or it has limits.

The above-mentioned expert group of "Ageing Report 2012" has already confronted the catching-up problem. They had to decide whether they assume convergence in either GDP level or GDP growth rate over the long-term projection exercise. Some exercises were run in the expert group that showed some convergence in GDP levels in past periods, but the growth rate needed to allow for this convergence in the projections (to 2060!) would not be plausible in the short- and medium-term. Thus, the expert group decided to assume that there would be convergence in growth rates in the long run (European Commission 2011b).

The limits of convergence can be derived not only from econometric projections but also from the EU report (European Commission 2009b) and Gill and Raiser (2012). Their analyses outline a division of labour and production between the north-western countries and the new member states. Although there are possibilities of upgrading along the value chain, there is no reason to assume that foreign companies will abandon their key positions in innovation, technology development and strategic decision-making. It seems to be much more likely that the current labour and production division will essentially be reproduced. Another possibility could be that spill-over effects help the domestic companies to foster internationally competitive economies that are able to accelerate and to complete the catching-up process. The literature on FDI spill-overs shows unambiguous positive productivity effects in the case of vertical, backward linkages. Domestic firms occupy the dependent position in these relationships. The horizontal spill-over effects seem to be weak in the overwhelming majority of empirical investigations (Gorodnichenko et al. 2007, Hanousek et al. 2010).[3] The third means of economic development would be to strengthen domestic capital accumulation. As we have seen, the cohesion countries have high levels of FDI inflows coupled with low savings rates. Therefore, domestic investment was not a decisive factor in this model, in contrast to some Asian countries.

Due to the low initial GDP levels in the cohesion countries, the above-outlined contradictions and the limits of the European convergence model could be disregarded; it provided sufficient space for the cohesion

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[3] Both studies provide a comprehensive overview of the literature concerning spill-over effects in emerging Europe.

countries to develop. However, it is remarkable that the Czech Republic, which had one of the highest initial GDP levels in Central and Eastern Europe and is one of the “best pupils” in following the European convergence model, has made very moderate progress in catching-up (Table 7-1). Slovenia, with its higher initial GDP level, has achieved greater convergence but has always chosen different means, focusing on domestic economy and had already accumulated imbalances prior to the crisis.

In sum, it is questionable whether the European convergence model is appropriate for the long run catching-up of those countries that are already close to the efficiency/technical frontier. If the crisis had not occurred, the poorer countries could have further developed within the framework of the European convergence model, even if the development would have been concentrated in the areas that had attracted foreign capital (typically the capitals and their agglomerations) accompanied by increasing regional inequalities.

4. Conclusions

Assuming that the foreign capital inflows would return to the cohesion countries to their status prior to the crisis, the European convergence model could be restored despite its limits. The actors would be aware of the larger vulnerability of cohesion countries’ economies, and European economic governance, e.g. in the form of the excessive imbalances procedure could help to avoid similar difficulties.

However, the only certainty in the current crisis is that things will not get back on track. The above-mentioned EU report (European Commission 2009b) did not address this problem at the beginning of the crisis; it simply referred to growth slowdowns and the new member states having a long way to go to full convergence. Gill and Raiser (2012) raise a question regarding the future of the European convergence model. They are very optimistic: “Restarting the convergence machine will not be difficult” (Gill and Raiser 2012, 10). The task is very simple; a single market for services should be completed. Although market liberalisation in services would be advantageous for the cohesion countries, it is difficult to imagine that it could compensate for the diminishing external and internal sources that we have already outlined.

In their common studies, experts at Bruegel, a European think tank, and the Vienna Institute for International Economic Studies, an independent research institute, made more sophisticated policy suggestions to reorient the European convergence model. Their starting point is that the reduction in the private sector savings-investment gap is unavoidable. In the medium-term this leads to the problem of dampened domestic demand. A sustained re-launch of growth requires a more efficient use of savings than in the past. They list a range of policies (human capital, technology, industrial and regional) that should be employed to improve the competitiveness of tradable sectors (Becker et al. 2010).

We can draw two conclusions independently from the ultimate outcome of the global crisis:

- Even if the economic actors in a country, including the government, adjust their behaviour and economic policies successfully, we cannot assume a return to the speed of convergence prior to the crisis.
- The reorientation of the growth model requires very professional government activities to promote the competitiveness of the tradable sector. It is difficult to believe that all of the governments in the cohesion countries will be able to exhibit high levels of administrative performance.

These consequences of the global crisis make some changes in the concept of integration necessary. As we have seen, the degree and speed of convergence between countries has played a central role in assessments regarding the effectiveness and legitimacy of European integration in recent decades. If the necessary adjustments to the post-crisis reality are not carried out at the conceptual level of European integration, the legitimacy of integration will be jeopardised. The Union's raison d'être in the next decade will be tied to the fact that without integration, European countries would not be considered global economic players. If, however, the speed of convergence remains a measure of the success of integration, the EU will doom itself.

One of the most important lessons from the last two decades is that the positive FDI spill-over effects are limited in market transactions. If foreign capital becomes scarcer, it will be even more important to promote the positive spill-over effects through economic policy. Even if there are numerous studies on the channels of spill-over effects and other measures of local economic development, the problems of a dual economy and the development of an internationally competitive domestic economy are missing from EU policies (e.g., cohesion, innovation). Failing to bridge the productivity gap between foreign and domestic companies makes catching-up impossible. However, the policy measures to develop a competitive domestic economy are essentially in the hands of national governments. The EU's cohesion policy only has a significant impact if the national economic policy creates the appropriate environment. In addition, the success of economic policy depends on not only the government but also on the state of social capital and other social and institutional conditions.

Despite these difficulties, efforts must be taken to maintain cohesion at the level of relevant policies because a certain degree of inequality leads to disintegration. Cohesion policy must remain an important tool to this end, a tool that reinforces a common European identity and a palpable manifestation of solidarity for the populations of cohesion countries that are already experiencing difficult times. Cohesion assistance should not be expected to be able to do anything more than dampen the effects of the unfavourable tendencies described above; it would be unrealistic to expect such assistance to bring about a reversal of these effects.

The content of cohesion policy should be revised. At present, it focuses on the support of SMEs, although the real problem in the cohesion countries is the productivity gap between foreign and domestic companies that cannot be addressed with the division of companies into large firms and SMEs.[4]

Considering all of these aspects, we cannot count on an economically and socially homogeneous area in the foreseeable future as the current integration concept does. To maintain a multi-speed integration will be the most important challenge for European integration.

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[4] Gill and Raiser (2012) demonstrate how damaging it is for the Mediterranean economies that the business environment discourages their SMEs to grow. Mihályi's study in this volume analyses the reasons why the Hungarian micro- and small enterprises are not able and/or are uninterested in becoming middle-size or large firms, which is one of the most important reasons for the deteriorating Hungarian economic performance over the last decade.

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