



THE FUNDAMENTALS OF ECONOMIC STABILITY AND SECURITY IN CENTRAL AND EASTERN EUROPE

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Article history:	Abstract:
Received: 1 st March 2023 Accepted: 30 March 2023 Published: 6 th May 2023	While opinions differ when reviewing factors of economic stability and development, there is clearly a common endorsement of the belief that economic stability is linked to security. Therefore, addressing the issue of security in Albania and Ukraine, speakers actually focused on the search for solutions to the severe economic problems of these countries. Indeed, "economic security is constructive - building a strong economy within" by opening of borders and "military security is defensive - keeping one's enemies out", as stated by David Snelbecker. This implies an eventual policy conflict - economic dependence from the "enemy" is undesirable, as it was during the cold war.

Keywords: *Foreign direct investment, economic growth, the United States, Investment, Sector, Development*

INTRODUCTION

Hence the importance of the ability to determine identity and threats in a post-Cold War globalised economy, where it is much more difficult to find out who is the "enemy". To this end, one should note the interdependence of economy and security, noted by Ambassador Comanescu, i.e. it is not only that a secure environment requires a healthy economy, but also that economic policy and development depend on how secure the environment is, both in real and "perception" terms. The perception, or definition of "friends" and "enemies", determine the political and economic orientation of a country while reality (such as regional instability) affects military spending and opportunity costs such as capital flight. It is important to recognise the complexity and reflexivity of the issues of economic development and security as they could easily enter a self (re)inforcing relationship. The policy implication is that it is essential for the infant nominal democracies of Albania and Ukraine to achieve a sense of identity, supported by an integrated economic and security policy. Furthermore, it is important that such a sense of identity develops within an environment in which the role of borders diminishes, as the latter could offset the inconsistency of state attitudes in distressed countries. Another need is to combine efforts to improve economic performance with efforts to establish social and international cohesion and co-operation, as the latter affect the flow of both financial and human capital. In other words, ensuring a stable economic environment needs domestic and international networking that would abolish barriers to trade, ideas and factor flows.

LITERATURE REVIEW

Very volatile economic environments have become a serious source of concern and instability in a number of countries, Albania and Ukraine included. These environments are marked by severe overall macro-economic instability, a slow pace of reform, weak institutions, high domestic and international debt burdens, a dominant informal sector, and crime. Another common denominator is the absence of the rule of law, of checks and balances (civil society), of competition, and of a social safety net. The outcome is hence very discouraging: decapitalisation of assets and human resources, increasing poverty and marginalisation, declining life expectancy, and mounting social tension. In other words, all the necessary fertilisers for insecurity and a loss of will for further reforms. All these features are generally recognised by most authors. What might need further clarification is how long and how much the erosion of quality of life could continue before it results in the sort of social unrest and anarchy that have occurred in several post-communist countries, including Albania. If one looks at current statistics, it is already difficult to explain why and how societies in countries like Albania and Ukraine continue to maintain relative peace and stability, despite the devastating costs of their reforms, or indeed the fact that there has been no reform. To many people's surprise, these countries, like Russia after the 1998 turmoil, have not collapsed entirely. It is important to understand why - otherwise forecasts and policy recommendations will fail. One policy issue is though clear. It is necessary to fight against the factors that informalise the economy and not against the informal sector itself, because this performs an important economic and social role, especially when the



absence of adequate governance and rule-of-law prevails. Another policy issue is to help the informal sector to become part of a modern and efficient registered economy when the institutional environment allows. This also implies a better estimate and understanding of the informal sector capacity, since this might be strong but not unlimited. In other words, it is essential to know when and why society is facing social unrest and collapse due to unbearable costs. Meanwhile, the free market in such countries will continue as it is: messy, opportunistic, secretive, and violent. This erodes the will to have a market in the first place.

DATA AND METHODOLOGY

This dual nature of the state is probably the source of disagreement when its role is being addressed by speakers: opinions clearly differ from a straitforward neo-liberal approach of downsizing the state by rapid disengagement from economic and social life (David Snelbecker), to views that see strong state intervention as a key need for building/enforcing the institutional/regulatory environment that is essential for sustainable economic growth and social development (Prof. Genc Ruli and Dr. Vira Nanivska). Both groups have strong arguments. On one hand, the poor performance of the state as a regulator and allocator of resources. On the other, the harmful effects of an unfettered market such as deregulation, an absent social safety net, rent-seeking, crime-oriented privatisation and the drain of assets. While it is clear that the state has to remove itself as an owner of assets and administrator of industries, its performance as policy-maker, regulator, social peace-keeper (safety net), institutions and law builder, investor in human capital and as the instigator of financial system safeguards is badly needed. The oftenstated fact that the state has limited skills and capacity to cover the

above needs is no justification for its abolishment or marginalisation. It justifies the acute need for public administration reforms, bottom-up pressure for change, training, and international hands-on support. The old Washington consensus for economic development based on simplistic measures such as "liberalise everything, privatise everything and then pull back" might have achieved figure-based stability in Chile, but obviously do not work in C&EE.

RESULT

Here, governments cannot pull back as this only enlarges the vacuum within which monopolies and organised crime thrive, thus adding to social tension and unrest. It is a role of the state, backed by civil pressure, assistance and public support, to ensure that markets deliver efficiency and stability. This requires more than low inflation, it requires sound financial regulation and its enforcement, competition policy, and policies to facilitate investment in technology and human capital. It also requires that resources match policy objectives, otherwise the key objective of improving the quality of life (by comprehensive, sustainable socially fair and democratic development) becomes divorced from the means to achieve it, such as GDP growth. GDP growth, monetary stability and functioning markets become meaningless if not geared to the ultimate objective of a better, safer, value-adding life. It must be understood that state policy and its enforcement, with the handson support of the international community, have to keep the economic and social costs of transformation under control as these can be devastating. When lives and families are disrupted, money replaces intrinsic values as the only means for survival, poverty spreads, crime increases, and overall living standards decline. When this leads to social and political turmoil, security is gone

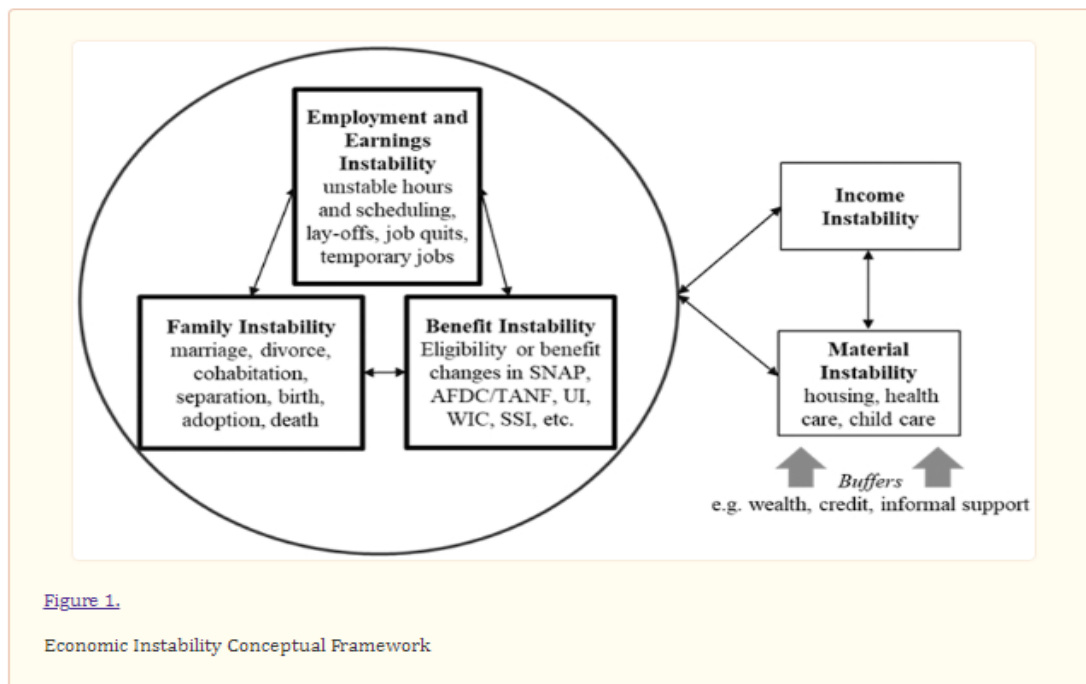


Figure 1.

Economic Instability Conceptual Framework

While income level is important, emerging evidence suggests that the nature of changes in income and other aspects of social and economic circumstances matter as well. Income volatility has increased in the U.S. since the 1970s and is higher for lower income, non-White, and less educated individuals (Gottschalk & Moffitt, 1994; Hardy, 2014; Hardy & Ziliak, 2014; Keys, 2008; Morris, Hill, Gennetian, Rodrigues, & Wolf, 2015). The rise in income volatility was driven largely by employment insecurity, and is attributed to both short-term economic shocks, such as job loss, and permanent structural changes, including the decline of blue-collar manufacturing jobs and the increased reliance on part-time and contingent work arrangements (Dyran, Elmendorf, & Sichel, 2012; Gottschalk & Moffitt, 2009; Haider, 2001; Keys, 2008; Western, Bloome, Sosnaud, & Tach, 2016; Ziliak, Hardy, & Bollinger, 2011).

Over this same period, our social safety net has become less of a stabilizing force for low-income families (Hardy, 2017), in part because benefits are often tied to employment and earnings (Hardy et al., 2018; Hill, Romich, Mattingly, Shamsuddin, & Wething, 2017; Hoynes & Schanzenbach, 2018). In addition, large and growing gaps in family wealth leave families with children, particularly Black and Hispanic families with children, at risk of having insufficient savings or assets to buffer against income changes (Darity et al., 2018; Gibson-Davis & Percheski, 2018; Hamilton & Darity, 2017; McKernan, Ratcliffe, & Zhang, 2013).

The stability, timing, and predictability of when resources come into the household are likely to affect parental and child stress, parenting, and investments in

child development (Adams et al., 2016; Hill, Morris, Gennetian, Wolf, & Tubbs, 2013; Sandstrom & Huerta, 2013). Importantly, income volatility can be both a cause and consequence of broader social instability, including disruptions to health, transportation, housing and neighborhoods, nutrition, and relationships. Recent advances in developmental science have made far more explicit how chaotic family and neighborhood contexts negatively affect parenting and child health and development (Coldwell, Pike, & Dunn, 2006; Evans & Wachs, 2010; Raver et al., 2015; Vernon-Feagans, Garrett-Peters, et al., 2012), and how chronic stress can have lasting consequences for psychological and physiological functioning (Ganzel & Morris, 2011; Ganzel, Morris, & Wethington, 2010; Shonkoff, Garner, et al., 2012).

This report bridges the economic and developmental evidence to offer insights into how policy can promote stable and supportive economic contexts during childhood. In the first section, we describe a rise in economic instability in the United States, particularly for families with adults who are less-educated or non-White. We then explore how economic instability matters to children from the perspective of economics, developmental science, and social neuroscience. Next, we discuss how existing programs and emerging policy ideas could promote stability or buffer against the harms of instability. We conclude with thoughts for further work.

CONCLUSION

In keeping with Hill et al. (2017), we define economic instability in this report as "repeated changes in employment, income, or financial well-being over



time, particularly changes that are not intentional, predictable, or part of upward mobility" (pg. 374). Some research has described a similar concept as "economic insecurity" (Hacker, 2008; Hacker et al., 2014; Western, Bloome, Sosnaud, & Tach, 2012; Western et al., 2016). In addition, we use the terms volatility and variability interchangeably to capture the raw amount of change in economic circumstances regardless of the specific direction or predictability of the change.

Hill et al. (2017) describe some the key domains of economic volatility, and the processes that portend such conditions for low- and moderate-income families—including labor market, relationship, and safety net benefit instability—and how these processes have consequences for the choices and investments parents make that impact children (see Figure 1). The public policies, family-level events, and economy-wide phenomena that we have discussed combine—depending on the individual or family—and may be moderated to the extent that formal or informal credit and wealth buffers exist to absorb these shocks.

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