

THE LINK BETWEEN ECONOMICS, STABILITY AND SECURITY IN A TRANSFORMING ECONOMY

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Introduction

Links between economics, stability and security were defined differently before the Cold War, during it and now today as they adjusted to consecutive stages of international relations. This difference resulted in different security models as well as different economic models. In the past, the security model was based on balanced confrontation between the powers or superpowers and their allies. This was the case both in a multi-polar and bipolar world. Currently, security is based on interdependence and cooperation between states and is enhanced by globalisation, liberalisation and established institutional structures.

Economics in the past was based on a national, and to a large extent self-sufficient model, which naturally excluded the possibilities of significant external cooperation. Protection against external competition was considered to be one of the tools of state economic policy. This in turn led to partial isolation on the one hand, while on the other it increased susceptibility to economic depression.

Security now depends to a larger extent than ever before on internal rather than external factors. The lack of an external enemy can even be considered in specific conditions as one of its features, which on its own can be regarded as destabilising. This does not mean that we should regret that the old system has been replaced by a new one, even though the new system magnifies internal conflicts to a much bigger size that would have happened in the Cold War era. This is true first of all in most post-communist states, mainly those which were multinational, incorporated minorities or faced religious or cultural conflicts. Remedy for this was found in a quick departure from the old system as well as from transition depression, setting the economy on the path of accelerated growth.

In the past, the security model was based mainly on hard security dimensions (military), while the soft dimensions (non-military) played a limited role. In the contemporary stage of international relations, the roles of both soft and hard dimensions have changed, which means that the “soft” are now taking the lead. This is happening on two levels: international and national. In some states, the process is not smooth because of economic and/or political instability.

Hard and Soft Dimensions of Security and the Linkage between the Triad

The linkages between the triad security-stability-economy in the case of hard security dimensions (military) are rather clear and obvious. A state can cover the costs of military expenditures when its economy is strong and healthy. Moreover, it is easier to spend money on military purposes in the light of a more or less realistic threat from outside. Decisions to spend money on defence are taken easily when there is pressure among states to do so. Financial sources can be used to cover the costs of weapons imported from abroad.¹

Some experts argued (Knorr) that in such circumstances wealth is thus tantamount to mobilisation potential, if not in the short term then at least in the medium or long run.² According to this line of reasoning, says B. Moller, the economic power of a nation inevitably constitutes a latent threat to its adversaries, hence the desire not to contribute to the economic development of one's enemies or opponents, if need be, even embargoing trade with them. This view was popular in the USA throughout the Cold War period, including the period of detente in the 1970s. Further on, Moller points out a paradox, that this concept is in sharp contradiction with liberal views of international trade (A. Smith, D. Ricardo, etc.), which assumed that trade has beneficial effects in reducing the threat of war.³ And he is correct in his reasoning, although the conformity is only partial, as can be found in American economic policy that in many respects was protective.

Nevertheless, the foreign policy of the USA - especially its role in international organisations as well as in international scientific cooperation - can furnish us with evidence of practices which were clearly contradictory to some protective activities that could be found in economic policy at the national level. This brings us to the finding that, because of political reasons and internal tensions, it is easier to use at the same time two contradicting policies: (1) protective at the national level; (2) liberalising at the international level. The result of a combination of the two is rather clear since it calms down tensions on a national level and brings liberalisation despite the applied moves. The effectiveness of such a policy is guaranteed by the fact that undertaken decisions are put into practice with a certain delay that releases the authorities from the responsibilities of power and confronts new governments with the results of certain commitments undertaken by its predecessors.

The hard dimension of security has not totally disappeared, although the role of this factor is changing. First of all, the new security system is interdependent and cooperative, which means that states cooperate in the sphere of security. Moreover, they start to cooperate closer in arms production, which stimulates standardisation of arms or even globalisation of arms technology, which in turn follows the pattern of globalisation in civilian technology. This finding is based on much evidence, suffice to enumerate the most important:

- Shrinking internal and external demand for arms supplies fostered international cooperation in arms production. This was additionally speeded up by growing costs of technology, the asymmetry in sales between the US and EU (or Europe-NATO), and by Article 223 of the Treaty of Rome which still excludes the necessity of competition (no request of open international tenders) in arms procurement in the European Single Market.
- The end of the Cold War enabled a departure from the idea of self sufficiency, deriving from a temporal approach to certain security arrangements.
- The lack of a need to be neutral in the international arena.
- The increasing share of dual-use technologies in arms production.
- New systems of technology transfer controls that are universal and open to post-communist countries.

In the case of soft dimensions, the linkages are relatively more complicated as it is difficult to be precise in defining what are the soft (non-military) dimensions of security.⁴ In the case of hard dimensions (military), a country is safe when it has enough arms to defend itself within a coalition, as self-defence is to some extent impossible in the contemporary world. Even small coalitions will not prove to be sufficient in terms of cost effectiveness. In other words, a country cannot be secure by building-up its military potential on its own or in a small group of interested states. This finding is based on two assumptions: on the one hand, high military expenditures compete with other expenditures within the state budget limiting the wealth of the nation, while on the other hand intensive armaments counteract with the extensive development of international trade, a factor creating wealth and stability.

Factors other than solely military have to be taken into consideration when the non-military dimension of security is studied.⁵ One can mention a list of factors that seem to be important here, such as:

- **Size of the country.** The smaller the economy, the easier it is to change and vice versa.
- **Stability of the economy.** The problem here is ascribed to the applied strategy and its effectiveness as well as to the difficulties faced in introducing changes.
- **Stability of the political system.** This does not mean that systemic transformation requires stability of the government (as the Polish practice proves). More important is the continuity of the strategy of systemic change.
- **Relations with neighbours** should be stabilised and proper.
- **Ability to adjust** to changing internal and external conditions.
- **Institutionalisation of external relations.**
- **Opening-up of the economy** and the scale of interdependencies which form mutual interests.

These elements do not only matter in the case of developed market democracies but they also play an important role in transition economies. What has fostered such a situation? Generally, there are four reasons: (1) rejection of the command and distributive system by countries where it was applied; (2) changes in the

former Soviet Union itself; (3) changes in the relations between the former two superpowers; (4) changes in the architecture of international organisations.

In the literature, there are three principles taken into account that brought about changes to the former Soviet foreign policy. They embrace:

- The liberalisation of external relations and dimension towards democracy.
- The will for interdependent economic relations with the West.
- Influence of international law and international organisations, which has shaped the CSCE system.⁶

These changes have brought post-communist states onto their path of building democracy, which is being done in an accelerated manner helping to overcome the delays caused by the Cold War era with its divisions into two spheres of influence.

Democracies rarely engage in war. The link between economics and security was always rather obvious. Stability in this context can be seen in two ways: as political stability and as economic stability. A lack of stabilisation in one of the mentioned fields, let alone both, can be dangerous as has been proved by historical precedent. The most dramatic illustration of the existence of such linkages can be found in the 1930s, when deep financial crises caused an increase in unemployment and gave ground for fascism in Germany and elsewhere. The economic experience proceeding World War II led economists to certain conclusions, which resulted in the creation of a special safeguard system of international organisations, which are commonly known as the Bretton Woods System (1944).

The Bretton Woods Institutions: namely International Monetary Fund, General Agreement on Tariffs and Trade and Bank for Reconstruction and Development (commonly known as World Bank) with surrounding institutions like the International Financial Corporation, became in a short period a symbol of the division of the bipolar world. They were established to foster interdependence among separate economies, and to promote mutual trade and economic development. This was conditioned by liberalisation, both internal and external.

Currently, the system of international organisations has gone through deep reform, which embraced: (1) depoliticisation of international organisations; (2) democratisation; (3) universalism. Organisations representing non-democratic and non-market concepts were closed down. This has happened with COMECON (CMEA), the Warsaw Treaty Organisation and COCOM. Some other organisations were reformed or changed. This was the case with GATT/WTO, NATO, EEC/EU, CSCE/OSCE, etc.⁷ All these changes indicate that the new system of international organisations sets aside structures that were established in the period of Cold War that reflected divisions. The new system supports solutions that are common in their character.

Protected (read national) economies are not able to liberalise. Generally, liberalisation is in contradiction to protection and national self-sufficiency. The two tendencies traditionally opposed one another. A national, protected economy

experiences deeper crisis when the economy slows down. All this was proved in the first years after the war and the first years of EEC integration can serve as the best example to illustrate this. As a result, liberalisation (read integration) was accelerating in periods of prosperity and slowing down in stages of low growth. This proved that liberalisation needs some type of standstill arrangements, which would stop the achieved stage of liberalisation from being reversed. Moreover, it became clear that autonomous steps could be reversed, while international arrangements are more stable.

International economic organisations and their roles in liberalising international relations were not performed without obstacles and controversies. Nevertheless, they have flattened the cycle of economic fluctuations by liberalising trade, reducing tariff barriers as well as removing remaining obstacles to trade that acted in a similar way. They have expanded liberalisation into new areas like capital flows, services, intellectual property, agricultural products, food, textiles and leather products, namely sensitive goods. Step-by-step, this all led to a closer coordination of economic policies amongst the group of leading economies.

At the same time, those countries which are now in transformation were developing according to their own rules. Companies in their case functioned without competition. The main stimulation tool was ascribed to central plan. The positive effect of the model of the centrally planned economy was ascribed to achievement of full employment. This picture, as we all know, was an artificial mirage and a camouflage of certain occurrences:

- Full employment in reality was over-employment.
- The model resulted in an economy of deficit, in which supply was not sufficient to cover demand, forcing people to save when they wished to consume.
- The state pretended to pay - the workers pretended to work.

This vicious circle was broken by systemic transformation in which international organisations played an important role. It is worth stressing that this role was important but not crucial. The leading role was played by national governments, which have transferred part of their sovereignty to international institutions and prepared the national economy for integration into the mainstream of the world economy with its institutional arrangements, market forces and competition. International institutions gave advice on how to change and what should be changed, applying the results of their own practical experience gained in the process of recovery after World War II and in cooperating with developing economies. The results of this cooperation between international organisations and transforming states are obvious, although differentiated from state to state and from economy to economy. These differences occur because:

- All countries were not starting their reforms at the same moment. Some were early starters, others were late comers.
- Existing differences at the starting point of reform.

- Some understood what the advisers from international institutions were saying, others not.
- Some prepared detailed reform plans, which were consecutive and conditioned not only in one field but also interdisciplinary, again others not.

After the end of the Cold War, it was clear that the economy of each post-communist state was like a turtle lying on its back, desperately needing external help to get back on its feet. The same is true with the national economy of each East-Central European country, which needs an external force to push it onto the proper track.

The early experiences of Poland, Hungary, and the Czech Republic show that international organisations know their job and are able to lead a transforming country from production decline to growth. The organisations are not only furnished by special forces to do so, but they are experienced as to how this should be done. The prescription given by international organisations involves the government of each nation state which has to prepare all the details of transformation, including: (1) changes to institutions; (2) changes in the tax system; (3) liberalisation of foreign trade; (4) liberalisation of prices; (5) decentralisation of state administration; (6) restructuring of the state budget on the side of revenues and expenditures, and so on. The international organisations supply the transforming countries with a framework of systemic changes, and they give their experts and experience gained in applying strategies in different regions of the world economy (Latin America, Asia, Africa and less developed economies in Europe).

In sum, let us try to define what are the soft dimensions of security. It becomes clear that they embrace:

- A well established and properly functioning market economy which is preconditioned by liberalisation, both external and internal.
- A well established and properly functioning democratic political system.
- Internal institutional arrangements.
- Established relations with neighbours.
- External institutionalisation.
- Acceptance of systemic reform measures by the voters - this is a precondition for the achievement of social stability.

Three Stages of Economic, Security and Stability Models

The link between economics, security and stability should be viewed dynamically, which helps us to understand the current state and linkages between the triad, also indicating the goal towards which we are heading. This analysis is limited to the 20th century, in which we can generally distinguish three consecutive stages of international relations that have influenced the examined triad - before, during, and after the Cold War. Looking closer at the security model, we find that it changed in the three phases according to the presented pattern:

- **Multipolar model**, based on the military dimension, in which economics clearly played a secondary role. The defence doctrine in this period was based on self-sufficiency, which was followed by self-sufficiency in production. Attempts to create coalitions led to confrontation because they were based on political common interests, which did not last long and were not stable.
- **Bipolar model**, established after World War II, lasted about 45 years (1945-1989), during which the economic dimension slowly gained importance leading to a situation in which the ground was prepared to take over the lead from the military dimension. The security model in this period was based on deterrence.
- **Nonpolar model**, established after the dissolution of the SU and WTO (Warsaw Treaty Organisation), evolved from a **unipolar construction**, which was a **transition solution from the bipolar model**.⁸ In the unipolar model, the main role in international stability is ascribed to the USA and NATO, but at the same time an important role is played by remaining international organisations, namely: EU, OCSE and WEU. Moreover, the decision as to whether to intervene because of humanitarian reasons lies with the Security Council of the UN. Stabilisation of the nonpolar model is conditioned by the increasing role of international organisations as well as further liberalisation of international relations. It is also crucial to create certain balanced powers within the system, which can be achieved by political integration of the EU and the establishment of closer economic ties between the EU and US as well as with Russia and Ukraine. This should be achieved in certain consecutive stages according to the model just presented, which fosters first integration of strong markets before weak markets are liberalised.

Thinking about contemporary security models in terms of unipolarity is an inheritance of Cold War rhetoric, since there are no clear spheres of influence of the remaining superpower and regional powers. This new solution will not bring us back to multipolarity as it will not result in new divisions into spheres of influence, based on different political and economic concepts. New centres of power will embrace the EU, Japan, China and Asian countries, Russia with CIS (Commonwealth of Independent States), Ukraine. We can also expect that South American states can also form an additional centre in such an arrangement, if they decide to integrate. This can be evidenced by the newly signed Rio Agreement between EU and Latin America. The idea of nonpolarity sounds a bit strange for researchers engaged in security problems, but if one adds additional information about overlapping international organisations and their role in regional or global stabilisation, the idea gains more acceptance and looks realistic. It also finds support in changes introduced into the system of international organisations.

The economic models were also changing in the above-mentioned three consecutive stages of international relations, illustrated by three consecutive security models. Generally this can be shown three economic models that match the three mentioned security models:

- **Protective**, national model, based on self-sufficiency.
- **Slow departure from protectionism** and the opening up of the economy at regional and global levels, forced by the Bretton Woods Institutions and by regional arrangements (European Community, EFTA, OECD, NAFTA) as well as on bilateral terms.
- **Advancement of liberalisation in a globalised world**, in which economies and states become more and more **interdependent** (creation of WTO). It is clear that a country can gain advantage from globalisation under conditions of economic liberalisation (both internally and externally), which is a consequence of the development of trade (not limited to commodities but embracing also sales of intellectual properties and services) and capital transfers.

Taking the three models of security and economics, we can come to certain conclusions regarding stability:

- Post-war experience shows that democracies with an established middle class did not go to war and can be considered as stable economies.
- In most developed economies, the post-war period has resulted in the opening-up of the economy, which had a direct impact upon the shape of economic cycles, which became flat with long periods of growth followed by short and shallow depressions.
- Growth in liberalised economies, just as depression in national and protective economies, is quickly exported from one economy to another.
- Trade stimulates growth and wealth. Globalisation helps those countries that need to overcome the technological or underdevelopment gap to catch-up. This has been clearly proved by the experience of EEC integration, where the less developed countries have to some extent caught-up with the more developed economies.
- Depression also spreads as it did before, but its depth is limited by stand-by agreements concerning liberalisation, which make it more difficult to return to protectionist habits. Before, depression resulted in increased protection, which in turn had a negative impact on the size of production and exports thereby prolonging the depression. With liberalisation fostered within the framework of international organisations of both a regional and global character, this problem is eliminated.

In the case of post-communist countries, one has to face a huge **paradox**. On the one hand, there is no doubt about the existence of a development gap between the advanced democracies and those countries that have only recently embraced democracy. On the other hand, a strategy of catch-up has to be preconditioned by destabilisation of the economy, caused by liberalisation (internal and external) introduced in the stabilisation package. Liberalisation embraces the same policies as in the developed democracies, but also includes some additional moves, such as the introduction of currency convertibility, the decentralisation of foreign trade, and the liberalisation of prices. Liberalisation

in certain conditions can be dangerous for stabilisation. These conditions embrace the following situations:

- Mistakes can be made in introducing a stabilisation package.
- Numerous elements of a stabilisation package may be anathema to the politicians who have to introduce them, which produces hesitation and only partial fulfilment of the programme.
- Success of a stabilisation package demands deep knowledge about the economy and its interdependencies. It requires sequencing as well as the matching of different steps in different fields (economy, law, institutions).
- Hesitations and bottlenecks in the introduction of tough macrostabilization measures can result in disinformation as governments seek to cover-up the social side effects of such policies.

The most important problem to be overcome in introducing a macrostabilization package is linked with old knowledge based on a national and protective approach to the economy. The current stage of international relations requires first of all a redefinition of the notion of opening-up the economy, the scope of which cannot be measured any longer by the share of turnover in GDP. Using this indicator, one could say that the US has a closed economy, while Luxembourg's economy is open. This indicator is no longer sufficient. A more sufficient indicator embraces reduced barriers to international economic contacts, which cover:

- Custom duties for industrial commodities (embracing also sensitive goods).
- Liberalisation of services and capital flows.
- Intellectual properties.
- Free movement of labour.
- Exchange rate policy.
- Harmonisation of laws, institutions, taxes, state aid, intervention and its monitoring.
- Intensiveness of competition.

To prove the correctness of this view, one should look closer at the process of the creation of the Single European Market since 1987. Similar observations can be made after analysis of the adjustments introduced by all countries that are candidates for membership in the EU.

Links Within the Triad in Developed Democracies

In developed countries, the triad (economy, stability and security) is not so clearly seen as in the economies of East Central Europe. This difference can be explained by the fact that economic stability was achieved in Western Europe over a longer period of time and the process was stimulated by the introduction of gradual measures. Few people now remember that inflation was a problem in Germany, UK or USA. The same remark can be made about the cyclical development of the economy, which brought about deep depressions and social

destabilisation on a large scale, characterised by mass unemployment and bankruptcies.

Some signs of a lack of equilibrium in the markets of developed economies can be found in the statistics of unemployment, currently the highest they have been for a long time. Generally, the unemployment rate in the EU falls between 10-11% on average. This is because of high figures in Spain, Germany, France, Italy and Greece - much lower levels in Denmark, UK, Canada and the US. This is ascribed to deregulation, which will continue as seasonal workers come and go. Most of the reforms within the sensitive sectors were carried in the late 1970s and 1980s. This enabled changes in industrial policy, which is becoming more market oriented in that traditional intervention measures like subsidies and tax exemptions are phased out. In other words, this involves a departure from vertical towards horizontal intervention, which aims to achieve better flexibility of the producers. Despite the high unemployment rate, those countries also have an established middle class, which is not eager to be engaged in any action that could destabilise the security of the state. A comfortable life does not stimulate tensions; poverty does.

A list of destabilising factors beyond the realm of the economy would embrace such issues as:

- International organised crime.
- Ecological threats.
- Mass emigration from countries with a destabilised economy, where transformation failed having being conducted in the wrong way.

Generally, the experience of the last half-century suggests that the development of democracy and of the economy are closely linked. A vicious circle linking political destabilisation and macrostabilisation are often seen in transition economies. Economic instability can be counted as a source of political instability and as a factor that hampers economic growth.

Links Within the Triad in Transition Economies

In the contemporary stage of international relations, the observed increase in the role of the economic dimension of security puts the East Central European states in a very specific, not to say difficult, situation. This is naturally caused by the fact that economics today can raise numerous threats to security. This problem was widely discussed in Polish literature by specialised political scientists (J. Kukulka, E. Haliżak, R. Zięba, R. Kuźniar). The first and most important danger in this area is linked with weakness in economic potential inherited from the former socialist period. The potential of those states is limited as they produce (excluding FSU states) only 3.1% of the global GDP. If we take into account the fact that this territory is inhabited by 2.3% of the world's population, one could say that this share is a fair one in comparison with developing countries. Nevertheless, this comparison appears less optimistic if matched

against the highly developed states of market democracies. The disproportion existing in this area was additionally deepened by the Cold War. This is well shown by J. Sachs in his three brilliant lectures on “Poland’s Jump to the Market Economy”, where he points out, *inter alia*, how such comparisons looked in the case of Poland and Portugal.⁹ Still in the early sixties, the two countries represented similar levels of development, but as time passed, Poland started to lag behind Portugal and a development gap started to grow. Recently, GDP in Poland was 30% lower than in Portugal.

Differences between separate groups of countries in transition are even greater. On the one hand, this is caused by the scale of isolation and lack of competition, while on the other, by errors (wrong decisions) made during the first phase of transition. It is clear that the closer countries are linked with the EU (and other international organisations) the better their results are with transition. There could be some arguments showing that those countries represented different levels of development and openness at the starting point of reform. That is true especially when we compare the Czech Republic, Estonia, Hungary, Slovenia and Poland as the most advanced, and Bulgaria, Lithuania, Latvia and Romania as countries that are following the leaders, with such countries as Russia, Ukraine, Belarus or Georgia which clearly lag behind. Although there are clear signs that they prepare their economies to be open for the foreign flow of goods, some of those countries such as Russia have opened for capital flows which indicates a reverse approach to opening than that applied in Poland or Hungary. This latter group is far behind in the institutionalisation process, resulting in economies that remain closed to external relations, as in the past. This results in macrostabilisation failure, leading to the erroneous argument that macrostabilisation policy cannot work or achieve equilibrium as it did in Poland, a success that is then ascribed to “national specifics”. The truth is that despite different national characteristics, allowing market forces free rein can achieve results anywhere. After ten years of transformation, our knowledge is now deeper and we also know that the institutional side of the reform process has to be prepared.¹⁰

Unfortunately, these lessons appear not to have been learnt. Moreover, fears that opening up the economy will kill weak and uncompetitive industry are also basically wrong, because although some pressure would be brought to bear upon state producers, it would increase supply and create income for those engaged in trade. All this in turn will stimulate demand, which would result in higher investment and job creation. This theory can be found in Domar’s readings in History of Economy.¹¹

In contemporary international relations, we are returning to theories based on classics, which generally advocate a reduction in the role of the state in the economy. This is also true regarding the reduction of state expenditure, which in turn reduces the pressure to raise taxes. This is not only a phenomenon in countries of transition but is also happening in developed market democracies.

In the EU, this process is stimulated by the single currency (the so-called convergence criteria). In the USA, this is fostered by budget debt reduction. Conversely, a national approach in which economies are isolated behind protective barriers acts against competition and market forces. Moreover, a closed economy with limited competition and with undue state intervention is not able to gain all, if any, of the advantages deriving from globalisation.

It is very clear that the new stage of international relations diminishes the role of the hard dimension of security and replaces it by a soft dimension. This is linked not only with changes to the new security system, but also with changes to the nature of threats, which are now located more often within the national borders of the state, rather than being external threats from elsewhere.

In trying to catch-up, each country has a choice between sustainable and cumulative growth. The former is based on Domar's theory in which he argues that an increase in investment should be matched by an increase in GDP, which in turn is matched by a higher level of savings. Savings in a transforming economy disappear if inflation is high, but national savings can be replaced by foreign savings, which requires the opening up of the economy for FDI. But opening the economy is not a sufficient precondition for attracting inflows of FDI. Investors are adverse to risk, which means that macrostabilisation is crucial in this context. Thus is the circle closed.

The latter (cumulative growth) is based on Keynes and post-Keynesian theories. An important role in this group was played by the Polish economist M. Kalecki, whose 100th birthday anniversary was celebrated in September 1999. According to this theory, the rate of growth can be accelerated by an increase in the rate of investment in annual terms. This can be done by adding FDI investment to national savings. All theories on FDI indicate that inflows are attracted to countries with low investment risks, in other words, those with a record of low inflation. Nevertheless, this is not the only precondition for inflows of FDI, as investors make their decisions taking into account the availability of skilled labour, a low cost base, size of the market, and so on. There is thus a close linkage between macrostabilisation, development and wealth. In other words, macrostabilisation is a precondition for growth, which in turn can result in economic and social stabilisation and the enhanced security of the state.

As we see, both theories are based on cooperation between states and the opening up of the economy, thus departing from protective models of development. The presented models show clearly that:

- There is a close linkage within the triad: economy, stability and security.
- That the hard dimension of security is losing weight as the soft dimension of security gains weight.
- There are several models showing how to catch-up in development, all based on the opening up of the economy and a cooperative model of international relations.

- Transition success, which has a direct impact upon stabilisation and security, is closely linked with the degree of economic openness. Countries which opened their economy are more advanced, those who hesitate are lagging behind. This hesitation hampers further changes not only internally but also externally.

Ten empirical years of systemic transition show that growth out of economic depression is closely linked with an increase in consumption on the internal market. There are two methods of stimulating consumption in the economy:

- **Budget expenditures**, which is synonymous with budget deficits, printing money and further economic destabilisation.
- **Self-financing of expenditure by consumers**, either by credits, which have to be returned, or by earned incomes.

Both methods are considered as sufficient to stabilise the economy in the short term and lift the economy out of depression. Nevertheless, their effectiveness is different and their evaluation in the long term varies. In the first case, when consumption is financed from the budget, the result is a growing budget deficit, which means that the short term effect of increased consumption vanishes as time passes. The budget deficit stimulates inflation and in turn destabilises the economy, undermining the stability of incomes. All this forces the state to withdraw from this type of strategy, replacing budget stimulation of incomes by other methods that stimulate self-financing of consumption. In the case of budget financing, an additional constraint would be the reaction of voters to the withdrawal of state financing, in other words, the replacement of “easy money” by “difficult money”. Self-financing of consumption, however, places all the constraints (“belt-tightening”) at the starting point of the reform process. But in time, incomes rise which boosts savings and stimulates investment. In this way, self-financing of consumption has an in-built stabilising anchor in both the short and long term.

In sum, systemic transition *per se* incorporates elements that can be considered as destabilising. Moreover, mistakes made in forming transition strategy can be considered as destabilising factors. Finally, errors made in implementing transition strategy can also be described as destabilising elements of an internal character. Generally, in transition economies, destabilisation can be closely linked with:

- Wealth of the society.
- Depth of the transition depression.
- The applied macrostabilisation strategy and its implementation.
- Strength of the democratic institutions.
- The ability to correct errors in transition policy.

Conclusions

At each new stage of international relations, an old order or disorder was replaced by a new order or disorder. The changes or evolution were caused by a process leading to a new balance of interests, relations and rules that define the new order. The main power behind this process is the evolution of and clashes between different interests, values and visions of the main actors on the international stage. A lack of mutual understanding among the actors usually caused a stiffening of the system, while their cooperation resulted in elastic solutions, which accelerate adjustments. It is very clear that the new system of international relations has been built in a similar way, according to models known from theory.

Clashes and/or confrontation between interests and visions can result in temporary instability both in the economy of a single state or in the region as a whole. Although the role of international organisations in reshaping the new economic reality of national markets helps to stimulate the process and increases stability, it is not able to fill all the gaps that occur in a transition economy, even assuming that we can utilise the experience of those advanced countries in transition to help those less advanced.

The evolving new security system is based on interdependence and cooperation, which decides that a new role is ascribed to the so-called soft dimension of security, while at the same time hard dimensions are losing weight and going through a deep change in their character.

Not all changes are linked with generally perceived issues such as the environment or organised crime. Certain destabilising factors can be found in the sphere of the social spending of citizens in the transition country as well as in living standards, health care, pensions and education. Smooth transition requires flexible changes to the budget on both sides, revenue and expenditure. Otherwise, politicians in power - despite their good intentions to change the economy for the better - will bring much social pressure and instability instead. If of sufficient scale, this could hamper further systemic changes. This requires specialists who are already experienced in making such adjustments. The countries more advanced in the process should help those which are less advanced, because they are able to identify errors and know how to avoid them. The interest here is mutual. On the one hand, it can build-up stability in the region, while on the other, it can accelerate transition. Another group of problems embraces such issues as the introduction of specific regulations enabling action against organised crime.

The main problem in looking closer at the links that occur within the triad: economy-stability-security is linked with the model of transition and the applied strategy of growth. All post-communist states are lagging behind the standards of living found in market democracies. Their catch-up strategies should be based on several assumptions:

- Macrostabilisation.

- Opening-up of the economy.
- Accelerated growth based on foreign trade and FDI inflows.
- Institutionalisation of external foreign relations.

The above-mentioned pillars - if wisely applied - are able to bring about wealth and stability to the transition economies. This approach is not an invention of current economic theorists in the service of international corporations, but reflect the ideas of classical economics.

Stabilisation in states going through systemic transformation is closely linked with the applied method of transformation, especially the complexity of the strategy applied and its application. The main role here is ascribed to the source of financing consumption, as each of the two options can bring about different results, both in the short and long term.

Notes

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