

SLAVIC REVIEW

Review: [untitled]

Author(s): Peter J. Boettke

Reviewed work(s):

Transition: The First Decade by Mario I. Blejer ; Marko Škreb

Source: *Slavic Review*, Vol. 62, No. 2 (Summer, 2003), pp. 363-365

Published by: The American Association for the Advancement of Slavic Studies

Stable URL: <http://www.jstor.org/stable/3185586>

Accessed: 02/09/2009 15:40

Your use of the JSTOR archive indicates your acceptance of JSTOR's Terms and Conditions of Use, available at <http://www.jstor.org/page/info/about/policies/terms.jsp>. JSTOR's Terms and Conditions of Use provides, in part, that unless you have obtained prior permission, you may not download an entire issue of a journal or multiple copies of articles, and you may use content in the JSTOR archive only for your personal, non-commercial use.

Please contact the publisher regarding any further use of this work. Publisher contact information may be obtained at <http://www.jstor.org/action/showPublisher?publisherCode=aaass>.

Each copy of any part of a JSTOR transmission must contain the same copyright notice that appears on the screen or printed page of such transmission.

JSTOR is a not-for-profit organization founded in 1995 to build trusted digital archives for scholarship. We work with the scholarly community to preserve their work and the materials they rely upon, and to build a common research platform that promotes the discovery and use of these resources. For more information about JSTOR, please contact support@jstor.org.



The American Association for the Advancement of Slavic Studies is collaborating with JSTOR to digitize, preserve and extend access to *Slavic Review*.

<http://www.jstor.org>

smaller task that privatization posed in Poland compared to privatization in the Czech lands, with its legacy of an economy that was almost completely run by the state.

Orenstein is less successful in demonstrating his second claim, which he largely borrowed from Charles E. Lindblom's book, *The Intelligence of Democracy* (1965): Democracy enhances policy intelligence because it puts a premium on convergent learning and generates frequent policy shifts oscillating along a narrowing amplitude. Outside the central east European transition context, that view largely appears too good to be true. Other than oscillation-cum-convergence, an abundance of evidence suggests that democratic politics follows the less fortunate patterns of either polarization among opposing forces or a shared orthodoxy with alternation of at best just governing personnel, not policy. On the other hand, it does not appear entirely inconceivable that a party in power does accomplish some learning, even without the challenges coming from the opposition. But competitive democracy does not even need to yield the outcome of any alternation, substantive or otherwise. Also, the difference between the well-deserved A rating for Poland and the B minus rating for the Czech Republic fades into insignificance if it comes to comparing either of them with, say, the Russian Federation. Orenstein hints at external pressures (from the European Union) promoting policy intelligence (and possibly explaining the vast gap just hinted at), but he ignores almost entirely the favorable context condition that Poland and the Czech Republic share with just two other cases in the region, Hungary and Slovenia: the condition of being a homogeneous nation-state unchallenged by internal or external ethnic divisions. Thus, as any successful piece of research, this thought-provoking book answers many questions and raises even more—most important the question of when exactly democracy yields intelligent policies, be it under postcommunism or elsewhere.

CLAUS OFFE

Humboldt Universität zu Berlin, Germany

Transition: The First Decade. Ed. Mario I. Blejer and Marko Škreb. Cambridge, Mass.: MIT Press, 2001. vi, 516 pp. Notes. Bibliography. Index. Figures. Tables. \$60.00, hard bound.

What have we learned in the decade since the collapse of socialism in east central Europe and the former Soviet Union? The elevated expectations of 1989 and 1991 have to some extent given way to disappointment as the transition period has proven to be protracted rather than swift. Could an alternative approach to the transition have yielded different results? Could the elation of 1989 have been maintained through the move from resolution to revolution to postcommunist construction? These are the questions we are led to ask when we reflect on the experience of the 1990s in the postcommunist world.

The contributors to this volume address a multitude of problems associated with the economics and political economy of eleven different countries: Germany, Poland, Hungary, Czech Republic, Croatia, Slovenia, Russia, Belarus, Ukraine, Bulgaria, and Romania. In addition, three overview discussions detail the lessons learned and the move from the Washington consensus to the post-Washington consensus. The contributors range from academics to advisers to policymakers. And while it is a truism that collections such as these suffer from the uneven quality of the contributions, the reader will benefit greatly from this collection.

The reader should, however, be warned about a few glaring weaknesses. First, the debate about shock therapy versus gradualism is not really a debate at all. From a technical economic point of view, there is no alternative to shock therapy in a fundamental sense except no reform at all. The logic of simultaneity in the policy mix is sound. The problem is that shock therapy was sold to the population as quick reform. In reality, what we have learned is not that gradualism should govern the policy mix, but that the impact of shock therapy will perforce be gradual. Shock therapy gets the economic patient on the road to recovery, but it does not mean recovery is immediate.

Second, the data of the communist period are completely unreliable and thus provide a poor basis for comparison. For example, if state-owned firms were negative value-added firms—that is, if the value of inputs was greater than the value of the outputs produced—then shutting down these firms (recorded as a decline in production) actually produced an increase in economic efficiency. In addition, if previous prices were set below market clearing levels—as was the case in shortage economies—then freeing up prices to the market clearing level would lead to an increase in the standard of living. Unfortunately, a simple standard of living measure is to look at real wages, but if we use the former official prices (not black market prices) for goods, it will appear as if workers have suffered a decrease in real wages due to the transition.

The third concern relates to unemployment statistics. If under the previous regime workers were fully employed but in jobs that were not valued, then the work system was really a welfare system. This creates two immediate problems for the transition: (1) workers must be reallocated to productive uses, and (2) the welfare system must be severed from the workplace. Workers were not employed in the previous system; they were misallocated and subsidized—“we pretend to work, you pretend to pay us” was the old Soviet norm. Reallocating labor to more productive uses is recorded as unemployment when in reality it is really re-employment to higher valued activities.

Fourth, the issue of corporate governance is a confusing one, and many economists gave the wrong advice to reforming economies on this. Corporate governance is a by-product of a functioning capital market, *not* the primary function of capital markets. Capital markets evolve to help finance business ventures; the corporate governance function is a by-product of this raising of capital by business ventures. Capital markets exert discipline to ensure that financial ventures are not squandered. But in the attempt to create corporate governance, reformers attempted to create stock markets that did not primarily serve the role of financing corporate ventures. This major confusion plagues all the voucher privatization schemes that were adopted.

Finally, unrecorded economic activities are still rampant within these economies and as a result economic statistics are confused at best. For example, we tend to overestimate privatization in these economies because of elastic definitions of what it means to be privatized. At the same time, we underestimate the amount of privatization because we do not capture the number of small to medium-size enterprises that are new entrants but who conceal their economic activity. Economic actors still view the political system as a vehicle for predation, and thus they wisely hide their activities from official view.

These problems with the data call into question any attempts to rely on official statistics to assess the success or failure of transition economies. More often than not, these official statistics start from the wrong base point and do not capture the reality of the current situation. A true rendering of the situation requires a more ethnographic turn in economic research than is currently practiced by economists. This should not be surprising since the best economic work on the nature of the Soviet-type system was also in this vein rather than in the comparative growth rate style of research. And make no mistake about it, the legacy of the Soviet-type system still looms large in these countries.

In fact, that is another lesson that is not stressed enough in this volume—one of the main reasons reforms have proven so difficult over the past decade is that reform has not always been implemented. It is not that shock therapy has failed as much as that shock therapy was not tried. In Russia, for example, private ownership of land was only allowed in 2001. During the period from 1992 through 1995, Russia was supposedly following a monetarist policy, yet the ruble went from 180 rubles to 1 dollar, to over 5,000 rubles to 1 dollar. What happened to the monetarist monetary rule during that period?

So what have we learned? I would say we have learned that there is no path to prosperity outside the general recipe of security of private property, freedom of pricing and contract, low inflation and fiscal restraint, and open international trade. Countries that have most closely approximated that recipe have had the most successful past decade; countries that have resisted that policy mix have had the toughest decade. We have moved from a focus on getting the prices right to a recognition that in order to get the prices right we must first get the institutions right and that in order to get those institutions right we need to tap into the cultural norms and belief systems that legitimate these institutions. In

short, without the right attitudes we will not get the institutions, without the institutions we will not get the prices right, and without the prices being right we will not achieve generalized economic prosperity.

PETER J. BOETTKE
George Mason University

Democracy, Ethnic Diversity, and Security in Post-Communist Europe. By Anita Inder Singh. Westport, Conn.: Praeger, 2001. xxv, 179 pp. Notes. Bibliography. Index. \$64.00, hard bound.

This book deals with the highly relevant and equally troublesome issue of peace in multiethnic states. In post-Cold War Europe, all international organizations have actively promoted security by suggesting "that states should accommodate their ethnically mixed populations through democratic rule" (xv). This implies that since 1990 it has become conventional wisdom in the United Nations, the Organization for Security and Cooperation in Europe, the Council of Europe and the European Union, and even the North Atlantic Treaty Organization that ethnic conflicts can be prevented through the development of domestic political systems that guarantee human and minority rights and the rule of law. The relation between democracy and peaceful coexistence in multiethnic areas, however, is only apparently unproblematic. In fact, attempts at democratization might trigger ethnic tensions within a country (such as in the case of political elections that might be perceived by some minorities as a threat to their future status within the country) or might be at the core of attempts at secession by a minority claiming its right to self-determination. The right of a sovereign state to keep its unity and the right of a minority to achieve self-determination are two principles of international law that are inevitably in conflict, as the troublesome story of the international recognition of Slovenia and Croatia in 1991 have shown. The juridical (and political-philosophical) tension among the various principles here employed (democracy, ethnic diversity, minorities, nationalism, self-determination, nation-state) has given rise to crises and at times wars. The idea that peace and security in Europe can be preserved only by multiethnic democracies (rather than by authoritarian regimes or nation-states however democratic) is Anita Inder Singh's central argument as well as the main lesson learned from the case studies undertaken.

The book's five chapters are framed by an introduction and a conclusion. The first chapter asks why the international community in post-Cold War Europe promoted democracy and human rights as the best ways of securing domestic and international peace. It analyzes the main legal instruments put into existence and the intrinsic conflict between the various principles at work in contemporary international relations. The second chapter explores the experience of an authoritarian state and three new democracies (India, Sri Lanka, and Spain) in handling ethnic diversity and comes to the conclusion "that authoritarian states, by their very nature, do not try to reconcile and accommodate political difference" (45). Although interesting, these three cases are too unrelated to the book's focus on the European postcommunist states. The third chapter shows how the USSR's and Yugoslavia's failure to accommodate their ethnically mixed populations provoked demands for secession that were not consistently handled by the international community also due to the tension between the principles of self-determination, state-sovereignty, and democracy. The recognition of new states is presented as the battleground of this conflict among principles. Chapter 4 uses the case studies of Chechnia and Kosovo to evaluate to what extent ethnic security though democracy can be exported. The international promotion of minority rights is shown to be necessary but insufficient. The imposition of political elections, for example, could trigger ethnic conflicts if the domestic situation has not been well prepared. Giving the people their choice does not guarantee democratic governance (illiberal regimes have been elected), but there is no democracy without free and fair elections. Finally, chapter 5 evaluates to what extent domestic policies toward minorities and the process of democratization can explain the absence of conflict between Hungary and its neighbors with Magyar minorities, and between Russia and its neighbors