

K Y K L O S

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Review of book

Kolodko, Grzegorz W. (2000). *Post-Communist Transition: The Thorny Road*. Rochester, N.Y. and Woodbridge, UK: University of Rochester Press. 199 pp. ISBN 1-58046-057-7.

A few months ago, prospects of strong recovery were spread across all transitional economies, but recent estimates at the international level about GDP and trade are being revised downwards. Nowadays, Poland that is ahead of the Eastern Europe transitional process, is experiencing a ‘meagre’ 2 percent GDP growth whilst unemployment is at some 16 percent. In this new context, Kolodko’s book – a former deputy prime minister and finance minister of Poland between 1994 and 1997 – comes out as an important reading in the light of the institutional role that he played during one thousand days of ‘soaring eagle’ and the systematic need to implement wise policies.

The author was concerned mainly at a few aspects of transformation covered in a way that explains the success of the ‘Polish alternative’. First, a ‘multi-track’ approach to avoid the diverse experiences occurred in other reforming countries. Second, the choice of a ‘therapy without shock’ in place of the ‘shock without therapy’. Third, ‘praise’ for the ‘Strategy for Poland’, the ‘Package 2000’ and ‘Euro 2006’, that is, the programmes – devised under Kolodko’s policy making – aimed at giving policy commitments consistent ordinary policy instruments. (The ‘Euro 2006’ especially aims at preparing Poland to membership in the EU and the EMU.) Forth, the need for reconsidering the ‘Washington consensus’ in the light of what we have learned under real conditions.

Let me introduce the five chapters. The first is a reprint of a paper written jointly with Nuti in 1997. It deals with the ‘Polish alternative’ and the main aspects of the various programmes previously reported. The main track proposition to join the EU goes to envisage a membership in the European monetary system by 2006. In the second chapter Kolodko overviews the ten years of post socialist transition. This chapter advances the idea that institutional building – introduced as a ‘better-orchestrate’ attempted at a gradual process by design and not by chance – is by far the most important single instrument of strategy. While in the previous system there were no bases for such an institutional set-up (organisations and links between them, and a proper behaviour of economic actors), in the new scenario of market economy, an institutional development becomes very important. Consequently, in the few countries where some form of ‘liberalisations’ was introduced before 1989, economic performance proved to be better and faster.

In the third chapter, Kolodko analyses the issue of income distribution and equitable growth. He states that in the initial period of transformation inequity is ‘unavoidable’ (because of economic, social and political conflicts), and the state must play a role through fiscal and social policies. Moreover, the quality of the government must be judged by its actions, and the attempts to downsize governments cause more harm than good, since the market *per se* is not able to produce more ‘equitable distributed income’. In the period of

decreasing GDP, the contribution of the poorer is decreasing faster than the contribution of other income groups. And he adds, the shorter the period and the smaller the fall in GDP, the better, because during recovery it is easier to take action and reduce unemployment rates (only a lower unemployment rate reduces inequality). Inequalities have to be controlled and managed and a more fair income distribution may support further income expansion. However, the author facing the alternative 'less inequality – lower growth or greater inequality – higher growth' favours the second option because 'in the end, everyone will be better off' (page 114).

The last two chapters are devoted to the analysis of fiscal policy and the role of SME. The transition would consist of three parallel processes, that is, the liberalisation *cum* stabilisation, the institution building, and the microeconomic 'industrial' restructuring. The author writes that this triple action must be included in an overall 'transitional endeavor', but the process needs time, capital, new investment and retraining and redeployment of the labour. The character of the property is another side of this 'tale'. An appropriate institutional building and the right legal system, both managed to carry out a flexible system, would help a further SME's development. Moreover, the few countries where SMEs existed under the previous system (usually the previous system relied upon the 'socialist industrialisation' of heavy industry) enjoyed a smoother process of structural adjustment, the 'institution building was faster, the recovery came sooner, and growth was more robust' (p.161). Also in this sector government policies can help the growth and the competitiveness of SME.

Taken as it is intended, Kolodko's book is an important reading for policy makers and students. The issues forwarded throughout the book are still relevant today – not simply for the Polish case – and joint with the knowledge we have gained from the 'Polish approach' provide stimulating policy proposals, although some reader belonging to Rutland's 'Brigade Marriott' may be left a bit uncomfortable.

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