Grzegorz W. Kolodko (ed.), Globalization and Social Stress. New York: NOVA Science Publishers, 2005, 268 pp., $69.00 h/b.

THIS VOLUME IS THE SECOND IN THE TIGER (Transformation, Integration, and Globalisation Economic Research) series, which examines global projects. The previous volume, *Emerging Market Economies: Globalisation and Development*, also edited by Grzegorz Kolodko, examined the influence of globalisation on economic growth while this edition focuses on the risks and social effects that accompany it.

Globalization and Social Stress consists of 11 chapters on a wide assortment of topics and is divided into four sections. Like many edited volumes it suffers from a general lack of coherence but it does nevertheless possess some intrinsic value. All the chapters make some important contribution to our understanding of the various aspects of what is the most ideologically loaded term of our time, ‘globalisation’. The key question addressed in this volume is: does local/global policy matter in the enhancement of development? There is a lack of consensus among researchers of growth theory on whether local/global policy has an impact on economic growth in general, or only through institutional factors.

In Chapter 1, Kolodko discusses his views on the transformation process in Central and Eastern Europe. He argues that two main processes can be observed. First, the endogenous mechanism which was built into the system: discontented people as consumers, as producers and as citizens. The concept of the customer problem is little more than the economics of shortage and its inherent phenomena: the grey and black market, the forced substitution, the corrupt retail system and of course the distorted allocative efficiency. The people of the region were also discontented as producers, because of the overcentralisation of economic administration, which led to inefficient production, stock surpluses and wasteful management. Last but not least people became dissatisfied as citizens since democratic mechanisms did not operate. Secondly, the exogenous factor of globalisation which becomes gradually more intensive over time must also be taken into account. The author argues that the implementation of certain key policies (extensive privatisation, currency convertibility, free movement of human and physical capital, abolishing protectionist barriers to free trade and deregulation of the economy) account for the successful economic transformation in some post-communist states while failure to do so by other post-communist states meant that they edged closer to the Third World. Although Kolodko emphasises that ‘[t]here would be no transformation save for globalisation’ (p. 9), he also draws attention to the local differences in policy-making. The advice of the G-7 failed, the Washington Consensus (privatise as much and as quickly as possible, liberalise trade and prices at the earliest opportunity, and be tough in financial policy) was hardly the best answer. Something more is required: the role of institution building is fundamental in the implementation of a market economy.

Chapter 2 opens with the puzzle of why post-Soviet governments made different choices in institution building in general, and in trade liberalisation in particular. Unlike traditional explanations, which suggested that the primary aim of post-Soviet states is maximising their power and security, Keith A. Daren presents an alternative approach which underlines the role of economic ideas in the formulation of states’ interests and determines the type of international institution chosen for managing international trade relations. Based on domestic policy indicators, interviews and internal government documents, he finds evidence that ideologies of post-Soviet elites differ and these differences have shaped decision-making in economic policy regarding memberships in international organisations. He argues that policymaking, which is unambiguously influenced by economic convictions, alters the essential institutional structure of states in the very first phase of economic development. Moreover he provides empirical evidence that both policy and institutions mattered, at least, in the evolution of post-Soviet economies.

This problem is analysed in the third chapter in more detail. Addisin and Rahman have constructed a simple model which examines the importance of geographical, institutional and political and policy variables through the dimension of trade. They present evidence that geographical characteristics are dominated by both institutions and policy; however, micro policy decisions influencing the efficiency of the economy are more important than macroeconomic policies in explaining the developing country's prospects for globalisation.

The second part of the book collects papers on poverty, equity issues and the welfare state. In Chapter 5 Gur Ofer deliberates over two questions: first, at what level can the market contribute to the fairness of distribution of the benefits created by globalisation, and secondly, where are the limits of governments in redistribution, particularly in the case of welfare states? The author draws our attention to two inevitable steps. On the one hand, in order to avoid funds being diverted by the state, NGOs and other intermediaries must be involved who may improve efficiency by co-financing. On the other hand, a basket of the most important public services should be created depending on the income level of the country. All services that are not included in this basket should be outsourced to NGOs and to the private sector. This latter solution is more relevant in transition countries, where the for-profit or non-profit organisations should have greater roles, especially in education and health services. Surprisingly, for developed countries the escape from the internal and external pressure on the welfare state is the same. They must offer a certain part of the public services to the private sector in order to ensure their sustainability.

George Vojta (Chapter 6) investigates the link between globalisation and equity, arguing that 'without general growth benefit equalisation is not possible' (p. 120). Both Chapters 5 and 6 articulate normative findings; the authors strive to answer the question 'what can be done?'. Interestingly, the answer in both cases, regardless of the type of global problem, is the private sector-led economy. The only difference is in the identity of the initiator. While the cornerstone of the solution in the case of welfare state problems is the will of the states (and the interest groups), to reduce the extent of the public sector, other solutions to global problems—as Vojta underlines—must be enforced by the private sector. Governments are not able to determine comprehensive global processes; this is the role of the market. More collaboration and transparency is required from the private sector to aid governments in the reforms of existing financial systems and in devising other programmes and initiatives. All this must occur without the dilution of the private sector's competitive spirit.

La´ szlo´ Csaba, in Chapter 10, summarises the challenges and dangers facing emerging economies in the contemporary world. He argues that in the post-accession period policy-makers in the new EU member states are confronted with an even more difficult situation than during the association phase. This is due to three main reasons. Firstly, 'globalisation' has a gradually increasing impact on emerging economies. Secondly, now that EU membership has been achieved, CEE policy makers no longer have the same incentive to fulfil the required further reforms. Finally additional difficulties are created by the stipulations of the various treaties, as well as specific stresses in association with the permanent change of the acquis communautaire.

The final chapter of the book, by Anna Grzymala-Busse, examines the EU and state reforms in the candidate countries. Although the converging expectations and formal demands of the EU have had significant and unequivocal impacts on institutional change in 10 post-communist economies, the motivation for formal state reform is embodied in informal solutions. For example, in Hungary and Slovenia formal legislation is not necessary for efficient state performance. In the majority of the post-communist countries, however, the lower institutional—and accordingly administrative—capacity lies behind the difficulties in the accomplishment of the EU's expectations regarding state reform. These 'hollowed-out' states are unable to establish and enforce the huge body of regulation despite the significant pressure exerted by the EU. As a result of this, state structures developed in ad-hoc and incoherent ways, which also reflects the struggle between political actors.

These last two chapters reflect on the relationship between the role of economic policy and institutional development. Although the authors formulated their opinions on the challenges of the European Union before its biggest enlargement in 2004, both chapters remain relevant. The volume makes a significant contribution to our understanding of globalisation in its various dimensions. It argues that economic policy has a stronger effect on growth in the group of transition countries than in other countries. On the one hand I recommend the volume to researchers in institutional economics, who—after reading some chapters—could see the institutional evolution of emerging countries through a special lens. However the main target group should be the policy-makers of developing countries, who learn from the experience of transition countries and prevent resource-wasting decisions.

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