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Kolodko, Gregorz W.: *From Shock to Therapy. The Political Economy of Postsocialist Transformation*
Oxford: Oxford University Press for the United Nations University/UNU WIDER, 2000, 457pp.

This book offers a policymaker's perspective of the historical process of large scale socio-economic transformations in Europe and Asia. Personal experience and reflections on transition literature are generalised to policy analysis, which in turn allows for some theoretical generalisations and feedback to economic and political theory. As a consequence one of the recurring themes of the monograph is the quest for political feasibility, and engineering social support for sustaining growth-promoting policies.

Given the large body of already available literature it seems legitimate to ask for the peculiarities of the present monograph. They may be listed as follows. First, while most books consider transformation as a means to achieve ideological goals or to introduce models designed in the laboratory of economics, Kolodko treats transformation as an instrument of a broader development strategy, which is successful only in so far as it results in sustained high rates of economic growth, while stabilisation, liberalisation and privatisation are seen as instruments of attaining this broader goal. On the other hand, transition is not seen as a specific postcommunist, Russian or East European phenomenon, but basically as a process of opening up and integration in the global economy. Third, the author expounds on a neo-institutionalist platform in terms of theory. In doing so, he advocates an activist, but by no means old-fashioned statist interventionist policy, one based on fiscal prudence rather than expansionary practices. Fourth, one of the recurring themes, e.g. p. 6, p. 8, p. 354, is that policies matter. This does not imply a slavish reiteration of the Washington Consensus, but a call for the state to be active in institution building and regulation, rather than in discretionary crisis management of sectoral and corporate-specific grievances. In formulating his diagnoses and

therapies, the author draws on his longstanding academic background as well as his decade-long involvement in policy making, as first deputy premier of Poland in charge of economic affairs. The latter circumstance, of course, bears its imprints in so far as the author has interesting insider information, but also tends to have very strong opinions on issues.

The structure of the book reflects a description of transition from socialism to market capitalism in terms of a journey: departure, detours, the journey, arrival and the future. In discussing the point of departure the author highlights the inherent non-reformability of Soviet socialism, and underscores the role of geopolitical factors in bringing about its collapse. More specifically he recalls the Polish round-table negotiations, initiated in July 1988 - three years before the collapse of the Soviet empire -, whose successful conclusion in April 1989 triggered a series of steps ending up in a domino effect in the region. He does not fail to distinguish between the Chinese and East European scenarios, with the first remaining by and large within the constraints of market socialism and dictatorial policy, whereas transition is about bringing a state of both economic and political pluralism, an issue discussed in detail in chapter 10.

The author is sceptical about the view seeing the inevitability of the fall of output following the collapse of the old regime, thus he discusses as detours the transformational recession and the Washington Consensus in a critical manner. It tends to see the costs as excessive and policy advice as co-responsible in having brought about the slump.

The backbone of the monograph is "The Journey", in which Kolodko presents his view on systemic change as a large-scale institution building, aimed at creating conditions for sustaining high levels of growth, which he contrasts to the one-sided emphasis on stabilisation alone. Probably the most interesting part of this section is the chapter on financial reform and policy, where the author highlights the need for high savings rates that do not come along by themselves, without appropriate institutions of financial intermediation ensuring solidity and stability, and without appropriate incentives to save rather than consume. This is a precondition for investments to be financable, thus he also calls for far-reaching reforms of the pay-as-you-go system of pensions. The author underscores the focal role of an efficient banking system in enhancing allocative efficiency, that in turn is a precondition for privatisation to be followed by restructuring, thus laying the microfoundations of macroefficiency and growth in the long run (p. 188). In the chapter on redistribution of the costs and benefits of transition, Kolodko underlines that except for Kyrgistan, Russia and Ukraine, all postsocialist countries show more equitable income distribution patterns than the best performer in Latin America, Argentina (pp. 222—223). Kolodko takes issue with the influential school of thought considering inequalities always to be harmful for growth. He

comes to the conclusion that only when the conditions and also the outcomes of high rates of growth have first been created, then later, following this comes the time for redistribution (p. 225).

Part four is called Arrival and is devoted to issues of democratisation, to the task of moving from mere recovery to sustainable development, i.e. socially acceptable form of growth, and the internationalisation of postsocialist economies, including the special mission of the IMF and the World Bank. Reflecting on transition and globalisation he addresses the issue of co-ordination among the two processes. He underscores the focal importance to build and sustain a coalition of forces favouring growing links to the global economy (p. 272), a process which far exceeds trade/GDP ratio, which is multidimensional and is already well underway in society, technology and finances alike. Addressing the issue of capital market liberalisation he calls for caution and sequencing the freeing of short-term operation for a stage when solid domestic financial intermediation has already emerged (p. 301), before more reliance on FDI is needed. Reflecting on the political implications of globalisation Kolodko underlines that endogeneity of economic policies is already eroding, and extraneous determinants grow in importance (p. 331).

In the concluding part he reflects on future scenarios of long-term development, contrasting the depression view to the growth-oriented view. The major trend of the future world economy he sees in a new convergence, where fundamentals of the market prevail, but no uniform model of capitalism is likely to emerge. This is the place where he offers his 12 commandments for policymaking, summarising his conclusions. These are: 1. Institutions are decisive for growth and the government plays an active role of shaping them; 2. The size of the government matters less than its quality; 3. Institution building must be gradual; 4. Emergence of private institutions in a spontaneous manner may be dangerous, leading to mafia and corruption; 5. Streamline the legal system in line with the needs of a civilised market; 6. First devolute public finance to municipalities, then deregulate the latter; 7. Accelerate the evolution of NGOs; 8. Policies should aim and ensure equitable growth, as growth alone does not alleviate inequalities; 9. Open up capital markets gradually, and short-term operations in the last stage; 10. Foster international regional co-operation; 11. IMF and IBRD should strike a new balance in their policies between stabilisation and growth; 12. The thus emerging post-Washington consensus should be interactive, i.e. local governments should not only own the reform packages, but their experience should be fed back to the thinking and policies of the global institutions.

The verbal analyses are complemented by rich statistical and source material. On balance this is an interesting monograph to be widely read. The weak point, in this reviewer's opinion, is the extent of the author's belief in strong government,

sometimes sounding as if it were just a matter of will (e.g. p. 349). While in several places he rightly and originally stresses the interactivity among policies, institutions and the spontaneous social reactions to these, underscoring the key role of learning, in other places he suggests policies and institutional designs could indeed be freely chosen by societies, and moreover optimised according to a "proper" theoretical standpoint (e.g. p. 111, pp. 143-146). Here as if the policy-maker ego of the author would dominate the academic ego. On the other hand, this makes the book an easy read, despite some repetitiveness and its considerable length. His insights are always worth considering and contribute to the better understanding of theories and policies of transition. Whether or not one agrees with each and every statement, this monograph by Kolodko is a must for any serious academic library.

Laszlo Csaba