

Kolodko, Grzegorz W.; *From Shock to Therapy: The Political Economy of Post-Socialist Transformation*; 2000, UNU WIDER, Oxford University Press, New York, USA, pp. 457, price US\$ 240.

The shift from socialism to market mechanism by some of the countries in Europe and Asia is one of the major economic changes during the last two decades of this century. Existing studies have focussed on macroeconomic stabilization, liberalisation and privatisation. Issues relating to cross country differences in economic and social spheres, institutional changes, the political transition and the effect of external advice remains unexplained and poorly understood in existing literature. Kolodko with his experience in political spheres, as policy maker and a lead economist has seen changes in Poland. He has made an attempt to fill the existing gaps in literature. The positive and negative externalities of the New Economic Policy (NEP) of 1991 are well understood by majority of educated Indians. The readers will find the book helpful in understanding the effects of similar changes in Europe's developmental and unification process.

Vast shortages, inflationary pressures, structural weaknesses, poor macro-management and microeconomic inefficiencies triggered the need for transition from socialism. The idea of market reforms was very difficult for people to understand and accept. The reforms in countries like Hungary and Poland were not aiming at overturning the socialist economic system, but its adaptation to new circumstances. The initiatives included Yugoslavia's self management system, Hungary's Goulash socialism, Polish market socialism, the Vietnamese Doi Moi and Gorbachev's Perestroika aimed at including limited features of the market onto the socialist system. Political interference led to the collapse of "real socialism" followed by economic contraction and great slump during the early stages of the previously mentioned initiatives. Slowly, economists in communist countries started defining socialism as "social justice plus (the) market economy" (Wu Jinglian, 1997). Transition requires a mix of economic and political changes, while the reform process in Eastern Europe and the former Soviet Union was exclusively tied to economic changes. Clearly, reform gave way for a capitalist market economy but adaptability in the political arena remained doubtful. Countries like North Korea and Cuba who retained the old system faced sharp decline in GDP (Gross Domestic Product) and crisis.

The major question faced by socialist countries was how to adapt the existing structures, institutions and policies without destroying its foundations. China for example is not fully capitalist but has modified its

economic system by an incredible extent. The author also discusses the drawbacks and merits of the post socialist legacy. The transition in Eastern Europe and the former Soviet Republics initially resulted in severe output collapse from three to eight years but has contributed significantly to current acceleration in growth. The blame may be put on the political inability to introduce the reforms in the right manner.

The author has provided a detailed analysis on the expectations, reality and interpretations that can be drawn from the transitional recession. Controlling liberalisation of output, employment, investment and consumption, which became one of the major issues during the transitional period. Inflation posed a major problem during the transitional recession phase. Liberalisation and Stabilization led to the transitional recession and the output shrank by huge margin. With liberalisation there was need for a revolution in property rights. This resulted in increasing privatisation of assets. Privatisation had a direct impact on allocation, efficiency and growth. The impact varied from country to country. Privatisation and Liberalisation were used as means for development. Higher rate of growth and economic performance was affected by the policies through which the transition was implemented. Creation of reliable institutional design was critical for success of the transitional process. In Eastern European countries, basic institutions like the central bank, local currencies and private ownership were virtually non-existent. It has been observed that lack of proper institutional framework, results in market failures and practise of "Crony Capitalism". The author has thrown light on issue of how the "shock therapy" failed because of the vacuum that was created by abandonment of the old institutional set up and huge recession. The transition was fertile ground for experimentation of new theoretical concepts. The methodology of learning by doing proved to be a very costly affair for the populations of Eastern Europe.

The transition was based on the assumption that transfer of assets to the private sector would improve efficiency and hence foster growth. With increasing privatisation and deregulation, Governance became a key issue for the transition economies. Corruption and organised crimes increased in the transition economies. With increased efficiency came increased corruption and licensing regime. This resulted in slower growth and persistence of the contraction. It negatively affected equitability of income distribution. The transition created a new class of rich, educated, hardworking and successful entrepreneurs. The transition did result in efficiency, competitiveness, durable growth and sustainable development. The question of whether the standard of living of the majority of the population has improved remains untracked in the reform process.

While discussing the issue of compatibility of the market and democracy it was cited that meteoric growth has been seen in absence of democracy in Chile, Indonesia, Spain, Hong Kong, Singapore, South Korea and Taiwan. However, the autocratic regimes were not able to retain the growth. Democracy brings in slow and sustainable growth with freedom to pursue personal goals and objectives in alignment with national objectives. Democracy has helped in replacement of old political elites with new ones.

However, the bureaucracy remains largely the same. To ensure proper management of public affairs and less corruption there arose a need for adaptive and effective bureaucracy. Bureaucratic barriers became a major stumbling block inhibiting growth in the transition economies.

International agencies like the Bretton Woods institutions, European Bank for economic cooperation and development and World Trade Organisation (WTO) are involved in the transition since the beginning. However, there exists little coordination among the post socialist nations on the issues involved in transition. The transition has helped the post socialist countries in primary capital accumulation and increased access to global capital markets. The negative political and psychological effects slowed the process of growth. The transition has led to development of new class of “capitalists”. New issues, problems and concerns have also arisen in the post socialist markets. This includes reforming of the legal system to serve market economy, role of non – governmental organisations and capital/ current account convertibility. The transition is directed towards a “free” market that is mature and unflawed. The state intervention will be primarily undertaken to subordinate market forces to the needs of society. The future of reforms depends on the actions of the next generation. The book discusses economic changes in former Soviet Union countries and Eastern Europe.

The recent subprime crisis is forcing many developed countries like United States, UK, Germany, Spain, Italy and many more Western European nations to move from capitalism to nationalisation of corporate entities. The recent debacle of Lehman Brothers and inward looking policy of Obama gives an opportunity to relook at the capitalistic structures of economies. This shift in ideologies expresses the need for a new economic system incorporating the good features of both socialism and capitalism. The excellently written book is recommended to academicians, practitioners, graduates of European Studies and readers interested in an insight into the economic reform processes of Europe and Poland in specific.

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