

THE CHANGING PERSPECTIVES ON SYSTEMIC CHANGE AND PRIVATIZATION IN POST-COMMUNIST TRANSITION

Saul Estrin – Grzegorz W. Kolodko – Milica Uvalic (eds.)

Transition and Beyond

Basingstoke and New York: Palgrave Macmillan, 2007, 307 pp.

Attila Károly Soós

Politics and Policies in Post-Communist Transition

Budapest and New York: Central European University Press, 2010, 178 pp.

Transition and beyond – an edited volume dedicated to D. Mario Nuti for his 70th birthday – contains economic essays on the course of post-communist transition, written in the context of a broad range of intellectual traditions. The first part of the volume, entitled “The Socialist Legacy” provides papers by scholars of the Soviet economic model such as Michael Ellman, Michael Keren and Gur Ofer who offer insights to the Soviet system with a particular emphasis on socialist planning and the examination of institutional underpinnings of the Soviet system. Keren and Ofer adopt a Kuznetsian approach of measuring normalcy and find that Soviet-type economies cannot be considered to be normal states. The third paper of the first part is a contribution by Vladimir Popov of the New Economic School in Moscow, who explains the phenomenon of declining economic growth rates in the Soviet Union after the 1950s. He compares Soviet growth to those of the most successful East Asian economies such as Japan, Korea and Taiwan. Popov finds that the growth of labor productivity in the Soviet Union peaked in the 1950s and declined subsequently, eventually becoming negative. Popov reveals that Soviet-type economies proved particularly unsuccessful in replacing retired equipment that was a major reason for the fact that the high-growth period of the Soviet economy lasted only one decade as opposed to the East Asian experience where it continued for three to four decades.

The second part of the volume, entitled “Transition: From Socialism to Capitalism” offers seven papers written by scholars of transition and general economic theory, including Nobel-laureate Joseph Stiglitz. His paper, co-authored by Sergio Godoy of the Central Bank of Chile, examines the institutional underpinnings of economic growth in the transition context. They argue that a gradualist approach to institutional changes appear more successful than shock therapy in the long run. In particular, they

found that privatization speed has a negative effect on growth and that institutional strength has a crucial role in attaining high growth in transition countries.

Simon Commander focuses on the quality of labor in transition countries and finds that it constitutes a constraint on development particularly in more advanced transition economies. This is because initial skills had been worse than believed and a shift in relative labor demand away from unskilled towards skilled labor had impacted upon transition countries negatively. In turn, Marcello de Cecco's paper provides an analysis on the transformation of the financial infrastructure in transition countries from the classic socialist period through socialist reforms to present day problems of finance in CEE. In an interesting note, de Cecco also reminds us the lessons of the interwar period in which "the collapse of universal banks in the early 1930s ushered in a new financial age, one of wide financial repression in the whole of Europe, with financial nationalism becoming even more marked in the successor countries [in CEE]" (p. 148).

Still in the second part of the volume, a paper by Janez Prasnikar and Jan Svejnar discusses the transformation of corporate governance analyzed on the basis of data on Slovenian firms. Saul Estrin and his collaborators inkább co-authors?? OK, in turn, look at the effects of privatization examining a sample of Belorussian firms. The volume's second part also contains two country-studies: Milica Uvalic discusses the Serbian transition experience whereas Padma Desai examines the development of identity formation in Russia in the course of post-communist transition with a particular emphasis on the Putin era. In Desai's assessment, Putin's Russia is characterized by a "paternalistic majoritarian model" in which the "contract between the state and big business" has been revised. There are two new elements in this contract, introduced by Mr. Putin: First, Russian national interests are supposed to play a decisive role in the operation of big business. Second, this requirement is enforced by means of "monitoring" as a departure from serving national interests "could not be penalized by the nascent legal system still evolving in Russia" (p. 203). ??? p? It appears that Desai takes a relatively permissive approach to the practices of a deeply authoritarian regime. However, she is certainly right in pointing out that the balance of power between government and big business has changed a great deal under Putin and this has been, indeed, an important feature of the

second transition decade – a development other transition countries have tried to emulate including present-day Hungary.

The third part of the book is entitled “Beyond Transition” and contains four essays. The first two ones are concerned with systemic problems of modern capitalism weighing upon transition and non-transition countries alike. In specific, Vito Tanzi’s paper is concerned with the increasing complexity of the modern, globalizing world, whereas John Eatwell elaborates on the problems of risk management and systemic risks on modern financial markets. The third paper of this part, written by Laszlo Csaba, argues for the legitimacy of a significant variance in transition trajectories, rejecting the notion of optimality in an *ex ante* assessment of competing transition paths. Optimality in this respect can not be rationally sought because, in Csaba’s words, “for the future [...] we have lost the standard, the rod of measure” (p. 275)???. This, indeed, looks to be the bleak reality of the post-transition world, in which economic performance appears to depend on idiosyncratic factors, making universal cook-book solutions in economic policy-making meaningless. Finally, Grzegorz Kolodko paints the big picture of transition economies from a late-2000s perspective in the context of globalization. Kolodko, apparently not a big fan of Polish shock therapy of the early 1990s, argues against high interest rates and an unjustifiably strong currency. Yet, he also emphasizes the importance of the acknowledgement of having to come along with the effects of globalization. He criticizes “those who praise globalization while failing to penetrate the complexity of this process – in itself neither good nor bad” (p. 288)????p?. In Kolodko’s view, they ignore a substantial part of reality and “tend, in general, to be apologists, or ideologues” (Ibid.)???. Governments, in turn, should come up with effective policies in context of a globalized economy that in itself “will prove unable to solve the mounting problems of still growing inequality and the widening scope of social exclusion, on the one hand, and coordinate on a global scale policy responses to numerous economic challenges, on the other” (Ibid.)????p?.

In short, this looks to be an apt conclusion for a volume on transition, all the more valid having seen the global financial collapse of 2008-09. After all, transition economies, by now, have become capitalist economies in their own rank: some being modernized, western-like, globally integrated, developed industrial economies, whereas

some remaining relatively backward, commodity-based, in many respects third-world-type countries. Yet, whether developed or developing, they all have to come up with their own solutions to their own problems, even if problems may resemble each other and if global and European standards are to be observed across them.

If *Transition and Beyond* is concerned with privatization as one of the most decisive elements of economic policies during transition, Attila Károly Soós' *Politics and Policies in Post-Communist Transition* is only concerned with that. Soós examines privatization in six Central and East European post-communist states: the Czech Republic, Hungary, Poland, Russia, Slovenia and Ukraine. These are countries with significant economic importance in regional comparison, being characterized by considerably different privatization strategies. In a way, Hungary seems to be an outlier that had provided outsiders (i.e. investors other than employees and managers of firms to be privatized) a key role in privatization right from the beginning. In all other countries in Soós' sample privatization started off with providing opportunities for insiders and/or newly established Privatization Investment Funds (PIFs). This is the period of the so-called primary privatization that took place along the scheme of voucher privatization in the Czech Republic, lending a key role for PIFs that collected citizens' vouchers to become part-owners of privatized firms. Citizen vouchers were also introduced in Poland, Russia, Slovenia and Ukraine but in these countries employees and managers became the foremost owners of privatized companies as a result of their political influence. In the Polish case this foremost role came about in the wake of the successes of the trade union movements, most of all that of Solidarnosc. In Russia, managers had very strong political representation in parliament and were in several cases able to overrule the liberal economic policies of governments of the early 1990s. In Slovenia, in turn, the tradition of self-management, stemming from the period of economic reforms in communist Yugoslavia, made employees and managers primary candidates to the role of share holders of privatized firms. As Soós shows, however, in the Slovenian case the state still remained to be a decisive part-owner of economically important companies by exercising coordinated ownership rights by the various state agencies having shares in a particular company.

In the so called secondary privatization, when many of the primary owners sold their shares and a concentration of ownership occurred, outsiders came to the fore in the Czech Republic and Poland, creating a situation fairly similar to that of Hungary. In Russia, Slovenia and Ukraine, however, outsiders kept playing a secondary role. The reason for that lies in the particular way post-communist political transition took place in these countries. As opposed to the Czech Republic, Hungary and Poland, where post-communist transition implied the replacement of the political elite, in Russia, Slovenia and Ukraine this was not the case. In the latter three countries the majority of new private owners were recruited from the ranks of managers of state-owned companies who exerted significant political power throughout the entire transition process. Moreover, the management of privatized companies remained to be closely associated to the management of state, regional and local budgets, giving strong negative incentives for outsiders to take over privatized firms.

Despite the broadly held stereotype, the political influence of the old managerial elite of state-owned companies was rather limited in Hungary, argues Soós.¹ The so-called spontaneous privatization of the late 1980s and early 1990s played a marginal role only as the newly elected government was not willing to make significant concessions to the old managerial elite. In Slovenia, in turn, the young, modernizing wing of the communist party remained to be the leading political force essentially throughout the 1990s, and the positions of the old managerial elite were never questioned. As a result, Slovenia has remained one of the closest post-communist economies vis-à-vis outside ownership, leading to a comparatively modest role of foreign direct investment. Hence, one can conclude that being developed does not necessarily imply being opened towards foreign investors, even if openness has its own virtues.

In fact, many of the currently most developed industrialized nations had maintained protectionist economic policies and limited the role of foreign investors in a substantial part of their economic development.² Whether openness or closeness promotes development more is a question that can be answered only in the particular economic and historical context a country is placed in. In the particular case of Slovenia,

¹ Soós refers to Péter Mihályi's *A magyar privatizáció krónikája 1989-1997 (The Chronicle of Privatization in Hungary 1989-1997)*, Közgazdasági és Jogi Könyvkiadó, Budapest, 1998.

² Cf. Ha-Joon Chang: *Kicking Away the Ladder – Development Strategy in Historical Perspective*. Anthem Press, London, 2002.

Soós assess economic transition to be less successful than those of the Czech Republic, Hungary and Poland, pointing to the relative weakness of industrial development in terms of output growth and the structure of manufacturing exports.³ Although he admits that from the point of view of social cohesion the slow, gradual, and consensus-based Slovenian transition proved superior to the more radical Czech, Hungarian and Polish transition paths, from the point of view of economic development, Hungary, Poland and partly also the Czech Republic seems to be more successful as the introduction of new institutions and new owners led to a more persuading economic performance.

In sum, Soós's volume is an intellectually rich, methodologically well-built book, even if its conclusion is not much of a surprise. Privatization took place along significantly different trajectories in Central and Eastern Europe. Structural characteristics of the particular economy and the relations between the new political and the old business elite played a key role. This looks to be in line with the most important findings of *Transition and Beyond*: economic transition took place along various political and economic scenarios and countries responded to policy challenges in their own particular way. Whether political actors controlled the old and the new business elites or the latter controlled politicians was one of the most decisive characteristics of this story.

Zoltán Ádám

³ Soós questions the positive assessment of the Slovenian economic transition held by Bohle and Greskovits in their paper „Neoliberalism, Embedded Neoliberalism, and Neocorporatism: Paths towards Transnational Capitalism in Central-Eastern Europe” in *West European Politics*, May 2007, pp. 443-466. – ha ez egy cikk, akkor kell a tól-ig oldalszám. .