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BOOK REVIEWS

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Grzegorz W. Kolodko (ed.)
Management and Economic Policy for Development
New York: Nova Science Publishers, 2014, 358 pp.

The book has an important message: to be successful in managing a state, a private company, or an NGO, one has to look into the interconnections with other disciplines to "avoid losing sight of what matters".

The majority of the authors are distinguished academics in the field of economics and management sciences, but a few co-authors come directly from the business world.

The editor's first question is whether a future economist should be a bit of a sociologist, a psychologist, a political scientist and a historian, an anthropologist, and a cultural expert as well as a mathematician and IT specialist with a wide spectrum of research methods such as statistics and econometrics. Perhaps not, but he/she should be able to focus on a specific research topic without losing sight of the fast-changing global context of technology, politics, and management methods. His second question is how we should take the greatest advantage of globalisation rather than be taken advantage of. The answer is the competitiveness of entrepreneurs, sectors, national economies and integration. But what does competitiveness depend on? Besides technology, human capital, R&D, quality of government, etc., what counts most is management.

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Nobel Prize winner Edmund S. Phelps quotes from his book (2013), which highlights the importance of innovation in the prosperity from the 19th century until today. In the 19th century, the mass innovation in the indigenous economy was rich in dynamism, which required entrepreneurship and innovatorship, and the breaking of conventional thinking and traditional ties; he sees the roots of dynamism in modern values as individualism. He quotes evidence for a decline in innovation in the American economy, among them the rise of traditional values such as solidarity, social protection, and security in the 1960s, which led to entitlements and disincentives to work. He points out another factor, namely the emergence of new corporatism. In conclusion, Phelps expresses his worry over rising materialism and an "intellectual movement away from the modern notion of good life"; he contends that the strengthening of the concept of good life (creativity, exploration and personal growth) together with a smaller state is the key to clearing away the barriers to innovation.

Andrzej Koźmiński (Polish Academy of Sciences) examines the managerial contribution to growth in transition economies. To reach full competitiveness, these markets need to go through radical changes and adjustments labelled as restructuring. According to Koźmiński, combining the five relevant skills of transformational leadership (anticipating, visioning, value congruence, mobilisation, as well as empowerment and self-understanding skills) with the well-orchestrated support of direct subordinate teams (from analytical staff through PR to communications specialists) can promote cultural change and changing environments in post-socialist environments, where new values and behavioural patterns are intertwined with the old ones.

Hermann Simon's contribution reveals the importance of "Hidden Champions" (companies which are among the top three in their global market with less than €5 billion revenue, and perhaps less known to the public) in the 21st century's export structure. For smaller and emerging countries, it seems illusory to develop their own "Fortune Global 500" firm out of nothing, but building up a Hidden Champion with knowledge transfer, hard work and effective local cooperation can be achieved. The author also proves that even politicians, entrepreneurs, and other companies can learn from the Hidden Champions, because they do almost everything differently from large corporations. Among the most important characteristics, he mentions loyal and highly qualified employees, extremely ambitious goals for themselves to grow, the globalisation of focus markets, and spending a lot on high quality innovations to be able to dominate the market.

The chapter addressing the effects of FDI inflows on domestic entrepreneurship for both developed and developing economies was written by Saul Estrin (London School of Economics). As a result of a precise and coherent econometric analysis, he found that FDI has a negative and significant effect on domestic entrepreneurship at an aggregated level both for developed and developing countries. In practice, this amount is quantitatively quite small. This suggests that policymakers considering policies to encourage foreign investors could simultaneously act to offset the relatively modest negative impact on domestic entrepreneurship by providing support for domestic entrepreneurs.

The article by Mariola Ciszewska-Mlinaric and Krzysztof Obloj (Kozminski University) focuses on the goals and effects of the internationalisation of Polish companies through export and FDI as well as on the significance of these strategies for business and the entire economy. Their analysis seeks to demonstrate the systemic effects of the internationalisation of business operations by pointing out three effects at the firm level (efficiency improvement, resource development, and learning) and one effect at the level of the domestic environment (diffusion–spillover effects). As a result, productivity may improve alongside the quality of Polish products and overall economic performance.

Jerzy Cieslik's thoughts (Kozminski University) lead us to the midst of the current debate on the relationship between entrepreneurship and employment. The crucial methodological dilemma of treating "solo entrepreneurs" brought to surface some alternative measuring methods of employment growth. The past years of global crisis have shown that unemployment remains a serious issue of development and economics both in undeveloped and developed countries. There is still no obvious answer to the question "Who shall create jobs?", but there is a conclusion that the key to effective employment policies is a better identification of the internal structure of the business sector.

Russia's economy has arrived at a crossroad. Against the still volatile and generally negative global backdrop, the country's economy was still growing when the chapter was written. But it was true even then that Russia strongly relied on oil, gas and other natural resources. What kind of capitalism awaits Russia in the nearest future? The article's vision is obvious: put stakes on financing education and sciences. Material and technical infrastructure should be improved alongside the control over speculative financial operations. The author, Ruslan Grinberg (Moscow School of Economics) believes there is still a little bit more hope than despair in the future story of Russia's economy.

The world economy changed rapidly and dramatically after the crisis, and according to Stanislaw Flejterski and Malgorzata Porada-Rochon (Szczecin University), the formulation of accurate diagnoses, predictions, and remedies has become more of an art than a craft. The dilemma of being efficient or being safe for financing institutions and banks is indefinable; the optimal allocation is still a mystery. The authors could not draw universal and timeless conclusions, but conducted a substantial and well-founded theoretical analysis about the optimum seeking process and the safety *versus* efficiency dilemma.

Krzysztof Kalicki (Kozminski University of Warsaw) and Jan Antczak (Deutsche Bank Polska) performed an extensive macroeconomic analysis about the impact of Basel III/RD4[1] in the banking sector. Given that financial crises were costly for the entire society, the purpose of the new regulations is to reduce systemic risk for the global economy. After introducing and analysing the new system, the authors contend that the costs of the new regulatory burden not only affect banks, but also society as a whole – by slowing down economic growth, causing a decline in funding, and adversely affecting employment. Additionally, the demand for loans will also be under pressure due to the rising cost of bank margins.

The interconnection of fiscal policy, entrepreneurship and equitable growth is at the centre of the analyses of Vito Tanzi (former Italian Undersecretary of Finance). The expression *equitable growth* is not commonly known, thus its definition is of academic importance: it denotes an inclusive, environmentally and socially sustainable growth, which is also "pro-poor". In the shadow of the crisis, we may agree with the author's remarks that the financial sector turned from banks managing the local savings and investments to a global, transnational industry covered by modern laws and rules, which replaced the need to follow "morally-based" behaviour with "legally-based" behaviour. This led to bank actions which were considered "immoral", even if not punishable by many people. Tanzi's thoughts lead us to drawing a distinction between "economic growth" and "development", which he uses to highlight the importance of equitable growth.

D. Mario Nuti ("La Sapienzia" University of Rome) analysed one of the biggest economic questions of our times in a different way: austerity *versus* development. He acknowledges that theory and practice have collided in the recent world economic crisis and that "fiscal consolidation can and often does generate a vicious circle that makes public debt more and more unsustainable". Furthermore, he states that fiscal consolidation has to be avoided absolutely as long as the GDP/debt ratio is smaller than the fiscal multiplier, which is a unique and controversial statement that will be debated for a long time in academic circles.

Kolodko's contribution directs our sight to the future of economics: pragmatism or principles? He contends that an economically, socially, and environmentally balanced development is possible and could merge the two seemingly contradicting approaches. He raises the question of income distribution and growth dynamics, and states that countries should lower inequality (measured by the Gini coefficient) at the cost of "traditionally measured" GDP growth because unjustified inequality weakens mutual trust in society, which hurts the economy. He

[1] Basel III/RD IV is the European regulatory package designed to transpose the new capital, liquidity and leverage standards of Basel III into the European Union's legal framework.

criticises the consumption aspiration and calls for moderation for the economy of the future. Furthermore, he questions the neoliberal *laissez-faire* dogmatism and highlights the need for a moral, moderate, humanist and market economic way of life, which he terms the "New Pragmatism", and suggests a different economic progress metric: the "Integrated Success Index".

László Csaba's (Central European University, Budapest) thoughts lead us to a new territory of political economy, namely the sustainability of the growth model of transition in Central and Eastern Europe and, partially, in Southern Europe. His list of the failures of transition includes the lack of structural reforms (the unsustainable welfare system among them), the insufficient consolidation of finances (lack of control and management in public and private sector finances), the expectation of the "automatic" convergence of NMS to the EU average, and the "crisis of crisis management" (few signs of EU policies to catalyse growth). But he also offers a possible therapy by means of a "new political economy approach" based on a mix of functioning best practices and the lessons learnt from the committed errors, including old and new values, which could give a "framework for the policies that may induce higher growth".

The chapter about the Kozminski University Index of Balanced Economic and Social Development for Poland (IBESD) is an innovative initiative by the university's academics, namely Andrzej Koźmiński, Adam Noga, Katarzyna Piotrowska, and Krzysztof Zagórski, to create a complex quantitative indicator that could measure socio-economic conditions and changes. The composition of the index is very complex, and its calculation requires data from a wide range of sources; in part because the timeframe starts at 2000. An interesting result is that the 2000–2001 sharp decline in the economic indices was not followed by the social indices; however, the "euphoria" and growth after the EU accession until 2008 can be observed clearly in the graphs, which are reflected in the changes of the IBESD as well. The relevance of the IBESD is clear; however, its reliability will be shown by the future, as that of any *ex ante*-prediction composite indices.

The chapter on income inequality by Jacek Tomkiewicz (Kozminski University) leads us back to the thoughts of Vito Tanzi. The income inequalities are growing with the advance of globalisation, which affects emerging economies even more. The Gini coefficient of China is now higher than that of the US. The process of outsourcing and offshoring to low-cost (low-wage) countries, liberal free trade and the lower interest-enforcement capacity of workers caused by the changing work culture (project jobs, new IT-technologies, weaker trade unions) all contributed to the growing income inequality, which causes not just social, but also political and economic turmoil in the world economic crisis.

Does a "new European growth model" really exist? According to Marcin Piatkowski's (Kozminski University) contribution, it does. The unprecedented growth of most CEE countries (even during the crisis years) is clear evidence for him. He projects economic growth numbers until 2060 based on OECD and EC data. Then, he suddenly makes an honest statement: "Economists do not know what drives economic growth … or at least, not precisely" (p. 319). He lists ten growth pillars, but adds that GDP growth forms, together with Well-being and Happiness, a "Golden Growth Triangle", and this is what he calls the "Warsaw consensus", a new economic model for Europe.

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Paul Hare – Gerard Turley (eds)
The Handbook of the Economics and Political Economy of Transition
London: Routledge, 2013, 512 pp.

The *Handbook of the Economics and Political Economy of Transition* is an ambitious discipline-building project with the aim of presenting the current state and developments within transitional economics and political economy. The editors achieve this in cooperation with a team of leading experts of the area – 45 contributors in total – including academics, policy advisors, and policymakers. The wide range of topics includes the socialist system, economic reforms, post-transition economic performance, political economy of transition, and societies affected by the transition.

The country coverage is also wide, based on a broad interpretation of "transition economies", including the former satellite states of Central and Eastern Europe, the successor states of the former USSR, China and Vietnam. The major challenge therefore is to synthesise this extensive base in order to identify the

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common trends, key actors, historic legacies, and other crucial factors that have formed the post-transition path within countries.

The structure of the book follows a dual structure. On the one hand, the first part follows a chronological structure, with the second section presenting socialist economies as a background, and the third section discussing the early years of the transition. On the other hand, later chapters are structured according to the main actors and "spheres" of the transition – with sections about global and European integration, the political economy, the chapters on firms about the production sector, the chapter on people about changing transnational societies, and some country studies.

In the "Introduction to the handbook", the two editors identify transition economics as a distinctive discipline compared to development economics and mainstream economics. They provide a basic conceptual framework that helps the reader to place the volume's essays in the vast literature on transition. They argue that most transition economies have an economic structure that is closer to developed countries, although without the established institutional infrastructure that mainstream economics takes as given. They define transitional economies through the common initial conditions, highlighting the presence of limited markets, dominant state ownership, weak innovation, and ill-adapted institutions along with the lack of the rule of law at the beginning of the process. They also identify the core topics: the role of policies, state building and international aid led the agenda in the early years, while recently the focus shifted towards institutions, socialist legacies, country studies and the effects of the financial crisis. The editors argue that to achieve sustained growth, it is necessary to maintain sound macroeconomic conditions, to build a substantial private sector through privatisation and "good business environment", a full restructuring of the production and, lastly, a large-scale institutional development.

Outline of the main arguments

The first part of the book, "Introduction", addresses some general, core questions such as the role of institutions, timing, policies and the end-point of the transition process. In the first chapter, Gerard Turley summarises the first two decades of transition through some stylised facts. He describes the first decade as a crisis and the second as a recovery phase, although he highlights the large variation between regions. As a possible explanation for the deep crises in the beginnings, Turley introduces the quality of institutions as a factor and the role of institutional vacuum.

In the second chapter, Paul Hare argues for the role of institutions in more detail. He defines institutions as formal and informal stable social arrangements and introduces three levels of the specific institutions relevant for the economy: social norms such as trust, legal regulations, and rights associated with property and actual institutional forms. Hare argues that during a transition context, there should be a special focus on strong governments and the rule of law. He concludes that "good" institutions are necessary but not sufficient conditions for sustained growth and that a broad concept is needed, including both formal and informal institutions.

In the third chapter, Mario Nuti provides a critique of the way of the transition, focusing on the influence of the Washington Consensus that led to the unexpectedly deep recession. Nuti blames the uncritical acceptance of a hyper-liberalism with ideological dogmatism and the neglect of institution building. He claims that these increased vulnerability and therefore caused a stronger effect of the recent financial crisis.

In the next chapter, Oleh Havrylishyn addresses the question: "Is the transition over?" He defines the endpoint as market efficiency equilibrium when the main socialist distortions are corrected in rules and resource allocation. He concludes that in CEE countries it is over, while other countries are in the last phase (except three laggards). However, the author found that sustained growth can be achieved even without the full complement of the reforms.

The second part discusses the common characteristics of socialist economies focusing on the USSR and Russia. Gur Ofer focuses on the payoffs of socialism as a development strategy. He describes a two-stage development framework, the first stage characterised by inward looking heterodox strategies and the second by the reintegration into the global economy. He argues that a "softer" shift between the two would have been less costly. In the following chapter, "Central planning in the Soviet system", Vladimir Mau claims that central planning was unable to adapt to post-industrial developments and this led to the final collapse. In Chapter 7, Julian Cooper presents the erosion of the innovative capacity of "military economies" due to highly-skilled personnel leaving the sector and the lack of investments. In the last essay in this section, David Kotz opens up the discussion by asking "Why did transition happen?".

The third part, "Beginnings", focuses on the early years of the transformation. Vladimir Popov provides a conceptual framework and empirical analysis about the main factors of the transformational recession. He comes to the conclusions that transformational recessions were structural supply side shocks, and that the optimal speed of economic restructuring should adapt to the investment potential of the economy. In "Privatization", Jeffrey Miller argues that private sector efficiency depends largely on governance institutions and that in transition economies these institutions are still underdeveloped, with efficiency gains focusing on foreign ownership. This led to illegitimacy views about privatisation. John Marangos takes a step back by providing an overview about the theories and models of economic transition. He describes and compares alternative models, along institution building for instance: shock therapy and gradualism view institutions as the products of markets, while post-Keynesianism and market socialism as the product of state action. Anna Shaubina addresses fiscal policy in transition economies. Her conclusion is that the initial state desertion and inadequate focus on institution building increased the depth and length of the recession. This effect was significantly moderated in countries where EU accession was on the agenda as the conditionality criteria focused on functioning market institutions.

The next major section, "Integration", focuses on the international dimension of transformation. In the chapter "Trade reorientation and global integration", the authors argue that most transition economies were able to adjust to new external markets quite successfully, although to various levels. Josef Brada claims that the economic fundamentals proved more important than the exchange rate and foreign direct investment level when it came to trade integration. The next two chapters discuss the role of the European Union. László Csaba provides a sceptical account about the role of the European Union within transformation. He argues that the influence of the European integration was mediated through the domestic balance of forces. Furthermore, new member states did not prove to be relevant agents in the EU level policy sphere. In contrast to Csaba's argument, the authors of the next chapter argue for the role of the EU accession as an instrument for speeding up transition through significant nominal and real convergence between new and old member states before the crisis. To summarise the fourth part about international integration: fundamentals and stability mattered more than actual policy choices, and the EU had significant positive – although limited – effect on the transition.

The fifth section is an overview of the core topics about the political economy in transition economies. Daniel Treisman's "Corruption in the post-communist transition" tries to explain the variation among post-communist countries. His essay is followed by two country studies, one on Bulgaria by Roumen Dobrinsky and the other on China by Wing Thye Woo. The two countries represent two alternative ways of transformation, with both described more as an outcome of domestic political battles than a conscious strategy. The last chapter summarises the political economic trends in CEE countries before the financial crisis, arguing that the "old" growth model needs to be replaced by a new one that adapts to the new economic environment through macro-stabilisation, export-orientation, and increased productivity.

In the next part, the analysis turns towards the micro level by focusing on firms as the actors of production. In "Entrepreneurship in the transition economies of Central and Eastern Europe", Saul Estrin and Tomasz Mickiewicz argue that low institutional quality, corruption, and social values worked against entrepreneurship, although this was not a significant constraint of growth. László Halpern describes the export profile of domestic firms and makes a policy proposal for export orientation through active policy measures in the post-crisis world. Evzen Kocenda and Jan Hanousek discuss how state ownership transformed into a system of integrated state control over privatised firms. Wendy Carlin and Mark Schaffer present the business environment in the transition, with evidence for the legacy of economic planning in the transition period. To summarise, most of this section investigated the institutional constraints that led to weak entrepreneurial activity, trade imbalances and significant state control over domestic firms.

The part "People" addresses the effects of the transition on the broader society. Peter Sanfey analyses the attitudes of people towards the changes they had to face. The general conclusion is that despite negative attitudes, most people agree with the general principles of democracy. Peter Luke finds that the marginalisation of women increased in labour market participation and poverty. The next chapter discusses the urban–rural difference following the transition and describes the emergence of "normal" labour markets in the early phase of the transition.

After four country level case studies (Serbia, Estonia, Russia and East Germany), the last major section, "Assessment", presents a general overview and assessment of the transition. Chapter 34 is an overview of crisis periods, suggesting a relatively successful transition in Eastern Europe and less so in CIS countries. Finally, the book closes with Grzegorz Kolodko's rather pessimistic assessment: he forecasts a conditional convergence towards a steady state that is still lower than in most developed countries.

Conclusion and some critical remarks

Although it is not an easy task to draw any conclusions from such a broad collection of essays written by various authors, it is possible to get a generally good picture about the current state of the transition researches, including the general consensus and core debates. I will group the arguments according to their views about (a) the outcomes of the transition, (b) the possible reasons behind those outcomes, and (c) future policy proposals.

(a) Regarding the outcomes, there seems to be a consensus about the nature of the variation across regions and time. Most scholars agree that the first decade of the crisis was followed by a recovery period, although there is a variation across regions, with a relatively shorter crisis period and a recovery phase beginning in the mid-90s in CEE, and a deep, prolonged crisis in CIS, with recovery beginning only a decade later. This is reflected in the argument about the endpoint that argues that CEE is already over the transition, while CIS countries are still in its last phase Mihályi (2014). Additionally, former socialist legacies continued to have an important effect on transitional economies. For instance, the efficiency gains of privatisation are still focused on firms under foreign ownership; corruption is comparatively higher in transition economies than non-transition economies on the same level of development. The general public opinion is sceptical about the gains of transition, but supports the principles of capitalist democracies. There is no consensus about the impact of external actors, especially the European Union: while it had an important influence, the specific magnitude and direction of this effect is contested.

(b) Regarding the reasons behind these mixed outcomes, the most important contribution of the book is the continued claim for the importance of institution building during transition. Most scholars argued that neglecting institution building in the beginning led to state desertion and an institutional vacuum. Since stable and well-established market institutions are necessary for sustained growth, it is a major cause for weak economic performance and prolonged crisis. On the other hand, one contributor highlighted that institutions are necessary, but not sufficient conditions for growth, while others argued that sustained growth is possible even with an unfinished transition.

(c) For future policy proposals, most contributors claimed that in the post-crisis environment, stable macroeconomics and fiscal prudence is needed with an export oriented restructuring of the economies to overcome the vulnerabilities created by prior debt financed, demand led growth.

In conclusion, I contend that the arguments of most authors are in line with the so-called institutionalist school within the Post-Washington consensus that accepts the policy reforms proposed by Williamson (1994) in the original Washington Consensus, but criticises it for disregarding the role of institutions in mediating those policies. The institutionalist school claims that the original set of policy suggestions in the Washington Consensus needs to be supplemented with a focus on building effective institutions, which is indeed a recurring statement over the chapters. In the transition environment, this logic could be interpreted in a way that the unexpectedly deep transformational recession and the ensuing poor economic performance was not the fault of the reforms *per se,* but the result of the improper implementation due to the total breakdown or lack of supporting institutions. However, new institutionalists have to be careful to avoid a new dogmatism that puts every responsibility on institutions, resulting in unrealistic policy suggestions or unrealistic past evaluations. As Dani Rodrik (2006) pointed out in one of his critiques of the institutionalist approach, this logic could lead to statements that “the only way to develop is to become developed”.

The book made a good job of avoiding those pitfalls by providing a holistic, but nonetheless detailed analysis about the transition. There are individual statements that could be contested, as the question of real convergence within the EU, and there are debated issues among the contributors themselves, but by the end of the book the various accounts unite into a convincing and coherent description of the current state of transition economies and the related research.

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