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BOOK REVIEWS

Kaase, M. – Sparschuh, V. (eds), Wenninger, A. (co-ed.)
Three Social Science Disciplines in Central and Eastern Europe. Handbook on Economics, Political Science and Sociology (1989–2001)
Berlin: Social Science Information Centre (IZ), Bonn–Berlin: Collegium Budapest, 2002, 668 pp.

> "The triumph of demagogues is short-lived. But the ruins are eternal."
> *Charles Péguy*

This very impressive and outstandingly organized teamwork would call for a genuine multidisciplinary reviewer of the encyclopaedic kind that is now extinct. The book offers an extensive country-by-country coverage of the three fields of social science indicated in the title, plus a string of essays on the role of social sciences in fostering the transition in general. In addition to this, four other studies on social anthropology, population science, geography and the sociology of law are also included. The number of authors totals 55: so how would it be possible to produce on this handbook a book review worth that name?

A couple of solutions might be at hand. First, the list of contents could be reproduced and a few critical (or laudatory) remarks added. Second, the chapters on economics (the field of the reviewer) could be selected for a more careful assessment surmising that the remaining parts are similar both in their approaches and their quality. This, however, might result in *adverse selection*. This is why the *third way* should be opted for: selecting the most interesting ideas from the book and discussing them.

The handbook-like character of the volume helps this approach. The excellent preparatory work of the editors created a matrix-like structure for the thematic chapters. That is, if the reader looks for (1) the pre-1989 history of (2) social science A in (3) country X, this set of information can be found exactly where it is expected to be, not missing from any country study. There seem to be about 6 topics which apparently had to be covered by each author of each country study on each discipline. The members of the team of authors lived up to this editorial requirement with no exception.

The editors rightly thought that sticking to the matrix structure as well, consequently would relegate the book to those shelves of libraries where real handbooks can be found. These books are usually not read, but simply fingered through

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for information. Since the authors most likely wanted their "handbook" to become a piece for reading as well, a number of essays of wider relevance have been included. Out of these, the two introductory ones deserve special mention for their intellectual courage and lucidity: the ones written by Andrei Pleşu and Elemér Hankiss. Andrei Pleşu, the Romanian author reflects upon *Financing the difference*, i.e. the possibilities of creating centres of study in the region which would be different not only from their pre-1989 predecessors but also from Western universities in *their* great European tradition. "I … would think about an individualised design of such universities, making use of local sources and archives and local competences. Here, chairs would naturally find their place whose content would be determined by the intellectual and historical strengths of the region" (p. 15).

Elemér Hankiss is much more provocative in his *Brilliant ideas or brilliant errors?* He offers an original but well-founded periodisation of post-1980 social science research in the region. Yes, his analysis begins with 1980 as the onset of "The Age of Expectations". In his scheme, the transition process – in our minds and in our realities – led from *expectations* to *new fears*, *perplexity* and finally "The Age of Uncertainty? (2001–)". The road took us through "transitology" and "apprenticeship" to (a kind of) "professionalism". Still, it is high time to close our theoretical deficit which "… may become a serious handicap if we need new tools, new ideas, and new hypotheses to understand a new world" (p. 22). This is increasingly so because the "New World" is becoming theoretically more and more disinterested in Central and Eastern Europe as its countries cease to be laboratories of social sciences while integrating (or re-integrating) with the West.

A careful reading of the book reveals its dualistic character. Dualistic means in this respect that, for most analytical chapters, it can be said in advance for a given country whether the analysis is focused on people or institutions. Name of researchers abound in chapters on countries where rich social science research tradition was not completely extinguished by the rule of Marxism (Poland, Hungary, and to a lesser extent Slovenia, where a relatively weak theorist tradition prevailed together with a less rich social science research). Most of researchers mentioned here did not change their convictions and scientific profiles between the eighties and the nineties. On the contrary, countries where totalitarian rule was really comprehensive in the intellectual sense the analyses put institutions, research centres and universities in the forefront. Romania, Bulgaria and the Baltic countries are eminent cases of this kind, while the countries of former Czechoslovakia are a blend of the two types combining rich intellectual tradition and practically *zero* government *tolerance* between 1968 and 1989.

Well, it can be seen that institutional change was important to create the appropriate human capital for modern social science research where old institutions could also be blamed for the pre-1989 lack of critical social science. Quite interestingly, institutional change was much less dramatic in Poland and Hungary where there was a good number of professionally respected individuals whose names could embody ideas and patterns of research. Not only are important pre-1989 publications cited almost exclusively from these two countries but also these are the countries where the role of returning *émigrés* was not really crucial in the re-emancipation of social science.

There seems to be a striking continuity between rich and poor pre- and post-1989 research traditions in most, if not all, country cases. Hungary, Poland and also the Czech Republic could capitalize on their important pools of human resources in these fields even if some of them (predominantly the Czechs) had been banned from exerting their profession. Some of these people had been in important international networks already before 1989, an asset not at all available for their colleagues in the Baltic or the Balkan countries. A usual complaint is that the adequate development of social science research in the region is impeded by two kinds of *brain-drain*: internal to the business world, and external to Western universities. The country studies, first of all the ones on economics, tell us that this continuous depletion of the pool of human resources for social science research could be observed mainly in countries where the financial challenge of business could not even partly be offset by at least intellectually attractive research jobs. Research was attractive mainly in those countries which had their pre-1989 record of a genuine intellectual climate in social sciences. Here again, Poland and Hungary are *the* examples of some kind of continuity.

It would be close to impossible to rank the country studies of the book, because their depths of analysis has to be somewhat uneven owing to the differences in size and in international recognition between the research communities under scrutiny. Two of the country studies, both on economics, still seem to stand out even from this high-level field. The most evident reason is that they are spectacularly documented, and both of them could be regarded as the potential last chapters of a "History of Economic Thought" for Hungary and Poland. László Csaba's chapter on Hungarian and Tadeusz Kowalik's on Polish economics after 1989 build strongly on the quite different, still converging reform economics traditions of the two countries.

The *Leitmotivs* of the two chapters are in a telling contradiction. The analysis of Hungarian economics stresses continuity both in ideas and in researchers pre- and post-1989. The emphasis is on Hungarian economics approaching the mainstream and increasingly trying to open the quite narrow jacket of transition economics. It is very interesting how László Csaba assesses the apparent lag of Hungarian economics as compared to internationally acknowledged research, since his approach includes the evaluation of personal career strategies. The most evident choice for those who are still in their age of international mobility seems to be emigration, and the author documents this with a number of references to Hungarian authors of publications in internationally top-level economics journals. Those, who did not emigrate either to universities abroad or to business, seem to be able to produce high-level scientific output as well, but László Csaba points out that a very large part of this does not appear in those leading journals. Besides stressing the financial and organizational impediments for East Europeans to publish in a really competitive way abroad, he asks a provocative question giving ample food for thought regarding the traditional assessment of the quality of scientific output. Does a journal article with a probable life-cycle of a few years influence international research more than a book whose impact can have a duration of ten years or more?

Tadeusz Kowalik is consequent in referring to "Nove's law" (the inverse correlation between the condition of the economy and the intellectual level of economics), and his analysis seems to be colored by a bit of despair. His analysis reflects the changing but not really improving condition of the Polish economy to a quite large extent. The question of assessing the quality of research output is therefore posed in a way very different from László Csaba's: can economics research have a real validity if it cannot offer useful choices for economic policy?

Ádám Török

Csáki, Gy. – Karsai, G.
Hungary – from Transition to Integration
The Evolution of the Hungarian Economy, 1848–2000, Vol. III
Social Science Monographs, Atlantic Studies on Society in Change, No. 104
Highland Lakes – New York: Boulder, Colorado – Atlantic Research and Publishing Foundation, distributed by Columbia University Press, 2001, 507 pp.

This is the third volume of a series covering the past 150 years of Hungarian economic modernization. The first volume, written by Iván T. Berend and Tamás Csató (2001) describe economic history from the 1848 revolution to the collapse of communism. Volume two, a collection of papers by János Kornai, a Hungarian scholar teaching at Harvard University (2001), contains essays and analyses on systemic change with special focus on the theory of transition, discussing economic development from the perspective of international theoretical debates on postcommunism. The third volume, currently under review, offers the insider's perspective, based on a series of studies and field research conducted by the GKI Gazdaságkutató Rt. (Institute of Economic Research), one of the leading empirical research organizations in Hungary. Published in a series running now for over 25 years and distributed by one of the most prestigious American academic publishers, the monograph gives a detailed account of the ups and downs of systemic change in Hungary.

Chapter one is devoted to the problems of transition from socialism to capitalism. Assessing the changes the authors highlight that while the Hungarian economy has become a genuine European market economy, government control has retained at a quite high level. Though the share of the state as a proprietor has strongly diminished, it has been retaining its role as a regulator, its involvement being more frequent than necessary. As a result, in spite of the fact that the economic system is developed, the chances of derailment still exist. Due to continuously high public dues the irregular economy continues to play an important role. If growth is to sustain, further reforms of public administration and of public spending are needed.

Point one offers a chronology of the 90s. Point two presents a functional overview. Point three presents developments in the economic structure, including the less frequently analysed issues of consumption and regional inequalities.

Chapter two is devoted to some critical issues of economic transformation. Point one describes privatization, underscoring the role of FDI and the paramount importance of privatizing banks to foreigners, limiting the role of state interventions. Point two describes the role of FDI as a success story, as real owners have been created and managerial knowledge transposed. Point three is devoted to capital markets, while the schedule of EU accession is described in point four. Point five is devoted to the transition of the corporate sector. In this part, relying on first hand evidence gained from fieldwork carried out by their institution the authors dispel the frequently voiced but never proven myth that TNCs were the only beneficiaries of Hungarian transformation. The authors prove (pp. 382–384) that the process of gradual recovery of domestic demand that started in 1997 brought about the growing success of the Hungarian SME sector in terms of profitability and wealth creation. Meanwhile it must be added that many small ventures continue to be mere tax evasion devices. Furthermore, lack of capital and insufficient transparency continues to be a problem for the small business sector.

Chapter three contains a macroeconomic forecast for the period of 2001–2002. This might as well have been an alien body in the main part of the analysis. However, it does allow for spotting the marked digression that has taken place in Hungarian economic development since March 2001 when the book was concluded. At that time the authors have not foreseen the radical disinflation that took place in Hungary: while their forecast for the end of 2002 was 6–7 percent, the actual figure was 4.8 percent (year-on-year) in December and 4.7 percent in January 2003. This change is hardly an organic and thus sustainable one, once one thinks of the high ($33/barrel) oil prices, or the spread of administered prices, or the giant general government deficit. While Csáki and Karsai forecasted a 4.9 (non-creatively accounted a maximum of 5.9) percent deficit by the end of 2002, the actual number was a ballooning 9.7 percent. This reflected a populist turn in economic policies, sustained by both the Orbán and Medgyessy governments, a twist that by no means followed from the processes analysed by the authors. Meanwhile their forecast of growing openness of the Hungarian economy did materialize: instead of the forecasted 67 percent (p. 434), export/GDP reached 65 percent by late 2002, one of the highest in the world. This of course sets severe limits to what monetary policy can decide in a sovereign fashion, thus giving up monetary sovereignty by way of joining the single currency is by no means a heavy sacrifice. The authors have realistically forecasted (p. 456) that Hungary will by no means qualify for EMU before the period of 2005–2010, though her performance is already close to the Maastricht criteria. What we may miss from the book is a more precise elaboration of the type of policy consensus EMU would require. The current consensus, based on populist, redistributory concerns and good intention but poorly substantiated growth acceleration forecasts of the PEP programme of the Hungarian government (as of August 2002) for 2002–2006, is not the kind that would lead to convergence, nor would austerity do alone (Boltho, 2000).

All in all, Csáki and Karsai offer an interesting insight into the evolution of Hungarian market economy. The book manages to add complementary value to the two preceding monographs. Read on its own, it can serve as a reference book or as a course book on economic transformation in general, and Hungarian economic transformation in particular. The authors highlight, *sine ira et studio*, the peculiarities of Hungarian options and explicitly address the strong and weak points of these. A welcome addition to any serious academic library.

László Csaba

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Naray, P.
Russia and the World Trade Organization
New York–Hampshire: Palgrave, 2001, 207 pp.

With China's recent accession to the World Trade Organization, only one great power remains outside that global trade framework: Russia. This is curious. With a tremendous wealth of raw material and energy resources, a highly educated populace, a landmass that borders 5 WTO members and average gross annual trade of $140 billion over the last 3 years[1], Russia should be a shoo-in for membership. Nevertheless, the country remains mired in years of accession negotiations and Working Party meetings, with only observership status to show for the effort. As Peter Naray meticulously illustrates in his book *Russia and the World Trade Organization,* this situation is unlikely to change anytime soon. Combining the academician's intellectual rigor with the practitioner's eye for detail, Naray shows that despite those factors favoring the country's accession, Russia and the world have much to lose if it were to join the WTO under the condition that it conform to the organization's full body of rules. Rather, he claims the WTO should offer Russia a multi-year transitional period, during which the country takes a step-by-step approach to adopting the organization's rules. For although Naray is clearly a staunch believer of free trade, he is of the opinion that a country should first develop a stable market economy in order to fully and successfully integrate into a free trade system. Russia, he emphasises, has not attained such stability.

Naray lays out the purpose of his book in a powerful preface: It could do more harm than good if Russia and the world seek to integrate the country quickly and completely into the rules and regulations of the WTO. The source of the problem, he explains, is deeply intertwined with Russia's problematic transition from a centrally-planned economy to one based upon open market principles. He does not believe the country's radical liberal reform programs have yet worked to make it a durable market economy. In fact, he avers that "these 'utopian' policies, introduced from above, without popular support – in a way reminiscent of Bolshevik methods – have largely contributed to the existing political and economic chaos" (p. xi). Before Russia can integrate fully into the world trading system, it needs to adopt more than liberal economic policies. It must develop the legal, regulatory and economic institutions that support the successful implementation of market-based behavior by enterprises and individuals. He calls for the WTO to avoid poorly chosen accession conditions for Russia that would entail that the

[1] EBRD (2002): *Transition Report 2002.* London: European Bank for Reconstruction and Development.

country conform to all rules and protocols before it has fashioned these institutions. To build his case, he first reveals the flexibility the GATT – precursor to the WTO – has historically exhibited toward non-market economies in Central and Eastern Europe.

In the 1960s and 1970s, the GATT granted contracting party status to Poland, Romania, Hungary and Yugoslavia. By historical fortune, Czechoslovakia has been a founding member of GATT in 1947. To say the least, the "accession" of these countries was controversial. No longer nascent democracies, they were completely entrenched in the Soviet sphere of influence. As centrally-planned economies, their "accession" would present myriad challenges to the open-market GATT framework. In response, several new clauses were created that translated tariff measures into quantitative protocols that could be integrated within these countries' command-based systems. Of course, these clauses were at odds with the fundamental market-oriented principles of GATT but for political reasons were allowed. Naray stresses that they illustrated the high level of institutional and policy flexibility the GATT could exhibit when pressured by its members.

Supported by this historical account of the trade regime's ability to soften its entry conditions for non-market economies, Naray reaches the heart of his argument in the third chapter: why the WTO should ease its strict stance toward Russia's membership. The argument rests on Russia's difficulties in adopting a stable market-based economy.

> Integration of a country into the world trade system presupposed the fulfilment of two conditions. First, the existence of trade-related laws and regulations, which are compatible with the relevant international obligations, namely with the rules of the WTO. And second, the presence of economic units which shape business activities in accordance with the requirements established. Recent examples show that it is much easier to adopt WTO conform laws ("paper compatibility") than to have an economy whose participants actually act in total harmony with the expectations set by laws ("real compatibility") (p. 23).

Essentially, Naray seeks to avoid having the WTO demand "paper compatibility" before Russia has firms and individuals that behave in a manner consistent with free markets. In order to do so, Russia must develop the legal, regulatory and economic institutions that foster a business-friendly environment. Unfortunately, "real compatibility" is not a simple development task for Russia. The country's unique historical experiences have engendered a society with traits inimical to capitalist behaviors and tendencies.

In consequence, Naray contends that Russia's radical reforms throughout the 1990s have failed to produce the stable market-based economy necessary to enable it to fully integrate into the WTO. In place of stability, Russia has experienced economic turmoil over the last decade highlighted by periods of financial crises, soaring inflation and massive capital flight. "It is not surprising", he contends, "that Russian enterprises (behaved) differently than economic entities in a normal market economy environment" (p. 59). While they were primarily in private hands, they did not act like privately-owned entities seeking to maximize profit or increase productivity. With a legal and tax system in disarray, corruption and crime were rampant. Within this environment, "barter, tax avoidance, alliance with the criminal world, loss making and postponement or avoidance of restructuring, became the rule (of corporate behavior)" (p. 59). In 1998, Naray implies, the macroeconomic breakdown fully bared the microeconomic problems that had been festering in Russia and confirmed the absence of the institutional backbone necessary for the functioning of a stable market economy.

In the middle section of the book, Naray brings his experience as Hungary's permanent representative to the WTO to bear. Having dissected the main outcome of Russia's economic reform efforts, Naray assesses Russia's application for WTO membership. As with joining all organizations, an applicant must first carefully assess what factors are most important when deciding upon acceptable entry conditions. For Russia, four main considerations exist. First, to have any significant impact on the global trading regime in the future, it is clearly necessary for the country to become a WTO member. Remaining outside the organization gives it little opportunity to effect change in the rules and regulations of world trade, a particularly lowly position for a former superpower to be in. Second, by 1996, 41 anti-dumping cases were called against Russia. As a WTO member, it could opt to bring each case to the organization's dispute settlement mechanism to test for trade discrimination.

A third consideration over entry conditions concerns the country's decrepit and heavily subsidized industrial sector. If Russia were to dismantle many of the subsidies and measures deemed protectionist by the WTO, the industrial sector would be swiftly overwhelmed by foreign competitors. A hollowing-out of Russian manufacturing would ensue with a huge loss of jobs and hardship for much of Russian society. The fourth and final input into Russia's WTO application is the country's newly-adopted gradual approach to membership. On the heels of the financial crisis of 1998 and the realization that radical reforms have not yet brought about a stable market economy, Russia's leadership has adopted a slower approach to accession.

At heart a policy work rather than an economist, Naray is fascinated by the practical details of the negotiating positions between Russia and the WTO. To the reader's delight, he thoroughly discusses each of the specific areas of negotiation in the largest section of the book. It is greatly to his credit that he avoids concentrating his analysis on those negotiating points most visible in the media, such as issues of trade in the energy and aircraft sectors. Instead, he gives equal measure to a very broad number of negotiation issues, from each sides' position on trading rights, customs valuations to industrial subsidies, TRIMs and even government procurement practices. For each issue, Naray exhibits an uncommonly developed awareness of both the WTO's and Russia's negotiating position. He takes into account how the WTO has treated other developing countries in adhering to the rules and how Russia's policies and industries are currently structured and how they might be transformed upon entering the WTO. He is eager to spotlight in each discussion Russia's internal concerns in changing its policies to conform to WTO rules, thereby tacitly promoting the benefits of a gradual accession process. By touching on nearly every important negotiation issue, he emphasizes to the reader the sheer breadth with which WTO accession will likely impact the entire Russian political economy beyond just specific, albeit extremely important, industries.

Naray's presentation of the complex negotiation issue of ordinary customs duties and tariffs serves as a particularly vivid platform for his view that Russia be offered softer WTO accession criteria. In 1998, as part of its WTO negotiations, Russia introduced an initial tariff offer designed around a 7-year-long transition period upon accession that would see its trade-weighted average tariff level fall from 24% to 18% (p. 105). Additionally, its offer differentiated between applied tariff rates and bound rates, which are ceiling tariff levels above which applied rates cannot exceed. When the WTO indicated that some of its bound rates were too high for accession, Russia responded that the low competitiveness of most of its sectors would cause industries to be destroyed if they could not fall back on an appropriate level of import protection if needed.

Naray believes that these different positions represent a genuine problem in finding a solution that works for both Russia and the WTO. He contends that tariffs are an important component in the creation of interest groups within a democratic market-based society. "In a democratic society the level of tariff protection in specific sectors is determined through bargaining between different interest groups. As a result, tariff rates (between industries and products) differ substantially" (p. 105). If the WTO sets Russia's bound rates too low versus applied rates, there will be a far smaller ability for domestic groups representing legitimate economic interests within Russia to influence tariff levels. Since the interest group system is still so poorly established in Russia, such a policy would actually stymie the future development of these groups which already permeate more developed democracies. Naray's solution: "to bind Russian tariff rates at levels, not much higher than currently (high) applied rates, which can be justified by the degree of development of different Russian sectors" (pp. 105–106). As economic restructuring occurs and industries evolve, the system would afford enough flexibility to allow different interest groups to develop and influence tariffs and thus enable Russia "to put (a democratic decision-making) mechanism in place as soon as possible" (p. 105). In this manner, it would be wise for the WTO to adopt a softer stance to Russia's accession criteria.

He concludes the book by reiterating his main idea: that Russia is still far from developing a functioning market economy that can be properly integrated into the rules and regulations of the WTO immediately upon accession. The WTO should be extremely cognizant of this. Instead of keeping Russia out, the organization and its member states should realise that successful transition demands a great deal of effort, support and patience from both Russia and the world, and thus the organization should offer Russia softened accession rules that only gradually become stricter.

This case makes sense along two fronts: first, the WTO and the GATT offered flexible accession terms to others in the past, and second, the Russian economy could become even more unstable than at present if it were to fully conform to WTO standards. To further strengthen his argument, Naray could spend more time delineating how softened terms of WTO membership would assist Russia in its institutional development. Although he makes a successful effort with regard to how tariffs could help establish interest groups, this attention to WTO-inspired institutional development is the exception rather than the rule. Perhaps he could also utilize other countries as case studies: Korea and Japan are but two examples of countries that historically had extremely ill-developed market-based institutional systems yet developed into successful economies within a few generations.

Another way Naray could promote his case is to explain exactly how the present strict accession guidelines could harm Russia's economy. He also leaves this up to the reader's imagination. If he were to explain how other economies have been injured by adhering to WTO arrangements before they had a functioning market economy, he could greatly buttress the explanatory power of his argument by making it a cautionary tale.

In spite of these critiques, it is difficult to refute the argument Naray has so eloquently set out for the reader. Since he wrote his book, his argument has picked up greater merit as a result of China's WTO accession. In its historical WTO membership agreement, China was given a gradual accession plan by which it is required to conform to WTO rules and regulations in a step-by-step process rather than all at once. The primary reason for this is China's developing economy status.

It would be a shame if the WTO failed to offer Russia a similar customized plan. Naray has successfully stated why Russia should be considered a developing market. The West should do its best to overlook its past history of antagonisms with Russia and help it develop and integrate into the world economy in the most stable and workable manner possible. As Naray eloquently states in his conclusion, "The world would be less safe with a noncooperating Russia" (p. 151).

Marc Gartner

de Soto, H.
The Mystery of Capital – Why Capitalism Triumphs in the West and Fails Everywhere Else
New York: Basic Books, 2000, 276 pp.

Legalize extra-legal property in underdeveloped countries and prosperity will spread rapidly. This is, in a nutshell, the message of Hernando de Soto's *The Mystery of Capital.* In this comprehensive work the Peruvian economist, erstwhile advisor to President Alberto Fujimori and current President of the Institute of Liberty and Democracy in Lima, examines the problem of the lack of secured property rights in the developing world. De Soto aims to explain the puzzle of why capitalism has been able to grow and prosper in Western countries – and why it fails in all other countries. His argument is that all instruments are bound to fail as regards successfully implementing a market economy if property rights are not enshrined. De Soto shows how the abstract concept of property creates capital – the driving force of capitalism – and how the creation of capital is prevented if property rights are not fixed in a reliable and uniform way.

There are both theoretical insights and first hand experience here. The author examines the historical development of legally fixed property rights in Western Europe and the United States, with the latter especially showing how to gradually put millions of unregistered, extralegal property titles into a coherent legal system, thus providing the basis for North-American capitalism's success. Then, de Soto takes the reader into the streets of Lima, Port-au-Prince or Cairo, attempting the impossible task of legalizing a house erected on illegally-occupied territory or of officially registering a one-man sewing workshop in a South-American slum. Thus, there is an analysis of the successes gained by operating property right structures in the West compared with the present situation of millions of potentially capital-creating assets in other regions – and de Soto puts forward policy recommendations on how to enable a parallel development in underdeveloped countries.

De Soto's argument, i.e. the need for secured property rights and the rule of law, is not completely new as regards economic development, for it crops up in most mainstream developmental theories and is part of the policy recommendations of international institutions such as the World Bank. Yet his vigor in argumentation and the power of his examples bring new dynamics into the debate. In de Soto's argument, secure property rights are not one of many requirements for successful development – they are *the key factor*.

The book comes in seven chapters. In the first chapter the author looks at where world capitalism has blossomed (i.e. the West), and where it has failed (elsewhere). The second chapter devotes itself to the problem of the attainment of missing information regarding the size of accumulated assets in developing countries; the third points out how "dead assets" in the form of unaccounted or extra-legally obtained property can be turned into capital; while the fourth explains the political implications of the current state of property rights in the developing world and the difficulties involved in changing it. In the fifth, de Soto elaborates on the historical development of uniform property rights' systems in the USA. Strategies and obstacles of applying the West's experiences are discussed in the sixth chapter.

The first chapter is the core of the work (and, if one is time-pressed, serves as a summary of the entire work). The author describes capitalism's world-wide spread – without there being an alternative system (i.e. since the collapse of communism); yet there is no reason to triumph since introducing market mechanisms, opening up to FDI, liberalization and domestic restructuring have *not* lead to ubiquitous prosperity as widely hoped but, rather, increased poverty and hardship in many countries. Cultural differences or a lack of entrepreneurial spirit are not to be pointed at as success and failure cross-cultural boundaries. According to de Soto, the major obstacle to economic take-off in the underdeveloped countries is the lack of domestic capital. He points out that although there are assets – mainly land and savings – that cannot be turned into capital due to the lack of working legal protection; and since property is not adequately represented through a proper documentation of ownership, it cannot be used in economic interactions e.g. to back credits or to attract investment. These phenomena have been overlooked by policy-makers trying to emulate Western capitalism, and are also merely taken for granted in the West. He applies the metaphor of Fernand Braudel's bell jar, representing the rule of law, under which Western capitalism can flourish for a few people whereas the rest of the world remains excluded.[1] Nevertheless, de Soto argues, the West faced exactly the same problem in the past. Large-scale capitalism could only get off the ground in the USA after the implementation of a uniform legal system in the early 19th century.

Subsequent chapters, after this outlining of the "mystery of capital", could seem somewhat repetitive, therefore, though it is still worth following his argu-

[1] Braudel, F. (1982): *The Wheels of Commerce.* New York: Harper and Row, p. 248.

ment in all its detail to the end. The assets dealt with in chapter two exist predominantly in the form of houses and places of production in third world countries, places illegally erected by migrants streaming into bursting mega-cities but also in the countryside. For their owners it is virtually impossible to turn them into legally secured values due to overbureaucratization, corruption and public mismanagement – so extra-legal housing and self-employment are typical for the biggest share of such country populations. For example, he reckons that extra-legal estate is worth 5.4 billion USD in Haiti, 74 billion USD in Peru, 133 billion USD in the Philippines and 240 billion USD in Egypt – and the potential value of such assets is higher than the sum of the accumulated value of all state-owned firms, FDI and of bank deposits in these countries. (To demonstrate the practically impossible task of legalizing these types of asset, de Soto vividly reports his own attempts to register a dummy one-man workshop in Lima – which took him 239 working days, and involved the costs of three years' wages to obtain all necessary papers.)

From his field trip into the dire every-day reality, we move on to the theory. Referring to Karl Marx and Adam Smith the author explains the central function of capital in a market economy. To turn the potential value of these existing assets into abstract capital these assets must be fixed in a uniform and reliable form. Fixing property in this way thus enables a non-material transfer, split or rearrangement of ownership (so it, for example, might be used as collateral for a loan, exchanged for equities, etc.) A uniform system of property representation links assets together on national or even international levels, and only when this has been done can economies profit from the capital derived from such assets. Large-scale economic interaction then becomes possible among people *beyond* traditional kinship/neighborhood structures, i.e. where interaction is based on mutual trust and common experiences. Also, interaction with the state – e.g. via utility supplies such as electricity, gas or water – can be done on an equal footing, for clear structures of accountability now exist. An understanding of these mechanisms is crucial in helping to take off the "bell jar" of prosperous capitalism, thus integrating people who have so far stayed outside.

In the fourth chapter de Soto says that a grand strategy is needed to integrate these dispossessed people, enabling them to use their potential capacities. Extra-legal survival strategies should not, therefore, be marginalized or impeded but, rather, integrated – for these people have created their own well-working micro-structures, operating at a local level, to compensate for a lack of official support: small business organizations, urban development associations, small-scale farmers' co-operatives, for example.

The author compares this development with the impact of increased migration to the cities in Western Europe in the 17^{th} and 18^{th} centuries as well as free market operations, with such a process leading to major upheaval of established economic structures, e.g. the guild system. Chapter five thus examines the way extra-legal property became legalized and different traditions of registering property rights became integrated into one uniform system in the United States in the 18th and 19th centuries; and the United States' Homestead Act of 1862, which recognized the right of those who occupied and cultivated a strip of land to *own* it, was the completion of a long and hard struggle to create a fair and uniform property rights system.

In the following chapter de Soto looks at the problems involved in applying the North American experience to the developing world, for the existing property systems are being defended by the countries' legal and political elites – who have no interest in changing the status quo – and the majority of people who live outside these systems are branded as criminals and their vital interests are seen as irrelevant. However, de Soto does map out a way in which existing informal property systems could be used to create a standardized uniform system. In his conclusion, therefore, de Soto says that the poor *must* be included in the process of globalization, to enable them to take advantage of it.

As the author elaborates on only one explanatory variable – admittedly a major variable – to explain the failure of world-wide capitalist modernization, the informed reader might miss some reference to other pillars of development. What about the importance of basic needs (access to health care, education, clean environment etc.)? Without these humanitarian foundations – which are lacking in many developing countries – the best property right guarantees will be meaningless. Secure property rights can hardly enable undernourished, poorly educated people who are exposed to environmental decay and deprived of basic human rights to leap forward into global capitalism. De Soto thus has a share in the neoliberal optimism of scholars like Peter Bauer, who assume that releasing the constrained entrepreneurial spirit will create flourishing economies everywhere and overcome all social hardship.[2] In de Soto's concept of development, too, democratic participation and basic rights do not have a prominent role to play either. The affected population and their local initiatives appear to be mere providers of information – and are not active participants in solving problems. The only actors of his reform project would seem to be lawyers and politicians. Also, application of de Soto's proposals would actually mean a freezing of the current, major inequalities – for he does not consider land reforms or a redistribution of property if entitlements have been illegally obtained (e.g. by large companies in a crony capitalism).

2 Bauer, P. (2000): *From Subsistence to Exchange.* Princeton University Press.

Quite puzzling also is the author's constant equation of "developing and former communist countries". Can de Soto's findings in the streets of Port-au-Prince or Cairo really be applied to Moscow or Kiev, or Budapest or Warsaw? So although his major argument is correct as it stands, this simple grouping of "the West versus the rest" is very problematic in many respects. If de Soto had extended his field trips to Central and Eastern Europe he would probably have avoided this oversimplification and realized a need to differentiate.

The author actually remains as unclear about the potential impact of his proposed overhaul of the legal systems in the developing (and former communist!?) countries as his policy recommendations remain quite generalized. The reader might be inclined, in fact, to ask what exactly is at stake here. For can the history of the USA or the Western hemisphere in general be repeated or copied? One might indeed agree with de Soto that culture should not serve as an independent variable explaining economic success or failure – yet it is doubtful whether networks of economic interaction based on clientelistic or kinship ties organically "grown" over centuries (and not just as a reaction to contemporary economic marginalization) could be replaced by or integrated into "paper law" straight away.

Furthermore, his concept of property rights seems to be rather narrowly defined. What about the problems connected with intellectual or genetic property? De Soto does not address these urgent problems related to property rights in developing countries.

Summing up, despite of a number of open questions and analytical limitations, Hernando de Soto's *The Mystery of Capital* is a milestone in one's getting to understand developmental failure. De Soto revitalizes a crucial debate about the neglected issue of securing property rights, confronting us with impressive evidence and powerful arguments. The quest for *The Mystery of Capital* is not over yet, though de Soto has certainly taken us a considerable way in his undertaking here.

Maximilian Spinner