

Book review of:**Transition and Beyond. Essays in Honor of Mario Nuti¹**

Saul Estrin, Grzegorz W. Kolodko, Milica Uvalic (Editors)
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This is a collection of essays in honor of Domenico Mario Nuti, written and edited by a group of long-time associates, friends, and former students of him on the occasion of his seventieth birthday. After an Introduction in which the editors sketch out a concise but lively portrait of Nuti's life and work career, as well as a brief summary of the contributions to follow, the main body of the book is divided into three parts, labelled respectively "The socialist legacy" (3 papers), "Transition: From socialism to capitalism" (7 papers), and "Beyond transition" (4 papers), for a total of 14 papers. This division, as the editors state (p. 6), is meant "to reflect some of Mario's most enduring intellectual concerns". We may note in passing that others of his "enduring concerns", possibly no less important, are not reflected in the book's contributions: in particular, his work on the reform of the Soviet-type economy, for the very good reason that the subject matter itself has vanished and the specialized stock of knowledge of all its scholars has rapidly been allowed to become obsolete; and his work on the economics of participation, co-operation and profit sharing, arguably because this subject has lately been falling out of fashion in the globalized world and, sadly, in the globalized economics profession too.

As publishers never tire to repeat, *Festschriften* are a hard sell these days, largely because contributors often take their commitment lightly as they free ride on each other and plan on duplicate publication in professional journals, so that the quality of contributions tends to be uneven and on average rather low. This particular collection however, while not without its shortcomings, comes out refreshingly well against this background, perhaps because the contributors make up a good section of the best scholarship still active in this vanishing field of economics – which is in itself a testimony to the high quality standards that Nuti's lifelong research and teaching has been able to inspire and promote. If an outsider wants to get a bird-eye's view of what the comparative economics profession has to offer now that its glory days are over, this book is a good place to look.

Disregarding the book's formal partition, to this reviewer the essays can be arranged in ascending order in terms of interest and originality. At the bottom of the range we find "Financial transition in Central and Eastern Europe. A note" by Marcello De Cecco, a professor but at the same time a banker for most of his career (see his bio on pp. XIII-XIV). His contribution, though obviously based on previous research and thought, is impossible to evaluate because the author – alone among the contributors here – feels so self-confident as to dispense with citation of previous own or others'

¹ Palgrave Macmillan, Basingstoke and New York 2007, pp. XX – 307

work altogether (the reference list includes one item). The author states (p. 136): "Some of my friends find this method rather irritating. I know Mario Nuti is not one of them". As an outsider, this reviewer is happy to join the irritated company. Friendship with Nuti may have earned De Cecco a place in the book; it certainly will earn him no further word in this review.

Next in line is a couple of papers that, though duly acknowledging their sources, not only entirely draw on the author's previously published work but cover so broad a ground in so superficial a way that the reader's attention and interest sink after a few pages. One is Grzegorz Kolodko's "The great post-communist change and uncertain future of the world", a mis-titled piece because it's all about globalization. This is a political speech on where the world is in fact going vs where it should be going in the author's view. The bottom line is that globalization is basically good but would be even nicer if it put on a human face, which it hasn't so far, and we all should help it doing so. The paper may be interesting to read as eyewitness testimony, on account of the important role played by the author in the Polish transition, but nothing he says here adds anything new to the scholarly literature on globalization. Similarly, László Csaba's "Optimal transition trajectories?" reviews the transition experience of the new EU members of Central Europe and concludes that past trajectories could perhaps have been better, but bygones are bygones; future trajectories, on the other hand, are so open-ended, value-laden and path-dependent that the issue of optimality in the paper's title loses meaning. Once again, the discussion is so wide-ranging that it is not clear that anything is being added to the huge mass of writings already stored up on this subject.

Next comes a group of papers that, while not presenting new research, summarize some of the authors' previous research on well-defined topics in a clean, useful way. This group includes four papers. Following the book's order, the first is "The rise and fall of socialist planning" by Michael Ellman. It traces the history of socialist planning through its 70 years of life and probes into the deep causes of its failure and ultimate demise. Ellman first identifies these causes as partial ignorance, inadequate techniques for data processing, and above all, complexity, and then describes the legacies these factors bequeathed on the reform attempts, the great collapse, and the start of transition – a terrain where Ellman's line of thought meets Nuti's. Simon Commander's "Skills and the transition" examines the widely held presumption that transition countries started with a favourable legacy from the socialist era: a high level of human capital stock. Exploiting some original firm-level datasets, the author concludes that the presumption was largely illusory: socialist education was generally of poor quality and overly-specific vocational type, making for low adaptability of the workforce. This legacy has lingered on during the transition and has joined hands with the secular, technology-driven shift in labor demand away from unskilled labor to produce high unemployment rates for the low-skilled and a widening of wage inequality. Padma Desai's "The search for identity: Where is Russia heading?" draws on her recent book *Conversations on Russia* to summarize, in a mind-capturing style of writing, the reconstruction of Russian identity during the painstaking evolution from Yeltsin's "demolition project" to Putin's "paternalistic majoritarian model". Among other things, she properly draws attention to the most troubling feature of Putin's course: the heavy-handed, Russian-centered line towards ethnic minorities. Finally, John Eatwell's "Risk management and systemic risk" summarizes his own research and policy advice on the issue of international financial regulation. He argues that financial risk-taking at the

micro level generates systemic risk; that this threat increases with the increasing homogeneity of financial markets across the world, which in turn makes such markets increasingly volatile; and that consequently, financial regulation should be international in scope and provide for a lender of last resort. Though not new, the argument is tightly argued and thought-provoking.

The next group presents new research and is comprised of five papers. Vladimir Popov's "Life cycle of the centrally planned economy: Why Soviet growth rates peaked in the 1950s" is a skilful simulation exercise on Domar's growth model. It shows that the tendency toward accumulation of new capital stock to the detriment of replacement investment – a tendency which is inherent in a CPE because of the planners' systemic incentives – is a sufficient explanation of why Soviet growth rates peaked in the 1950s and declined thereafter. In "Investment, wages and corporate governance during the transition: Evidence from Slovenian firms", Janez Prasnikar and Jan Svejnar perform a comprehensive test on the main hypothesis about corporate governance put forward by the transition literature: namely, that insider privatization, where workers enjoy a higher bargaining power, generates a wage-investment tradeoff that jeopardizes further growth, whereas sale to outsiders would keep this distortion in check. The authors use a large sample of Slovenian firms that were observed before privatization but when each firm knew whether it was eventually slated for insider rather than outsider privatization. Perhaps unsurprisingly, they find the theoretical hypothesis confirmed. Milica Uvalic's "How different is Serbia?" is a paper typical of the competent, specialist kind of comprehensive area studies that we have come to expect from the author. She surveys the main features of transition in Serbia and argues that, although the Milosevic regime kept Serbia apart from the mainstream of transition countries through the 1990s, this delay has largely been overcome after 2000 by a turn to a full-fledged market economy that has now brought Serbia back to the mainstream, thus fully deserving candidate status for EU membership. "The effects of privatization on company performance in Belarus", by Saul Estrin and associates, uses a new enterprise-level dataset to put to empirical test the conventional wisdom which holds that the property rights structure is a key determinant of enterprise performance in transition economies. Counterintuitively, they find that in Belarus that has not been the case, as both privatization of former SOEs and entry of new private firms have had no effect on company performance. The authors argue that the blame for this failure must fall on an institutional environment that is not market-friendly, and particularly on a pervasive soft-budget-constraint syndrome. Finally, Vito Tanzi's "Complexity and systemic failure" is a fascinating account of how complexity, in its multiple dimensions, was not only a key factor underlying the collapse of CPEs (the focus of Ellman's paper) but is a crucial component of the increasing systemic risk that threatens market economies. It also undermines the legitimacy of the market system in so far as it increases corruption and inequality in the distribution of wealth, influence and power. Since part of this complexity is clearly man-made, Tanzi's cogent policy advice is to work towards increasing transparency and simplicity in regulation and legislation.

Finally we come to the highlights of the book. In "Are transition economies normal developing countries? The burden of the socialist past", Michael Keren and Gur Ofer revive Simon Kuznets' methodology to characterize a "normal" path of evolution for transition economies based on a number of governance indicators at comparable levels of development. They use this framework to evaluate Shleifer's (2005) claim that Russia is by now a normal country and find compelling evidence that disproves such

claim. Their findings provide support for the idea of a “great divide” between the new EU accession countries, on the one hand, and the successor states to the former Soviet Union, including Russia, on the other: the former lie close to the “institutional Kuznets curve”, constructed by relating the relevant governance indicators to the level of development, while the latter are far off it. The authors emphasize that since transition is path-dependent, this divergence has everything to do with the socialist legacy, in particular with the different way that the communist regime collapsed in the two groups of countries. In “Growth, initial conditions, law and speed of privatization in transition countries: 11 years later”, Sergio Godoy and Joseph Stiglitz mount a wide-ranging, well-documented challenge to the once-widespread favor enjoyed by the “shock therapy” approach to economic transition. By extending the period of analysis and using a broad array of data, the authors are able to provide further support to the well-established proposition that the quality of legal institutions matters for growth performance, whereas – contrary to the claim of the Keren and Ofer essay reviewed above – initial conditions and the communist legacy have a negligible effect as time passes. The most important finding, however, is that the speed of privatization has a significant, negative effect on cross-sectional growth – a finding that vindicates the gradualist approach to transition.

Even for the average economist outside the comparative economics field, these last two papers are of sufficient breadth and general interest to make the book well worth reading.