JOURNAL OF COMPARATIVE ECONOMICS **26,** 201–203 (1998)
ARTICLE NO. JE971466

Yegor Gaidar and Karl Otto Pöhl, *Russian Reform/International Money*. Cambridge, MA: The MIT Press, 1995. vii+146 pp., index, $25.00.

The two great events characterizing the European economy in the 1990's are the process of building the European Union and the transition to market economies in Central and Eastern Europe. This booklet includes the Lionel Robbins Memorial Lectures given separately by Yegor Gaidar and Karl Otto Pöhl in 1993. The most striking difference between the two cases and the authors' is the role of path dependence. Both Gaidar and Pöhl are well aware of this crucial problem; their action was clearly addressed to overcome the negative aspects of the old situation in order to help implement the new desired one. However, reforms and policies chosen and implemented by the two authors/protagonists led to divergent paths.

Gaidar appears to be almost a prisoner of the situation as he tries to prove that the action of his government was dictated by the ''inheritance'' of the Gorbachev years. To do this he must adopt a historical approach following the events, thus giving a bold interpretation of historical facts. Surprisingly, he assumes as a starting hypothesis that ''In 1985 . . . Russia was very stable, and this stability was all the more striking in that it permeated society as a whole, from the point of view of macroeconomics, money, and society generally'' (p. 5). This approach assumes that resolute liberalization policy is necessary to open the way to radical privatization and clear and tough stabilization policy and that this is a sufficient condition to restore economic order and initiate development.

Certainly no one denies that a shock approach can stabilize the macroeconomy, but this is sufficient only when proper institutions exist. With the approach implemented by Gaidar, the outcomes of the post-Soviet transition, in both productive and institutional terms, and the enormous costs imposed upon (a part of) the society are hardly surprising. Unfortunately, Gaidar's analysis is essentially a presentation of the steps followed by the Russian government with successive decrees in order to seize the opportunities to consolidate power and to make the situation irreversible, which is not a synonym of good. He proves to be a good writer and supporter of his own achievements and tries to argue that the costs actually paid were inevitable and that a good government could only shorten the time over which these costs were paid by forcing the pace of changes. This part of the book is

0147-5967/98 $25.00

certainly well written and compelling. It is also important, because it presents honestly the political *credo* of the government in its action of reform and the different steps of its fight against other political groups with different ideas, goals, and interests.

The differences with the second part of the book, written by Pöhl, are no less striking than the differences between the situations. The first of two chapters presents the Bundesbank view of 40 years of international cooperation in monetary policy and currency management. Here Pöhl stresses how internationally coordinated monetary policy determined the development of the real economy in Germany. The author is careful enough to make a clear and convincing argument in favor of the central role of the institutional preconditions of this policy, starting from the conditions of the independence of the Bundesbank and the evolution of both the bank's obligations and the legal framework. This principle is extended to international cooperation.

The second chapter, which deals with the building of the European economic and monetary union, is supplemented by an appendix on the further development of the European monetary system. These are very interesting pages, not only for the precise and deep reconstruction of the fundamental steps of the economic and monetary union comprising social, political, and institutional conditions and developments, but also for the clear and highly professional presentation of the alternatives for the near future. Indeed a rather open explanation of the manner in which German leadership was imposed upon Europe in economic and monetary matters is an interesting outcome of these pages. He follows a clear presentation and explanation of the logic and priorities that the Bundesbank introduced successfully in the process of economic and monetary unification, first among these are the Maastricht parameters and a clear statement of the desirability of a ''two-speed Europe.'' Pöhl continuously stresses that there must be harmony between the process of unification and the principles of a free market economy. This is a reasonable proposition, although one is left with the impression that, in a union comprising countries at a different level of development and with different economic and social structures, this actually means that the strongest country (i.e., Germany) imposes its will and priorities. Pöhl does not hide his opinion on this point and one cannot but agree that, at least in monetary matters, this conclusion is inevitable and probably good if compensated for by other (i.e., budget policy) measures. However, on this the author does not take a clear position.

By comparing the two events and the ideas and approaches of two protagonists, three fundamental institutional and systemic contrasts can be identified. First, there is a great difference between operating in an environment without well-defined formal institutions and clearly enforceable rights (Russia) and in a context where such institutions and rights are well defined. The former offers much greater maneuverability to policymakers, but renders their actions more difficult because they lack the fundamental coordinates that constrain economic actors. Policymakers also lack fundamental knowledge and skills, because they are necessarily newcomers in that environment. As a consequence, the conservative aspects of path dependence are likely to prevail.

A second contrast concerns centralization versus decentralization. A system lacking well-defined formal institutions and clearly enforceable rights must rely on a centralized approach in order to avoid the danger of anarchy. If this approach does not favor the development of new institutions and enforceable rights but rather creates first the political and social basis of the new system, as Gaidar stresses, the institutions and rights that develop will reflect the bargaining power of the new dominant class. There are various reasons to believe that this may be at the expense of the rest of the society. A decentralized process, as pursued in the building of Europe, mitigates these dangers, in particular, if it is implemented in democratic societies.

A third difference is in the strategy chosen by policymakers. A rather inconsistent ‘‘shock therapy’’ in Russia stands in contrast to a clear and rather consistent gradualist approach in the case of the European Union. Certainly choice was not free in either case and in neither case are the policies pursued ascribable perfectly to one pure type. The degree of consistency and inconsistency derives primarily, although not exclusively, from the solidity of the political power. However, in the Russian case, one is left with the old question; what was the role of shock policies in strengthening path dependence and causing the partial retreat from that approach?

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