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Book Reviews

The Russian Labor Market. Between Transition and Turmoil

Vladimir Gimpelson and Douglas Lippoldt

Rowman and Littlefield Publishers, Inc., 2001. ISBN: 0-7425-0912-5

The book begins with an overview of the Russian Labour Market in Transition and provides us with a conceptual framework. The authors make the important point that labour market dynamics, particularly outcomes specific to Russia, can provide us with key insights into understanding why resistance to reform and mediation of reform coexist in Russia. Resistance induces 'turmoil' and mediation induces a 'transition' process. The book gives us a nice conceptual and empirical framework for separating out such opposing forces in labour market dynamics.

Chapters 2 and 5, using various microeconomic, and well documented data, clearly demonstrate that the aggregate price and quantity adjustment paths in the Russian Labour Market have been fundamentally different from those in Central and Eastern European (CEE) countries. The reforms in CEE are associated with mainly quantity adjustments in the labour market, declines in employment, rising unemployment and most importantly, large job turnover induced by structural change in firm populations. In Russia, to avoid the social and political cost of massive job losses and unemployment, the reforms, in aggregate, are not typically associated with declines in employment and rising unemployment, but with price adjustments, frequently declining wages, and little structural change in firm populations. Russia has experienced greater declines in labour force participation due to the resistance of traditional firms to engage in restructuring and the lack of new jobs coming from new entrants. Closer analysis of the data does show up the presence of segmented markets. One can find evidence of deep, market-oriented restructuring and job creation in isolated labour market segments. The mediation of market reforms by the labour market does exist in certain segments of the labour market.

Chapters 2 and 5 are very good at identifying outcomes that can be associated with either labour market resistance or labour market facilitation of market forces. Yet the forces that generate such outcomes are very much a black box. The authors outline in a descriptive way the initial conditions that could constrain restructuring in traditional firms. The product and human capital mix of industry, the inheritance of one-company towns with linked housing benefits, and other benefits in kind, are said to have constrained restructuring and labour

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mobility. There is an attempt in Chapter 3 to open this black box with hard empirical evidence. Thus the authors study the case histories of four large industrial enterprises out of the 100,000 enterprises that existed in Russia pre-transition. The analysis is far too narrow and labour-market focused to provide us with strong evidence for assertions mainly based on their own knowledge of Russia. In chapter 4 they study the factors behind their second black box, the slow emergence and performance of the private sector. Here the analysis is severely hampered by their inability to classify private firms as either new entrants or previously state-owned. While the positive analysis of the Russian Labour Market in chapters 1, 2 and 5 is an excellent contribution, unfortunately, in my opinion, chapters 3 and 4 add little to our understanding of the underlying determinants of labour market dynamics.

Subsequent chapters on the normative side of the labour market use a multidisciplinary approach and are very interesting. Chapter 6 on Social Protection and labour market dynamics outlines very clearly the shortcomings of the benefit system. It argues that a well-designed benefit system would be unlikely to overcome the larger structural problems in the Russian economy. Chapter 7 outlines how the unsettled nature of Russian Politics has contributed to the nature of labour market adjustment. The lack of deep reform may have maintained political stability in the short term, but the postponement of institutional and structural reforms is neither politically nor economically sustainable.

This book is a must read for those interested in doing research on the Russian Labour Market. It provides what I believe is the correct conceptual framework; it identifies interesting empirical labour market outcomes and provides us with a plausible set of institutional, social and political explanations. Further research is needed to prove the authors right or wrong, but their book provides us with an excellent starting point.

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The Mortality Crisis in Transitional Economies

G.A. Cornia and R. Paniccià

Oxford University Press, 2000. pp xxiv + 456
ISBN: 0-19-829741-6; Price: £55 (hardback)

Throughout recorded history there have been many times when death rates have increased rapidly. The reasons have usually been fairly obvious; plagues, wars and famines. But none of these explanations can account for the spectacular increase in mortality in the countries that made up the Soviet Union in the years around 1990. Something else was happening. But what?

In this edited collection Cornia and Paniccià argue that, while some other factors such as diet, tobacco, and declining healthcare may have played intermediate roles, the fundamental reason was an acute increase in psychosocial stress. To justify their argument they bring together an impressive array of evidence, first developing a valuable conceptual framework for large-scale mortality changes and then exploring possible mechanisms leading to premature death. Later chapters bring together case studies from several countries in eastern Europe, with others looking to other parts of the world for analogies. Collectively, this is a superb source of information on the determinants of health in this region. But is it the whole story? I fear not.

An understanding of mortality in the former Soviet bloc must address several issues, none of which are adequately explored here. Although the focus is on the sudden upsurge in mortality around 1990, the starting conditions are also important. Thus, why was the death rate so high before this, with life expectancy having stagnated since the mid-1960s? Why has life expectancy in the countries that formed the Soviet Union followed a broadly similar trajectory, with its downs and ups, since 1990, despite pursuing different policies and experiencing different levels of economic success, while that in the former Soviet satellites in eastern Europe have followed quite different trends? Through what pathways might psychosocial stress act to cause the trends in different causes of death? Thus, what links suicide, homicide, pneumonia, and cardiovascular disease, but distinguishes them from cancer, which has been largely unaffected by transition? Why have young men been so much more affected by transition than others?

The evidence presented in this book provides a convincing argument that psychosocial stress is an important underlying factor but it gives insufficient attention to other factors, some of which may mediate the effects of stress, while others are symptoms of the conditions that give rise to stress. Thus, while alcohol is discussed in some detail, there is no mention of the growing evidence that consumption, especially when in binges, is an important factor in the high rates of cardiovascular death in this region. Indeed, at one stage it is stated (incorrectly) that only external accidental deaths respond rapidly to an increase in alcohol consumption. Healthcare systems are also discussed but there is a failure to ask which causes of death might one expect health system failure to affect. This requires a much more detailed examination of trends in deaths from specific causes in particular ages. Thus, the steep increase in deaths among young diabetics in many parts of the former Soviet Union is closely linked to system failures. Nutrition too gets a mention, but there is little on the role of low levels of antioxidants and the potential contribution of improvements in diet to the increases in life expectancy in some central European countries.

And then there are some intriguing findings that are not followed through. Thus, the editors looked for lessons from Argentina, which also underwent an economic shock in the early 1990s. As in eastern Europe there was an increase in mortality affecting young men, with injuries playing a major role. But unlike the former Soviet Union, deaths from cardiovascular disease did not increase. Why? If stress is the major explanation then why does it act in different ways on different continents? Or is it that it is a necessary, but not sufficient cause, relying on binge drinking in people whose hearts are already weakened by poor nutrition?

This review may sound unduly critical. Clearly I believe that the case for a single explanation is overstated. Yet this book does contain much valuable information, including may new insights. Several chapters provide excellent overviews, with those on historical events and the two on Russia standing out. Others, such as those on health systems and alcohol are somewhat weaker.

While it is unlikely to appeal to the general reader, this book should be essential reading for those who are researching or developing health policy in this region.

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Transition and Institutions: The Experience of Gradual and Late Reformers

Giovanni Andrea Cornia and Vladimir Popov (editors)

UNU/WIDER Studies in Development Economics, Oxford: Oxford University Press, 2001, pp.xiv + 273, Index, ISBN: 0 19 924218 6, Price: £45.00

This book is the outcome of a UNU-WIDER project that sought to draw on the insights of the new institutional economics to understand the pattern and pace of reform in various countries. Focussing principally on ideas to do with unconventional property rights and the role of the state, the book seeks to fill two perceived gaps in the literature: (a) the lack of attention to institutional conditions and state capacity in understanding the growth performance of transition economies; and (b) the geographical gap. On the latter, this book includes chapters on Central Asia, China, Vietnam, Cuba and North Korea.

The book falls into three parts. Part I is a single chapter introduction and overview by the editors, Part II (chapters 2-7) is a series of country or region studies by various authors, and the four chapters in Part III (chapters 8-11) deal with particular aspects of, or issues associated with, institutional change. Overall, although the country chapters are a little uneven in quality and depth, the book works surprisingly well and will prove a very valuable addition to the relatively modest literature on institutional aspects of reform processes.

The overview concludes that liberalization can have some effect on economic outcomes, but also argues that reform impact can be overshadowed by other factors. These might include initial conditions, such as the extent of distortions in the economy prior to reforms. Property rights regimes are quite diverse across the countries studied, with no clear link to economic performance. What appears to be more important is getting the incentives right, regardless of the formal property rights situation. While there is no consistent link between reforms, economic performance, and changes in inequality, it is notable that while most reforms that involved liberalizing markets resulted in some increase in inequality, inequality worsened most in the poorest performing countries.

Turning to individual country chapters, Popov's chapter makes many interesting points while still leaving the reader with the feeling that only part of the story was being told. Popov refers to Russia's inconsistent shock therapy and the weakening of institutions following the end of the USSR, while suggesting that supply shocks might explain the bulk of the country's post-communist recession. He also notes the rapid, albeit badly executed, privatization, and the paucity of new businesses starting up in Russia (on a per capita basis, the stock is about a fifth of the level to be found in Hungary and Poland, for instance). Personally, I would have wanted to make more of these points, and to ask why the privatization outcome has proved so bad, why there are so few new firms, and hence identify what elements of the institutional structure would have to be changed to improve matters.

From the institutional chapters, that by Martin Raiser was especially interesting. It contrasted the Chinese experience with that of East Germany being integrated into a re-unified Germany from 1990. Both are countries where the state remained strong as reforms proceeded, and in different ways this provided a stable framework against which diverse local economic developments could proceed with confidence. In terms of outcomes, though, China has grown rapidly on the back of a great deal of often quite informal, locally based development (such as the TVEs), while the former East Germany, despite massive aid from the German state, still has a long way to go to accomplish a successful transition. Raiser makes three key points that are worth highlighting here: (1) transition is a process of institutional change; (2) informal institutions facilitate exchange by promoting trust and the self-enforcement of rules; and (3) trust in government is promoted by good political and economic performance. These principles draw attention to the all important informal and implicit aspects of any economy's institutional framework.

Thus to work well, economies do not just need good laws, good policies and sound organizational structures; they also need intangibles like confidence, security of property, trust, and the like. This book teaches us a lot about these informal dimensions of economic institutions. But where there is still a lot to learn is in devising ways of creating these 'intangibles' in economies where they are either lacking or under-developed.

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Assessing the Value of Law in Transition Economies

Peter Murrell (editor)

Michigan Press, 2001, xvi, 388pp., ISBN 0-472-06763-X, Paperback: £20.50, $32.50.

This excellent and readable collection of papers by economists and lawyers seeks to examine the effectiveness and importance of changes in legal institutions in transition economies. The setting is largely the CIS countries rather than Eastern Europe, with one paper devoted to China. The focus is intended to be on the actions of individual decision makers.

The collection is presented explicitly as a set of arguments for the second side in the big-bang-vs.-institutional-foundations debate. However, the conclusion one takes from reading the entire volume is perhaps less strong than the editors would have liked: the law works, the law makes a difference, but only under some circumstances. Lee and Meagher report that new financial institutions work in the Kyrgyz Republic, but only for large firms. Hendley reports that contract law and arbitrazh (economic) courts are used for solving contract disputes in Russia, but only by firms that possess the requisite legal human capital. Polishchuk reports that legal and regulatory differences among Russian regions are relatively unimportant in explaining differences in regional economic outcomes as compared with factors such as resource endowments.

Nevertheless there are some (for this reader) surprising findings that buttress the affirmative case that the law matters. Most impressive and consistent from paper to paper is the effectiveness of the arbitrazh courts. These were set up in the USSR not as courts at all but as arbitrators of economic disputes between state enterprises. Their apparent transformation into judicial institutions with economic expertise may be one source of what success has been achieved in the economic transformations of Russia and other CIS states.

As noted, Hendley reports some use of these courts in resolving contract disputes in Russia. Hendley, Murrell, and Ryterman present results from an extensive survey of Russian enterprises that these courts are considered significantly more effective than the 'private enforcement' mechanisms sometimes feared by Western observers. Hendrix analyses decisions of a sample of regional arbitrazh courts, as well as appeals decisions of the Supreme Arbitrazh Court, and finds evidence of only minor disadvantages faced by international firms in disputes with domestic firms. Lee and Meagher find that (again) larger firms in the Kyrgyz Republic find these courts useful in resolving disputes. All in all, this old Soviet institution may be playing an important pro-market role.

The two most valuable papers in the book are probably those by Pistor and Polishchuk. In her paper, 'Law as a Determinant for Equity Market Development,' Katharina Pistor undertakes a detailed examination of the institutions of corporate finance and control in transition economies. She begins by investigating the choice between the internal control and external control models as national institutional designs, with the advantages and disadvantages of each in this context. She proceeds to discuss the relative importance of different classes of corporate control mechanisms for the creation and nurturing of capital markets: specifically, shareholder rights vs. investor protection rights vs. trading rules. Then focusing on the Visegrád countries, she finds investor protection rights to have been most important in the first ten years of a market economy. In particular, she associates the superior performances (by several measures) of the stock markets in Budapest and Warsaw to that in Prague with the formation of independent securities commissions in 1991: 'it took the Czech Republic until April 1998 to follow suit.' This is a most valuable paper, and not only for those specializing in financial issues.

Similarly valuable is the paper by Leonid Polishchuk titled 'Legal Initiatives in Russian Regions.' This paper -- which complements nicely the recent book by Shleifer and Treisman, *Without a Map: Political Tactics and Economic Reform in Russia (2000)* -- adds to our growing understanding that one of the major impediments to economic reform in Russia has been the weakness of the central government vis-à-vis the regional governments, and asks why, contrary to hopes of scholars of federalist systems, successful reforms in particular regions did not lead, 'bottom up' style, to imitations by other regions and / or adoption by the centre. The principal answers seem to be two.

First, as noted above, the overwhelming determinant of the economic fate of a particular region was not any particular actions by government, whether pro- or anti-reform, but the initial allocation of natural resources. Some regions were lavishly wealthy because of their stocks of oil, gas, or other resources, while those without them were usually desperately poor; neither had much reason to believe that legal reforms would improve their situation much. Furthermore, the dependence of the centre on tax revenues from the relatively small number of wealthy regions rendered any reform directives to them from the centre relatively impotent.

Second, the combination of a broadly stagnant economy, with few investment resources to reward regional pro-market policies, and the lack of reforms in land and housing markets, which restricted the ability of citizens to vote for such policies with their feet -- if indeed they would have -- eliminated from importance factors that reward regional reform efforts in some other federal systems.

Two secondary reasons for the lack of a virtuous competition among regions should be mentioned as well. First, the constitution adopted in 1993 gave effective legislative veto power to an upper house, the Council of Federation, which is made up of heads of regional executive and legislative bodies. Second, a competition for the bottom developed in some areas as regions enacted protectionist legislation, designed variously to provide advantages to local firms or to prevent the export to other regions of scarce consumer goods. Legislation of this kind is prohibited by the Russian antimonopoly law, but again the pro-reform forces in the centre were not strong enough to prevent anti-reform actions in the periphery. This paper is extraordinarily valuable reading for anyone seeking to understand one of the most important barriers to Russian economic reform.

All in all, the book is well worth reading. There are occasional lapses that may cause a wince in the reader. Hendley, Murrell, and Ryterman are not content to report the results of their interesting survey of enterprises; they insist on torturing the data with an ordered probit analysis using thirty-one right-hand-side variables (plus regional dummies). Those suspicious of Economists Doing Surveys will find their fears supported by sample questions presented from Frye's survey of Polish and Russian shopkeepers, such as 'Please rate on a scale of 1-10 how big a problem is it for your business and for you that the courts work poorly.' The shopkeeper untutored enough to believe that the courts do not work poorly may have wondered how to answer appropriately. And Pei's analysis of various trends in reported Chinese court cases, arguing that Chinese economic growth may, counter to much received wisdom, be based on effective legal institutions and hence sustainable, is not persuasive. His admission that 'Chinese official data on enforcement must be deeply discounted' is admirably forthright but does not help to persuade.

Overall, though, this book is well done, providing valuable insights on the determinants of the effectiveness of economic reform from the viewpoint of the individual economic actors affected. It is highly recommended.

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(The views expressed are those of the reviewer, and do not necessarily reflect the views of the Department of Justice.)

The New Capital Markets in Central and Eastern Europe

Michael Schröeder (editor)

Mannheim : Springer-Verlag, 2001, x, 518pp., ISBN 3-540-41514-9. £51.50

Over the past decade, there have been questions concerning the fundamental role of the financial markets in the transition economies. In some instances these markets have acted as a mechanism for the state in bringing about privatization, as a money-market in lieu of a functioning banking system or as a speculative vehicle for external portfolio investors. On the upside these markets have formed a useful focus for Foreign Direct Investment through the flotations of the large utilities and parts of the financial sector; on the downside they have failed to attract domestic savers and have frequently lost larger companies to the global exchanges.

This new publication, edited by Michael Schröeder of the Zentrum für Europäische Wirtschaftsforschung, Mannheim, is based on a trans-European research project, which took place between 1999 and 2001. The project was supported by the European Capital Markets Institute, the Federation of European Securities Exchanges and the International Securities Market Institute. It certainly assists in clarifying the role and function of the capital markets in the European transition economies.

The book focuses on two major areas – the current situation and major characteristics of the CEE capital markets, and the future role of those markets. In assessing the current situation it commences by looking at aspects of the economic model, although this is mostly concerned with the effects of privatization. What is helpful is the exploration of the relationship between the model of privatization and the effectiveness of the regulatory regime.

The investigation into market structures and development supports the general view in terms of the influence of foreign portfolio investors and the dominance of government paper. It is valuable material for those studying the macro relationship between economies and markets, but it is based on data which is now some 3–4 years out of date. However, the research does focus on evidence to support the case that institutional investment has been hampered by poor levels of qualification and productivity in institutional fund management as well as by a general lack of legal protection of minority shareholders and a misunderstanding of the concepts of corporate governance

Of particular interest is the report on research into the price dynamics of seven CEE stock exchange indices measured against the London FTSE 100. There appeared to be no clear divergence between emerging and established markets, particularly in the situation where higher levels of volatility occurred in bear as opposed to bull markets. The fascinating exception was Bratislava, where the local SAX index shows greater volatility in bull markets.

This chapter was followed by data on the linkages between the CEE and EU markets which supported a view that the Frankfurt DAX has a higher influence on CEE markets than any other EU index. Interestingly, the authors did not comment on whether this phenomenon would survive the withdrawal of the DEM as the common currency of the CEE countries.

The final section of the book looks towards the future integration of the CEE capital markets into the EU. It reflects the situation that in the headlong rush to accept the EU's *acquis communautaire*, candidate states have failed to take account of the fact that the *acquis* was designed for mature, developed market economies – not for transition economy financial markets.

For those of us working in the markets of the region, the greatest interest lies in the final chapter on the future role of the CEE capital markets. Many of us have concerns over the ability of the less developed markets to adequately provide entrepreneurial capital. It is therefore reassuring to see the opinion expressed that there will be opportunities arising from the strong increase in foreign portfolio holdings and a general growth in institutional investment. The authors also detect strong potential for the growth of corporate bonds and for secondary bond trading. This trend is seen to be driven by increased currency stability, improved legal frameworks and more competitive issue costs.

This is a useful study, with great reference potential, which provides a valuable guide to the CEE capital markets. If there is a slight weakness, it is in the greater emphasis on the leading accession candidate markets to the relative neglect of the less developed markets.

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