

## BOOK REVIEWS

### **The Privatization Process in Central Europe and The Privatization Process in Russia, Ukraine, and the Baltic States**

Roman Frydman, Andrzej Rapaczynski, John S. Earle, et al.

Budapest, London, New York: Central European University Press, 1993, Vol. 1, 262 pp.; Vol. 2, 276 pp.

These two volumes are the first output of the Privatization Project of Central European University headed by Roman Frydman and Andrzej Rapaczynski and financed by the Soros Foundation. Project coordinators have been established in each of the countries discussed in these volumes; they oversee the compilation of detailed reports on the economic environment, the legal system, and the progress of privatization. Volume 1 examines the changes in Bulgaria, Czechoslovakia, Hungary, Poland, and Romania. Volume 2 focuses on Russia, Ukraine, Estonia, Latvia, and Lithuania. Without doubt these volumes represent the most important sources of data on the transformation process underway in East and Central Europe and the former Soviet Union yet published. Frydman, Rapaczynski, Earle, et al. should be congratulated for their tireless work in coordinating the Privatization Project and conveying their results in such an accessible manner to the scholarly and public policy community.

The importance of this work, however, does not lie just in the mountain of data provided. More important is the fact that the data provided is the *right* kind of data. Economists are notorious for their "thin" descriptions. Aggregate data, such as GDP or GNP, supposedly provide an accurate picture of the economic health of an economy without requiring an excursion through the details of everyday life. But such aggregate measures are woefully deficient.

This bias toward aggregate economics as opposed to detailed microeconomic analysis results in a general failure to examine the structure of economic interrelationships. "The consequence of [aggregate economics] is that in the statistical study of social phenomena," F. A. Hayek wrote, "the structures with which the theoretical social sciences are concerned actually disappear. Statistics may supply us with material from which we have to reproduce these structures, but it can tell us nothing about these structures themselves. In some fields this is immediately obvious as soon

as it is stated. That the statistics of words can tell us nothing about the structure of language will hardly be denied. But although the contrary is sometimes suggested, the same holds no less true of other systematically concerned wholes such as, for example, the price system" (1952: 108-09).

Hayek's argument was intended as a critique of aggregate economics as a method to study capitalism even under the best assumptions, i.e., assuming that market prices are equilibrium prices that reflect the full opportunity cost of using resources. The problem of aggregation is compounded in the former communist economies. Official prices in those command economies represented nothing more than arbitrary accounting figures. In addition, economic data were admittedly falsified.

Unfortunately, Western analysis of the Soviet-type economies was mostly directed at "fixing" the aggregate data. Techniques were developed to convert Soviet aggregate economic measures, such as Net Material Product, into something comparable to Western measures of GNP. This procedure, however, failed to capture Soviet reality. The fundamental problem with Western estimates of communist economic performance was not poor measurement techniques. The problem was, and remains to this day, that aggregate measures are no substitute for detailed microeconomic analysis of the legal, political and customary institutions of a society, and how the incentives and information engendered by those institutions guide human behavior.

Even with the collapse of the communist system, the search for better macroeconomic measurements continues to dominate analysis (see, for example, Paul Marer, et al., 1992). Moreover, some of the work that does pretend to provide a microeconomic analysis of the system and the transformation process still reflects the economists' penchant for "thin" description (see, for example, Blanchard, et al., 1991; 1993). What is needed, though, is a "thick" description of the social institutions (legal, political, and customary) that are undergoing transformation.

This is where the work of Frydman, Rapaczynski, Earle, et al. comes in. These are the first volumes to provide exactly the kind of data needed for increasing our understanding of the momentous changes in East and Central Europe and the former Soviet Union.

If I have any quibble with the volumes, it is that they do not provide more information on the de facto customary practices that govern everyday economic life, such as the extent of spontaneous privatization and the development of the private sector through *new* privately owned entities rather than privatized former state firms or shops—in other words, private sector *developments* rather than privatization. As the Russian economist Vitali Naishul has pointed out in several studies, effective common law claims to state-owned firms have already been made throughout Russia by the old management and/or workers. Attempts to repudiate these claims would be socially explosive. Moreover, it could be argued that spontaneous privatization, rather than being socially noxious, is actually very effective (once various public choice arguments

concerning transitional gains traps and bureaucratic tendencies are accepted).

The authors, however, cannot be faulted for this gap in their reports on privatization. As they point out themselves, despite the wealth of anecdotal evidence, there simply is not much reliable data on spontaneous privatization. The focus of the volumes, moreover, is on the political and legal process of privatization, and not customary practice. The great strength of these volumes lies in the fact that nowhere else can one find a more comprehensive and up-to-date discussion of the politics and law governing privatization in the various countries.

*The Privatization Process in Central Europe* and *The Privatization Process in Russia, Ukraine and the Baltic States* are invaluable reference sources for anyone trying to find out about the momentous transformation now under way in East and Central Europe and the former Soviet Union (whether for business, political or scholarly reasons). The authors have produced the definitive source. The Project on Privatization is a perfect example of scholarly entrepreneurship. The project has filled a tremendous gap in the literature, and hopefully will spur economic scholars to delve even deeper into the social structure of these societies and pursue the kind of "thick" description (informed, of course, by sound economic theory) necessary to make sense out of the changes taking place in these economies. If these volumes are any indication, the continuing work of the Project on Privatization will set the standard for data collection in this area of research for the foreseeable future.

## References

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 Hayek, F.A. (1979 [1952]) *The Counter-Revolution of Science*. Indianapolis, Ind.: Liberty Classics.  
 Marer, P. (1992) *Historically Planned Economics: A Guide to the Data*. Washington, D.C.: The World Bank.

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## **Free to Hate: The Rise of the Right in Post-Communist Eastern Europe**

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New York, London: Routledge, 1993, 332 pp.

Implicit in the title is the now all too painfully evident truism that the newly acquired freedom of Eastern Europe is double-edged: hatred has been unleashed alongside all the other human impulses—except more so.