Books Reviewed

Swinnen, Johan F.M. and Scott Rozelle. *From Marx to Mao to the Market: The Economics and Politics of Agricultural Transition*. Oxford, UK: Oxford University Press, 2006, $90.

The transition from centralized to market-oriented economies in the late 20th and early 21st centuries may prove to be the greatest economic experiment ever performed in modern economic history. This experiment will surely have important lessons for all economists, and particularly for agricultural and development economists. Swinnen and Rozelle, experts in the agricultural transitions in the Central European and former Soviet countries and China, are the right team to undertake the highly ambitious goals of this book: they aim to explain the economic impacts that agricultural policies had across countries, and why different countries chose different paths of reform. Although I find they are more successful in the first goal than the second, they have nevertheless done a commendable job of synthesizing the recent literature on agricultural transition into a readable and valuable book. This book should be read by any professional economist or student interested in agricultural and economic development and policy reform.

The book is divided into three sections. The first section provides a positive analysis of the economics of transition. The second one discusses the political economy of agricultural transition. The third section provides a summing up, lessons, and look ahead.

The first part of the book systematically walks the reader through the basic facts of agricultural transition, provides a straightforward but effective economic analysis of the likely effects of transition, and then examines the empirical evidence in support of economic theory's predictions. The key message from this part of the book is that, broadly speaking, two patterns of prereform policies were pursued by socialist countries: some effectively taxed agriculture while others effectively subsidized agriculture. These policies have predictable effects on input use and productivity, as the authors show in Chapter 3. A strong point of the book is the emphasis that the authors place on property rights and on institutions that reduce transaction costs. Chapter 4 then walks the reader through the types of reforms that were undertaken in different countries, comparing and contrasting the experience in different countries. Chapter 5 examines the empirical evidence on the impacts of transition across countries.

The first section of Chapter 10 synthesizes the lessons for the first part of the book on economics of agricultural transition. These three pages are extremely important, as they validate the key lessons learned about price policy reforms as well as institutional reforms in facilitating an efficiently functioning market economy.

The second section of the book addresses what the authors call the political economy of transition. This part of the book is much less successful than the first part of the book because—in contrast to the first part—the authors do not provide an economic framework through which to interpret the facts. For example, I would have liked to know whether the authors thought that the prevailing literature on the political economy of agricultural development, based on collective action theory and the theory of interest group competition, could be used to understand agricultural transition from socialist to market-based economies as presented in the 1986 book *The Political Economy of Agricultural Protection* by K. Anderson and Y. Hayami. This point of departure would seem particularly relevant, considering that the first part of the book shows so clearly that some socialist regimes taxed and others subsidized agriculture, just as we know that the developing countries generally tax and the industrialized countries subsidize their agricultures. Swinnen and Rozelle argue that "initial conditions" as well as economic factors such as wealth levels and the ability of farm interest to exert political pressure can explain these differences. But in the end, the authors—and the reader—are left struggling to find or explain the kind of empirical regularities that emerge so clearly from the first part of the book.

The good news, however, is that the shortcomings of the second part of the book are more than outweighed by the valuable contribution of the first part. The key policy lessons regarding the importance of both price and institutional reforms are of the utmost importance for both national and international policy makers. As the second part of this book as well as other literature—see my forthcoming review of V. Ruttan's *Social Science Knowledge and Economic Development* in *Economic Development and Cultural Change*—demonstrate, it remains difficult to explain why some countries manage to embark upon successful reforms while others do not. Nevertheless, this book provides some of the most convincing evidence and analysis available showing that when countries do undertake appropriate price and institutional reforms, they work.

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Dixit, Avinash K. *Lawlessness and Economics: Alternative Modes of Governance.* Princeton, NJ: Princeton University Press, 2004, 167 pp., hardback, $32.80, ISBN 0-691-11486-2.

There is no gainsaying the fact that some of the most critical issues confronting society today concern governance in the developing and in the transition economies of the world. Researchers and commentators have repeatedly pointed out that if market economies are to succeed, then it is essential to create mechanisms that not only deter privately profitable but socially damaging behavior, but also encourage economic agents to invest, produce, and exchange. Given this state of affairs, the author's aim in this thought-provoking book is to ameliorate our "understanding of how various institutions of governance work,. . .how they interact with each other and with an imperfect state law where that exists" (p. 4).

When there is a dispute concerning some aspect of a business transaction, the parties involved seek recourse to the law typically only as a last resort. In other words, there is a great deal of what the author calls "private ordering in the shadow of the law." The nature and the consequences of this kind of private ordering are explored by the author at some length. In particular, he constructs and analyzes a mathematical model and makes three worthwhile points. First, when considering "within-group" and "cross-group" interactions, it is important to recognize a trade-off which says that "better within-group cooperation may require worse cross-group relations" (p. 40). Second, by worsening the outcome of the presently used relation-based system in developing and in transition economies, "the process of gradual improvement of state law may inflict an interim cost on the economy. . ." (p. 40). Finally, in comparison with the formal legal system, arbitration has an informational advantage. Therefore, these two systems can be viewed as being complementary to each other and this "may explain why the law takes such a benign view of arbitration, respecting its verdicts and even standing ready to enforce them" (p. 47).

A salient question in the context of relation-based contract enforcement is the following. Is it possible to sustain cooperative outcomes in groups where pairs of traders have little or no direct reciprocity? The author begins his analysis of this question by helpfully pointing out that the first thing to comprehend in this regard is that although the notion of a self-enforcing equilibrium may work for small or well-knit groups, "large groups need more formal institutions of information dissemination and enforcement" (p. 66). In addition, one must understand that it is generally not difficult for small communities to achieve full self-governance using their own information systems. In contrast, in large communities, the benefits from trade "with distant partners can only be realized by instituting a system of external governance at a cost" (p. 76). These two and the other points made by the author together tell us that if a relation-based economy that needs foreign capital is to grow appreciably, then it must change over "to a rule-based system where anyone can invest with the confidence that the only uncertainties will be those arising from natural economic shocks. . ." (p. 83).

Since the publication in 1993 of Diego Gambetta's *The Sicilian Mafia*, the issue of profit motivated contract enforcement has become an important research question. Therefore, the author analyzes a theoretical model of enforcement with the information possessed by an individual such as Gambetta's generic Mafioso Don Peppe. This analysis yields two conclusions. First, we learn that "it may be impossible to sustain private intermediation precisely in those situations where the benefit of effective intermediation is large. . .(p. 107). Second,